# ANNUAL REPORT 2008

PZU

Any goal is within our reach when we work together

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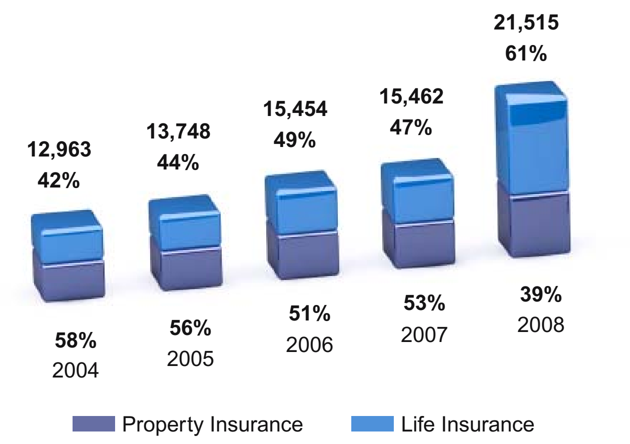
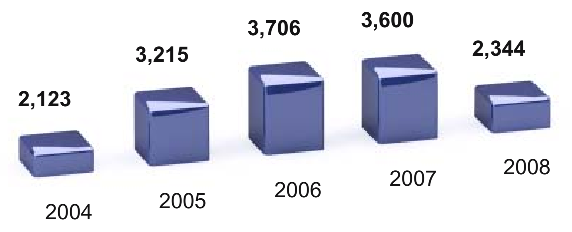
# 1. BASIC INFORMATION ON THE PZU GROUP

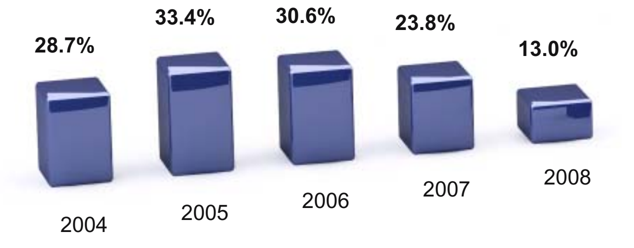
### GROSS PREMIUMS WRITTEN (PLN, MILLION, %)



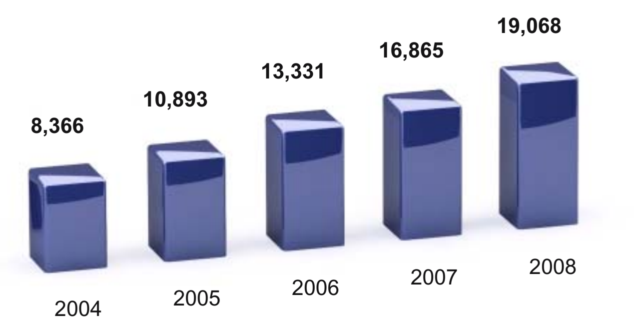

### NET FINANCIAL RESULTS (PLN, MILLION)



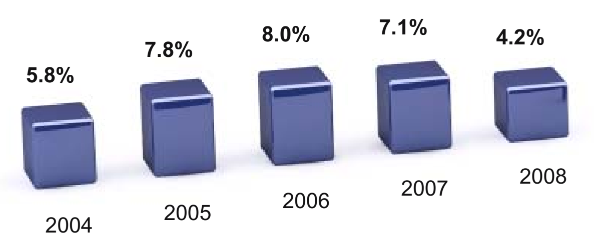

### RETURN ON EQUITY – ROE (%)



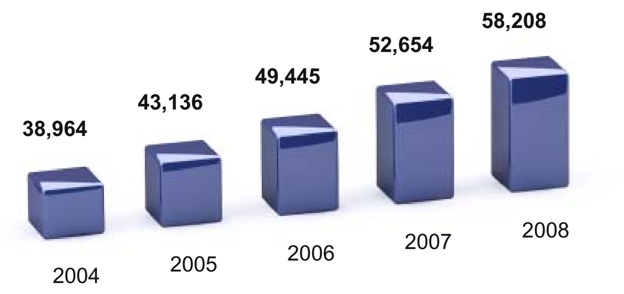

### EQUITY (PLN, MILLION)




### RETURN ON ASSETS – ROA (%)




### TOTAL ASSETS (PLN, MILLION)




Source: GUS

## 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** | **stable** |

Information on the most up-to-date rating is available at www.standardandpoors.com.
Ratings do not guarantee the financial strength of the insurer and do not constitute a recommendation of an insurance company

## MAJOR FACTORS THAT INFLUENCED THE NET FINANCIAL RESULT OF THE PZU GROUP IN 2008:

**1. Increase in gross premiums written by 39% on a yearly basis**

- dynamic increase in PZU Życie SA premiums by 80% on a yearly basis (including bancassurance: an increase of 567% on a yearly basis)
- increase in premiums in profitable sectors

**2. Control of costs**

- change in the structure of costs
- fixed costs maintained at the previous year's level
- increase in direct acquisition expenses by 6% on a yearly basis – associated with business development
- fall in administrative expenses by 3% on a yearly basis

**3. Increase in operating efficiency**

- improvement in the loss ratio by 5% on a yearly basis and the loss ratio net of reinsurance by 6% on a yearly basis
- improvement in the ratio of costs of insurance activity by 6% on a yearly basis
- improvement in the combined ratio for PZU SA by 3% on a yearly basis

**4. Positive income from investment activity despite the crisis on the capital market**

- a fall in income by 67% on a yearly basis due to the poor situation on financial markets
- a fall in investment profitability by 4% on a yearly basis

## FINANCIAL HIGHLIGHTS OF THE PZU GROUP IN 2008

| ITEM | The PZU Group | | PZU SA | | PZU Życie SA | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Gross premiums written (in PLN, thou) | **21,515,419** | 15,462,027 | **8,217,789** | 7,981,990 | **13,082,075** | 7,265,830 |
| Premium earned net of reinsurer's share (in PLN, thou) | **21,238,025** | 15,034,813 | **8,028,557** | 7,590,398 | **13,040,247** | 7,258,933 |
| Gross claims paid (in PLN, thou) | **12,135,345** | 9,533,388 | **4,586,363** | 4,512,263 | **7,430,015** | 4,897,365 |
| Claims paid net of reinsurer's share (in PLN, thou) | **12,078,885** | 9,333,357 | **4,528,652** | 4,329,030 | **7,430,015** | 4,897,365 |
| Loss ratio (in %) | **59.7** | 66.0 | **63.1** | 64.6 | **57.6** | 67.8 |
| Costs of insurance activities (in PLN, thou) | **3,152,906** | 3,110,502 | **2,080,925** | 2,102,083 | **980,199** | 912,494 |
| Acquisition expenses (in PLN, thou) | **1,625,074** | 1,489,526 | **1,230,011** | 1,115,203 | **356,450** | 328,864 |
| Administrative expenses (in PLN, thou) | **1,614,637** | 1,659,314 | **939,278** | 1,022,369 | **623,749** | 583,630 |
| Reinsurance commission and share in reinsurer's profits (in PLN, thou) | **86,805** | 38,338 | **88,364** | 35,489 | **0** | 0 |
| Ratio of costs of insurance activity (in %) | **14.8** | 20.7 | **25.9** | 27.7 | **7.5** | 12.6 |
| Combined ratio (in%) | **x** | x | **89.0** | 92.3 | **x** | x |
| Underwriting result (in PLN, thou) | **2,981,441** | 3,383,705 | **718,263** | 1,036,694 | **2 301,845** | 2,349,426 |
| Investment income (in PLN, thou) | **847,912** | 2,559,876 | **2,794,899** | 1,081,891 | **203,093** | 1,566,590 |
| Profitability of investment activity (in %)* | **1.6** | 5.3 | **2.9** | 5.5 | **0.7** | 5.6 |
| Gross financial result (in PLN, thou) | **2,948,613** | 4,469,869 | **3,283,138** | 1,785,568 | **1,751,346** | 2,663,435 |
| Net financial result (in PLN, thou) | **2,344,449** | 3,600,445 | **3,026,798** | 1,430,088 | **1,419,146** | 2,177,253 |
| Assets (in PLN, thou) | **58,202,424** | 52,653,897 | **32,725,514** | 30,046,996 | **31,346,243** | 29,312,911 |
| Equity (in PLN, thou) | **19,067,881** | 16,864,989 | **19,151,579** | 17,017,442 | **5,934,705** | 6,697,157 |
| Investments (in PLN, thou) | **54,998,336** | 49,784,115 | **30,450,050** | 27,920,595 | **30,430,519** | 28,570,968 |
| Gross technical reserves (in PLN, thou) | **37,579,795** | 34,040,285 | **12,659,941** | 12,217,050 | **24,744,157** | 21,675,897 |
| Technical reserves coverage ratio (in %) | **x** | x | **190.9** | 180.9 | **112.8** | 116.8 |
| Solvency margin coverage ratio (in %) | **x** | X | **1,241.3** | 1,165.6 | **322.6** | 424.2 |
| ROE (in %) | **13.0** | 23.8 | **16.7** | 9.4 | **22.5** | 38.8 |
| ROA (in %) | **4.2** | 7.1 | **9.6** | 5.1 | **4.7** | 7.6 |

Source: The PZU Group, financial statements

* PZU Group – investment income / average investments including net life insurance assets where the investment risk is born by policyholder.
PZU SA – investment income excluding dividend from PZU Życie SA / average investments excluding valuation of PZU Życie SA shares and dividend from PZU Życie SA.

# 2. LETTER FROM THE PRESIDENT OF PZU SA

Dear Sirs,

It is my pleasure to provide you with the annual report of the PZU Group for 2008. This year was extraordinary and will go down in economic world history as a time of dynamic economic processes that will shape the second decade of the 21st century. The insolvency of well-known banks, the fall of the WIG20 index to its 2003 level and the nationalisation of many financial institutions – nobody expected such intensity of negative events on global markets. We have not witnessed turbulence on such a scale in the global economy for several decades.

Despite the unfavourable economic climate, the PZU Group remained a stable financial institution. We recorded a net profit of PLN 2.34 bln, which was one of our highest in history. Compared to insurance companies in Europe and despite the crisis PZU's performance was excellent. Particular attention should be paid to the dynamic, almost 40% increase in the premium written, which reached a level of PLN 21.51 bln. This data proves that, even in difficult times, PZU remains a synonym for stability and security. This  s good news for our Clients and Shareholders.

For me, the most important event in 2008 was the drafting and approval of the PZU Group's medium-term strategy for 2009-2011. This strategy defines our objectives and mission. We declared that PZU would be the largest and most client-oriented insurance company in Central and Eastern Europe. When adopting this strategy, the shareholders gave the management board the green light to implement its ambitious plans for restructuring the PZU Group as well as acquisitions.

The financial crisis has provided possibilities that nobody could have dreamt of several years ago. Global financial institutions have fallen into trouble, which has provided investment possibilities for companies that have successfully fought their way out of the perturbation. This is why in 2008 the PZU Group initiated processes intended to lead to the acquisition of insurance companies in the Central and Eastern European region. This is one of the main elements of the strategy adopted.

In 2008 we reviewed our portfolio of products. As a result, we decided to withdraw from certain unprofitable lines of business. We maintained this policy in 2009 and concentrated on the development of business creating value for our company and its shareholders.

According to the strategy adopted for the coming years, the PZU Group will operate a multi-channel client service model. Hence, we commenced sales of our standard product, motor insurance, by telephone and internet. Importantly, we also made significant investments in the agency channel. I believe that the network of PZU agents provide enormous value, which we should foster and invest in. Our priority is to sell insurance via agents, which does not mean that we can ignore other sales channels.

On behalf of the Management Boards of PZU Group companies, I wish to thank everybody who helped make 2008 a success. Above all, I wish to thank our Clients who have put their unending faith in us, entrusting us with their safety and investments. I also wish to thank the shareholders and members of the Supervisory Board for constructive and harmonious cooperation. I thank all employees of PZU and agents cooperating with us. Without your commitment, we could not even think of achieving any success. I trust that next year will be better still for our Group.

President of PZU SA

Andrzej Klesyk

# 3. LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Sirs,

The annual report you have received summarises the PZU Group's activity in 2008. This was a time marked by crisis on financial markets and a slowdown in economic growth. Despite the fact that the crisis also affected Poland, the PZU Group's consolidated financial result is impressive. It is comparable to the results of the largest Polish banks. This is undoubtedly due to the work of the Management Board and all employees of the PZU Group.

I would like to take this opportunity to thank all those who contributed to this success. Credit is above all due to the employees and Management Boards of companies in the PZU Group. However, I would like to express my particular gratitude to Mr Andrzej Klesyk, President of the Management Board of PZU SA, for his contribution to increasing the value of the PZU Group. An ambitious strategic plan was created for the years 2009-2011 under his management and the Management Board undertook a series of restructuring activities under his guidance to improve the efficiency of PZU's functioning. The efforts made to consolidate the PZU Group into a single, professionally and transparently managed entity are plain for all to see. The constructive cooperation between the Management Board and Supervisory Board, based upon respect for corporate governance principles, should also be appreciated.

The PZU Group is emerging stronger from this difficult period for the markets. The crisis that had such a destructive effect upon many financial institutions led to a relative strengthening of PZU's position. This opens the way for PZU to expand beyond the borders of Poland. As the Chairman of the Supervisory Board, I sincerely support the ambitions expressed in the PZU Group strategy for 2009-2001 to strengthen PZU's role as a leader in the insurance sector in this part of Europe. I trust that this will bring benefits to all shareholders.

Finally, on behalf of the entire Supervisory Board, I wish to express our hope that future years will bring yet more success. I am convinced that both the Management Board and all employees of the company will do everything in their power to meet the ambitious goals set out in the strategy.

Chairman of The Supervisory Board PZU SA

T. Gruszd

dr hab. Tomasz Gruszecki


If P2U were a film, it would be a mega-production.
It would be based on an original screenplay,
with a great director with a flair for telling old-fashioned
stories and a young cameraman with a keen eye.
Add to that lighting technicians, gaffers, scenographers,
costume designers, make-up artists and special effect experts.
Everybody would know what, why and how. They would create
a film about a great dream!

# 4. FACTORS INFLUENCING THE PZU GROUP OPERATIONS IN 2008

## 4.1. MACROECONOMIC AND MARKET ENVIRONMENT

### 4.1.1. POLAND'S ECONOMY

**ECONOMIC GROWTH**

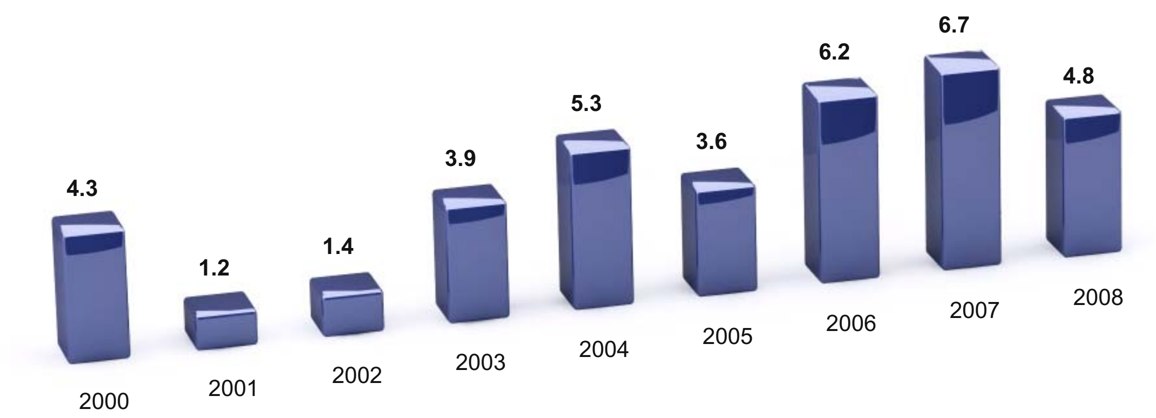
2008 was the sixth and final year of the economic upturn underway since 2003. The global crisis that began in 2007 in the United States has become one of the most serious global economic recessions since the II world war. In the fourth quarter of 2008, it caused economic growth to come to a sudden halt in practically all significant global economies, including the Polish economy. The rate of GDP growth in Poland in 2008 fell to 4.8% from 6.7% in 2007, whereas after the first three quarters of last year the rate of GDP growth remained at a constantly high level (5.5% on a yearly basis).

The main "motor" of economic growth in 2008 was individual consumption (an increase of 5.4% on a yearly basis), which was conducive to a good situation on the labour market. The rate of individual consumption even remained high in the last quarter of 2008 (5.2% on a yearly basis), whilst unemployment was increasing and disturbances were occurring to financial markets. Among others, this was due to the maintenance of a relatively high and stable rate of growth in consumer credit.

The rate of GDP and domestic demand growth have fallen mainly as a result of the fall in the ratio of growth in investments – to 7.9% from 17.6% in 2007, which occurred before the effects of the financial crisis became apparent. In the third quarter, the rate of growth in investments fell to merely 3.5% on a yearly basis from over 15% on a yearly basis in the first half, remaining at this level in the fourth quarter of 2008.

On the supply side, the fall in economic growth was particularly visible in industry, where the growth in value added (3.7%) was substantially lower in 2008 than in the two previous years (approx. 10%). The fall in the rate of growth of value added in sectors primarily dependent upon domestic demand, i.e. in construction and market services, was insignificant in 2008.

**DIAGRAM 1. INCREASE IN GROSS DOMESTIC PRODUCT IN POLAND IN THE YEARS 2000-2008 (REAL TERMS, %)**



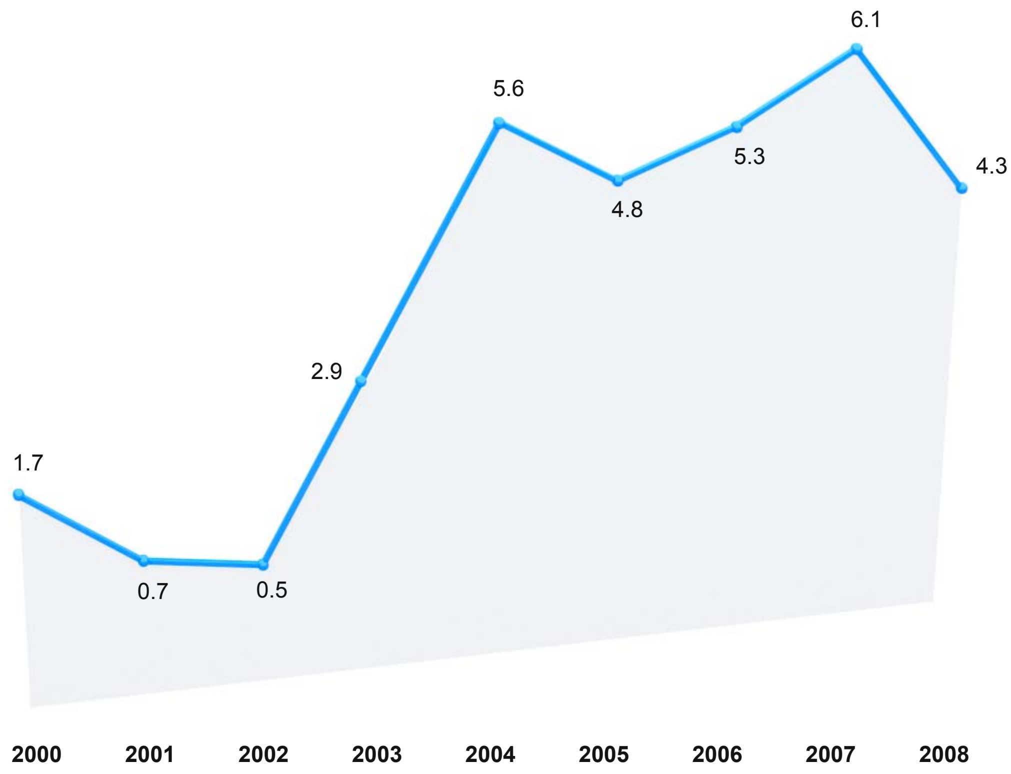

Source: GUS

## COMPANIES' FINANCIAL PERFORMANCE

The fall in economic growth and increase in costs pressures caused a substantial deterioration in the financial performance of companies in 2008[1]. Business revenues increased in 2008 slower than in 2007 (by 11% compared to 14.4%) and slower than tax-deductible costs (13.3%). As a result, the costs level ratio substantially deteriorated in relation to 2007 (95.8% compared to 93.9%), the gross financial result fell by 23.8% compared to 2007, and the gross return on sales fell to 4.2% from 6.1% in 2007. The net result was 62.3 billion PLN, which was 27% lower than in 2007. Net return on sales fell to 3.3% as compared to 5% the previous year.

The economic downturn in 2008 had a varied impact upon the financial situation of companies in particular sectors of the economy. The net financial result improved in 2008 in construction (by 16.6%), mining (by 6.7%) and services (by 33.5%). The greatest deterioration in the net financial result was noted in transport, warehousing and communications (by 47.1%) and in industrial processing (by 33.5%), which is particularly sensitive to the impact of decreasing demand for Polish exports.

### DIAGRAM 2. GROSS RETURN ON SALES IN POLAND IN 2000-2008 (%)




Source: GUS

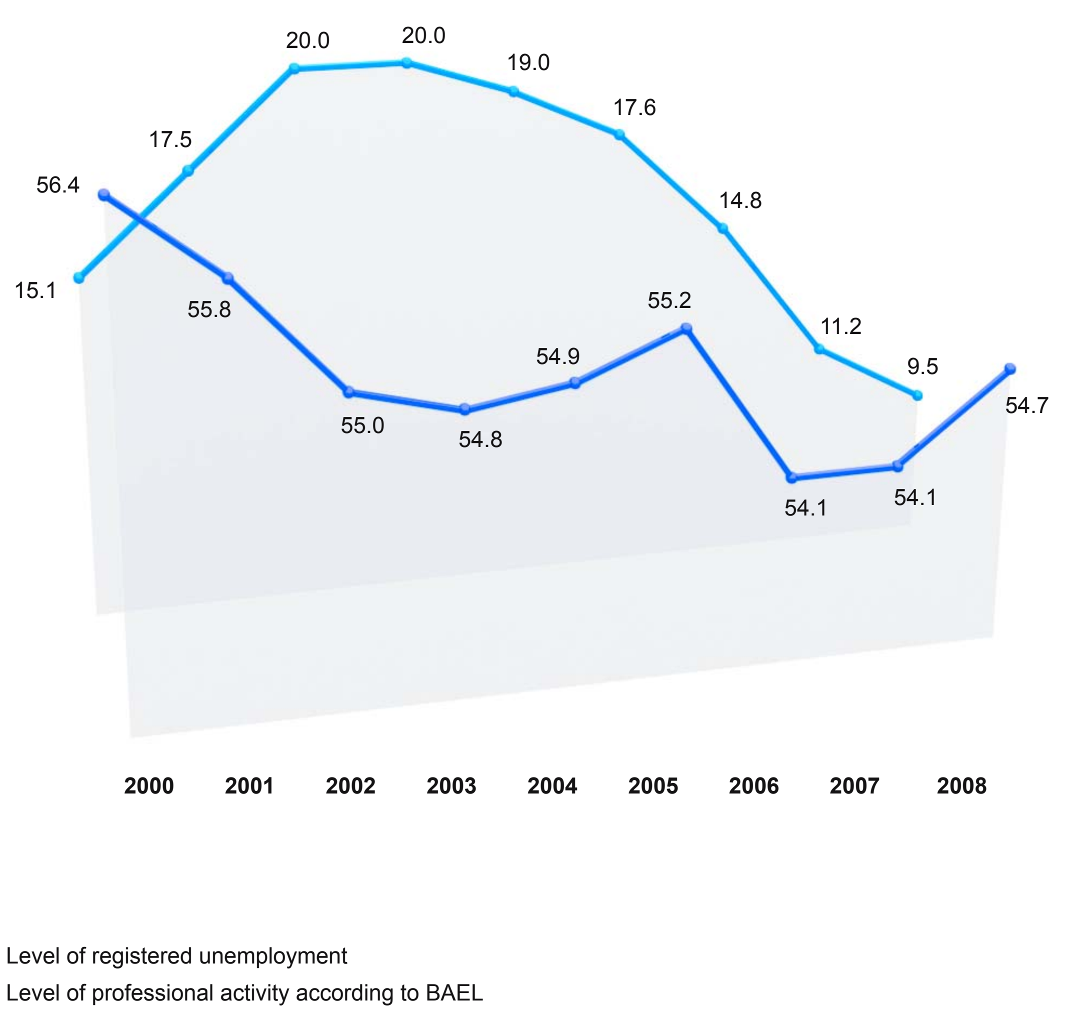
[1] The GUS data quoted concerns enterprises employing 50 people and over.

## LABOUR MARKET

The level of registered unemployment fell from 11.2% in December 2007 to 9.5% at the end of 2008. The level of unemployment fell until October (8.8%). However, the last two months of 2008 saw a marked increase in the number of unemployed (by 121,000), which cannot be explained purely on the basis of seasonal factors. For the major part of 2008, the positive trends from the previous year continued – unemployment fell due to the increased number of people in work, the percentage of professionally active people increased, whilst the number of people withdrawing from the labour market decreased. Wages increased quickly due to the difficulty in finding appropriate employees, whilst companies' financial performance remained good. Throughout 2008, the average monthly wage in the economy increased by 10.2%.

The emergence of the global financial crisis and, as a consequence, the sudden fall in the rate of economic growth in economically developed countries caused a substantial fall in production among Polish companies and forced to them to take adaptive measures. In the final quarter of 2008, employment in companies fell by 42,000 (as against an increase of 45,0000 in the fourth quarter of 2007). In these conditions, wage increases fell quickly – in companies to approx. 7.75% on a yearly basis, and in the economy as a whole to 6.8% on a yearly basis in the fourth quarter of 2008.

**DIAGRAM 3. UNEMPLOYMENT RATE AND PROFESSIONAL ACTIVITY RATIO IN POLAND, 2000-2008 (%)**




Source: GUS

## PRICES

The several years of strong economic growth in Poland, giving rise to a dynamic increase in demand, wages and unit labour costs as well as marked increases in the prices of fuel, food and other raw materials, as well as regulated prices, led to a significant increase in inflation in 2008.

The Consumer Price Index increased up to an average of 4.2% from 2.5% in 2007. Inflation (CPI) reached its peak in the summer of 2008 (4.8% on a yearly basis), but fell in subsequent months to 3.3% on a yearly basis at the end of the year. Prices in the group “residential use and energy media” increased the most in 2008 – on average by 9.1%, which was a result of the increase in regulated prices. The increase in food prices (6.2%) and fuel prices (4.7%) also had a strong impact upon the overall increase in prices.

The Producer Price Index (PPI) increased on average by 2.2% in 2008, compared with 2.0% in 2007. However, the scale of increases in construction-assembly production fell on average in 2008 to 4.8% as against 7.4% in 2007.

### DIAGRAM 4. CPI AND PPI INFLATION AND THE REFERENCE INTEREST RATE IN POLAND, 2000-2008 (%)


Source: GUS

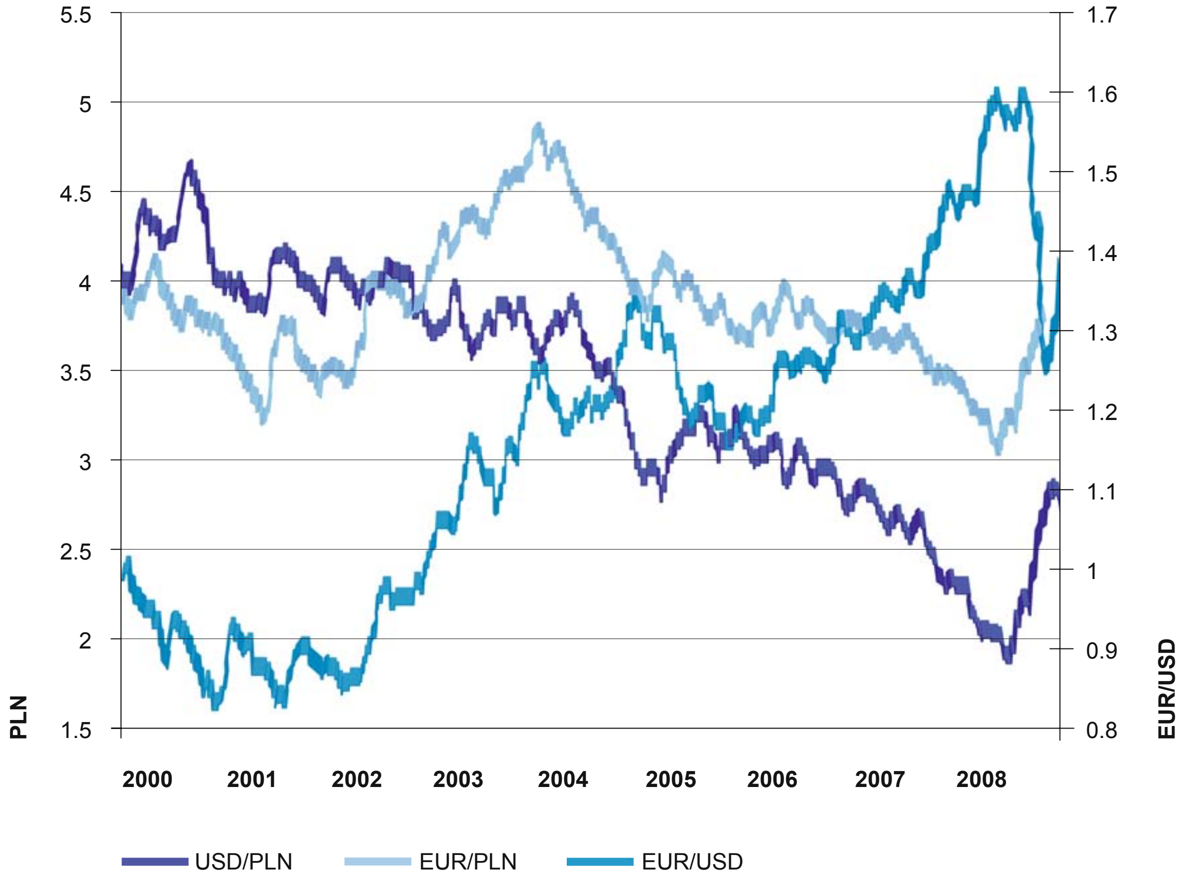
## 4.1.2. THE POLISH FINANCIAL MARKET

### THE CURRENCY MARKET

In 2008, the Polish zloty weakened by approx. 11.5% in relation to the euro and by approx. 20% in relation to the US dollar.

The zloty strengthened until the end of July 2008 (by approx. 11% in relation to the euro and over 18% in relation to the US dollar), when a substantial decline began (the value of the Polish zloty against the euro fell by approx. 28%, and against the US dollar by as much as approx. 43%). The increasing risk aversion on financial markets at the same period favoured a strengthening of the US dollar as against the euro.

**DIAGRAM 5. THE SPOT PLN/USD AND PLN/EUR EXCHANGE RATE AND THE EUR/USD EXCHANGE RATE (2000-2008)**




Source: Reuters EcoWin

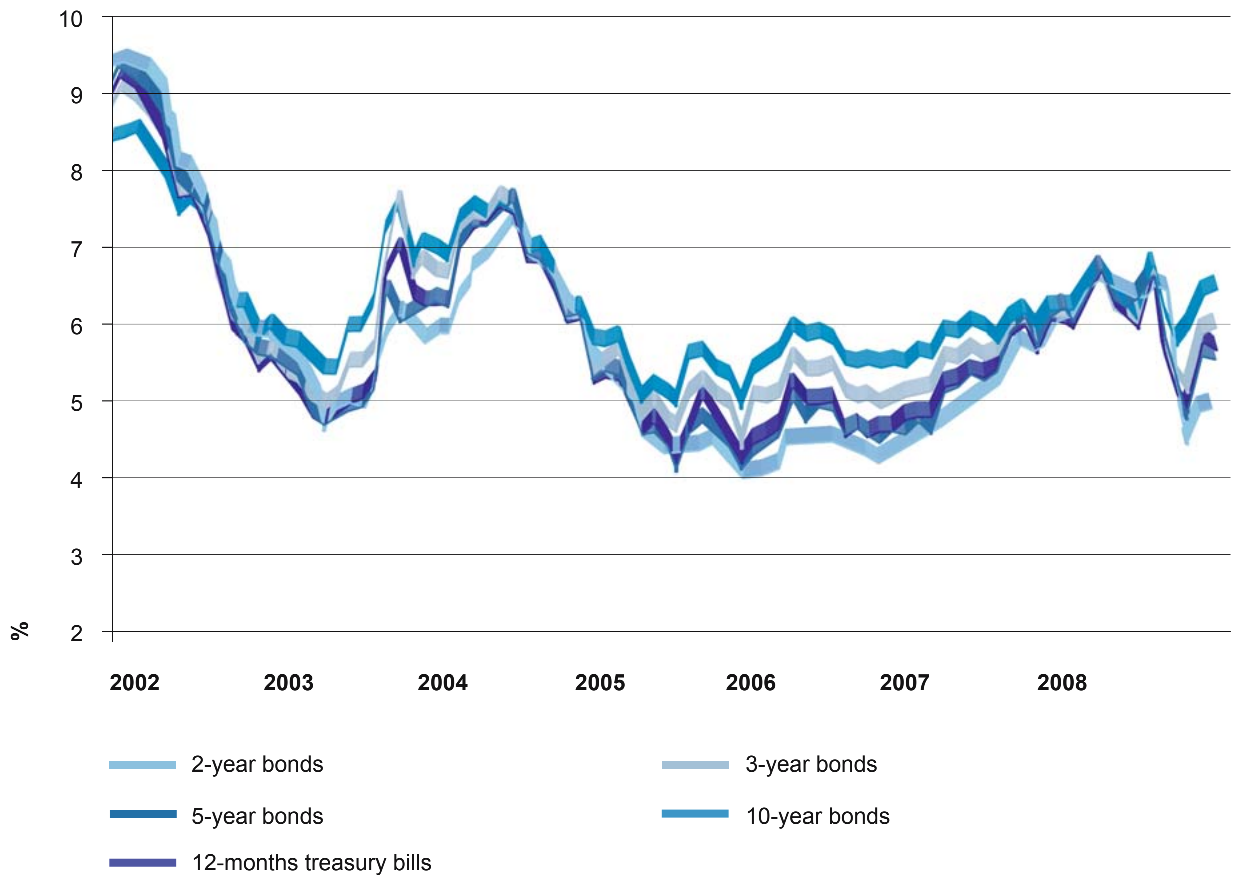
### THE MONEY MARKET AND TREASURY BOND MARKET

In the first half of 2008, the Monetary Policy Committee (the RPP) reacted to the inflationary threat by increased the reference NBP interest rate on four occasions from 5% in December 2007 to 6% in June 2008. The fall in inflation and sudden slowdown in economic growth in Poland in the latter months of 2008 caused the Monetary Policy Committee to start a cycle of interest rate cuts - rates were reduced by 25 basis points in October and by as much as 75 basis points in December.

In conditions of falling foreign capital flows and a reluctance among banks to lend each other money, in the latter months of 2008 there were no opportunities to finance new loans, apart from acquiring deposits. Furthermore, the depreciation of the Polish zloty gave rise to an increase in the zloty equivalent of foreign currency loans granted by banks, and as a consequence, to deterioration in their capital adequacy coefficients. The costs of loans granted to commercial entities and households in Poland increased substantially in the latter months of 2008 and credit became less accessible. The factors described above gave rise to a substantial downturn in new loans at the end of 2008.

2008 was characterised by very substantial fluctuations in prices on financial markets. Bond yields increased systematically in Poland until mid-2008, reflecting global tendencies – a strong increase in the prices of crude oil and other raw materials and market fears of inflation growth. The fall in bond yields in July and August was a consequence of a more apparent slowdown in the global economy, fears of a global recession and a reverse in the trend of crude oil price increases. Subsequently, as a consequence of a wave of capital withdrawals from "developing markets" and a drop in liquidity on financial markets – in October bond yields increased significantly. Once the wave of capital withdrawals ended, in light of an increasingly apparent fall in inflation and GDP growth in Poland as well as the start of a cycle of interest rate cuts, bond yields again began to fall.

**DIAGRAM 6. YIELDS ON TREASURY BONDS AND HOUSEHOLD DEPOSITS INTEREST RATE, 2002-2008 (%)**

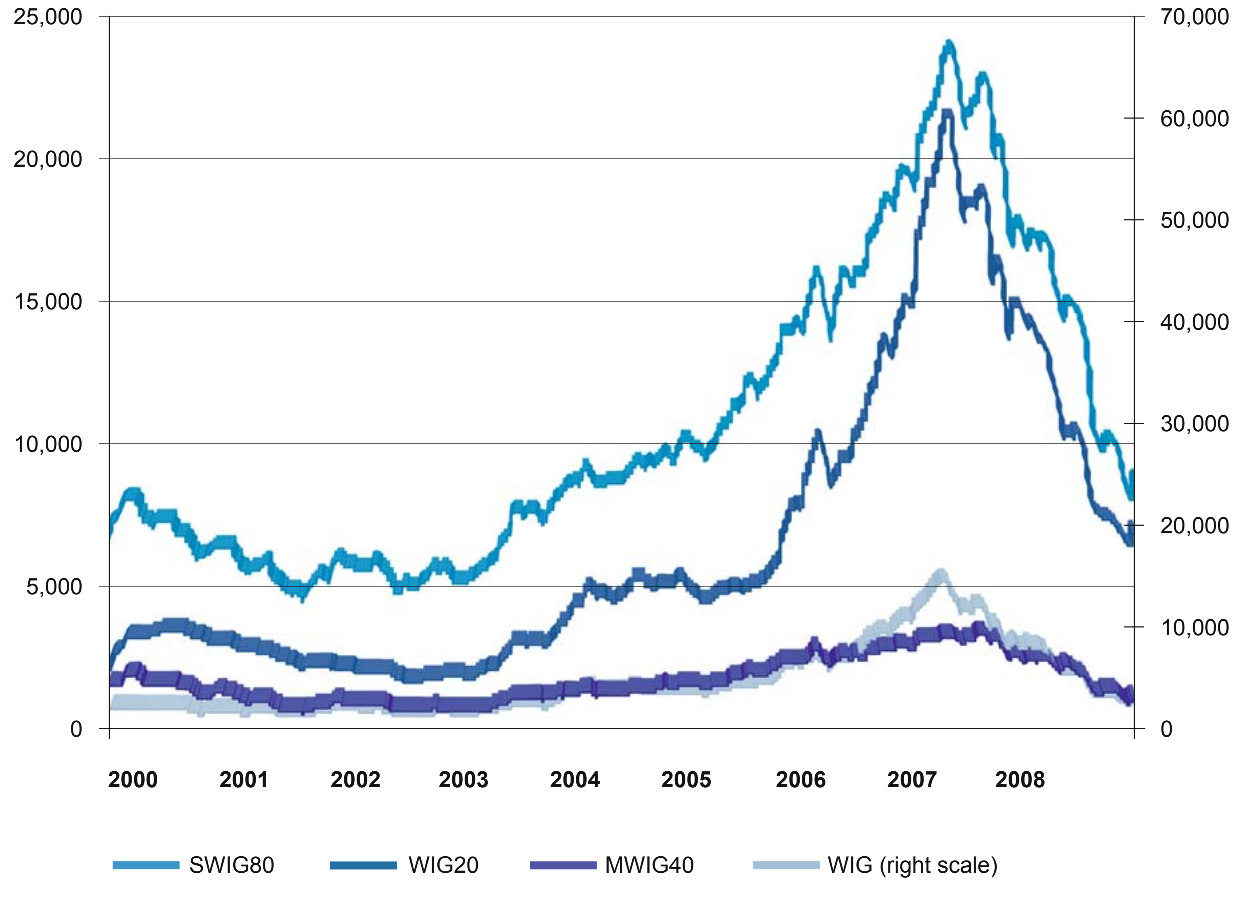



Source: Reuters EcoWin

## THE CAPITAL MARKET

As a result of investors' global aversion to risky assets and the substantial slowdown in economic growth, prices on the share market in 2008 suffered a strong decline. The fall in share prices in Poland contributed additionally to the redemption of participation units in share funds by individual investors. The WIG index at the end of 2008 fell by 51% compared to the end of 2007, whilst the WIG-20 index fell by 48%.  The prices of small and medium-sized companies fell the most (MWIG40 – fall of 62%, SWIG80 – fall of 57%). The biggest falls in share prices were noted by developers, the food, construction and chemical sectors. The telecommunications sector experienced the lowest falls.

**DIAGRAM 7. THE WARSAW STOCK EXCHANGE INDICES WIG, SWIG80, WIG20 AND MWIG40, 2000-2008**




Source: Reuters EcoWin

## 4.1.3. THE POLISH INSURANCE MARKET

### INSURANCE COMPANIES

At the end of 2008, 80 companies (64 domestic and 16 foreign companies) held permits to conduct insurance operations in Poland. This number included 32 life insurers (segment I) and 48 non-life insurers (segment II).

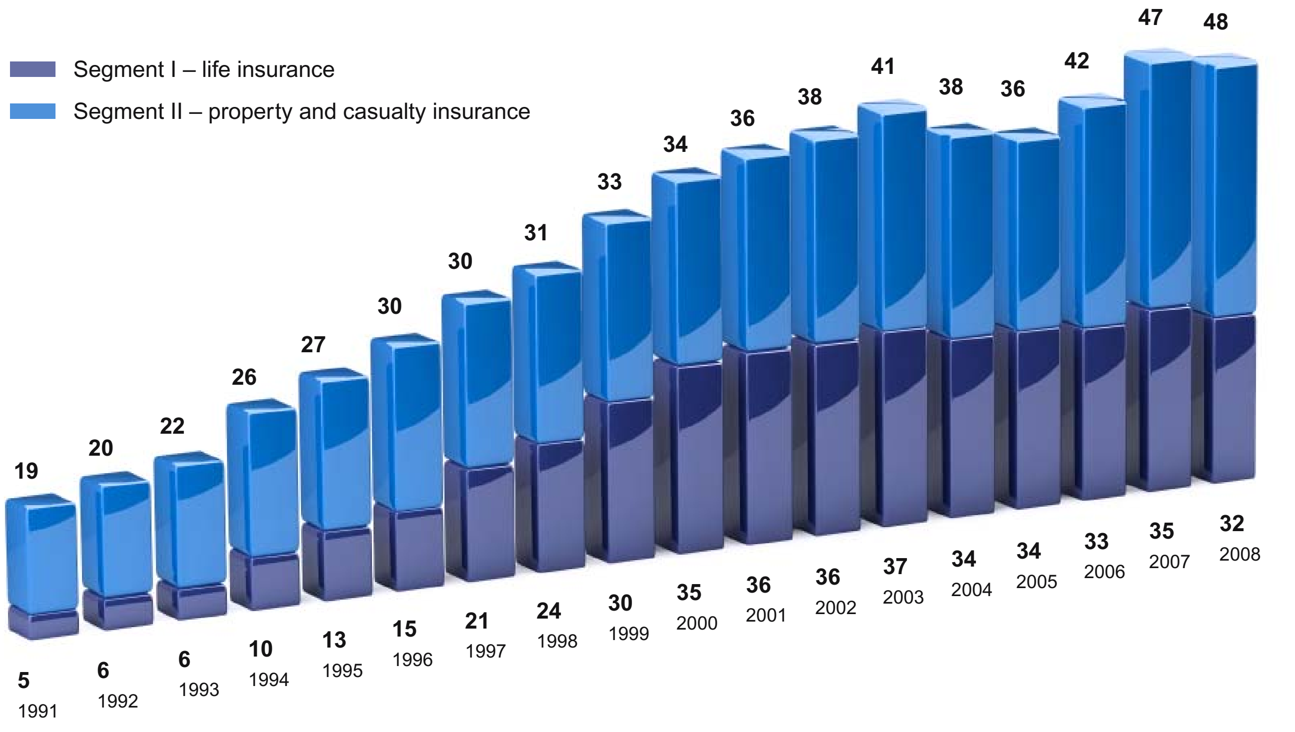
**TABLE 1. INSURANCE COMPANIES BASED IN POLAND AND POLISH BRANCHES OF INSURERS FROM EU MEMBER STATES AND EFTA MEMBER STATES – PARTIES TO THE EEA AGREEMENT (THE END OF 2008).**

| Activity | Insurance Companies based in Poland: | | | Foreign branches | | | Total Polish and foreign companies |
|---|---|---|---|---|---|---|---|
| | in the form of S.A. | in the form of TUW | total | from the EU / EFTA | from other countries | total | |
| Segment I | 28 | 2 | 30 | 2 | 0 | 2 | 32 |
| Segment II | 27 | 7 | 34 | 13 | 1 | 14 | 48 |
| **Total** | **55** | **9** | **64** | **15** | **1** | **16** | **80** |

Source: KNF

2008 saw a substantial increase in the number of notified insurance companies from EU and EEA member states in Poland. By the end of 2008, a total of 502 companies had announced their intention to conduct insurance activity under the principle of freedom to render services (at the end of 2007 – 433 companies). At the same time, 18 Polish companies declared their intention to sell insurance within EU member states.

**DIAGRAM 8. LICENSED INSURANCE COMPANIES IN POLAND, 1991-2008**




Source: KNF

## MARKET SHARE

A total of 11 life insurers (Segment I) (in 2007 – 17) and 22 non-life insurers (Segment II) (in 2007 – 20) operating in Poland increased their market shares[2] in the course of 2008. The PZU Group managed to maintain the leading position, with a share of 33.6% (as against 28.5% in 2007) in Segment I and 40.5% (as against 43.8% in 2007) in Segment II. As in previous years, 2008 also saw intense competition in both insurance sectors. The gross premium written of the five major insurance companies in 2008 accounted for 68% of the premium in life insurance segment and 71.5% of the premium in property and casualty insurance segment.

## SECTOR PERFORMANCE

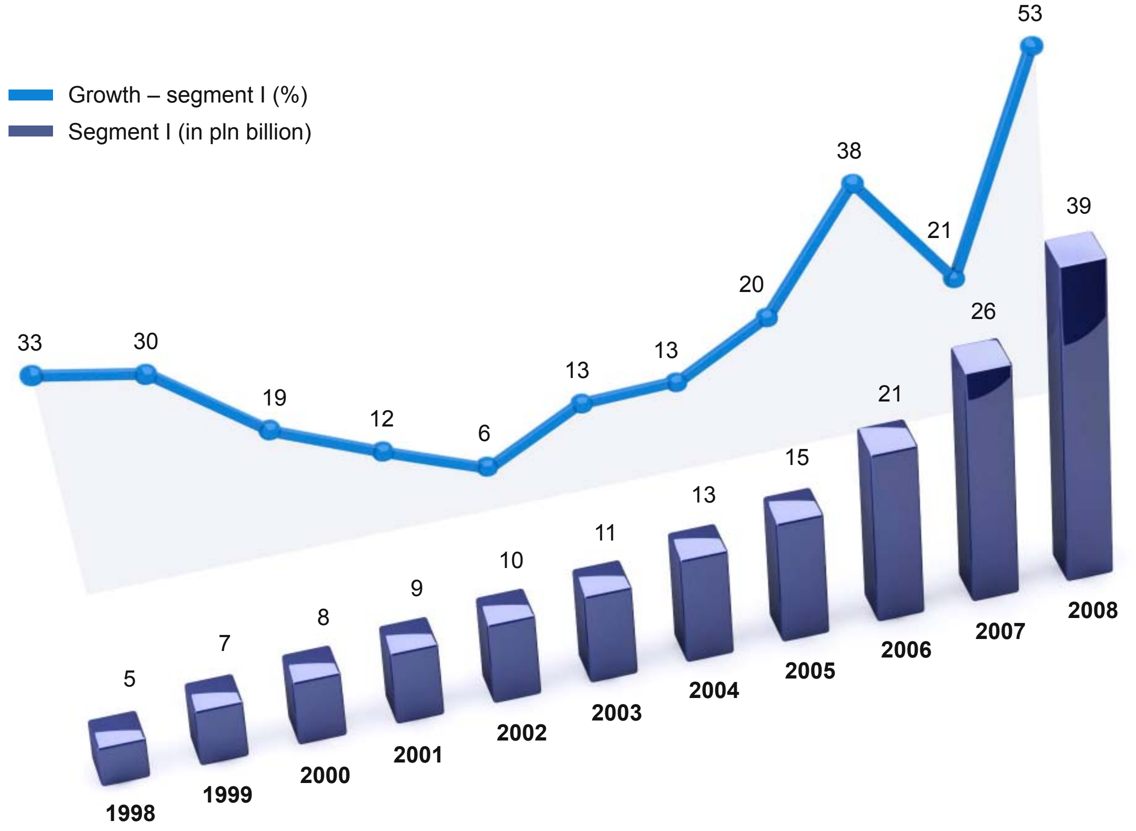
The total value of gross premium written in the Polish insurance sector in 2008 amounted to approximately PLN 59.3 billion, which constitutes an increase of almost 36% in comparison to 2007.

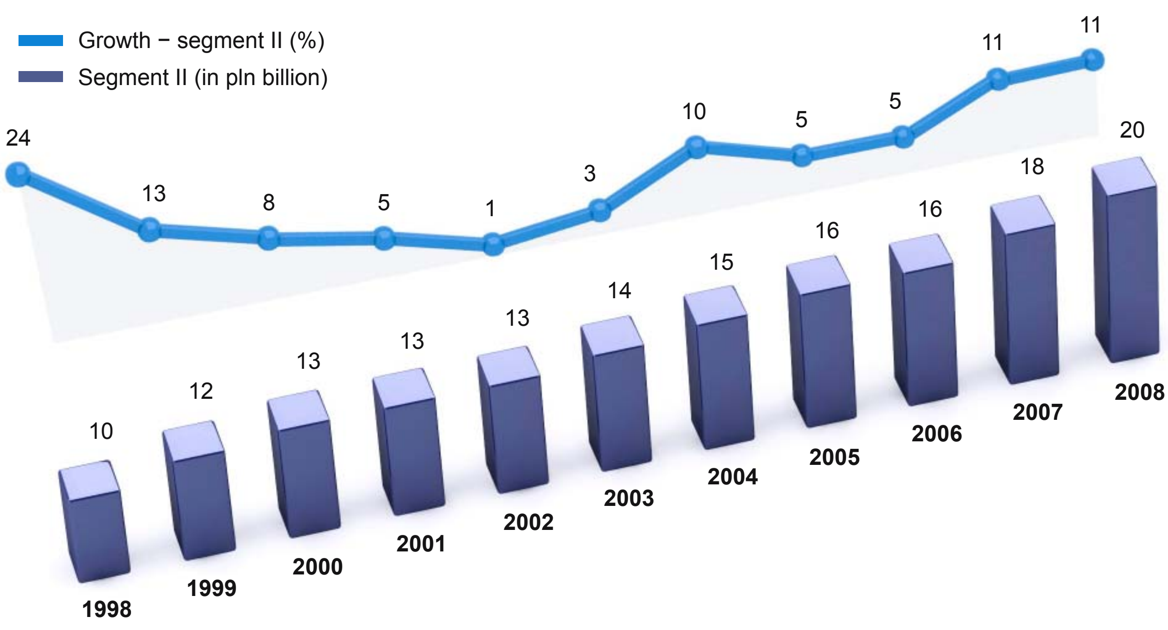
Segment I (life insurance) recorded a gross premium written value of approx. PLN 39 billion, which constitutes an increase of almost 53%. The rate of growth of smaller firms was less than in the case of the five largest companies. In comparison with 2007, the proportions of the premium structure for segment I were reversed – 58% of the value of collected premiums came from group insurance (as compared to 45% in 2007) with 42% originating from individual insurance premiums (as against 55% in 2007). Regular premiums constituted 35% of the overall value in 2008, whereas 65% was obtained from single premiums. In 2007, these values were 54% and 46% respectively.

In 2008, segment II (property and casualty insurance) achieved a gross premium written value of over PLN 20 billion, which was PLN 2 billion or 11% higher than in the previous year. Companies from outside the top five players reported the highest rates of growth in the property insurance segment in 2008.

[2] The given segment's share in the gross premium written

**DIAGRAM 9. THE POLISH INSURANCE MARKET GROWTH MEASURED BY GROSS PREMIUMS WRITTEN, 1998-2008**




Source: KNF

As in 2007, premiums collected for life insurance (66%) were higher in the structure of the total gross premium written in the insurance sector in 2008 than the premiums collected for property and casualty insurance (34%).

The underwriting result of the entire insurance sector in 2008 amounted to almost PLN 4.2 billion, which was 11% lower than the underwriting result in 2007. The life insurance sector recorded an underwriting result of PLN 3.4 billion (a fall of 0.1% compared to 2007), whereas the property and casualty insurance sector generated a profit of PLN 0.7 billion (a fall of 40% compared to 2007). The net aggregate financial result of insurance companies in 2008 was PLN 5.9 billion, which was 12.3% higher than the net financial result for 2007.

The value of total assets of all insurance companies registered in the KNF [the Polish Financial Supervision Authority] was almost PLN 138 billion, of which 72% constituted investments. The technical and insurance reserves of all companies amounted to PLN 97.8 billion.

## 4.1.4. THE PENSION FUNDS MARKET

### COMPANIES ON THE OPEN PENSION FUND (OFE) MARKET

2008 witnessed a fall in the number of general pension fund companies (PTE) and open pension funds (OFE) from 15 to 14 companies.

### TABLE 2 - THE OPEN PENSION FUND (OFE) MARKET IN POLAND, 2000-2008

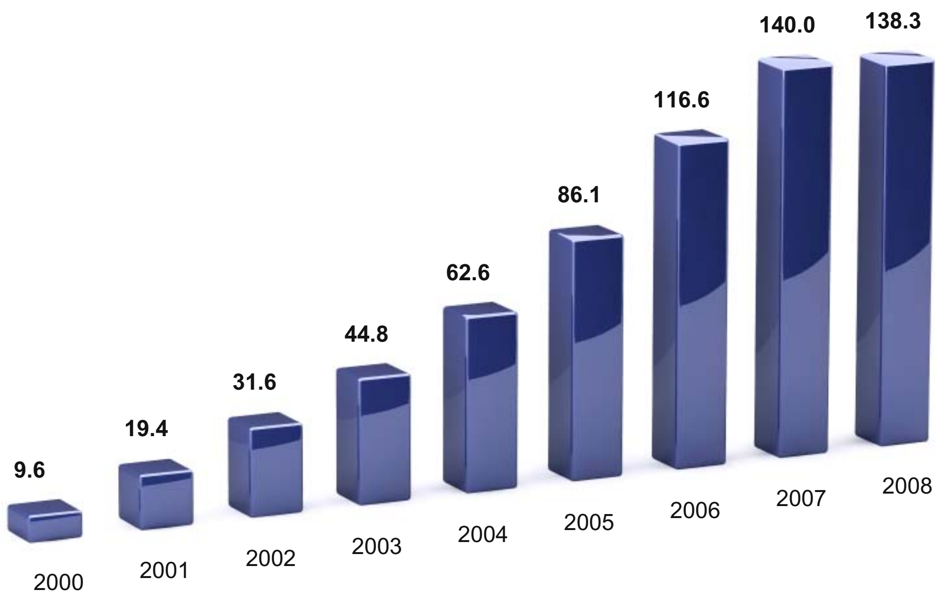
| OFEs | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Number of OFEs | 21 | 17 | 17 | 16 | 15 | 15 | 15 | 15 | 14 |
| Number of OFE members (million) | 10.4 | 10.6 | 11.0 | 11.5 | 12.0 | 11.7 | 12.4 | 13.1 | 13.8 |
| Net assets (PLN billion) | 9.6 | 19.4 | 31.6 | 44.8 | 62.6 | 86.1 | 116.6 | 140.0 | 138.3 |

Source: KNF

### NET ASSETS

At the end of 2008, open pension funds managed a total of PLN 138.3 billion in net assets, which was PLN 1.8 billion or 1.3% lower than in 2007.

### DIAGRAM 10. NET ASSETS OF THE OPEN PENSION FUNDS MARKET IN POLAND BETWEEN 2000 AND 2008 (IN PLN BILLION)




Source: KNF

## FUND MEMBERS AND TRANSFERS

The number of members of all open pension funds at the end of 2008 was 13.8 million, i.e. almost 702,000 (5.3%) more than the previous year.

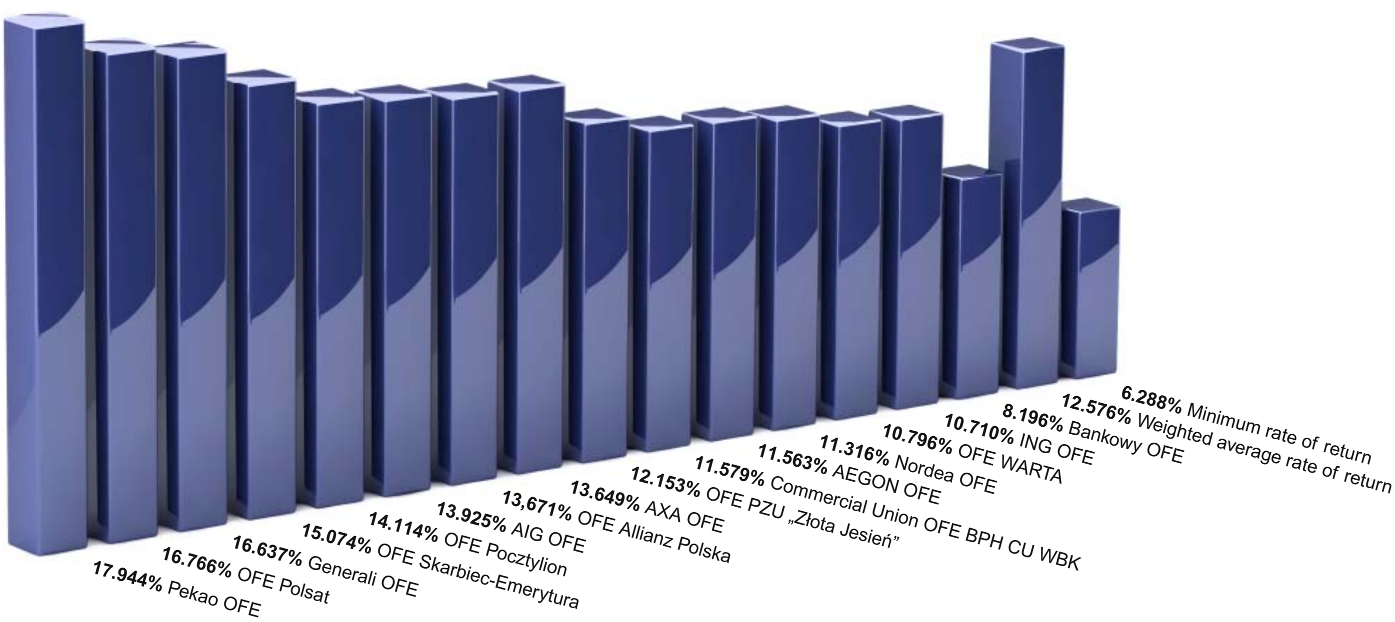
During all transfer sessions in 2008, 451,600 people changed pension fund, up 17.9% on the previous year. The ratio of number of persons changing fund in 2008 to the number of OFE members at the end of the previous year was 3.3%.

## EFFICIENCY OF INVESTMENT ACTIVITY AND RATE OF RETURN

At the end of 2008, the weighted average of OFE accounting units was worth PLN 24.51, i.e. 14.2% less than in 2007.

The weighted average rate of return for the period of 36 months announced in September 2008 was 12.576%, which was approximately 40% lower than the corresponding figure the year before. All funds exceeded the minimum required rate of return (6.288%), whilst the spread between the performance of the most and least efficient OFE was approx. 9.7%.

### DIAGRAM 11. OFE – THREE-YEAR RATES OF RETURN WITHIN THE PERIOD BETWEEN 30TH SEPTEMBER 2005 TO 30TH SEPTEMBER 2008 (%)




Source: KNF

## FINANCIAL RESULTS

The total net profit of all open pension funds amounted to PLN 730.9 million[3], which is PLN 34.6 million (5%) more than in the preceding year. All companies in the sector except for AXA PTE S.A. recorded profits at the end of 2008.

[3] Does not include the net result of PTE Skarbiec-Emerytura S.A. (which was not functioning as at 31.12.2008 and hence no balance sheet was drafted for it)

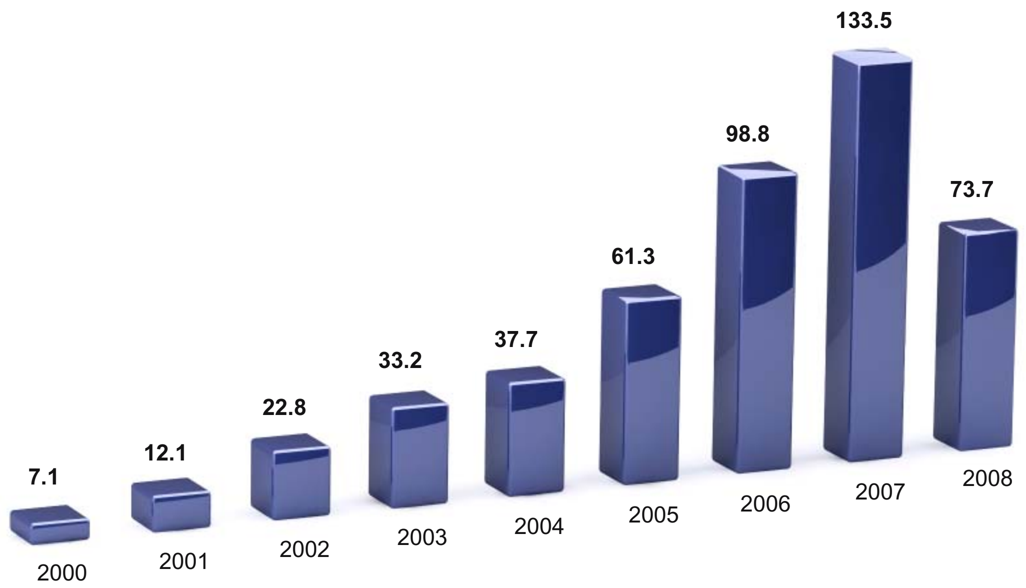
## 4.1.5. INVESTMENT FUND MARKET

### INVESTMENT FUND COMPANIES AND THEIR ASSETS

At the end of 2008, 39 investment fund companies were active on the Polish market managing a total of several hundred investment funds and sub-funds.

2008 saw a substantial fall in the growth of the investment funds market. The net assets of investment funds fell by approx. PLN 73.7 billion[4], down 45% on 2007.

**DIAGRAM 12. NET ASSETS MANAGED BY INVESTMENT FUNDS IN POLAND BETWEEN 2000 AND 2008 (PLN BILLION)**

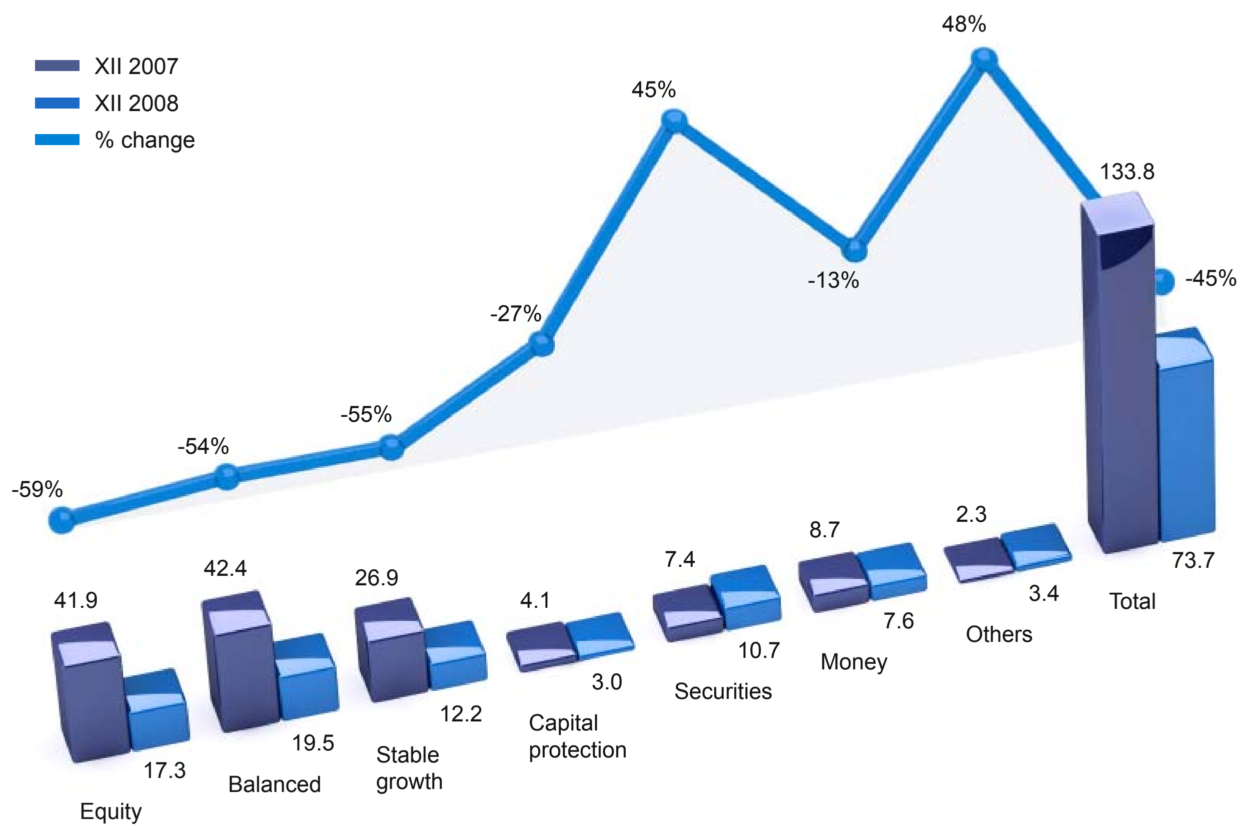



Source: Online analyses

[4] The value of assets (with the exception of funds management by funds investing assets in participation units of other products managed by the same TFI)

In 2008 each of the nine investment fund market segments noted a double-digit change, although this change was negative in five segments. The greatest rate of growth in asset value was recorded by real estate funds (increase of 55%). Securities funds also recorded a high growth in asset value of 45%. The largest falls in value were noted by equity funds (almost 60%) and stable growth funds, whose assets fell by 55%. Despite the substantial falls, there was no change to the structure among leaders on the Polish market in relation to 2007. Combined funds still enjoyed the greatest asset value, whilst equity funds were in second place, followed by stable growth funds.

**DIAGRAM 13. NET ASSETS OF POLISH INVESTMENT FUNDS IN PARTICULAR SEGMENTS AT THE END OF 2008 (PLN BILLION)**




Source: Online analyses

# 4.2. MAJOR EVENTS WITH AN IMPACT ON THE PZU GROUP'S OPERATION AND PERFORMANCE IN 2008

The following factors affected the operation and performance of the PZU Group companies in 2008:

- the growth in the domestic insurance market (the rate of which significantly exceeded the pace of GDP growth), which impacted upon the rate of PZU SA sales – this rate of growth was, however, substantially lower than that of the market (due to which market share continued to drop),
- in the segment of property and casualty insurance there was a significant increase in claims related to phenomena associated with natural disasters (which may continue in future in connection with climate change); third party liability (OC) motor premiums were also charged the so-called "Religa tax", which had an enormous negative impact on the 2008 result;
- in the life insurance segment, cooperation was developed with existing banking partners, primarily with Bank PKO BP S.A., Bank Millennium S.A., Deutsche Bank PBC S.A. and BOŚ S.A. All PZU Group products were offered directly via the banks' branches;
- the stock market downturn, substantial reduction in the value of investment assets (giving rise to increased capital requirements) and a significant increase in investment and settlement risk – impacted upon the results of PZU Group's investment activity.

# 4.3. ACTIONS TAKEN BY THE MANAGEMENT BOARDS OF THE MAIN COMPANIES IN THE PZU GROUP IN 2008

### PZU SA ACTIVITY

On the initiative of the Management Board of PZU SA, on 5th September 2008 a Capital Tax Group was set up (PGK). The PGK comprises PZU SA and PZU Życie SA. PZU SA is the dominant company and represents the PGK. The PGK was appointed for a term of 3 years from 2009 to 2011. Under Article 25 (1) of the Corporate Income Tax Act of 15th February 1992 (Journal of Laws no. 54, item 654), PGK will settle its taxes on a monthly basis with the Tax Office.

In 2008, the PZU SA Management Board continued its activities intended to increase the sales of insurance, including modifying the general conditions of insurance and introducing new products.

In respect of property insurance for individual clients, it began expanding the range of flat insurance policies. The three existing products were replaced with two comprehensive insurance policies: "PZU Dom" and "PZU Dom Plus".

In the corporate client area, in 2008 new general conditions of insurance were drafted for all construction and assembly risks, and work was started on modifying TPL insurance (OC).

In the area of motor insurance, steps were taken in 2008 to better adjust products to client's needs, whilst the policy of improving the underwriting result was continued as regards corporate client accounts.

Furthermore, in the area of sales, numerous development projects were implemented, among others concerning:

- the implementation of an Office Agencies management model,
- incentive system for agents selling motor insurance through dealer channel,
- implementation of the Titus Plus system, supporting the work of agents,
- implementation of a modern agent network segmentation and management model (project related to the implementation of the PZU Group's strategy for 2008-2011),
- enhancing the model of functioning of sales-service outlets for the joint use of PZU SA and PZU Życie SA,
- development of the direct sales channel (in 2008 motor insurance sales were commenced via an internet platform, which is one of the programs of the PZU Group Strategy),
- determining the principles of and implementing a New Era of Corporate Sales (NESK) in the headquarters of PZU SA, the main objective of which was to increase sales efficiency through clear separation of sales, underwriting and widely understood sales support functions.

As regards the loss adjusting, in 2008 a new system solution was introduced for personal loss adjustment and it was implemented in particular organisational units of PZU SA. Under the completed NOLS Project, a new process was developed for adjusting personal losses under third party and personal accident insurance using as its basis such products as: Mobile Expert, the central SLS computer system and Telecentrum. In the area of motor loss adjustment, the advantageous contractual conditions with Repair Network garages were maintained, which has a direct impact upon the loss ratio.

During the downturn on financial markets, in the area of investment activity, the Company's Management Board concentrated in 2008 upon a consistent and conservative investment management policy (without investing in any risky derivatives associated with credit risk) and appropriate responses to changing trends. The market and credit risks of all investments were constantly monitored. Due to these steps, investments in "toxic assets" were avoided and no settlement risk was noted with the institutions that suffered most as a result of the current financial crisis.

### PZU ŻYCIE SA ACTIVITY

In the area of on-going insurance activity, in 2008 the Management Board continued its activities to:

- increase sales of insurance, e.g. by increasing the effectiveness of the sales network and introducing new products;
- optimization of operating expenses;
- consistent and conservative asset management policy.

A new range of insurance products was implemented, including:

- a structured product for distribution through an agency and "over-the-counter" network entitled Świat Zysków (World of Profit);
- a life and endowment investment product with a guaranteed rate of return entitled "Pewny Zysk" (Sure Profit);
- an investment product distributed in cooperation with banks (products to which the Company owes the sales success achieved in 2008);
- additional insurance accompanying both group insurance and continued insurance, also distributed in the form of direct dispatch to clients.

The substantial increase in the sales of bank insurance with one-off premium was of key importance for PZU Życie SA's achievement of an 80% increase in gross premiums written. The gross premium written obtained via this channel was more than six times higher than in 2007. Hence, the Company managed to reverse the negative trend of loss of market share. At the end of 2008, the share of PZU Życie SA in the life insurance market increased to 33.6% (as against 28.5% at the end of 2007).

In 2008, PZU Życie SA placed emphasis upon maintaining its share in the market for group protection insurance sold in workplaces. The increase in the premium for this group of insurance policies was 5.2%. The Company continued its dynamic increase in sales of individual insurance policies (increase of 13.5%) and individually continued policies (increase of 3.6%).

In 2008, the Management Board took a series of key initiatives and steps, which will have a long-term impact upon the Company's growth. In 2008, the Company began implementing a software tool called the Group Insurance Registration System - eRU in work places. This tool is primarily dedicated to persons handling group insurance in work places. The proposed insurance handling system is a novel application on the insurance market in Poland.

During the downturn on financial markets, in the area of investment activity in 2008 the Company's Management Board focussed on maintaining a conservative and consistent investment management policy. The market risk and credit risk of all investments were constantly monitored, due to which investments in risky derivative instruments with credit risk and other "toxic assets" were successfully avoided. No settlement risk was noted in relation to the companies that suffered most during the financial crisis.

### PTE PZU SA ACTIVITY

The steps taken by the Management Board of PTE PZU SA were primarily intended to maintain the Fund's key market position, both as regards number of members and the value of net assets, and to maintain the growth in the value of the accounting unit, at least at the level of the average change in value of all pension funds (weighted on the basis of assets). In 2008, the Management Board was particularly interested in achieving a further improvement in the standards of client service, maintaining positive relations with them to strengthen the renown of the PZU brand on the market and reducing the costs of the Company's activity by means of strict adherence to the agreed budget discipline.

Almost 73,500 new members were acquired for the Fund on the primary market. The premium collection plan from new sales was significantly exceeded, as was the annual sales plan in terms of the value of assets transferred and the balance of transfers. The net assets of the Fund as at 31st December 2008 amounted to PLN 18,952 million, placing Open Pension Fund PZU "Złota Jesień" third among funds on the market. In 2008, the value of the accounting unit fell by 14.15%, mainly due to the downturn on the equity market.

Due to the sales network management system and acquisition support campaigns conducted, almost 144,000 new accounts were opened.

The implementation and start-up of software for comprehensive handling of capital pension payments, withdrawals of the independent social insurance (ZUS) contribution and handling of Fund members' funds transfers to and from the European Community was also a significant venture in 2008.

If P2U were a book, you could read it at any time
– it wouldn't make you doze off at bedtime,
you could concentrate on it in the tram,
it would enthral you on holiday and relax and
entertain you at the weekend. It would never bore you
and you would always want to go back to it.
When reading it, people would want to talk
about it together. John Irving comes to mind.

# 5. THE PZU GROUP ON THE POLISH INSURANCE MARKET

## 5.1. CAPITAL GROUP STRUCTURE OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA

As of 31st December 2007, the PZU Group consisted of 23 entities incorporated as either joint stock or private limited liability companies. From the perspective of the extent and means by which particular entities were incorporated into the consolidated financial statement of the PZU Group for 2008, these entities may be divided into the following categories:

**Fully incorporated entities:**

- Powszechny Zakład Ubezpieczeń Spółka Akcyjna – parent company;
- Powszechny Zakład Ubezpieczeń na Życie SA – subsidiary;
- Powszechne Towarzystwo Emerytalne PZU SA – indirect subsidiary;
- PZU Tower Sp. z o.o. ("PZU Tower") – indirect subsidiary;
- Centrum Informatyki PZU Group SA ("CIG PZU SA") – indirect subsidiary;
- OJSC IC PZU Ukraine ("PZU Ukraina") - subsidiary;
- UAB DK PZU Lietuva ("PZU Litwa") - subsidiary;
- Ogrodowa – Inwestycje Sp. z o.o. (formerly PZU International Sp. z o.o.) – subsidiary

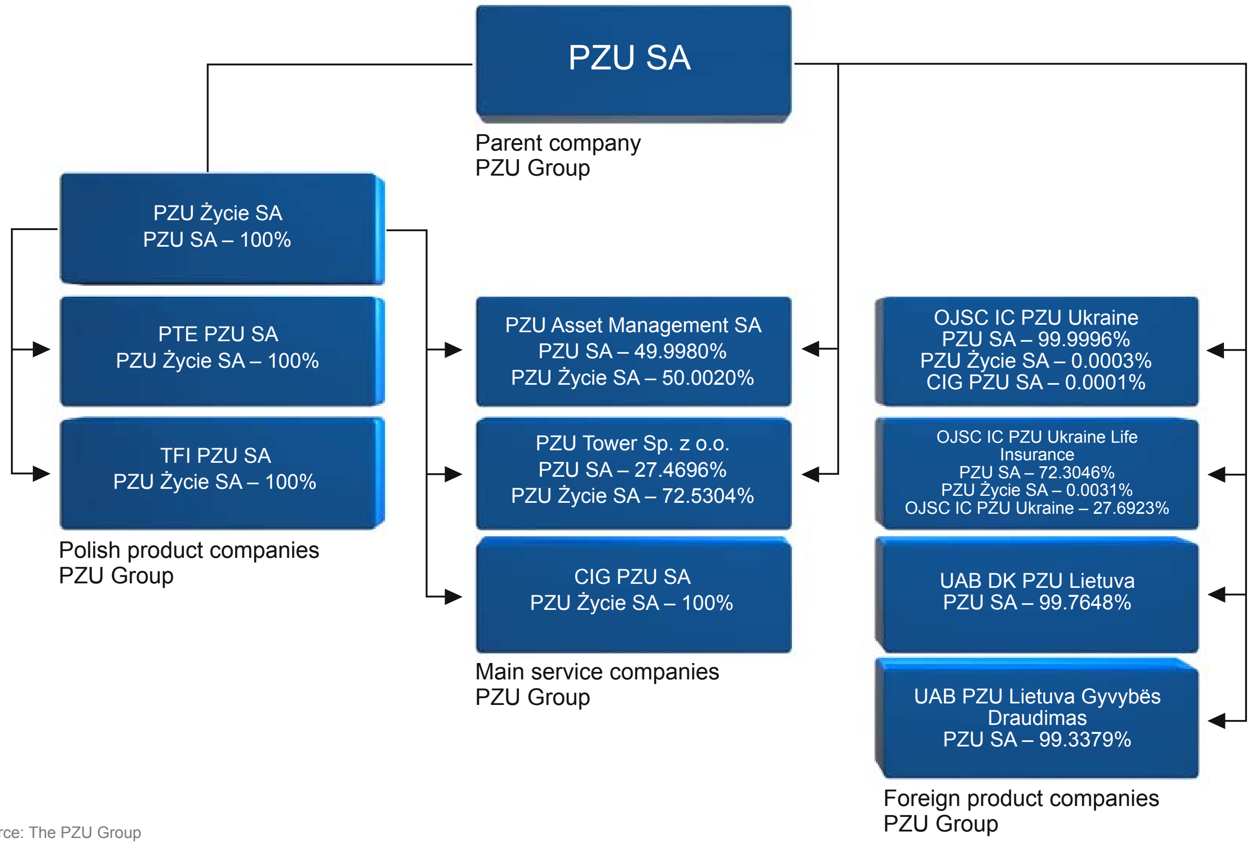
**Other subsidiaries valued according to cost less impairment:**

- Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU SA");
- UAB PZU Lietuva Gyvybės Draudimas;
- OJSC IC PZU Ukraine Life Insurance;
- LLC SOS Services Ukraine;
- Company with Additional Liability Inter-Risk Ukraine;
- Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU S.A.;
- PZU Asset Management S.A. ("PZU AM SA");
- SYTA Development Sp. z o.o. in liquidation;
- Sigma Investments Sp. z o.o.;
- Armatura Kraków S.A. (KFA S.A.);
- ICH Center S.A.

**Associates – valued at cost less impairment:**

- Kolej Gondolowa Jaworzyna Krynicka S.A.;
- Nadwiślańska Agencja Ubezpieczeniowa S.A.;
- Polskie Towarzystwo Reasekuracji S.A.;
- PPW Uniprom SA (insolvent);

**DIAGRAM 14. STRUCTURE OF THE PZU GROUP AS AT 31ST DECEMBER 2008**




Source: The PZU Group

The data on particular PZU Group companies derives from their individual financial statements. The PZU Group's results derive 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.

## 5.2. MAJOR BUSINESS ENTITIES IN THE PZU GROUP – 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 23rd 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 28th July 1990 (uniform text, Journal of Laws No. 11 item 62 as amended)).

**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 the OFE 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 open investment funds representing various investment strategies and one closed investment fund. The company 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 capital subsidiary of PZU Życie SA.

**PZU Asset Management SA**
PZU Asset Management SA was incorporated into the PZU Group in 2001. In 2005 PZU Asset Management SA took over the management of selected asset and fund portfolios of the PZU Group: PZU SA, PZU Życie SA, TFI PZU SA and Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU S.A.

**Centrum Informatyki PZU Group 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 capital subsidiary of PZU Życie SA.

**PZU Tower Sp. z o.o.**
PZU Tower Sp. z o.o. was the PZU Group's SPV established in August 1998. It conducted business in the field of purchase and sale of real estate, rendering services associated with the construction, development and administration of real estate, as well as the lease of office space. In 2008, PZU Tower Sp. z o.o was restructured and on 1st December 2008 an agreement on the sale of the enterprise of PZU Tower Sp. z o.o. was entered into by PZU Tower Sp. z o.o., PZU SA and PZU Życie SA, under which PZU SA together with PZU Życie SA acquired joint title (in the following shares: PZU SA – 665/1000 and PZU Życie SA – 335/1000) to the enterprise of PZU Tower Sp. z o.o. It is a capital subsidiary of PZU Życie SA.

**UAB DK PZU Lietuva and 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.

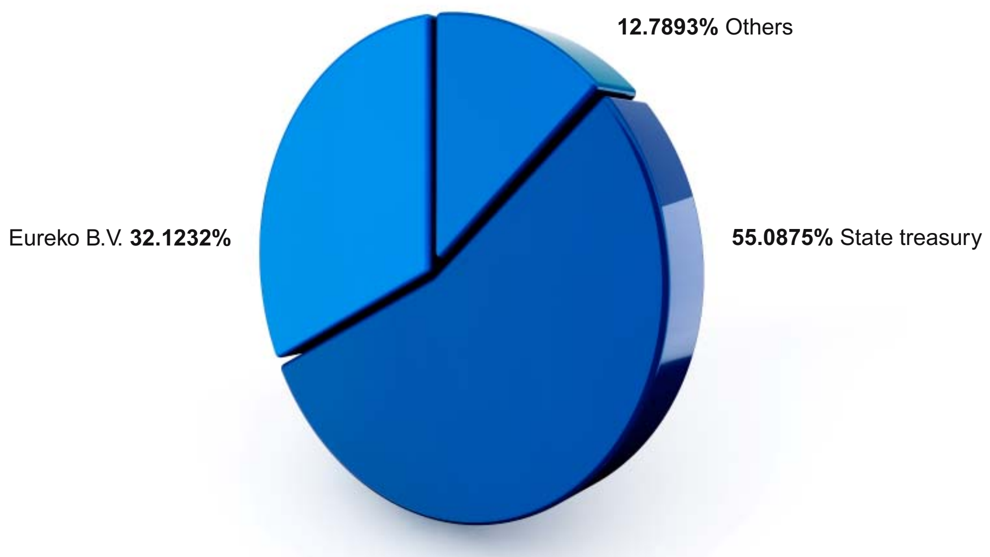
**OJSC IC PZU Ukraine and OJSC IC PZU Ukraine Life Insurance**
Since 2005, the PZU Group has also been operating on the Ukrainian market with its companies offering life insurance and property and casualty insurance services. The Ukrainian companies are subsidiaries of PZU SA.

## 5.3. SHAREHOLDERS

### OWNERSHIP STRUCTURE

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

**DIAGRAM 15. OWNERSHIP STRUCTURE OF PZU SA AS AT 31ST DECEMBER 2008.**



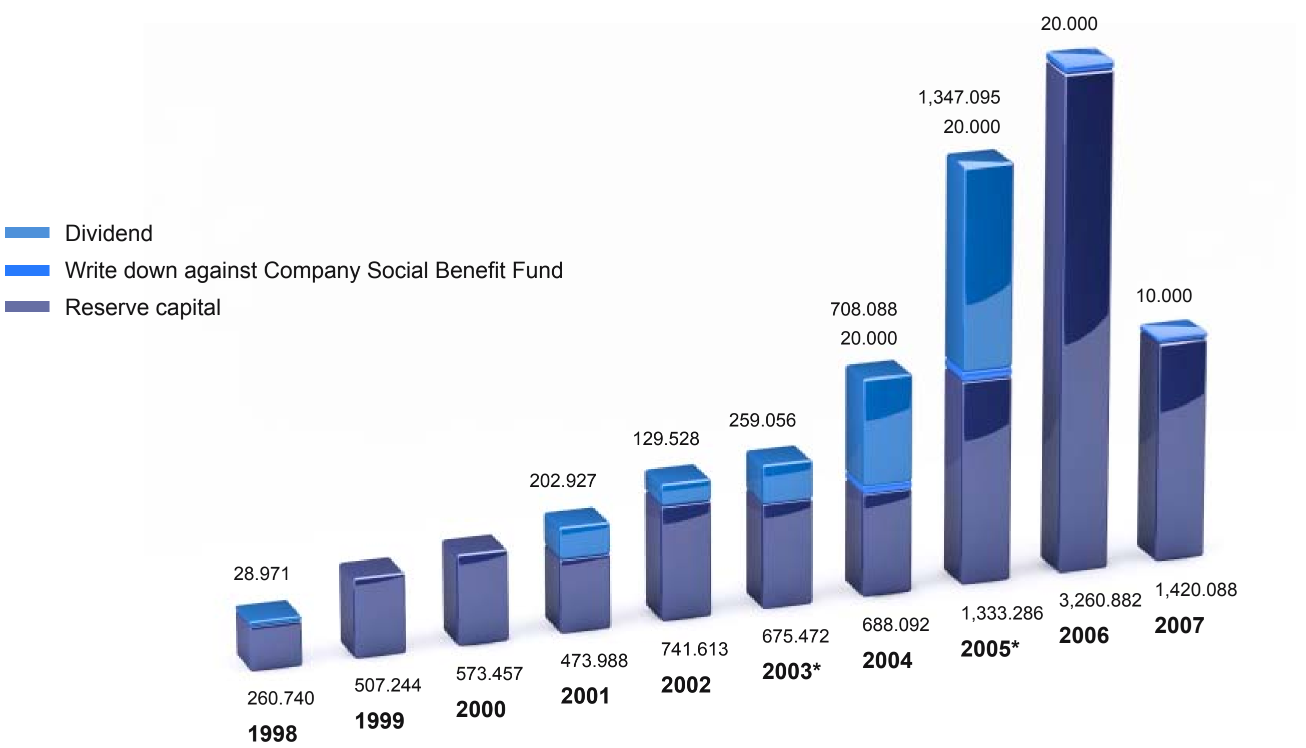

Source: PZU SA book of shareholders

## APPROPRIATION OF PROFIT

On 26th June 2008, the PZU SA Annual General Meeting adopted a resolution distributing the net profit for the financial year ending 31st December 2007 (PLN 1,430,088,366.56) in the following manner:

- PLN 1,420,088,366.56 was allocated to reserve capital,
- PLN 10,000,000 was transferred to the Company Social Benefit Fund.

**DIAGRAM 16. NET PROFIT APPROPRIATION BETWEEN 1998 AND 2007 (PLN, MILLION)**




* Including undivided profit from previous years

Source: PZU SA

### INVESTOR RELATIONS

The priority of the present PZU SA Management Board is to apply corporate governance principles, particularly in the sphere of good practice. The main element of these objectives is to conduct a transparent information policy.

In response to the increasing demand for information expressed by players on the capital markets, the PZU Management Board has declared its desire willing to engage in 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 make the relevant decisions. The Management Board of PZU SA strives to maintain a relationship of dialogue as regards comments on the Group's results by organising regular meetings and conferences to present the company's operations and its results.

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

In 2008 an English version of this service was made available at the address: http://www.pzu.pl/ir

### APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES IN PZU SA

The PZU SA Management Board follows a practice of observing the principles of corporate governance. The Management Board uses its best endeavours to ensure all shareholders equal access to information about the company and full respect for shareholders rights regardless of the size of their shareholding. The Management Board's steps to ensure total transparency of operations and conduct in accordance with business ethics underscore its aspirations to apply the best market practices in PZU SA's activity.

In 2008 an inspection was performed regarding the application of Code of Good Practices of Companies Listed on the WSE [Warsaw Stock Exchange] in PZU SA / PZU Życie SA and other companies in the PZU Group.

Further work will be performed in 2009 to improve corporate governance principles in the PZU Group. These actions constitute an element of transparency strengthening in the PZU Group, including as regards management and supervisory standards.

## 5.4. 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 2008:

**PZU SA Management Board**

Andrzej Klesyk – President
Magdalena Nawłoka – Vice-President (as of 1st November 2008)
Witold Jaworski – Board Member
Rafał Stankiewicz – Board Member

**PZU SA Supervisory Board**

Tomasz Gruszecki – Chairman of the Supervisory Board
Ernst Jansen – Vice-Chairman of the Supervisory Board
Marcin Majeranowski – Vice-Chairman of the Supervisory Board
Joanna Karman – Secretary of the Supervisory Board
Maciej Bednarkiewicz – Member of the Supervisory Board
Michał Nastula – Member of the Supervisory Board
Gerard van Olphen – Member of the Supervisory Board
Alfred Bieć – Member of the Supervisory Board (as of 20th February 2008)
Tomasz Przesławski – Member of the Supervisory Board (as of 20th February 2008)

Eryk Zbigniew Pyra – Member of the Supervisory Board (until 19th February 2008)
Adam Kwiatkowski – Member of the Supervisory Board (until 19th February 2008)

**PZU Życie SA Management Board**

Dariusz Krzewina – President
Piotr Kuszewski – Vice-president
Rafał Grodzicki – Vice-president (as of 12th August 2008)

Mirosław Kozłowski – Vice-president (until 11th August 2008)

**PZU Życie SA Supervisory Board**

Andrzej Klesyk – Chairman of the Supervisory Board (as of 17th April 2008, Member of the Supervisory Board as of 7th April 2008)
Joyce Deriga – Vice-Chairman of the Supervisory Board
Jarosław Myjak – Secretary of the Supervisory Board (as of 29th September 2008, Member of the Supervisory Board as of 25th June 2008)
Igor Chalupec – Member of the Supervisory Board (as of 7th April 2008)
Frederik Hoogerbrug – Member of the Supervisory Board
Eugeniusz Kowalewski – Member of the Supervisory Board (Chairman of the Supervisory Board until 17th April 2008)
Alan John Rae – Member of the Supervisory Board (as of 4th December 2008)

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Krystyna Gawlikowska-Hueckel – Member of the Supervisory Board (until 7th April 2008)
Janusz Olędzki – Member of the Supervisory Board (until 7th April 2008)
Józef Okolski – Member of the Supervisory Board (until 7th April 2008)
Ane Ate Sijsma – Member of the Supervisory Board (until 4th December 2008)

**PTE PZU SA Management Board**

Andrzej Sołdek – President (as of 7th March 2008, Vice-president until 7th March 2008)
Stanisław Rataj – Vice-president
Marek Sojka – Board Member (as of 6th May 2008)

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Jerzy Kochański – President (until 7th March 2008)
Sebastian Bogusławski – Vice-president (until 7th March 2008)

**PTE PZU SA Supervisory Board**

Ludwik Florek – Chairman of the Supervisory Board
Witold Jaworski – Vice-Chairman of the Supervisory Board (as of 5th September 2008, Member of the Supervisory Board as of 1st July 2008)
Piotr Kowalczewski – Secretary of the Supervisory Board (as of 1st July 2008, Member of the Supervisory Board until 1st July 2008)
Wiktor Askanas – Member of the Supervisory Board (as of 18th June 2008)
Krystyna Dziworska – Member of the Supervisory Board
Dariusz Krzewina – Member of the Supervisory Board

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Beata Kozłowska-Chyła – Vice-Chairman of the Supervisory Board (until 18th January 2008)
Jerzy Lipski – Secretary of the Supervisory Board (until 25th April 2008)
Marek Kalinowski – Member of the Supervisory Board (until 25th April 2008)
Mirosław Kozłowski – Member of the Supervisory Board (until 25th April 2008)

**TFI PZU SA Management Board**

Piotr Góralewski – President (as of 4th February 2008, Vice-president until 4th February 2008)
Maciej Rapkiewicz – Vice-president (as of 4th February 2008, Management Board Member until 4th February 2008)

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Dariusz Jesiotr – President (until 4th February 2008)

**TFI PZU SA Supervisory Board**

Dariusz Krzewina – Chairman of the Supervisory Board
Witold Jaworski – Vice-Chairman of the Supervisory Board (as of 28th May 2008, Member of the Supervisory Board as of 1st April 2008)
Rafał Grodzicki – Secretary of the Supervisory Board (as of 24th October 2008, Member of the Supervisory Board as of 1st September 2008)

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Beata Kozłowska-Chyła – Vice-Chairman (until 18th January 2008)
Mirosław Kozłowski – Member of the Supervisory Board (until 26th August 2008, Vice-Chairman of the Supervisory Board until 24th April 2008, Member of the Supervisory Board until 4th February 2008)
Jacek Dmowski – Member of the Supervisory Board (until 1st April 2008)
Jerzy Glanc – Member of the Supervisory Board (until 1st April 2008)

## 5.5. DEVELOPMENT OF PZU GROUP'S PRODUCT OFFER IN 2008

The PZU Group offers the broadest product range on the Polish insurance market, consisting of insurance products for individual customers, small and medium-sized enterprises (MSP) and corporate customers. Alongside property and casualty insurance and life insurance, the PZU Group offers a number of attractive pension and investment products.

### 5.5.1. PROPERTY INSURANCE

PZU SA offers insurance for the three main segments: individual clients, small and medium-sized enterprises (MSPs) and corporate clients. The company's product range includes products from all statutory insurance groups, comprising: motor, property, agricultural, third party liability, accident and sickness, tourism and financial insurance.

The main products PZU SA offers **individual clients** are motor insurance (third party liability (OC) and Auto Casco (AC)), residential and agricultural insurance. In June 2008, PZU SA introduced lump-sum TPL / Auto Casco motor insurance packages for vehicles in their first year of use ("packages") in order to halt the fall in the share of insurance policies entered into via the dealer channel. As an effect of their introduction, a large number of clients purchasing vehicles following the first year of use were acquired, due to an offer that was attractive to both clients and dealers. Furthermore, on 1st March 2008, the new Minicasco insurance policy was launched, under which PZU SA offers prudent drivers an attractive scope of cover, providing protection for clients who have never held Auto Casco insurance.

Two comprehensive insurance policies were launched regarding property insurance for individual clients: "PZU Dom" and "PZU Dom Plus", the structure and details of which arise from the categorisation of clients which was conducted. During 2008, two insurance group agricultural insurance products were also modified:

- subsidised insurance policies for agricultural crops and livestock, which were adjusted to the provisions of the amended Act on Insurance for Crops and Livestock, adopted by parliament on 25th July 2008 (the amended conditions apply as of 1st October 2008);
- insurance for movable property in farms, which was modified to adjust it to the recommendations of the Competition and Consumer Protection Office (the amended conditions apply as of 1st December 2008).

The three basic accident insurance (NNW insurance) products were also substantially modified (i.e. individual and family accident insurance, collective accident insurance and comprehensive "Safe Tourist" Insurance) – the most important amendments concerned an increase in the scope of liability and list of payments and simplification of the structure of the list of premiums.

In the area of products for **small and medium-sized enterprises (MSPs),** many products were modified in 2008, including: PZU Adviser, Property insurance against fire and other acts of force majeure for MSPs and civil liability medical insurance. They were adjusted to the current expectations of the market by expanding the scope of particular insurance policies and amending the price list. In 2008, two new products designed for the MSP segment were launched:

- group insurance against fire and other acts of god for undertakings – bank clients
- group insurance for employees, civil servants and soldiers.

In 2008 PZU SA continued its work on developing and improving the product range for **corporate clients.** In the area of motor insurance, changes were made to premiums. Modifications were made both to insurance for fleets and the rules for setting premiums for motor insurance concluded under general leasing agreements and involved adjusting prices for insurance to the claims record in relation to particular types of vehicle. These changes were intended to improve the profitability of the said products. The non-motor insurance product range is aimed at corporate clients operating in Poland and Polish undertakings carrying on business abroad. As part of the product-related activities conducted in 2008, new general conditions of insurance for all building and assembly-related risks were developed. Work was also performed on modifying third party liability insurance.

### 5.5.2. LIFE INSURANCE

PZU Życie SA has a very wide and varied range of life insurance of a protective, savings and investment nature (including basic and additional insurance). The company offers clients financial products from all statutory insurance groups in the form of individual and group products. 2008 was a year in which the product portfolio was modernised and expanded in response to growing expectations of clients, an increase in competition and the changing situation e.g. on financial markets.

### GROUP INSURANCE AND INDIVIDUALLY CONTINUED INSURANCE

Over the past few years, the group insurance market has undergone far-reaching change. The main changes have been due to:

- insurers' response to frequently changing insurance legislation and other provisions associated with the employer market;
- an expansion in the product range (forced by competitors) to include further risks extending the scope of benefits in order to supplement the product range to include risks that do not arise in the portfolio but which are held by competitors or launching novel solutions on the market enabling the market segment to be dominated, at least in the short-term.

As regards **group insurance,** intense work was conducted throughout 2008 to further expand the portfolio of additional insurance products, enabling the PZU Życie SA's product offer to remain attractive. The following were introduced into the Company's product range:

- additional "Medyczny Ekspert Domowy" (Home Medical Expert) insurance, which is a modified and significantly extended assistance type of insurance;
- additional insurance with a Pharmacy Card enabling the insured (following hospitalisation) to purchase medicine gratuitously, subject to a specified limit;
- additional insurance in the event of a child falling ill.

In the area of **individually continued insurance,** work was performed in 2008 to expand the product range as regards new additional agreements, providing the insured with constantly expanding health and life cover. The company launched the following:

- additional insurance against the risk of a permanent injury as a consequence of an accident;
- insurance with a Pharmacy Card, providing the insured with cover in the case of hospital treatment as a consequence of an accident or surgery (available from the beginning of 2009).

### INDIVIDUAL INSURANCE

In response to growing client expectations and the changing situation on financial markets in 2008, two new products were introduced into the individual insurance product range:

- structured insurance entitled Świat Zysków (World of Profit) – the first individual structured insurance in the form of individual life and endowment insurance to be distributed through agency channels and "over-the-counter" (sales in the company's own outlets). By the end of 2008, four subscriptions had been conducted based on various investment strategies;
- the investment policy Pewny Zysk (Certain Profit), offered via the Client Service Outlets network. The liability perios amounted to 18 months, the insurance sum upon life insurance and endowment policy corresponds to the cumulative premium paid increased by a guaranteed rate of interest.

### HEALTH INSURANCE

The work conducted in 2008 to develop health insurance was associated with the launch of individual hospital insurance, develoment of hospital products in a group form, retarification of individual out-patient products and preparation of a pilot program for a new model for settlements with health-care providers. Significant attention was paid to preparing non-standard offers / insurance agreements for corporate clients.

## 5.5.3. BANCASSURANCE

The year 2008 was characterised by consolidation and development of cooperation with existing banking partners. The PZU Group confirmed its leading position on the bancassurance market in Poland. The premiums written reached a record level compared to previous years.

The global crisis that began on the financial market in 2007 led to a significant drop in sales of unit-linked products in 2008. However, single premium life insurance and endowments (the so-called policy-deposits) enjoyed substantial interest, guaranteeing (in addition to insurance cover), a specified rate of return at the end of the liability period. PZU Życie SA launched several products of this type on the market in cooperation with Bank Millennium S.A., PKO BP S.A. and Bank Ochrony Środowiska S.A.

Unit-linked products with a single premium prepared and launched jointly with Bank Millennium S.A., in which the client can allocate premiums to several dozen funds valued in US dollars (28 funds) and euro (34 funds), selected from an offer of leading foreign investment fund companies, was the first product of its type in Poland offering such extensive opportunities to invest in foreign funds.

In addition, as part of the bancassurance  offer, in 2008 The PZU Group launched two property insurance policies jointly with PKO BP SA – one for credit card holders entitled "Ubezpieczenie na Szóstkę" and one house and flat insurance policy for mortgage borrowers offered under the name "Superochrona Domów i Lokali Mieszkalnych".

### 5.5.4. PENSION INSURANCE AND PRODUCTS

As in previous years, in 2008 PZU Życie SA managed to maintain its leading position in the Individual Pension Accounts (IKE) market. IKE PZU is a superb product range created for those interested in long-term savings for an additional pension, accumulated individually under the III pillar of the pension system. Indywidualne Konto Emerytalne (an Individual Pension Account) is also one of the products offered by TFI PZU SA.

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 individuals starting their first job (primary market) or those who leave 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 types of insurance have for many years enjoyed a stable position on the market of products enabling funds to be accumulated and significant profits to be generated. TFI PZU SA is the undisputed leader on the employee pension programs market in the form of contributions to investment funds.

### 5.5.5. INVESTMENT PRODUCTS

Individual and corporate customers of the PZU Group can choose from a wide range of investment products offered by TFI PZU SA. At the current time, this includes 11 open investment funds of various investment profiles including an umbrella fund, which comprises separate sub-funds opening the customers' way to foreign capital markets.

In 2008, TFI launched a new open fund – PZU FIO Bezpieczne Inwestowanie (Secure Investing). This fund is aimed at investors with a low appetite for risk, who appreciate security but are also interested in generating profit from the equity market.

In addition, changes were made to the investment policy of the umbrella fund with separate sub-funds. PZU SFIO Globalne Inwestycje (Global Investments) offers four sub-funds, varying in terms of investment geography, enabling participants to diversify their portfolio effectively.

2008 saw the launch of a closed non-public assets fund - PZU FIZ Sektor Nieruchomości (Real Estate Sector), which was created for the purposes of PZU Group companies. This fund will make investments in non-public SPVs whose main assets comprise real estate.

## 5.6. SALES NETWORK AND CHANNELS

The PZU Group has the best developed insurance sales network on the Polish market. At the end of 2008, the PZU Group had 9 regional PZU SA branches and 9 regional PZU Życie SA branches, which overlapped geographically. Regional head offices are located in the following cities: Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Szczecin, Warsaw and Wrocław. The PZU Group sales network in 2008 comprised 356 PZU SA posts (115 Inspectorates, 38 Client Service Centres and 208 Client Service Points) as well as 374 PZU Życie SA Client Service Points nationwide.

In 2008 property insurance was offered via a network of almost 7000 agencies acting on an exclusivity basis and over 1800 multi-agencies. In total, at the end of the year, 16,350 sellers were offering property and casualty insurance in these two sales channels. 2008 also saw the start of implementation of the Nowa Era Sprzedaży (New Sales Era) project, the most important aspect of which is the development of a target model for cooperation with the Agency Network.

Apart from the agency channel, PZU SA motor insurance sales were performed via a network of authorised car dealers. PZU SA cooperated with 1050 new and used car dealers. Two projects were introduced in 2008 especially for the dealer channel:

- a coherent model for cooperation with the Sales Division and Loss Adjustment Division,
- a motivation system enabling additional remuneration to be earned due to an increase in sales or increase in PZU market share.

Brokers constituted the main sales channel for corporate clients. In 2008, PZU SA cooperated with 838 insurance brokers.

Almost 3500 insurance agents conducted active sales of life insurance on an exclusivity basis and 45 on a multi-agency basis. Those responsible for handling insurance in the workplace play a significant role in the process of rendering services and acquisition activities in PZU Życie SA.

In 2008, the bancassurance products offered by PZU were inter alia available in the following: Bank PKO BP S.A., Bank Millennium S.A., Deutsche Bank PBC S.A., Bank Ochrony Środowiska S.A. and Bank Gospodarki Żywnościowej S.A. All products of the PZU Group were offered directly in the Banks' sales networks. Post-sales client service was also performed in regional branches of PZU SA, PZU Życie SA (primarily regarding loss adjustment) and in Bank branches.

The extent of the bancassurance distribution network depends on the structure of the distribution network of the banks with which the PZU Group cooperates. In the majority of cases it covers the entire country. PZU Group's bancassurance products are created individually for the purposes of particular banks. Every offer is prepared in accordance with the banks' requirements and is available exclusively to clients of the given bank. The bancassurance sales support team was further developed in the Bancassurance Office structures. Insurance coordinators worked intensively in all sales regions of the banks, cooperating with almost 2000 branches.

PZU is taking active step to acquire membership agreements for the PZU "Złota Jesień" (Golden Autumn) Open Pension Fund. In 2008, 7,739 sellers were entitled to perform acquisition activities on behalf of PZU SA. Clients also had the possibility of joining the fund via PZU Group's website.

TFI PZU SA performed sales via the PZU Group sales channel. The company had a national network of approximately 5,000 authorised representatives. In 2008, the products of TFI PZU SA were also available via internet banks in the BRE Group, financial advisers chains Elite Finance & Consulting and Expander, via Dom Maklerski POLONIA NET S.A., Beskidzki Dom Maklerski, Krakowski Bank Spółdzielczy, International Risk & Corporate Advisory (IRCA), Doradcy 24, AZ Finanse, Vizjoner Investment, PH Maxim, Grupy Karlik and Secus Asset Management S.A.

Apart from traditional sales channels, the PZU Group is also entering the market for modern Client contact channels. As of 18th December 2008, clients interested in the motor insurance offered by PZU can purchase it by telephone or internet. The commencement of policy sales by internet and telephone is the first step in the direction of implementing a multi-channel sales model, as announced in the new PZU Group Strategy. Third party, comprehensive, accident and Assistance insurance are currently offered via the internet. In the short-term, the products sold via this channel will be expanded to include: Wojażer travel insurance (available by telephone for 3 years) and PZU DOM, currently only sold by traditional methods.

## 5.7. MARKETING AND ADVERTISING

In 2008, The PZU Group predominantly conducted marketing campaigns to support the sale of products. In addition, a PZU Group Christmas campaign was conducted in December 2008 (as in previous years).

Apart from national campaigns, numerous smaller-scale and shorter-range advertising and promotional activities were conducted, as well as local sales campaigns based on the agency network and promotions supporting the sales of particular products.

### PROMOTION OF PROPERTY AND CASUALTY INSURANCE

A number of product campaigns were conducted in 2008 to directly support sales processes and develop quality advantages.

Traditionally, advertising activities in the motor insurance segment were conducted the most intensely. In 2008, PZU SA conducted two large motor insurance advertising campaigns. Both campaigns were intended to develop quality advantages for PZU SA insurance over the competition. In the first campaign, the quality of the services rendered by PZU was developed using the images of celebrities famed for their motoring skills. The second motor insurance campaign (September – December) was intended to develop a quality advantage by demonstrating fast and efficient assistance in settling losses: 440 mobile experts and 880 repair garages. This campaign was conducted via intense TV, radio, outdoor advertising and internet activities.

As part of the motor insurance campaigns, sales support activities were conducted with the aim of communicating a broad range of price promotions to various client groups.

From October to December 2008, a flat and house insurance campaign PZU DOM was conducted. This campaign was intended to communicate the broad scope of insurance offered and announce a reduction for new clients.

Product-related marketing activities also included an agricultural insurance campaign (including subsidised insurance), the purpose of which was to increase awareness of this group of products. Due to the characteristics of the product, emphasis was placed upon direct contact with the target group.

In 2008, PZU SA also conducted promotional activities to support the sale of products addressed to the MSP sector. Among others, 12 sales conferences were organised under the title: "Everything's changing… insurance too?".

2008 also saw the continuation of marketing activities commenced in 2006 and 2007 aimed at raising awareness of PZU products in the area of financial insurance. In this year, all advertising activities were focussed on the promotion of a single product – insurance guarantees for companies and institutions.

### MARKETING SUPPORT FOR THE SALE OF INVESTMENT PRODUCTS, LIFE INSURANCE AND OTHER TYPES OF INSURANCE

PZU Życie SA's promotional campaigns were primarily focussed upon attractive packaging for the product range, equipping the sales network with professionally prepared materials and building positive relations with external partners.

Advertising activities were most intensively conducted in the following product segments:

- the promotion of investment products – at the beginning of the year a direct mailing campaign was conducted aimed at Strefa Zysku clients, in May, marketing support accompanied the new Świat Zysków product, and in Autumn 2008 – the Pewny Zysk product;
- promotion of medical products – in particular individual Opieka Medyczna hospital insurance;
- the promotion of additional products for group and continued insurance (in the event of specialist medical treatment, hospital treatment Plus and surgery and a program for spouses and minors for P Plus type group employee insurance).

Marketing support in 2008 was not only aimed at current and potential clients but also at sales and service workforces and external PZU Życie SA partners (i.e. agents, people responsible for handling group insurance in workplaces – the "Znamy się" (We know each other) program and brokers).

Materials were prepared for the agency channel in cooperation with offices enabling an analysis to be conducted of clients' needs, intended to help agents diagnose client needs and propose the best matching offer.

### INTERNET PRESENCE

The intensive growth of the interactive market in Poland in 2008 was strongly reflected by the PZU Group's internet activities. Steps taken to strengthen PZU's position on the internet were divided into two areas: internet sales campaigns and the development of the pzu.pl internet portal.

Motor insurance sales over an internet platform were launched in 2008.

Marketing activities included a wide range of internet campaigns to support the sale of motor, real estate and travel insurance. In addition, the preventative campaign: "I'll tell you the rest when I get home" enjoyed great interest among internet users. Additional activities included a series of acquisition campaigns e.g. PZU DOM, building a database of potential clients, sales support advertising campaigns and activities to support sales agents and those arranging group insurance.

Key development activities concerning the pzu.pl portal include constant optimisation of the portals functionalities, in particular the creation of an English version of the investor relations service.

### MARKET RESEARCH AND ANALYSIS

The market research and analysis conducted by PZU SA and PZU Życie SA in 2008 mainly focussed on an analysis of consumer needs and preferences as well as an assessment of the quality of services and client satisfaction.

The most important projects concerned research on the level of client service and included aspects of service on many levels. The data obtained from the research was used for improving the company's day-to-day activity and creating a longer-term action strategy.

Research for optimising marketing campaigns focused on assessing advertising output and the perception of advertising campaigns. They also diagnosed market sensitivity to the nature and direction of sponsoring and preventative activities. At the beginning of 2009, constant monitoring of advertising campaign effectiveness was introduced.

Periodic insurance market analyses were systematically conducted, under which an analysis was performed of the market position of the main PZU Group companies.

## 5.8. MARKET POSITION OF THE PZU GROUP

In 2008, the Polish insurance sector recorded an overall increase in gross premiums written of 35.5% to PLN 59,270.3 billion. The market is forecast to grow further in 2009.

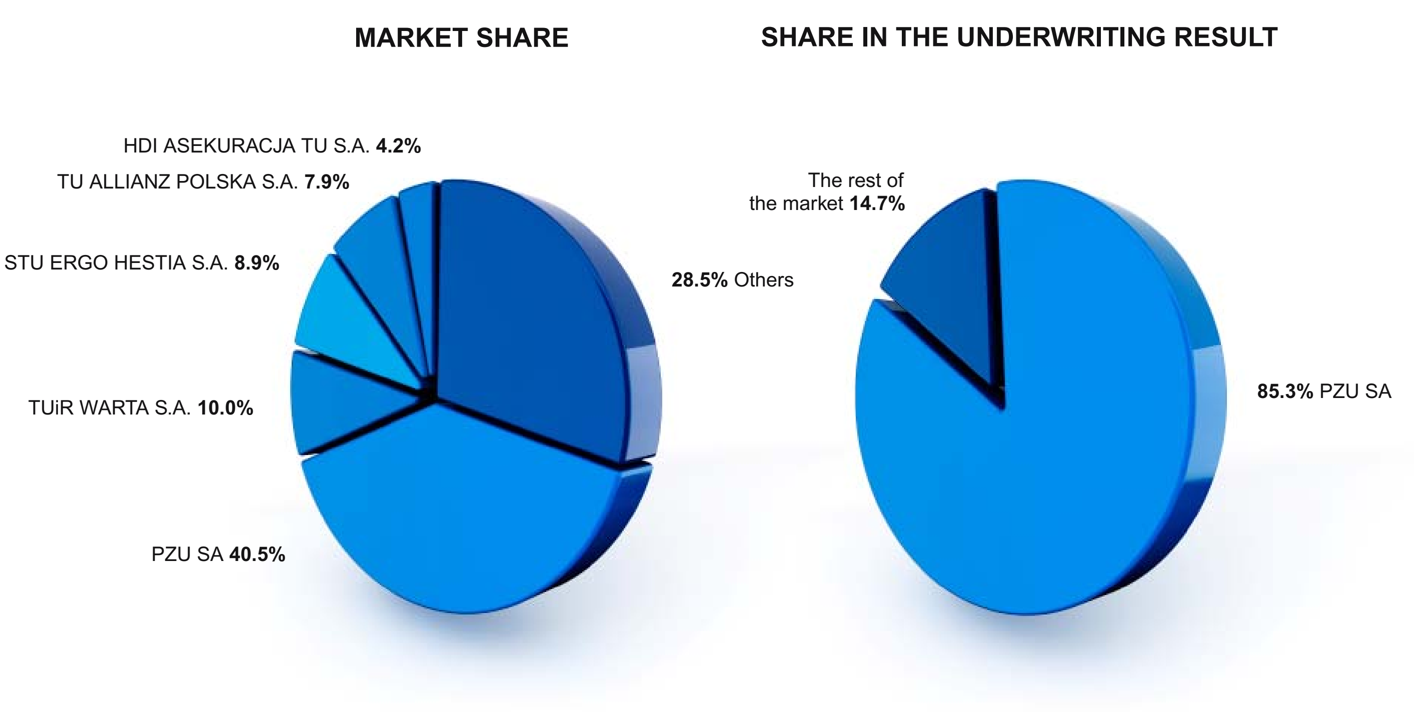
Both PZU SA and PZU Życie SA are leaders on the property and life insurance markets. However, the share of the PZU Group on the insurance market, as measured by the level of premiums written, is systematically decreasing.

In 2008, the property insurance and other types of personal insurance market, as measured by the gross premium written, increased by 12.8%, i.e. there was an acceleration in the rate of market growth in relation to the previous year of 3.3%. The most important segment of this section, the motor insurance market, also recorded an annual increase of 3.3% and its share in the market as a whole in 2008 was 61.5%. This fast market growth was primarily due to an increase in motor insurance premiums (as a consequence of the introduction of additional fees for the National Health Fund in 2007), and the high level of growth in car sales in the first half of the 2008. The non-motor insurance market grew by 3.1% due in part to an increase in the popularity of health insurance, giving rise to an increase in the number of accident and illness policies that were sold.

As in previous years, in 2008 the largest players recorded a fall in their property insurance market shares in favour of companies with small market shares, which was associated with increasing price competition.

PZU SA improved its growth in premiums written throughout 2008. In particular, a 6.4% increase in premiums written for third party motor insurance was recorded in comparison with the 2.5% fall recorded a year earlier. However, growth in premiums written for comprehensive motor insurance was lower, amounting to 0.3%, compared to 4.9% growth in 2007.

**DIAGRAM 17. MARKET SHARE OF PZU SA IN SEGMENT II INSURANCE (DIRECT ACTIVITY) ASSESSED BY GROSS PREMIUM WRITTEN AND SHARE IN THE UNDERWRITING RESULT (AS AT 31ST DECEMBER 2008)**




Source: KNF

2008 saw a dynamic (52.8%) growth in the life insurance market, as measured by the gross premium written. This was primarily achieved due to insurance with a single premium distributed via the banking channel. The highest rate of growth of premiums written for this type of insurance was achieved by insurance companies operating within a single financial group with banks.

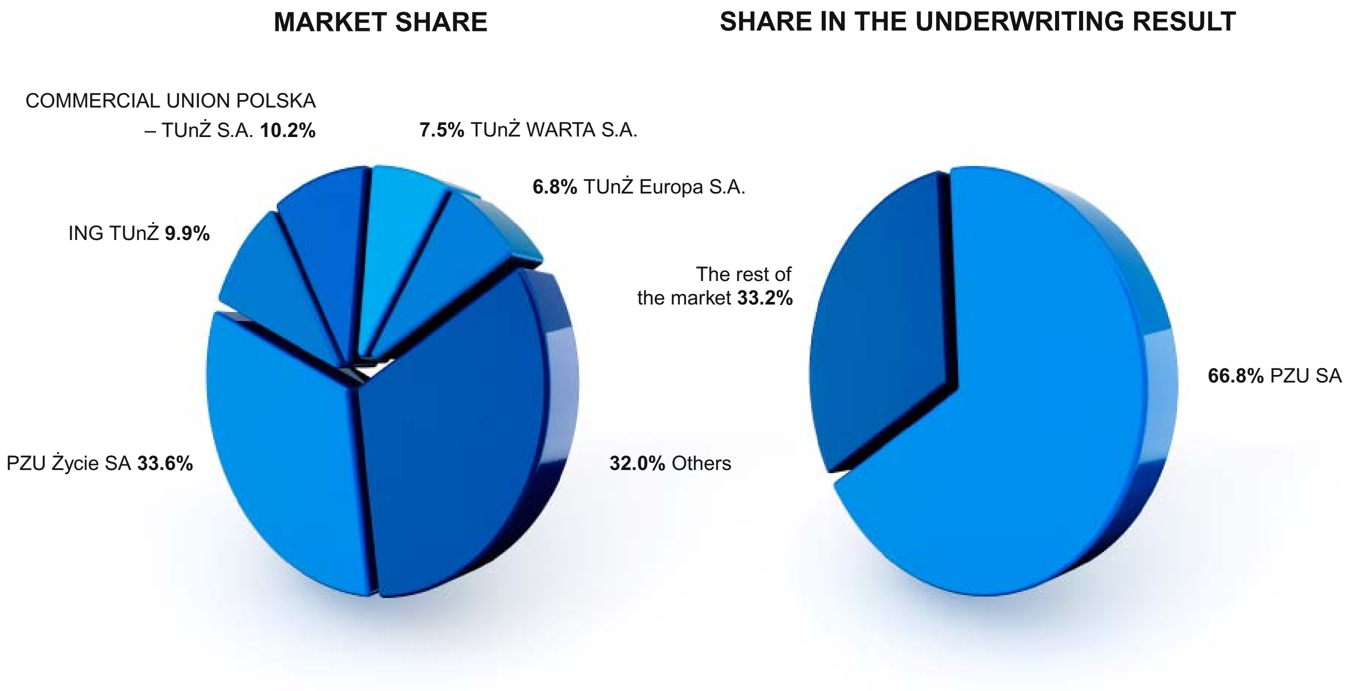
In 2008, there was a fall in the rate of growth of regular premiums written. The value of premiums received in 2008 for this segment was nominally lower (approx. 1%) than the result generated in the previous year.

2008 saw a substantial increase in the market share of PZU Życie SA, due to the higher single premium written via the banking channel. The market share measured by gross premium written in 2008 was 33.6% for PZU Życie SA., a 5.1 % increase in relation to the end of 2007.

PZU Życie SA remains the undisputed leader (in terms of profitability) of the key group life insurance market, with a market share of 44.2% at the end of 2008.

The Company's share in the individual life insurance market at the end of 2008 was 19%, remaining at a similar level to 2007 (the share as at 31st December 2007 was 19.2%). As at 31st December 2008, PZU Życie SA was the leader on the market for insurance with regular premiums, with a share of 44.6%.

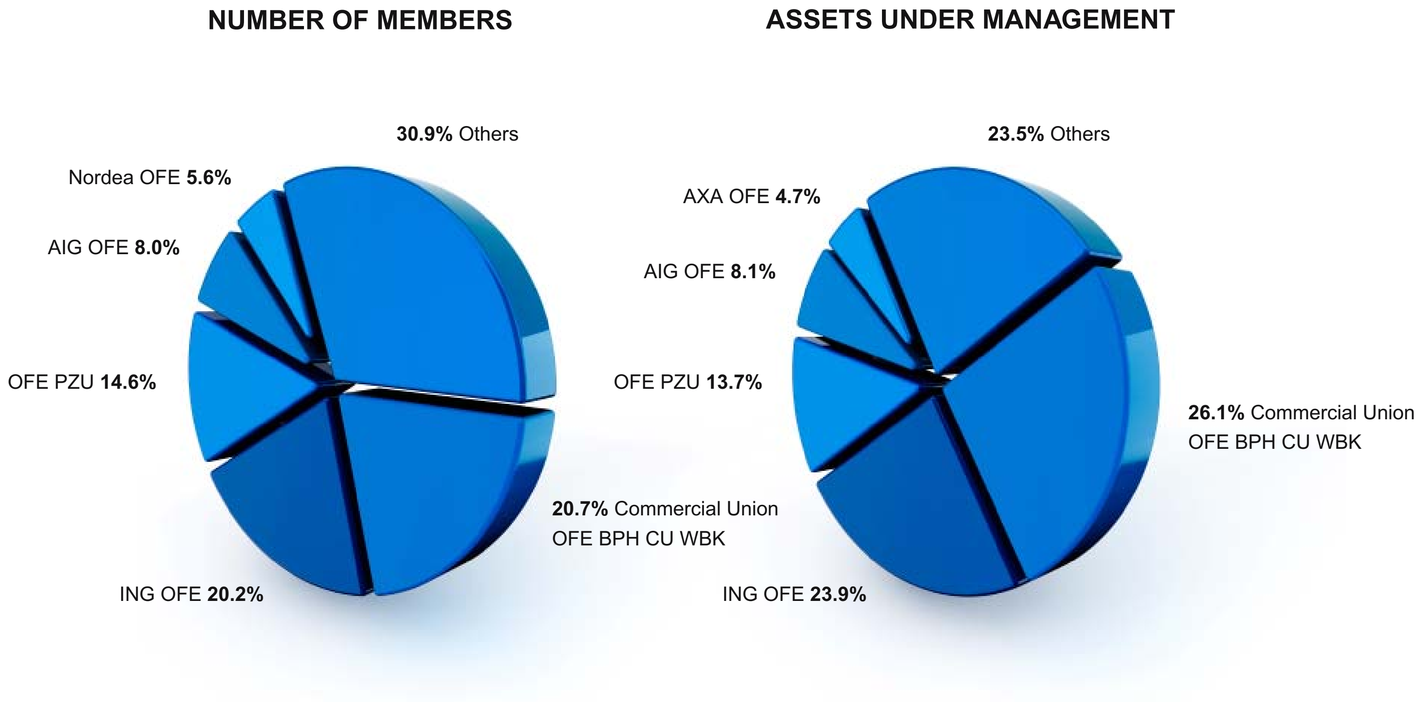
**DIAGRAM 18. MARKET SHARE OF PZU ŻYCIE SA IN SEGMENT I INSURANCE ASSESSED BY GROSS PREMIUM WRITTEN AND SHARE IN UNDERWRITING RESULT (AS OF 31ST DECEMBER 2008)**




Source: KNF

In 2008, the Open Pension Fund PZU Złota Jesień (Golden Autumn) run by PTE PZU SA was placed third among funds operating on this market, in terms of number of members, with 2,018,066 accounts, constituting a 14.6% market share. The Fund's net assets as at 31st December 2008 amounted to PLN 18,952 million, which placed the Open Pension Fund PZU Złota Jesień third among funds operating on this market. The value of net assets, compared to the analogous period in the previous year, fell by approx. PLN 349 million, i.e. by 1.81%, whilst the value of the unit of account fell by 14.15% compared with an assumed increase of 0.81%.

**DIAGRAM 19. 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 2008)**




Source: KNF

## 5.9. MAJOR AWARDS FOR THE PZU GROUP AND ITS PRODUCTS AND SERVICES IN 2008

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

**PZU one of the leading major companies**
The PZU Group was placed sixth in the "Rzeczpospolita" survey, in terms of value. PZU has been one of the leaders among major companies every since the first ranking in 2004.

**PZU SA and PZU Życie SA receive "100 Largest Financial Institutions in Poland" awards**
In the ranking organised by "Gazeta Bankowa", in the category of largest financial institutions (in terms of revenues), PZU SA and PZU Życie SA were placed second and third respectively.

**PZU SA and PZU Życie SA among the winners in the ranking of "100 Largest Financial Institutions in Poland" prepared by "Gazeta Finansowa"**
PZU Życie SA was ranked first (in terms of revenues) in the first half of 2008. The ranking for "Gazeta Finansowa" was prepared on the basis of analyses by Centrum Badań Społeczno Finansowych (CBSF – Centre for Socio-Financial Research). The ranking summarises the financial results of the largest banks, insurance companies, PTEs, stockbrokers and leasing firms in Poland.

**PZU Życie SA – best life insurance company**
The daily newspaper "Rzeczpospolita" selected the best financial institutions for the sixth time. The financial data for 547 institutions was taken into account in the ranking.

## AWARDS FOR PZU GROUP PRODUCTS

**EUROPRODUKT for PZU SA**
PZU SA was awarded the EUROPRODUKT title for its product: insurance guarantee securing soft projects co-financed from the European Social Fund.

**PZU - best product range for business**
In 2008, PZU products for business were recognised as the best among insurers and it received the Silver Umbrella award. The award was granted by commercial monthly magazine Home&Market on the basis of research conducted by the Commercial and Economic Analysis Institute.

## BRAND RECOGNITION

**PZU worthy of trust**
For the eighth time, peoples' trust in PZU was confirmed by European Trusted Brands research. This indicates that Powszechny Zakład Ubezpieczeń is the most trustworthy company operating on the insurance market in Poland.

**PZU most valued insurance company**
PZU SA was deemed the most valued company in the insurance company category in a ranking prepared by Newsweek and strategic consultancy firm A.T.Kearney.

**PZU brand awarded the GOLD STANDARD**
The PZU Group received an award in the GOLD STANDARD 2008 client satisfaction survey (motor insurance category). GOLD STANDARD is an independent, certified, client satisfaction survey conducted by TNS OBOP and ordered by MMT Management.

**PZU on the list of most valuable Polish brands**
Once again PZU was among the leaders in the brand power ranking and received a "Marqa 2008" award. PZU Życie and PZU Złota Jesień were also ranked highly. In the ranking of brands by value, PZU SA was fourth this year, but was the sole insurance company among the top five. It is also notable that PZU Życie was ranked 15th and PZU Złota Jesień 117th.

## OTHER AWARDS

**PZU ranked 1st for corporate social engagement**
For the second time, PZU's engagement has been recognised in the area of corporate social responsibility. The ranking performed on the basis of the List of 500 of the "Rzeczpospolita" daily newspaper rates companies that best communicate their social engagement via the internet.

**PZU awarded the title "Benefactor for Polish Culture"**
PZU's activity as a patron and sponsor of Polish culture was recognised by the Minister of Culture and National Heritage with a "Benefactor of Polish Culture" award.

**"Laurel for the Patron" award for PZU Życie SA**
PZU Życie SA received a "Laurel for the Patron" award for supporting the activities of Wilia Decjusz.

If P24 were a city? It would be a pleasurable place to live, a place people would want to wake up and tell sleep in. A place in which, regardless of your position, you could find something for yourself and feel needed. Where the summers are mild and winters are magic, where the mountains meet the ocean. A modern, cultural, ecological place, like Vancouver in Canada!

# 6. DEVELOPMENT OF PZU GROUP INFRASTRUCTURE IN 2008

The development initiatives conducted in PZU Group companies in 2008 were a direct consequence of their strategic policies, whilst the speed of project implementation was higher than in the previous year. The assumptions for these activities comprise: growth on the national and foreign markets, brand image refreshment, development of the sales network and investments in modern technology and human capital.

## 6.1. DEVELOPMENT PROJECTS IN THE AREA OF SALES, LOSS ADJUSTMENT AND BENEFITS

### PZU SA

In terms of development initiatives, the most intensive work was performed in the **sales area,** with the pilot program of nationwide implementation of the Nowa Era Sprzedaży (NES - New Era Sales) model of agency network segmentation and management as the most prominent. Also, works related to setting up and development of model sales-service outlets, common for PZU SA and PZU Życie SA, were carried out. In addition, on a nationwide basis, the Titus Plus system was implemented that supported the work of property agents, and plans for the subsequent enhancement of this system were developed. In the area of corporate sales, Nowa Era Sprzedaży Korporacyjnej (NESK - New Era of Corporate Sales) was developed and implemented in PZU SA Headquarters, the main objective of which was to increase sales efficiency by means of a clear separation of sales, underwriting and sales support (in a broad sense) functions.

As regards the development of distribution channels, activities under the PZU Direct project were continued, completing preparatory work and commencing motor insurance sales via an internet platform.

The second area in which development initiatives were conducted was the **service and loss adjustment area,** in which the implementation of solutions for property was completed and the implementation of solutions for personal loss based on the SLS system was started under the New Loss Adjustment Organisation project.

PZU SA continued its activities to further improve procedural and systemic solutions as regards motor insurance loss adjustment. A new procedure for cooperation with repair workshops was introduced (including Repair Network workshops) as well as a procedure for technical loss adjustment, due to which Mobile Experts were able to commence comprehensive client services. New loss adjustment agreements were executed with representatives of car importers, regulating the rules for adjusting losses among selected passenger car brands (Opel, Chevrolet, Mercedes, Chrysler, Jeep and Dodge) and trucks (Volvo, Scania).

As part of the work on the Nowa Organizacja Likwidacji Szkód (NOLS - New Loss Adjustment Organisation) project, a new process for personal loss adjustment under third party and accident insurance was developed, assuming that use would be made of such products as: Mobile Expert, the SLS central information centre and Telecentrum. Among others, this work enabled notices of loss to be centralised (telephone notification and standardisation of client services, automatization of the loss adjustment process and an improvement in counteracting criminality).

In 2008, initial work was also undertaken to further improve the loss adjustment process (to be implemented in the coming years), the most important of which were:

- activation of a data exchange system with repair workshops,
- facilitating picture and document copy attachments to Internet loss report forms,
- introducing simplified loss adjusting process for small value losses in order to shorten the time of loss adjusting,
- the introduction of electronic verification of costs estimates and bills sent to PZU SA during the loss adjustment process,
- enabling Mobile Experts to perform their work remotely,
- introduction of a so-called negotiator for the personal loss adjustment process – negotiations and settlements for personal loss,
- introducing a lump-sum payment for treatment costs in order to simplify claims handling.

In the **sales area,** activities on the Agent Network Revitalisation project were continued to increase the effectiveness of the agency network and preparations were commenced to use the concept applied in PZU SA. A detailed analysis was conducted and a growth stategy developed for PZU on the health protection market. In addition, implementation of a model for handling hospital insurance was commenced and sales were launched.

In the **area of loss adjustment and benefits,** a decision was taken to centralise and further improve processes based on the computer system used in the property insurance company.

The standardisation of functions in the area of loss adjustment and benefit payments was commenced. Standardisation encompassed the loss adjustment structure at the level of PZU SA and PZU Życie SA Headquarters by transferring employees and tasks associated with benefits handling from the Operations Office and incorporating them into the structure of the EU Loss Adjustment Office.

Preparations were commenced to start-up a New Organisation for Loss Adjustments and Benefits Project. The purpose of this project is to develop optimum processes and organisation for loss adjustments and benefit payments meeting three basic criteria:

- reducing the costs of the adjustment process;
- maintaining / increasing the level of client satisfaction;
- optimising the value of benefits paid by increasing supervision over the process and standardisation of operational procedures.

In addition, as part of the Centralisation of the Medical Opinion and Adjudications Systems Project, work was completed on a business analysis for solutions standardising these proceeses in PZU Życie SA and PZU SA and supporting the work of certifying physicians.

## 6.2. IT SOLUTIONS FOR THE PZU GROUP PROCESSES AND OTHER BUSINESS INTIATIVES

Apart from development projects implemented in the areas of sales, loss and benefits handling, loss adjustment and benefits, 2008 also saw a continuation of work to computerise processes in the PZU Group.

As part of the initatives focussed primarily upon **developing the IT infrastructure,** work on the Wide Area Network Modernisation project was completed as regards integrating the data transmission networks of PZU SA and PZU Życie SA, due to which one joint network now operates for the PZU Group. In order to facilitate the integration of systems used in the PZU Group, work was continued on implementing a services bus, an integration platform was installed and analytic and preparatory works were commenced to integrate systems via the platform.

Works were started to ensure support, necessary hardware and resources for the system and applications used under the Application Support Restructuring Project.

In addition, the strategy for ensuring the continuity of particular critical processes and crisis management procedures under the Operational Continuity Assurance Plan was verified and updated.

Many of the business initatives conducted in 2008 were based on the **launch or development of IT systems.** A major part of these initiatives concerned the implementation or development of systems supporting sales or sales handling processes.

The main initiative under the sales automation process was the PZU Direct project, in which preparatory work was completed and sales of motor insurance commenced via an internet platform. In addition, the Titus Plus system was implemented for assisting property agents in their work and a new plan for system development was drafted. Work continued on the Financial Insurance project, analysing the system requirements for handling these products. In addition, in PZU SA work was continued on implementing a system for servicing corporate clients, verifying business requirements. As part of the computerisation of life insurance handling processes, a pilot program for the eRU system was conducted and it was implemented as a solution for group cover insurance, whilst work was commenced on a plan for broader use of this tool.

2008 saw the continuation of support functions initiatives, including in the field of developing human resources management tools, as part of the centralisation of accounting and payroll processes and improvement of purchase process efficiency. In order to improve the management system, work was continued on the implementation of a standardised system of reporting under the Management Information System (MIS) project.

If PZU were an animal, it would be a dog, specifically a Bernese mountain dog. They are big dogs – obedient, caring, good-natured and born to guard. Without people they fall into apathy, sadness and depression.

# 7. RISK AND CAPITAL MANAGEMENT IN THE PZU GROUP

The risk and capital management system in the PZU Group facilitates the control of risk and an adequate level of capitalization whilst maintaining financial fexibility, which allows the company to derive benefits from favourable business opportunities.

## 7.1. RISK MANAGEMENT

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

### 7.1.1. 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.

### 7.1.2. 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 and Liabilities Management Committee of the PZU Group,
- PZU SA Committee for Financial Insurance and Guarantee Risk
- 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,

The Supervisory Boards lay down the risk management rules and policy and approve the level of risk tolerance of the PZU Group.

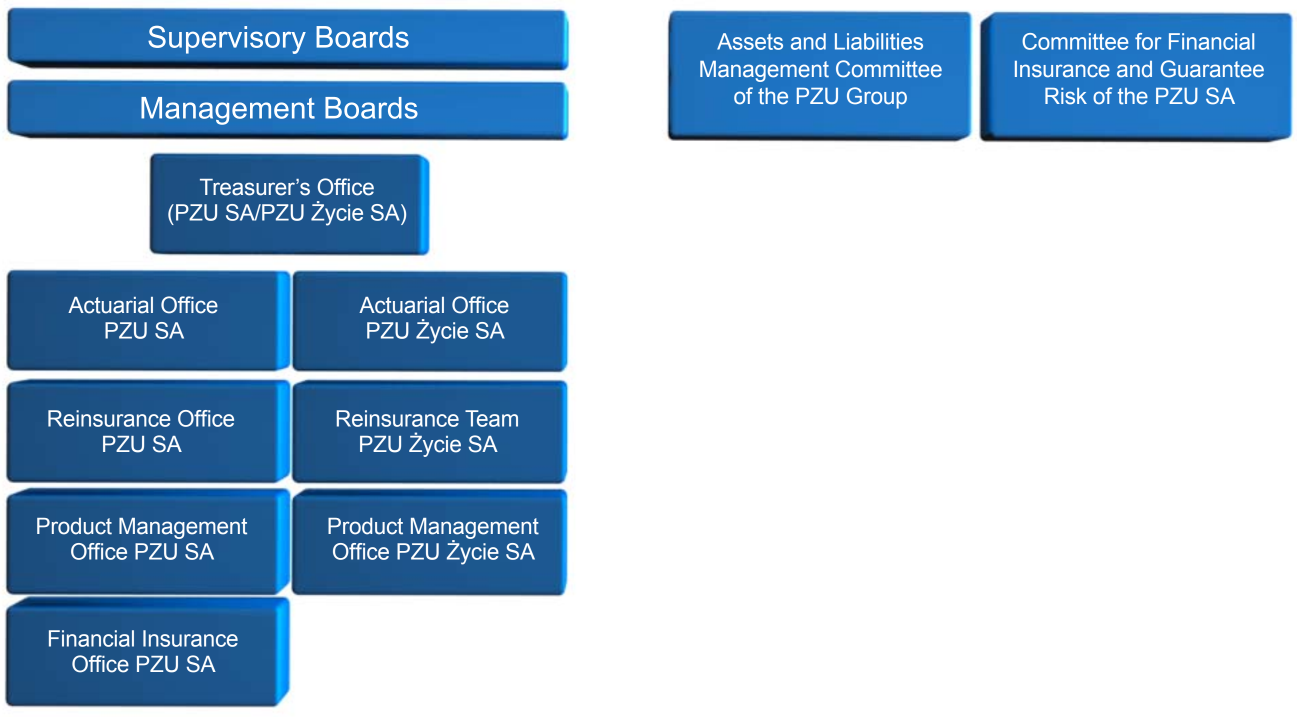
Management Boards are responsible for implementing the risk management system on the basis of recommendations expressed by the following committees:

- Assets and Liabilities Management 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 are 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 PZU 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 – all organisation units to the extent of their activities and operations.

## Risk Management Structure of the PZU Group



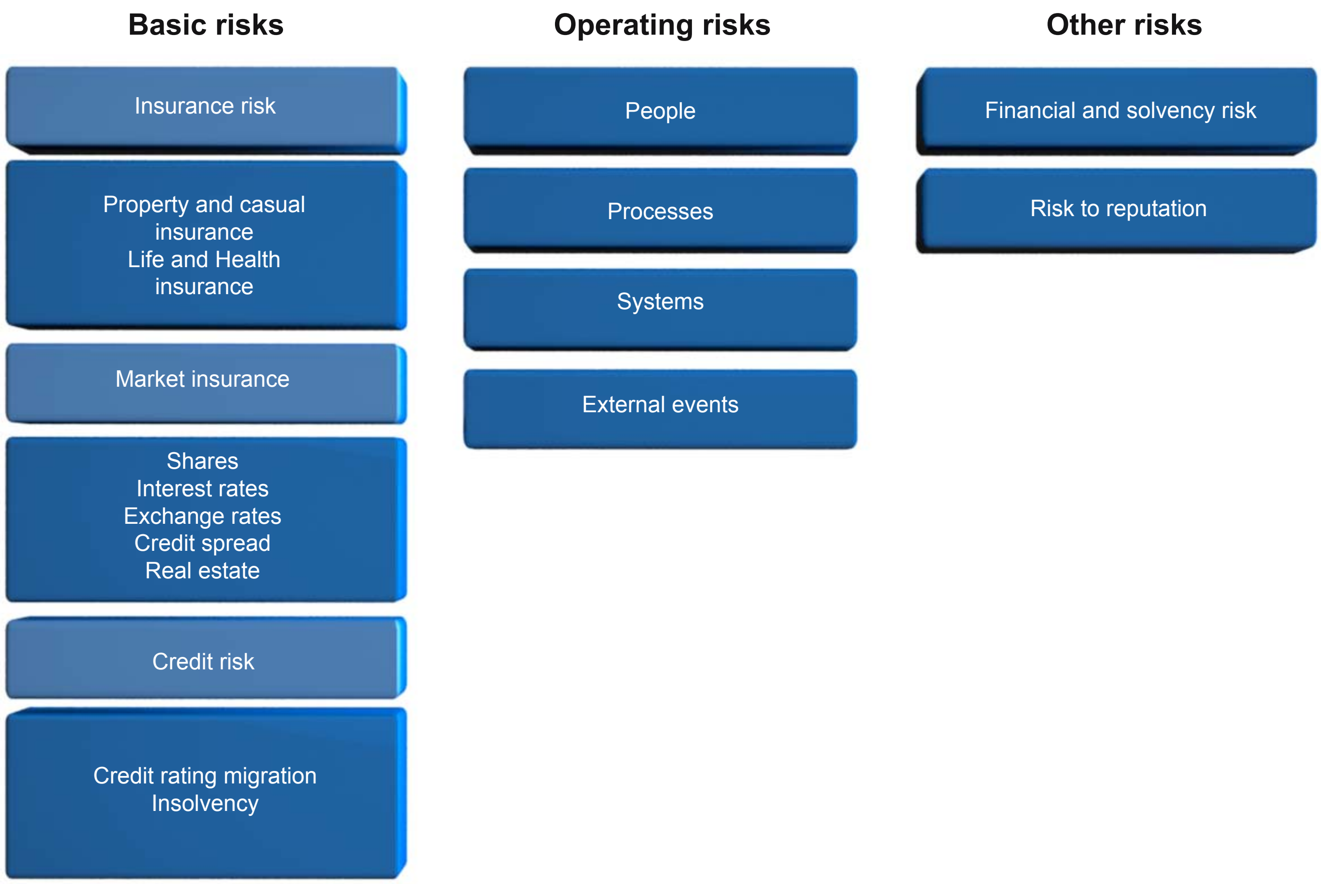

### 7.1.3. RISK AREAS IN THE PZU GROUP

Risk management, built into 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 insurance activity conducted), 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 prices.
- 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.

## Classification of risks in the PZU Group




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

**Operational risk** includes the potential loss resulting from inadequate or unreliable internal processes, actions performed by people, systems, force majeure or non-compliance with provisions of law, which gives rise to sanctions on the part of the supervisor as well as an inability to act in an appropriate manner. Operational risk management is aimed at reducing it to an acceptable level, as additional exposure to operating risk is not directly related to the ability to acquire additional profit

The **“other risks”** category comprises the risks of financing, solvency and 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. A risk of financing and solvency may also arise when the inflow of cash is higher or lower than expected or in the case of a limited ability to obtain a significant increase in 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, impeding the company’s ability to operate efficiently. As maintaining a positive reputation is a key factor for a company operating in the insurance and financial sector.

The PZU Group has defined 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 RISK

Risk appetite and risk tolerance 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 and Liabilities Management 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:

- the risk of premiums is based on inadequate estimates of premium rates and possible discrepancies between the expected level of premiums and their actual value;
- the risk of reserves results from inadequate estimates of the level of technical insurance reserves and possible fluctuations in actual losses 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 natural disasters, pandemics or terrorist attacks.

The Product Management Office of PZU SA and Product Management Office of 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 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 premium rating or even changing the entire profile of 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 calculations well as monitoring processes connected with establishing reserve limits. The policy of creating reserves in the PZU Group is based on the following factors:

- a 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.

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 an 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 has developed its own model of catastrophic loss development and introduced procedures, which allow payments resulting from catastrophe-related loss to be recorded 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 stems from two major sources:

- investment activity of PZU Asset Management SA,
- sensitivity of the present value of liabilities to changing interest rates.

The principles and standards of market risk management were defined in the Statutes of investment activity *(Regulaminy działalności lokacyjnej)* and Investment Objectives Guidelines *(Cele i wytyczne inwestycyjne)*. The acceptable scope of market risk is defined by the PZU Group Assets and 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 the 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 members of the Management Boards of PZU SA and 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 and Liabilities Management Committee, which are designed to determine the structure of assets on the basis of an 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**

The 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 insolvency 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 a business partner of the PZU Group, e.g. reinsurer or over-the-counter derivative financial instruments;
- the risk of default in performing a commitment by a customer of the PZU Group towards a third party, e.g. insurance of a trade credit, financial guarantee.

The principles of managing credit risk stemming 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 the entities with or via which the PZU Group may make transactions together with the involvement limits they were ascribed.

Prior to be being approved by the PZU Group Assets and Liabilities Managing Committee, credit limits for particular entities are thoroughly analyzed by the Treasurer's Office (PZU SA / PZU Życie SA) with respect to the entity's financial strength, market position and selected qualitative aspects. Moreover, the Treasurer's Office regularly (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 a 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 the risk management structure in the PZU Group. As part of the powers exercised and operations performed by particular organisational units, these units manage the operational risk.

## 7.2. 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 a level of capital allowing 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 endeavours to maintain an optimum capital structure within the PZU Group, which enables financial fexibility 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 4 methodology. As of 31st December 2008, the capital adequacy coefficient, which is a quotient of available capital and estimated economic capital amounted to 686% for the PZU Group, with 581% and 591% for the Group's major companies PZU SA and PZU Życie SA, respectively.

# 8. RATING

The major PZU Group companies have been awarded a financial strength rating (FSR) and credit rating (CR) by the agency Standard & Poor's, which has been working with the PZU Group since 2004. On 10th July 2008, the rating agency Standard & Poor's decided to increase the rating perspective of PZU SA and PZU Życie SA from negative to stable. In addition, the agency confirmed its "A -" rating of the long-term financial strength and credit rating of insurance companies in the PZU Group.

In the analytic report from the performed rating the agency pointed out that the basic factors influencing the high rating level involve the strong competitive position of the PZU Group, its very high operational results and high level of capitalization. The stable rating perspective reflects the agency's conviction that the risk of interference by the main shareholder of PZU SA in the operating activity of the PZU Group has been reduced. In the agency's opinion, this conviction regarding the reduction in the risk of direct intervention in the operations of PZU on the part of the largest shareholder of the company is due to the increasing weight attached by the Polish government to market-oriented reforms and the adoption of an attitude indicating a desire to cooperate during negotiations to resolve the ownership dispute with Eureko.

The clear progress in implementing the main elements of the modernisation program, with implementation support on the part of the main shareholder, may give rise to a further improvement in the rating perspective to positive.

# 9. REINSURANCE

### REINSURANCE POLICY OF THE PZU GROUP

2008 saw a centralization of reinsurance activities conducted by PZU SA and PZU Życie SA enabling effective reinsurance programmes to be created to protect the insurance portfolios of both companies and ensuring consistent monitoring of planning and executive processes in this regard.

The reinsurance programme of PZU SA in 2008 consistently provided security to the core business by reducing the risk associated with phenomena which could adversely affect the financial condition of PZU SA. This task was mainly implemented by means of obligatory non-proportional reinsurance agreements and facultative treaties.

The PZU SA reinsurance programme in 2008 consisted of eight obligatory reinsurance treaties, several dozen reinsurance facultative treaties and a service agreement.

As in previous years, PZU SA worked with leading reinsurance companies (including Hannover Re, Munich Re, SCOR Re, Swiss Re and Lloyd's). In 2008, obligatory reinsurance treaties were placed with over 30 reinsurance companies. Over 95% of reinsurance premiums were ceded to reinsurers with Standard & Poor's rating of "A" or above.

The reinsurance cost as a percentage of premiums ceded to gross premiums written in 2008 was maintained at the low level of 1.2%.

In 2008, reinsurance in PZU Życie SA boiled down to two agreements:
- a catastrophe treaty protecting the portfolio against an accumulation of risks,
- a surplus treaty for policies with higher insurance values.

2008 also saw the beginning of the process of developing new insurance products based on the know-how of reinsurance experts. In respect of the above, an increase in the number of reinsurance contracts is planned.

### CATASTROPHIC RISKS

As part of the risk accumulation project, in 2008 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 conditions for a catastrophe treaty.

### INWARD REINSURANCE

In the area of inward reinsurance, as in previous years, in 2008 PZU SA supported domestic insurance companies with both facultative and obligatory reinsurance. PZU SA provided substantial support for UAB DK PZU Lietuva and OJSC IC PZU Ukraine during negotiations with reinsurers. The company also continued its involvement in reinsurance of subsidiaries as their reinsurer.

PZU Życie SA was not involved in any inward reinsurance in 2008.

# 10. ASSET MANAGEMENT

## ACTIVITIES OF PZU ASSET MANAGEMENT SA IN 2008

The objects of PZU Asset Management SA's activity are:

1. to perform stock broking activity for the purposes of the Act on trade in financial instruments, including managing the investment portfolios of investment funds, and
2. performing portfolio management services, which may comprise:
   - real estate, financial instruments or property rights in entities investing in the real estate sector,
   - financial instruments or property rights of companies that are not in organised trade,
   - funds or other entities investing their assets in property rights or financial instruments.

Asset management was the only type of business activity performed by PZU Asset Management SA in 2008. When performing this type of service, it performed two types of stock broking activities: portfolio management and (as an auxiliary activity) foreign currency exchange where this was incidental to its stock broking activity.

As part of its operating activity, PZU Asset Management managed portfolios of:

- PZU SA
- PZU Życie SA
- TFI PZU SA funds
- The *MPTE* Fund "Słoneczna Jesień".

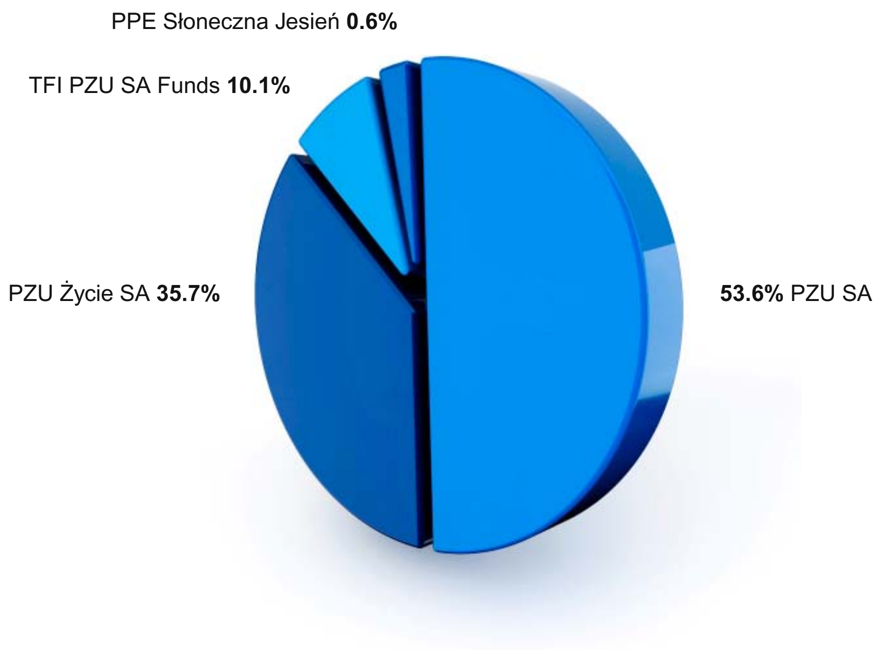
In 2008, PZU Asset Management SA started managing new funds, developed jointly with TFI PZU SA: PZU FIZ Real Estate Sector and PZU FIO Safe Investing.

## THE ASSET PORTFOLIO MANAGED BY PZU ASSET MANAGEMENT SA

As at 31st December 2008, PZU Asset Management SA was managing assets with a value of PLN 22.15 billion.

In 2008, the value of the asset portfolios being managed fell by 13.6%, which was a consequence of lower valuations of the instruments within these portfolios and clients' withdrawals of part of the assets assigned for management. As a result of the situation on capital markets in 2008, the asset portfolios managed by PZU AM generated low nominal levels of return and even nominal losses. In comparison to market benchmarks and a comparative group, the results were generally positive.

### DIAGRAM 20. ASSETS MANAGED BY PZU ASSET MANAGEMENT SA AS AT 31ST DECEMBER 2008




Source: The PZU Group

# 11. FOREIGN INVESTMENTS OF THE PZU GROUP

The PZU Group began its insurance activity on foreign markets in February 2002. 2008 was a period of further restructuring of the portfolio of companies operating in Lithuania and the Ukraine. It also saw the beginning of the financial crisis on local markets. The financial crisis had a negative impact upon the results of the PZU Group's foreign companies, although for the majority of them, the year can nonetheless be deemed to have been used effectively.

Rigorous cost control procedures and work on improving the quality of the product range and client service consolidated the competitiveness of the PZU Group's foreign companies on local markets, which means that the main efficiency objectives set for the Companies were met. A substantial fall in revenues from investments and a collapse in internal demand were recorded in the fourth quarter of the year in the annual results generated by the Lithuanian and Ukrainian insurers.

### OPERATIONS OF UAB DK PZU LIETUVA AND UAB PZU LIETUVA GYVYBËS DRAUDIMAS

In 2008, the activities of UAB DK PZU Lietuva and UAB PZU Lietuva Gyvybës Draudimas were consistently aimed at restructuring and restoring their profitability.

To this end, strict costs control procedures and a new investment policy were introduced and steps were taken to diversify the insurance portfolio and stabilise loss ratios. The restructuring process for the retail sales network and activities regarding the introduction of a type of cross-selling was accelerated and a range of initiatives were taken to improve the management of debts of the insured and expand IT systems.

The significant fall in revenues from investment activity (a loss in this area of business) reduced the results of both Companies, although this factor impacted upon all market players. UAB DK PZU Lietuva's achievement of second place on the non-life insurance market is a starting point and good sign for further growth on the Lithuanian market.

### FINANCIAL RESULTS AND MARKET POSITION OF UAB DK PZU LIETUVA AND UAB PZU LIETUVA GYVYBËS DRAUDIMAS

**UAB DK PZU Lietuva**

The gross premium written in 2008 amounted to LIT 210 million, which was 28% higher than the premium in 2008 (LIT 163.2 million).

Net profit in 2008 was at a level of LIT -7.4 million, compared to LIT 4.4 million in 2007.

The market share at the end of 2008 was 14.4%, making the company the second largest property and casualty insurer in Lithuania.

**UAB PZU Lietuva Gyvybës Draudimas**

The gross premium written in 2008 amounted to LIT 19.5 million, which was 38% higher than the premium written in 2007 (LIT 14.1 million).

Net profit in 2008 was at a level of LIT -0.5 million, compared to LIT 4 million in 2007.

The market share at the end of 2008 was 3.6%, making the company the sixth largest life insurer in Lithuania.

### OPERATIONS OF OJSC IC PZU UKRAINE AND OJSC IC PZU UKRAINE LIFE INSURANCE

2008 was a year in which the intensive restructuring of PZU Group Ukraine companies started in the 2nd half of 2007 was continued. It concerned all elements associated with proper and efficient management, as well as the creation of financial reserves, including increasing the share capital to a level guaranteeing compliance with prudency norms required by law. As a consequence of the steps taken during this period, the PZU Group Ukraine is regarded by the State Finance Regulator, sector organisations, competitors and the insurance media as a reliable company with considerable potential as regards sales growth.

The objective set for the Ukrainian companies in the PZU Group for 2009 is a dynamic increase in sales, leading to a doubling of market share, using the experience gained to date and the know-how and experience of the PZU Group.

## FINANCIAL RESULTS AND MARKET POSITION OF OJSC IC PZU UKRAINE AND OJSC IC PZU UKRAINE LIFE INSURANCE

### OJSC IC PZU Ukraine

Gross premiums written in 2008 amounted to UAH 139.7 million, which was 9% lower than the premiums collected in 2007 (UAH 152.5 million).

Net profit in 2008 amounted to UAH -81.3 million, compared to UAH 1.6 million in 2007

Market share at the end of 2008 was 1.32%, placing the company fifteenth in the Ukrainian property and casualty insurance market.

### OJSC IC PZU Ukraine Life Insurance

Gross premiums written in 2008 amounted to UAH 17.3 million, which was 13% lower than the premiums collected in 2007 (UAH 15.2 million).

Net profit in 2008 amounted to UAH -10 million, compared to UAH -8.1 million in 2007

Market share at the end of 2008 was 1.7%, placing the company tenth in the Ukrainian life insurance market.

If PZU were a sport, it could be practically any one of them. These days in sport, nothing depends on a single person.
Behind any team or individual competitor stand trainers, doctors, psychologists, dieticians, strategists and technicians.
Success is a result of their cooperation in combination with the talent of the competitors.

# 12. DIRECTIONS FOR DEVELOPMENT OF THE PZU GROUP

## 12.1. PZU GROUP STRATEGY FOR 2009-2011.

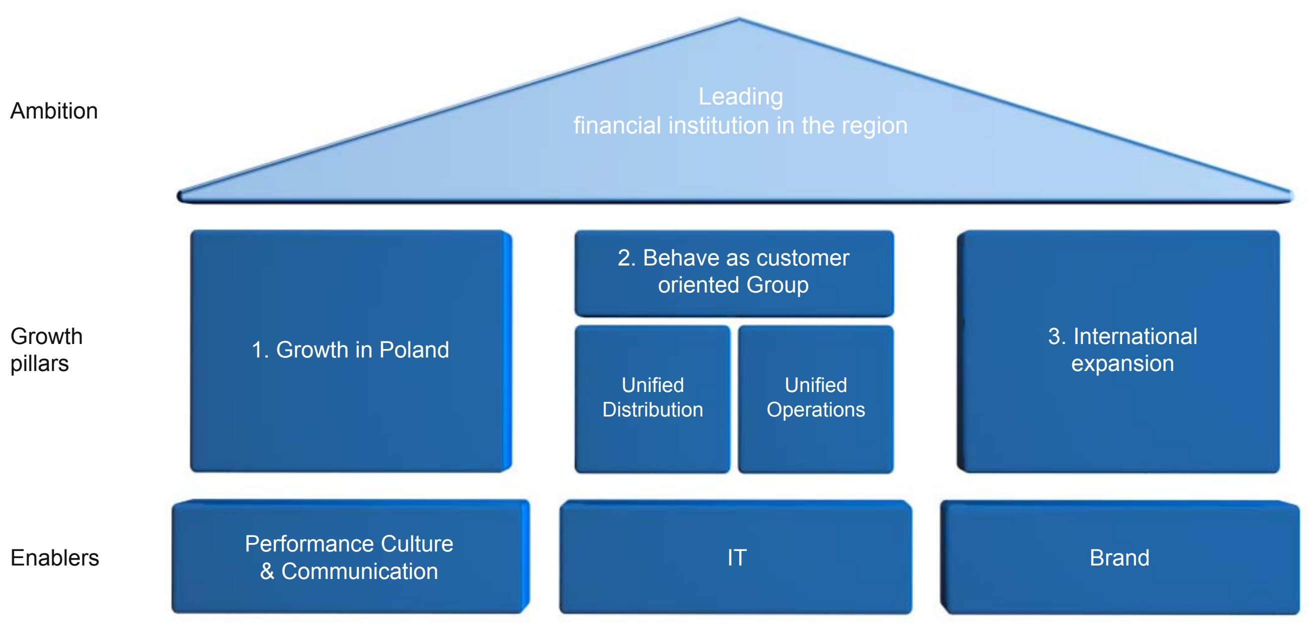
On 30th September 2008, the PZU SA Management Board adopted a new PZU Group Strategy for 2009-2011, the main objective of which was growth on the domestic market, foreign expansion and the creation of a unified organisation based on "PZU core companies" – both as regards front office and internal activity.

The new strategy is based on the vision that PZU will strive to become the largest and most client-oriented insurance company in Central and Eastern Europe.

According to the Strategy's assumptions, the PZU Group intends to grow on the domestic market primarily through a dynamic increase in the segments in which it has a lower share than the average for the whole group. In motor insurance and group life insurance, in which it has remained the unquestionable leader for many years now, the Group will endeavour to halt the fall in market share over the next two to three years, and after this period plans to expand by at least as much as the market. Better communication with clients within the Group, development of the sales network and investments in modern technologies are intended to assist the realisation of these objectives. A major element of the strategy is the announcement of investments in human capital. The PZU Group intends to attract talented people, whose commitment will enable the strategic objectives to be met quickly.

The action plan for achieving the objectives set out above and realise the ambitions of the PZU Group have been divided into three main pillars. Factors supporting implementation have been defined:

DIRECTIONS FOR DEVELOPMENT OF THE PZU GROUP



The Strategy anticipates a set of actions to be conducted jointly by PZU Group entitles. These actions have been grouped into "strategic initiatives" and work on their preparation or implementation was commenced in the fourth quarter of 2008. The main initiatives regarding the activity of the PZU Group are:

- Integrated Distribution – a project intended to standardise and strengthen the distribution network in the PZU Group,
- Nowa Era Sprzedaży (New Sales Era (NES)) – a set of actions to improve the efficiency of management of existing sales channels,
- Direct – project intended to introduce a new direct sales channel (telephone and internet),
- Growth of group insurance – program intended to intensify the growth of a key business line of PZU Życie SA, including use of the eRU tool,
- Health project – preparing PZU Życie to sell health insurance products,
- Integrated Operations – project intended to unify and optimise handling processes within the PZU Group,
- Results-oriented organisational culture – group of projects intended to increase the quality of management processes,
- Implementation of a balanced results form in order to take into account client and employee-related measures,
- Brand refreshment – a set of actions concentrated on the PZU Group image and managing marketing campaigns,
- IT support activities – investments regarding IT infrastructure to enable efficient strategy implementation.

## 12.2. MAIN BUSINESS OBJECTIVES OF PZU GROUP COMPANIES IN 2009

**The PZU Group** will strive to consolidate its position as the leading financial institution in Poland and Central-Eastern Europe by maintaining the dynamic growth of income in its core activity, its strong capital position and financial security.

The main objectives of **PZU SA's activity** in 2009 arising primarily from the Strategy adopted in 2008 and current market situation are:

- halting the loss of share on the domestic insurance market (long-term objective);
- an increase in sales (the driving force for which is to be provided by activities associated with improving the efficiency of existing distribution channels) (above all, revitalisation of the agency network), the creation of new channels, changes to existing products and the launch of new ones;
- restricting risks associated with the financial insurance portfolio during the crisis on the financial markets;
- increase in sales of agricultural insurance as a result of the assumption that PZU's dominant share in the growth of subsidised agricultural insurance will be maintained;
- maintaining profitability in the main product lines (motor third party liability insurance and Auto Casco) during rising competitive pressures, a reduction in the loss ratio;
- maintaining a conservative investment policy;
- maintaining cost discipline, a reduction in the ratio of fixed costs to premiums in 2009 and an assumption that growth in fixed costs will be lower than the planned rate of inflation.

The main objectives of **PZU Życie SA's activity** in 2009 arising primarily from the Strategy adopted and the current market situation are:

- maintenance of a strong position on the group insurance market and launch of a process of "recovering" a segment of the market lost in previous years to competitors;
- modernisation of the product portfolio and development of the product offer for all sales channels aimed at middle-class and mass clients both in group and individual insurance;
- expanding the offer and maintaining the portfolio for corporate clients;
- development of bancassurance products based on existing and new insurance in cooperation with existing and new business partners, whilst continuing the policy for reducing the asset concentration risk;
- an increase in the sales of health insurance and development of cooperation with health care providers as regards medical services;
- development of sales initatives, e.g. under New Sales Era projects and Agency projects;
- maintaining a conservative investment policy;
- maintaining costs discipline.

The main objectives of **PTE PZU SA's activity** in 2009 are:

- continuation of works to introduce a management system into the Company to increase staff awareness and engagement in the process of implementing the strategic and operating objectives set for the Company, in particular by linking the possibility of earning additional bonuses with the performance of the Company's tasks and objectives;
- maintaining a quality certificate and preparing to implement the Integrated Resources Management System. One of the effects of the implementation of this system will be fuller use of the Company's strong points and capacities in this respect, as well as reacting to opportunities and threats arising on the market;
- implementing an investment policy to increase the value of the accounting unit, and as a consequence to increase the value of the financial resources of Fund members;
- applying modern and widely accessible communication channels (internet, call centres) enabling efficient communication with Fund members.

PTE PZU SA anticipates a further improvement of its financial results in the coming years. As in previous years, this will be largely dependent upon the transfer of contributions and payment of all liabilities towards members of the Fund (transfer of outstanding contributions from the Social Security Agency (ZUS) and the observance of the agreed budget discipline among all organisational cells of the Company.

Any steps the Company takes in 2009 will be intended to maintain and strengthen existing market share of the Open Pension Fund PZU Złota Jesień.

## 12.3. A DESCRIPTION OF RISK FACTORS AND THREATS IN 2009

Risk factors that may have an impact upon the results of the PZU Group in 2009 primarily include the following:

- the assumed slowdown in Polish economic growth, which may have a substantial impact upon demand for insurance products;
- an increase in the rate of unemployment in 2009 – a deterioration in the condition of the labour market may restrict demand for insurance products;
- the expected lower rate of investment growth (an effect of deteriorating demand perspectives, deterioration of sentiment among undertakings, deterioration in financial results) and consumption;
- a forecast fall in inflation, which may lead to a reduction in base rates by the Monetary Policy Committee (RPP), leading to a fall in interest rates for treasury securities;
- the trend on the capital market in 2009, in particular the Warsaw Stock Exchange – part of the income from the Company's investment activity depends upon trends on this market;
- the variable yield of treasury securities depending on the economic situation in Poland and the European Union; a fall in the yield of securities may lead to a reduction in the profitability of investments and a potential need to change the level of technical rates applied in the Company;
- increasing competition and continuing deconcentration on the market giving rise to an increase of market share among smaller companies on the property and casualty insurance market to the cost of PZU SA and an increase in product competition in the area of structured insurance, as an alternative to traditional products based on investment funds (PZU Życie SA);
- an increase in the role of insurance brokers in the sale of group insurance, an increase in competition in this market segment;
- an increase in activity and competitiveness among insurance companies with capital connections with banks as regards the growth of bancassurance;
- changes in the financial mediation market, a fall in the growth in popularity of independent financial advisers and hence a reduction in the number of sales channels for the Company's products.

If P2U were a person, he or she would be extremely knowledgeable and authoritative.
Part mentor, part dreamer. Aware of what life brings.
Full of enthusiasm and curiosity of the world and people.
They have an internal strength that can be drawn upon indefinitely.
It would be incredible to work with somebody like that.

# 13. CORPORATE SOCIAL RESPONSIBILITY OF THE PZU GROUP

When examining the PZU Group's activity, initiatives that prove the implementation of Corporate Social Responsibility (CSR) principles should not be overlooked. These operations contribute to building transparent relationships with various groups of business partners. CSR-related activities stem from the personnel policy and marketing strategy pursued 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, sponsorship funds. The PZU Foundation is an important element in this area supporting philanthropic activities in the areas of education, culture and the arts, social assistance and health care

## 13.1. PREVENTIVE ACTIVITY

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

As in previous years, the preventive activity of PZU SA in 2008 focused on improving road safety, both with respect to drivers and pedestrians.

An important element of PZU Życie SA's preventative activity in 2008 was the continuation of the educational program *"Get active with PZU Życie SA"*. Its aim is to promote a healthy lifestyle, encouraging Poles to spend their time actively and education concerning the impact of physical activity on preventing chronic illness.

In 2008, the main preventative activity of PZU in the media (TV, radio, outdoor advertising and the internet) was the summer (vacation) preventative campaign *"Tell all when you're home. Go and return safely",* which used a suggestive way of drawing attention to road safety, particularly in summer. Its purpose was to prevent dangerous driving among drivers and reduce the number of car accidents and their consequences. The media campaign was accompanied by original campaigns on main roads and the creation of internet sites, where internet users could write about what they wanted to say following their return home from their holidays. Steps were again taken to improve safety in the water. In 2008, a further edition of the "Bezpieczne Lato z PZU" (A safe summer with PZU) program was organised.

PZU SA also began the second edition of the preventative *"Fleet Safety"* programme together with Internet Prasa Media Publishing House and the Polish Motor Association. This project is targeted at PZU corporate clients with fleets and involves a series of training courses and educational meetings concerning road safety.

In 2008, PZU SA and PZU Życie SA finalised and commenced the second edition of the preventative *"Blisko Boisko"* (Close to the pitch) programme, which is conducted together with the Ministry of Sport and is aimed at contracting Astroturf football pitches. The programme is designed to improve safety in schools and other educational institutions, promote sport as a necessary factor in the development and upbringing of young people and to support activities promoting 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). 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, aimed at improving public safety in the mountains.

## 13.2. SPONSORSHIP ACTIVITY

As the heir to a 200-year tradition, out of a feeling of corporate social responsibility PZU sponsors and supports key cultural, educational and charitable events nationwide. Support for Polish art and culture, significant cultural initatives and institutions is one of the most important aspects of the company's preventative and sponsorship activity.

### SUPPORT FOR POLISH ART AND CULTURE

PZU SA has supported the National Philharmonic for many years (Strategic Patron of the year 2008), and PZU SA's patronage of the Royal Castle in Warsaw stretches back over a decade. The company has also actively supported numerous artistic events, including an exhibition of the work of Alfonso Mucha in the National Museum in Warsaw and the Historical Picnic organised by the Polish History Museum. PZU Życie SA as the sponsor of the National Museum in Krakow has continued its patronage of the Year of Stanisław Wyspiański celebrations and has also sponsored three exhibitions of this illustrious painter, writer and theatre producer. In 2008, The PZU Group once again co-financed the International Vratislavia Cantans Festival and sponsored the Ludvig van Beethoven Easter Festival.

### ENGAGEMENT IN CULTURE AND MODERN ART

Apart from its multiannual support for historical institutions and Polish culture and artistic traditions, PZU has also engaged in the promotion of culture and modern art. For three years, PZU Życie SA has sponsored the activity of the Agnieszka Osiecka Atelier Theatre in Sopot.

Patronage of the world premiere of the film "Witness" (Świadectwo) about the life of John Paul II on 16th October 2008 in the Vatican was a particular honour for the PZU Group in recognition for its achievements in supporting culture and the arts. Approximately 6,000 people from all over the globe attended the global premiere of the film, under the patronage of Pope Benedict XVI. Within its first two months following its premier, approx. 1.5 million viewers watched the film in Poland.

The contemporary and universal nature of culture, in which PZU is interested, was reflected in the sponsorship, among others, of the Gdynia Festival of Global Culture "Globaltica" for the third year. PZU has also sponsored an interactive exhibition entitled "Wadowice of Karol Wojtyła" and a further edition of the Visegrad Summer School. Sponsorship activity in 2008 ended with the sponsorship of a concert by "Woody Allen and His New Orleans Jazz Band".

### PATRONAGE AND THE RESCUE OF POLISH MONUMENTS

Activities to rescue Polish monuments occupy an important place in the PZU Group's strategy. PZU provided assistance for the National Museums in Warsaw and Krakow. Existing security systems were modernised and an individual protection system was installed for the most valuable works of art. PZU facilitated the opening of the Bishop Erasmus Ciołek Palace – a Branch of the National Museum in Kraków. Furthermore, as part of the program "PZU for culture and art" fire protection and anti-theft security was installed in antique wooden churches throughout the country.

## 13.3. THE PZU FOUNDATION

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

The main activity of the Foundation in 2008 was to provide co-financing for projects implemented by non-governmental organisations and other organisational units, whose objectives fall within the areas of the Fund's activity. Furthermore, the PZU Foundation continued its cooperation with esteemed social organisations as part of partnership programs. Employees of the PZU Group suffering grave personal problems also enjoyed financial support from the fund.

In 2008, the PZU Foundation awarded subsidies for the following, among others:

1. in the area of "Education and upbringing":
   - subsidy competition "Improving the education available in rural areas and small towns",
   - partnership programs – bridging scholarships for students in a difficult financial situation, in cooperation with the Enterprise Development Foundation,
   - actuary competition for the best master's and doctor's theses,
2. in the area of "Culture and art":
   - co-financing for securing and recording collections held by the Monastery of the Carmedolite Order in Bielany, Krakow,
3. in the areas "Health Protection and Social Care":
   - the subsidy competition "Developing the social activity of disabled children and youths",
   - the subsidy competition "Rest with the Foundation",
   - subsidies for individuals, including PZU employees – in particular to finance home rehabilitation procedures, rehabilitation groups and purchase rehabilitation and medical equipment.

In 2008, the PZU Foundation completed its cooperation with Caritas Archidiecezji Częstochowskiej as regards financial support for the victims of the whirlwind that occurred in southern Poland in July 2007.

## 13.4. THE PZU GROUP AS A GOOD EMPLOYER

The PZU Group is one of the biggest employers in the financial sector in Poland. In 2008, employment in the PZU Group amounted to 17,407 full time positions. According to the reporting position, as at 31st December 2008 employment in PZU SA comprised 11,375.13 full time positions, whilst in PZU Życie SA it was 4,085.15.

## TRAINING AND PROFESSIONAL DEVELOPMENT SYSTEM

In order to support the business changes in the PZU Group, 2008 saw a continuation of the training system to provide management and lower-level staff with the opportunity to develop their career and improve their qualifications. Training concerned, among others, issues associated with team management and implementing changes, improving communication in the organisation and improving sales techniques and client service

As part of continued work under the “Integrated System of Responsibility Management”, more than 400 posts were described in key areas, i.e. Sales, Client Service and Loss Adjustment. Work was commenced on expanding the project to include trends associated with recruitment and selection, employee assessment, career paths, succession and knowledge and talent management.

Steps have already been taken to obtain funds from the European Social Fund for co-financing training for employees in the headquarters of PZU SA and PZU Życie SA. 537 people have already been trained under a pilot program.

In December 2008, a second edition of the programme entitled “Akademia Umiejętności Menedżerskich” (Academy of Managerial Skills) was commenced, in which middle-level management will take part. The training program for a group of employees selected on the basis of aptitude tests will be conducted by the Institute for Business Development.

Steps are also been taken to support the education of employees by means of co-financing university studies and foreign language learning.

## RELOCATION SUBSIDIES

The policy of awarding relocation subsidies (additional compensation for employees who have changed their place of work due to organisation changes initiated by the employer) was continued in 2008. Employees of PZU SA and PZU Życie SA were awarded 35 and 36 relocation subsidies respectively in 2008.

## VOLUNTARY DEPARTURE PENSION PROGRAM

In April and May 2008, PZU SA (and in August 2008, PZU Życie SA) started a Voluntary Department Pension Program. The program was aimed at employees who held (or would acquire by 31st December 2008), a right to early, statutory, departmental or sector-related pension. Apart from benefits under the Company Collective Bargaining Agreement or under general provisions of law, employees who joined the Program received additional remuneration in a lump-sum (2 to 3 months’ wages) and could acquire a right to a term-of-service award and higher pension on preferential conditions.

454 persons took advantage of the Voluntary Departure Pension Program, which constitutes almost 60% of those eligible, whilst in PZU Życie SA 69 persons joined the Program, constituting almost 40% of those eligible.

## INTERNAL COMMUNICATION

In 2007, the PZU Group continued operations aimed at developing internal communication tools: the PZU24 intranet portal and the related “First hand” Newsletter as well as “PZU World” newspaper for employees.

The portal has been expanded to include new tools and functions, strengthening communications for employees. Due to the increase in tools, it is possible to plan and conduct model communications for strategic projects and adjust messages for particular groups of recipients – employees, management staff and agents.

In 2008, a process of building a corporate culture was commenced, intended to support the implementation of the PZU Group Strategy for the years 2009-2011.

If P2U were a car?
Ettore Bugatti, when constructing his exquisite motor cars,
once said that nothing is too expensive
and nothing is too fast. Extravagant and individual
Today's cars are not just created by
construction teams, users are also invited
to take part in their design.
That's beautiful – to be both user and co-creator.

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

## 14.1. GROSS PREMIUMS WRITTEN

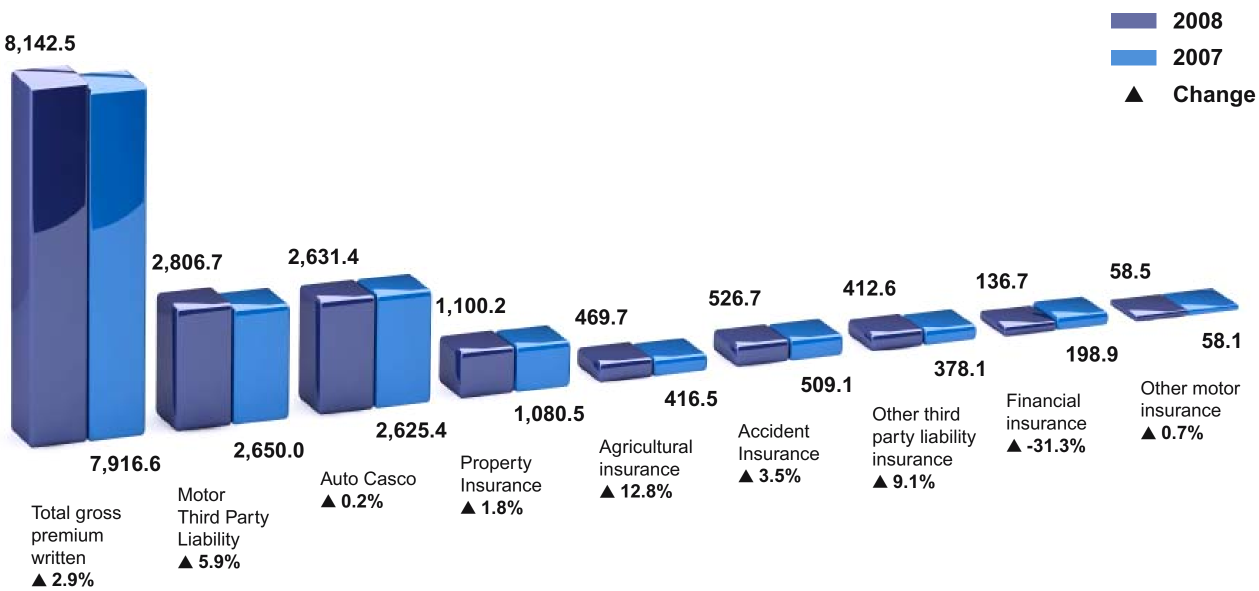
Gross premiums written by the PZU Group for life insurance as well as property and casualty insurance, after consolidation adjustments, amounted to PLN 21 515.4 million in 2008, up 39.2% on 2007. The higher PZU Group premium was due to: a 2.9% growth in premiums in property and casualty insurance and an 80.1% increase in the premium for life insurance.

### PZU SA

Total gross premiums written by PZU SA amounted to PLN 8 217.8 million in 2008, which represents a growth of 3.0%. Written premiums for direct insurance totalled PLN 8 142.5 million, PLN 225.9 million more than in the previous year. PZU SA's gross premium written from inward reinsurance in 2008 amounted to PLN 75.3 million, which is PLN 9.9 million more than in 2007.

The number of insurance policies concluded fell by 0.4% to 44 980 300. The highest premium written in percentage terms was for agricultural insurance and the highest number of insurance policies was in the Other Third Party Liability group. The average premium in 2008 was PLN 181, up 3.2% on the previous year.

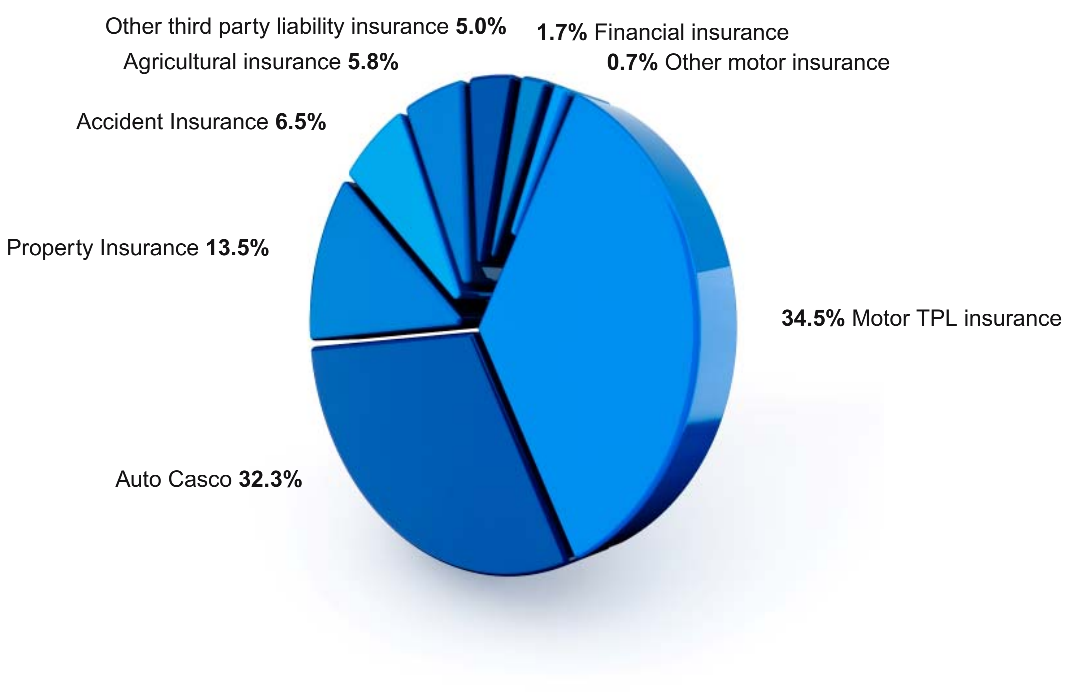
**DIAGRAM 22. GROSS PREMIUMS WRITTEN BY PZU SA FOR DIRECT INSURANCE BROKEN DOWN INTO MAIN INSURANCE GROUPS (IN PLN MILLION)**




Source: Own study,The PZU Group

Motor insurance accounted for 67.5% of the premium collected in direct business, 0.1% up on 2007. Motor TPL insurance enjoyed a significant increase of its share in the underwriting structure in relation to 2007, up from 33.5% to 34.5% of the total premium. Property insurance constituted 13.5% and accident insurance 6.5% of the total premium written.

### DIAGRAM 23. STRUCTURE OF GROSS PREMIUMS WRITTEN BY PZU SA FOR DIRECT INSURANCE BROKEN DOWN INTO MAIN INSURANCE GROUPS AS AT 31ST DECEMBER 2008



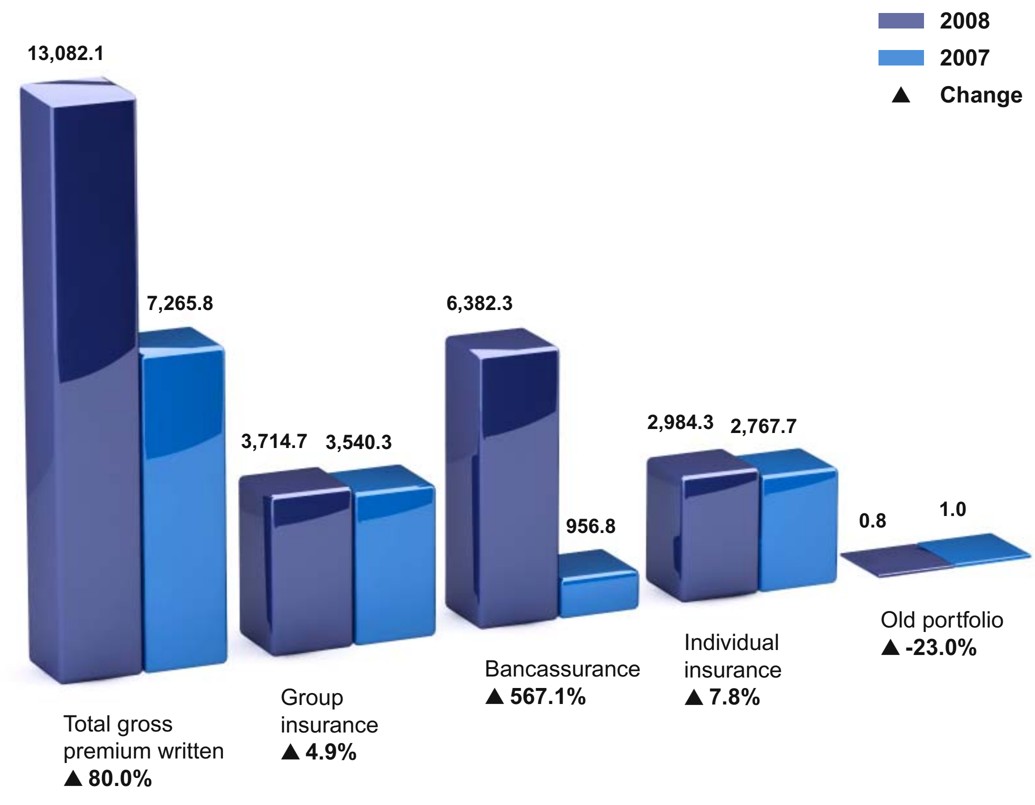

Source: Own study, The PZU Group

## PZU ŻYCIE SA

The total gross premium written of PZU Życie SA in 2008 was 13,082.1 million, an increase of 80% compared to the 2007 result. The record gross premium written of PZU Życie SA for 2008 was due to the dynamic growth of sales of bancassurance (increase of 567%) and a continuing high rate of growth in group cover insurance (up 5.2%).

In 2008, the number of people insured in PZU Życie SA increased slightly compared to 2007. The greatest increase was recorded in the group of insurance distributed via the banking channel.

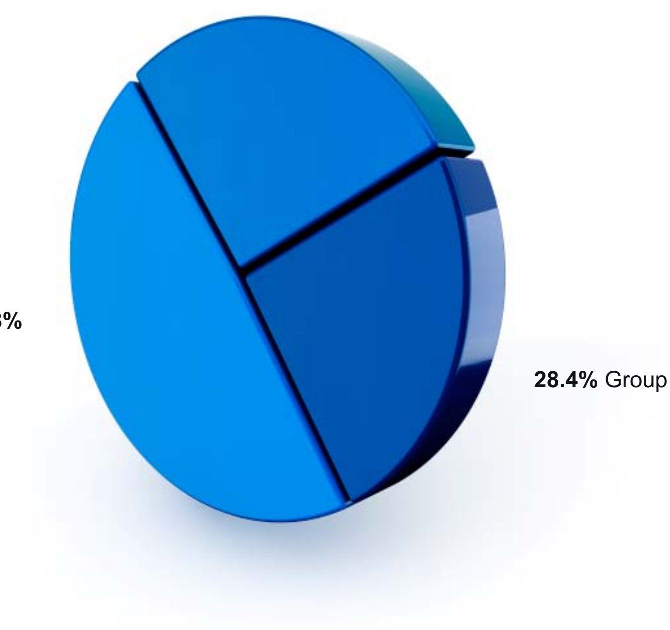
**DIAGRAM 24. GROSS PREMIUMS WRITTEN BY PZU ŻYCIE SA BROKEN DOWN INTO MAIN INSURANCE GROUPS (IN PLN MILLION)**




Source: Own study, The PZU Group

The largest share in the structure of PZU Życie SA's premium written was held by bancassurance, with a total of 48.8 of the total premium written. Individual insurance accounted for 22.8% of the total premium written.

**DIAGRAM 25. STRUCTURE OF GROSS PREMIUMS WRITTEN BY PZU ŻYCIE SA BROKEN DOWN INTO MAIN INSURANCE GROUPS AS OF 31ST DECEMBER 2008**




Source: Own study, The PZU Group

Group insurance was of key importance from the point of view of profitability, with a share of 28.4% of the overall gross premium written.

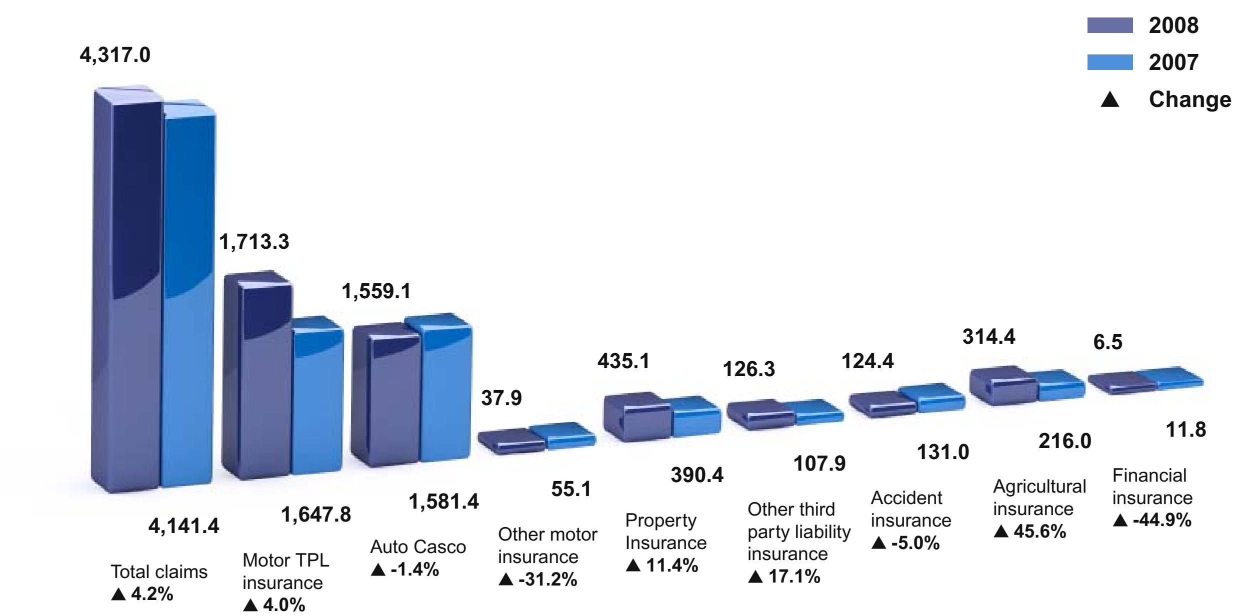
## 14.2. CLAIMS AND BENEFITS

Gross claims and benefits arising from direct insurance and inward reinsurance paid by the PZU Group in 2008 amounted to PLN 12,135.4 million, 27.3% up on payments made in 2007. Increases in payments made by the two largest companies in the Group (PZU SA and PZU Życie SA) had the greatest impact on this increase. The consolidated value of claims and benefits in the PZU Group comprised of the following payments: property insurance segment PLN 4,705.5 million (an increase of 1.5%) and the life insurance segment PLN 7,429.9 million (increase of 51.7%).

### PZU SA

PZU SA's gross claims and benefits, together with loss adjustment expenses amounted in 2008 to PLN 4,586.4 million, of which payments of gross claims and benefits from direct insurance alone (without loss adjustment expenses) amounted to PLN 4,317 million. This means an increase in relation to 2007 of 4.2%. The highest increase in payments was recorded in agricultural, property and other third party liability groups. This was due to the higher sum of payments for mass losses, acts of god and an increase in the value of insured assets.

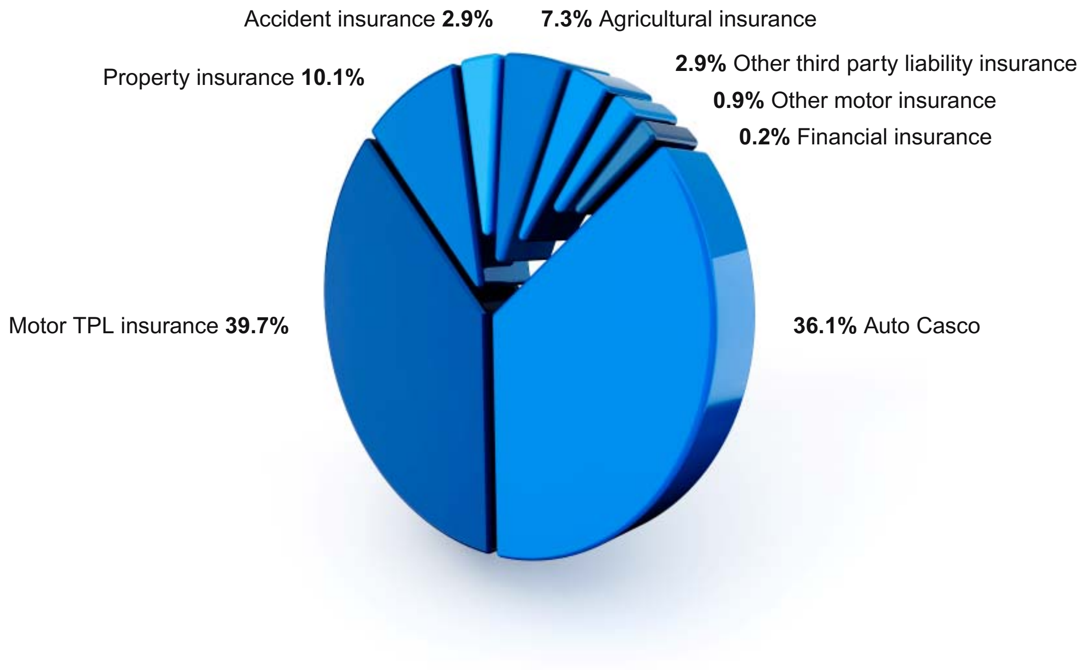
DIAGRAM 26. BREAKDOWN OF GROSS CLAIMS PAID BY PZU SA UNDER DIRECT INSURANCE (EXCLUDING LOSS ADJUSTMENT EXPENSES AND RECOURSES) BY MAIN INSURANCE GROUPS (PLN, MILLION)




Source: own study, The PZU Group

Motor insurance accounted for the majority of payments, with 76.7% of the total, whereas payments under property insurance accounted for 10.1%, accident insurance – 2.9% and agricultural insurance – 7.3% of all gross claims and benefits paid in 2008.

### DIAGRAM 27. BREAKDOWN OF GROSS CLAIMS PAID BY PZU SA UNDER DIRECT INSURANCE (EXCLUDING LOSS ADJUSTMENT COSTS) BY MAIN INSURANCE GROUPS AS AT 31ST DECEMBER 2008



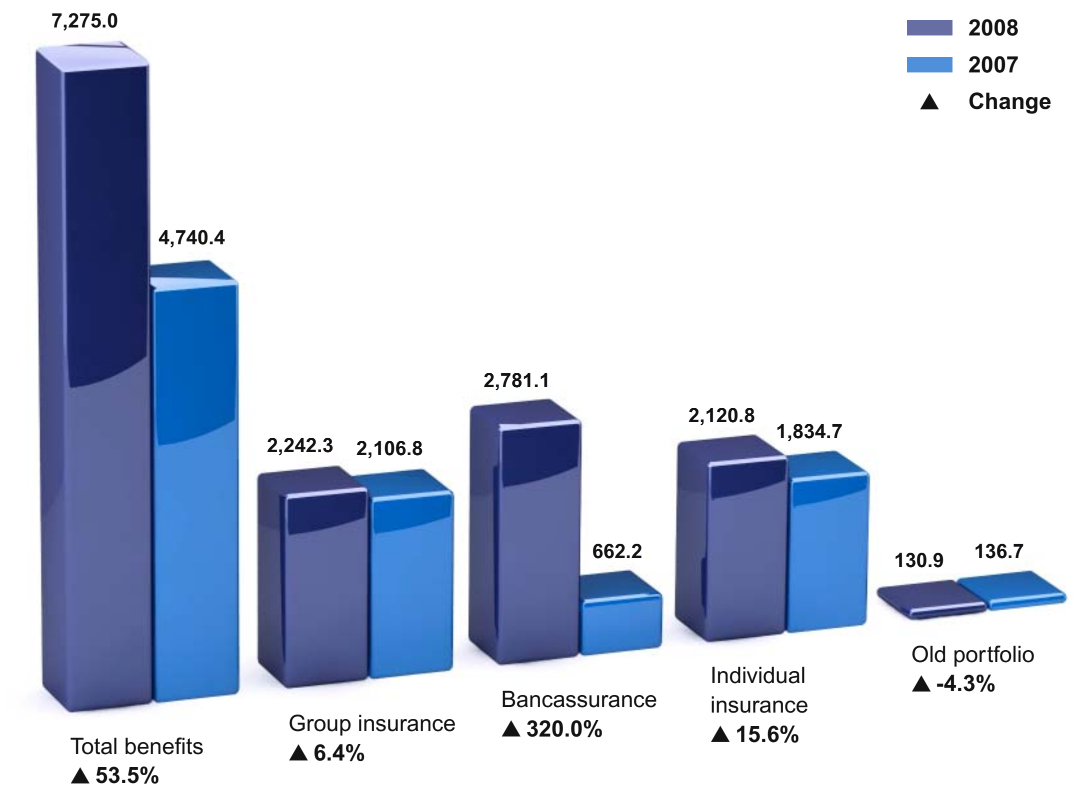

Source: Own study, The PZU Group

The number of claims paid in 2008 was 1,162,200, 8,3% down on 2007. This was partially due to the lower number of claims from property insurance, lower number of claims under agricultural insurance and a fall in the number of motor insurance claims than in 2007. The value of average claim was PLN 3,581.9, i.e. 13.3% higher than in the previous year. The increase of average claims in property and agricultural insurance was due to the absence of a large number of small claims in 2008 associated with catastrophic phenomena.

## PZU ŻYCIE SA

In 2008, the cost of gross benefits paid, incurred by PZU Życie SA was PLN 7,430 million as against PLN 4,897.4 in 2007, which constitutes an increase of 51.7 %. PZU Życie SA paid benefits amounting to PLN 7,275 million in 2008 (excluding adjustment expenses). The high increase in benefits paid under bancassurance was associated with the dynamic growth in this group of insurance (especially short-term investment insurance) and higher benefits paid at the end of the insurance term. The main factor in the increase of payments paid by the Company in other product groups was primarily the higher sums insured.

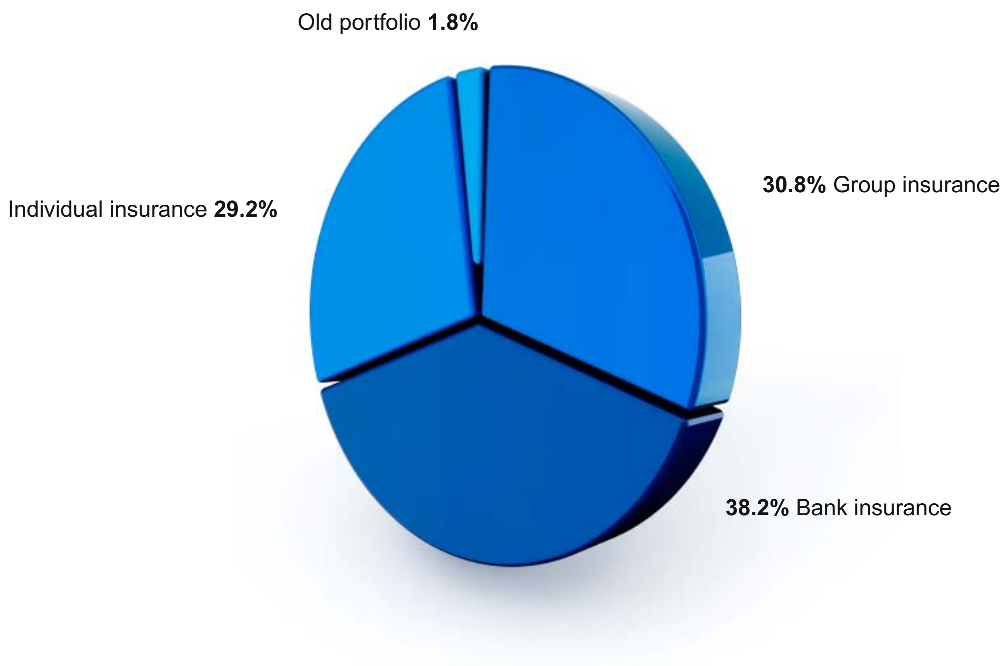
### DIAGRAM 28. BREAKDOWN OF GROSS CLAIMS AND BENEFITS (EXCLUDING ADJUSTMENT EXPENSES) PAID BY PZU ŻYCIE SA INTO MAIN GROUPS OF INSURANCE (PLN, MILLION)




Source: Own study, The PZU Group

The share of payments under investment bancassurance in the structure of benefits substantially increased (an increase from 14% to 38.1%), but had a neutral impact upon the Company's financial result.

**DIAGRAM 29. BREAKDOWN OF GROSS CLAIMS AND BENEFITS (EXCLUDING ADJUSTMENT EXPENSES) PAID BY PZU ŻYCIE SA INTO MAIN GROUPS OF INSURANCE AS AT 31ST DECEMBER 2008**




Source: Own study, The PZU Group

## 14.3. COSTS OF INSURANCE ACTIVITIES

The PZU Group's cost of insurance activities (comprised of acquisition expenses and administrative expenses, less commission received from ceedants and share in reassurers' profits) amounted to PLN 3,152.9 mln in 2008, i.e. 1.4% above the costs in 2007. The increase in costs was less than the increase in the premium written, which led to a fall in the costs ratio (share of costs in the net premium earned) from 20.7% in 2007 to 14.8% in the reporting period.

The fall of the insurance activity costs ratio was due to a 39.2% increase in the premium written compared to the previous year, and in particular an increase in the premium written for life insurance (an increase of 80.1%). The 2.7% fall in administrative expenses in the PZU Group compared to 2007 was due to lower fixed costs (personal expenses, IT expenses and administration expenses) which substantially set off the increase in direct acquisition expenses (+6%) associated with an increase in the premium written.

## PZU SA

The costs of PZU SA's insurance activity was PLN 2 080.9 million in 2008, 1% down on the previous year. The Company puts this fall down to the markedly lower administration expenses, which set off the increase in direct acquisition expenses associated with an increase in the premium written.

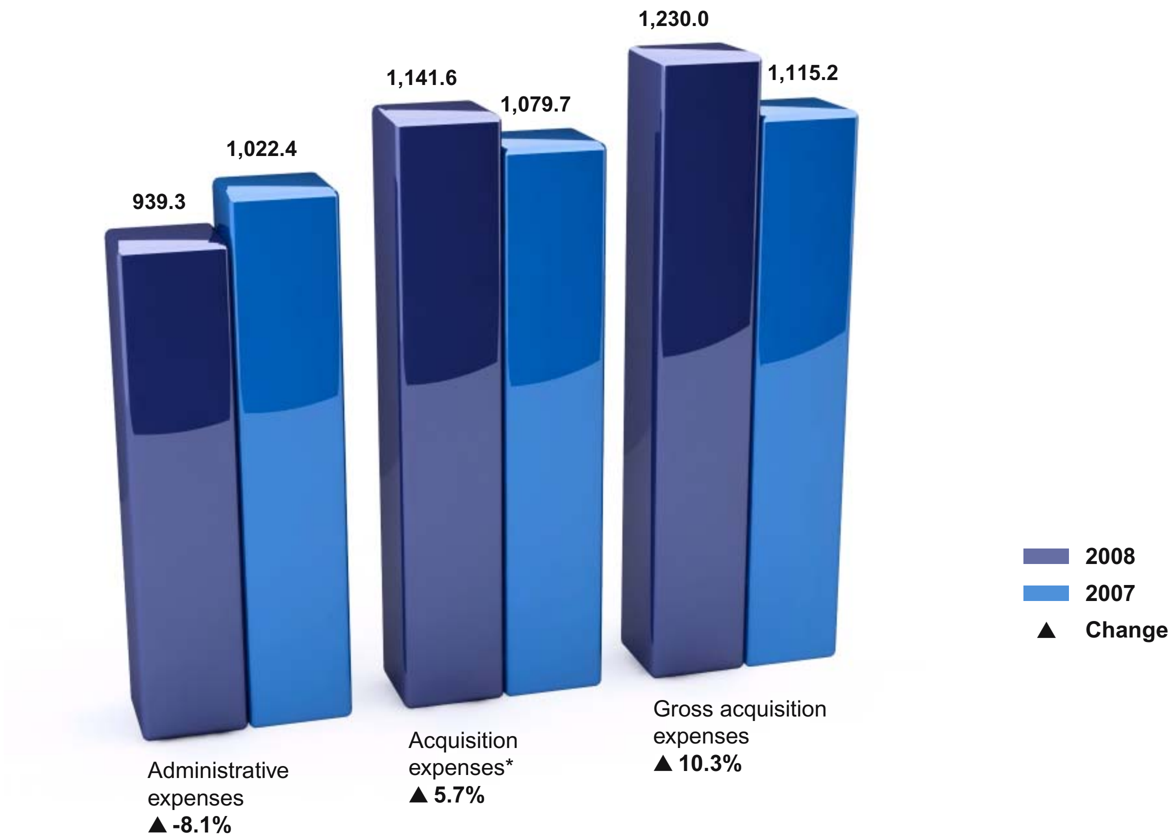
The increase in acquisition expenses associated with obtaining the premium (5% change) and indirect costs (7.1%) as well as the reduction in the tempo of deferring acquisition expenses in 2007 had the greatest impact on the increase in acquisition expenses.

The lower administrative expenses in relation to 2007 was primarily a consequence of a significant fall in the level of fixed costs.

Fixed costs at the end of 2008 were over PLN 46 million down on 2007 due to a PLN 34.1 million fall in personal expenses and a fall in IT expenses by PLN 11.3 million associated with the renegotiation of agreements and lower medium-term euro rates.

The share of insurance activity expenses in the gross premium written of PZU SA in 2008 was at a level of 25.3%, a 1% drop.

**DIAGRAM 30. COSTS OF PZU SA'S INSURANCE ACTIVITY WITH A BREAKDOWN INTO ADMINISTRATIVE COSTS AND ACQUISITION COSTS (PLN, MILLION)**




* acquisition expenses less reassuers' commission and shares in reassurers' profits

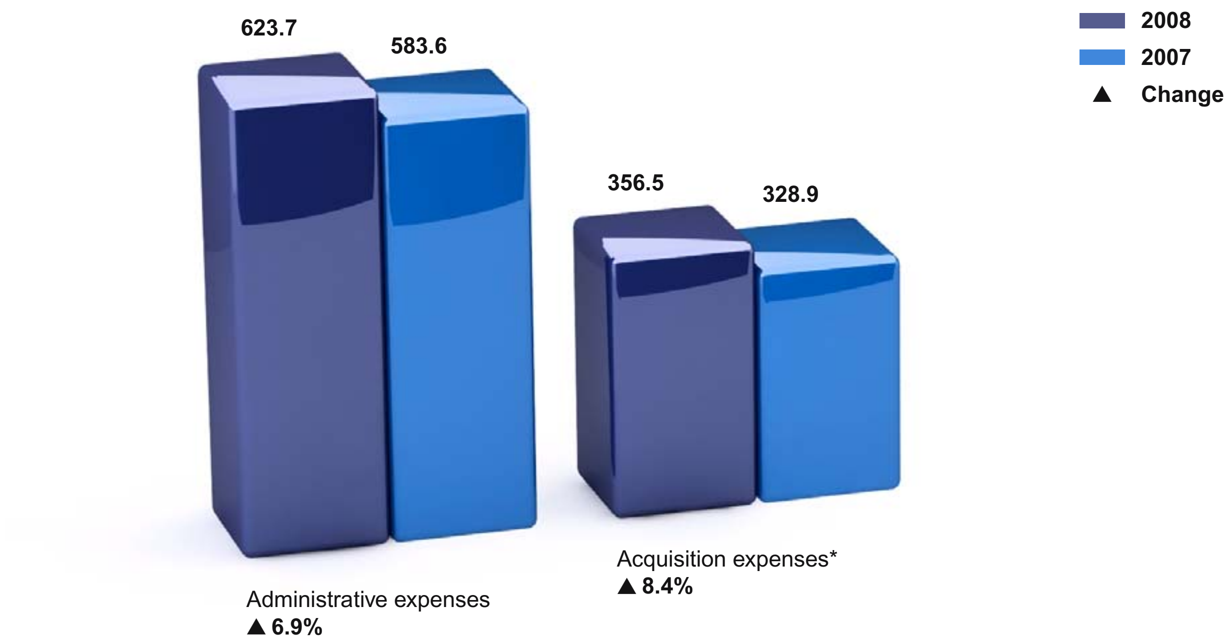
Source: Financial statement of PZU SA for 2008

The combined ratio for PZU SA was down 3.3% on the previous year to a level of 89%, which was an effect of substantially lower loss and administrative expense ratios.

## PZU ŻYCIE SA

The insurance activity expenses of PZU Życie SA in 2008 amounted to PLN 980.2 million and increase by 7.4% in relation to 2007. This increase was caused both by an increase in acquisition expenses and administrative costs. The increase in acquisition expenses was mainly due to an increase in commission in group traditional insurance. This was a consequence of the very high level of sales. The higher level of administrative expenses was affected, among others, by the increase in wage costs arising from the pay indexation introduced in 2008, depreciation of part of the investment outlays in 2007 and an increase in the costs of maintaining real estate and investments in the network of outlets.

### DIAGRAM 31. COSTS OF PZU ŻYCIE SA'S INSURANCE ACTIVITY WITH A BREAKDOWN INTO ADMINISTRATIVE EXPENSES AND ACQUISITION EXPENSES (PLN, MILLION)




* acquisition expenses less reassuers' commission and shares in reassurers' profits.

Source: Financial statement of PZU Życie SA for 2008

The share of PZU Życie SA insurance costs in the gross premium written in 2008 fell 5.1% compared to the previous year. At the end of 2008 this ratio was 7.5%.

## 14.4. INSURANCE UNDERWRITING RESULT

The total underwriting result of the PZU Group carried over to the consolidated general profit and loss account in 2008 was PLN 2,981.4 million, 11.9% down on 2007. The fall in the Group's underwriting result was due to the lower results of PZU SA and PZU Życie SA. The underwriting result for property and casualty insurance was PLN 671.9 million (a fall of 35.2%), whilst the result for life insurance was PLN 2,309.5 million (a fall of 1.6%).

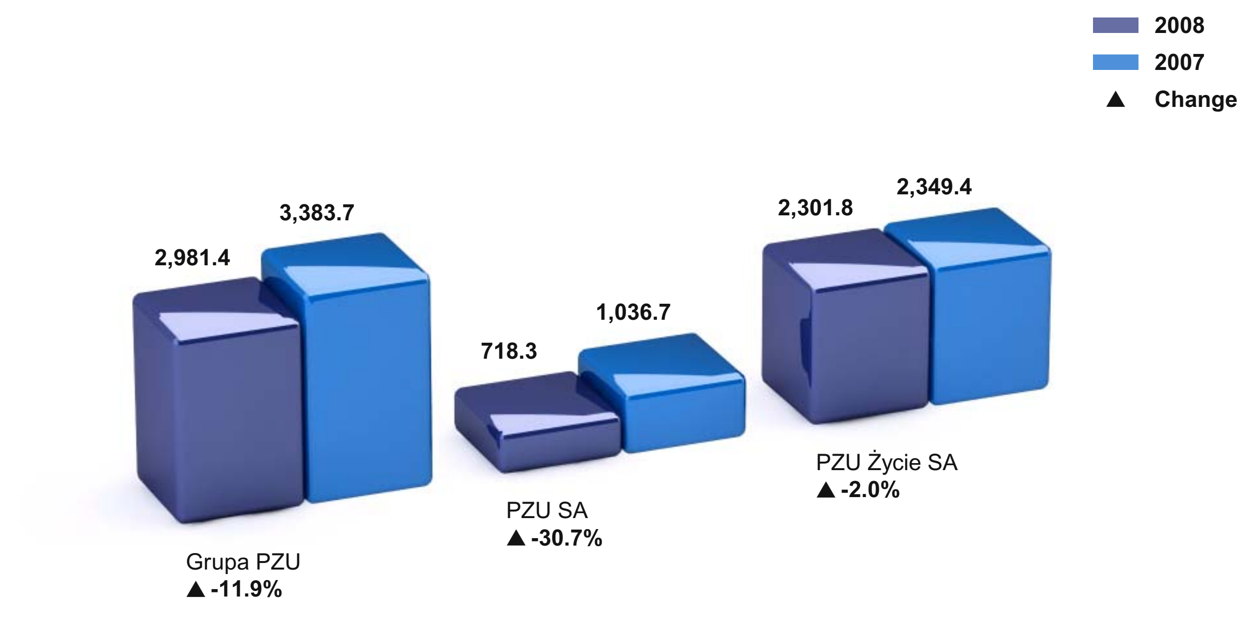
### PZU SA

Insurance activity ended 2008 with an underwriting result of PLN 718.3 million, 30.7% down on 2007, mainly due to one-offs. The fall in the underwriting result was mainly caused by the double-digit increase in remaining technical costs associated with obligatory fees payable to the National Health Fund, the exhaustion of the catastrophe reserve (the dissolution of which set off the increase in claims in 2007) and the effect of an increase in annuity reserves. The fall in underwriting results per insurance groups was particularly apparent in the third party motor insurance, agricultural and property insurance segments.

### PZU ŻYCIE SA

In 2008, the underwriting result in PZU Życie SA was PLN 2,301.8 million, i.e. a minor fall compared to the previous year (-2%). As in the previous year, the level of the Company's underwriting result was achieved due to an improvement in insurance profitability, despite the inferior results from investment activity.

**DIAGRAM 32. TECHNICAL RESULT OF THE PZU GROUP, PZU SA AND PZU ŻYCIE SA (PLN, MILLION)**




Source: financial statements for companies of the PZU Group and the consolidated financial statement for 2008

## 14.5. INVESTMENT ACTIVITY

Revenues from the PZU Group investment activity for 2008 amounted to PLN 847.9 million, i.e. 66.9% down on the previous year. The main reason for the fall was the bad situation on global financial markets, including the Warsaw Stock Exchange, which converted into a fall in market value of securities in investment portfolios.

Despite the collapse in prices on the majority of capital markets, PZU Group companies generated a profit from investment activity in 2008. This was due to a conservative and consistent investment management policy in the PZU Group, which is partially apparent in the relatively low level of engagement in the shares of stock market listed companies. The companies' portfolios did not have any material exposure to credit risk, foreign exchange risk or settlement risk in relation to the companies that suffered most during the financial crisis.

Group companies also conducted a restrictive policy regarding credit risk. The Company's strategy restricted the opportunities of investing in commercial securities exclusively to instruments whose issuers or issue guarantors had an investment rating (at least BBB-according to the Standard&Poor's rating agency; in the absence of an S&P rating, Fitch and Moody's ratings were taken into account) or were listed on the stock market (with limited individual exposures). The securities purchase projects underwent an internal scoring process.

Companies also managed their exposure to credit risk in respect of particular banks. The value of deposits in particular banks was subjected to limits set on the basis of financial results, rating and other characteristic ratios for banks.

In 2008, PZU Group companies did not apply any hedge accounting.

In accordance with the Policy of matching asset and liability structures, whilst maintaining the required level of security, profitability and liquidity of investments, the investment activity of companies in the PZU Group focused predominantly on securities issued by the State Treasury, i.e. T-bonds and T-bills. The total percentage share of these instruments at the end of the year was 76.8% of the investment portfolio value, as against 80.7% at the end of 2007. The fall in their share was partially due to an increase in the share of "poliso-lokaty" investment policies in PZU Życie SA's portfolio.

The Companies also operated on the equity market and market for other securities with a variable income and participation units and investment certificates in investment funds, however the percentage share of these instruments in the PZU Group portfolio fell in comparison with 2007, amounting to 4.4% as against 8% the previous year. The downturn in the equity market in 2008 and gradual reduction of the portfolio contributed to the fall.

### PZU SA

Income from the Company's investment activity in 2008 (less the impact of the dividend obtained from PZU Życie SA in 2008 amounting to PLN 2,167.3 million) deteriorated in comparison with income for 2007, falling by 42% (from PLN 1,081.9 million in 2007 to PLN 627.6 million in 2008). The main reason for the deterioration in income from investments was the fall in share prices on the Warsaw Stock Exchange, the WIG index having dropped 51% in 2008.

As in previous years, PZU SA's investment activity in 2008 was aimed at matching asset and liability structures, whilst maintaining the required level of security, profitability and liquidity of investments.

As in previous years, in 2008 the investment activity of PZU SA focused predominantly on securities issued by the State Treasury, i.e. T-bonds and T-bills. The total percentage share of these instruments at the end of the year was 68.6% of the value of PZU SA's investment portfolio, as against 63.1% at the end of 2007.

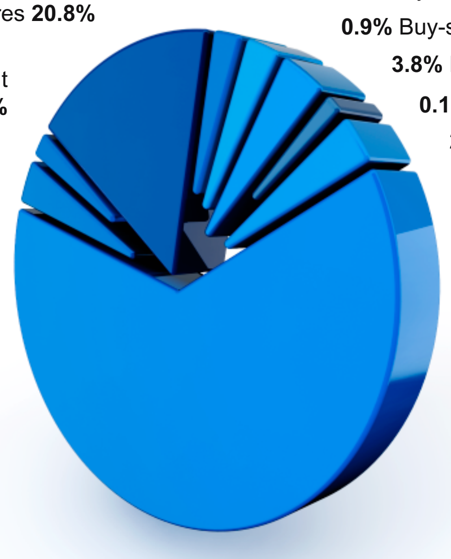
The Company was also active on the listed shares market, although the percentage share of listed shares in the investment portfolio of PZU SA fell in comparison with 2007 to 2.4% as against 5.6% the previous year. The downturn in the equity market in 2008 and gradual reduction of the portfolio contributed to the drop.

A large part of the investment portfolio of PZU SA comprise shares and in subsidiaries and other shares, including shares of PZU Życie SA, the value of which as at 31st December 2008 was PLN 5,934.7 million (constituting 94.1% of the value of the unlisted share portfolio and PZU SA shares). At the end of 2008, the share of unlisted shares and shares in the investment portfolio fell to 20.7% (as against 25% at the end of 2007). The primary reason for this was the fall in the value of PZU Życie SA shares.

In 2008, the share non-treasury debt securities in the investment portfolio remained unchanged in comparison with 2007 and amounted to 0.8%.

The value of term deposits and buy-sell back transactions at the end of 2008 was 4.7% of the total value of the investment portfolio (as against 4.2% in 2007).

**DIAGRAM 33. BREAKDOWN OF PZU SA INVESTMENT PORTFOLIO AT 31ST DECEMBER 2008**




Source: Own study, The PZU Group

## PZU ŻYCIE SA

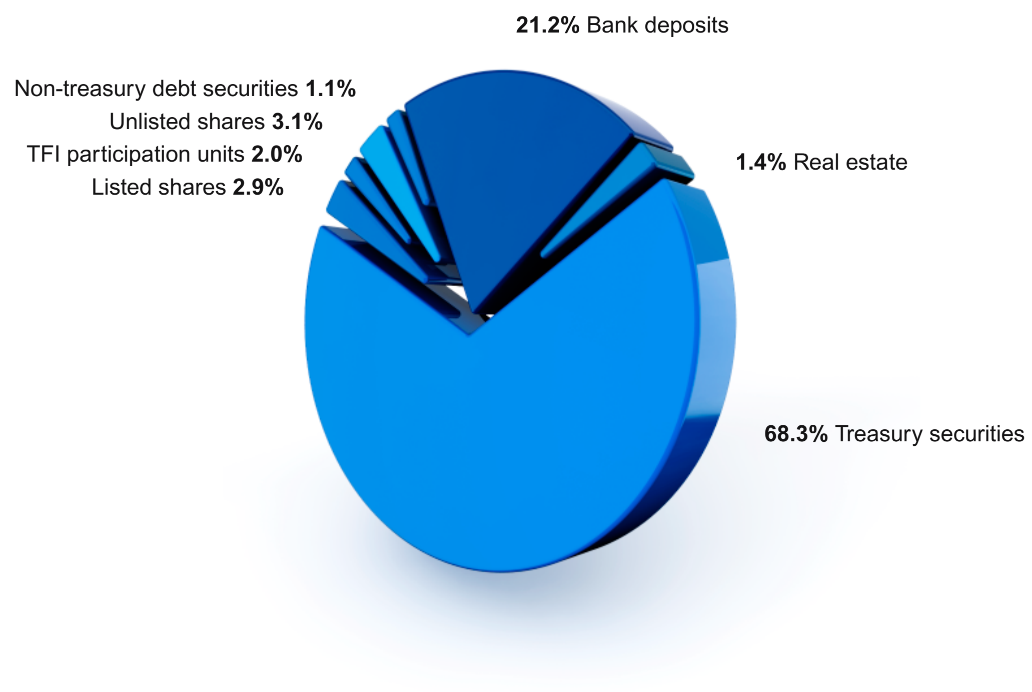
In 2008 the Company generated net revenues from investments of PLN 203.1 million, i.e. PLN 1,363.5 million down on 2007 (together with investments on policyholders risk). Net revenues without investments on policyholders risk amounted to PLN 672.4 million. The fall in net income from investments was due to the reduction in the valuation of listed shares and TFI participation units.

In 2008, the investment activity of PZU Życie SA was primarily focussed on investments in securities issued by the State Treasury, i.e. T-bonds and T-bills, which constituted the largest part of the investment portfolio. The total percentage share of these investments at the end of the year was 68.3% of the value of the PZU Życie SA portfolio, as against 77.7% at the end of 2007. The fall in their share was due to the need to sell part of the portfolio in order to pay a dividend, as well as an increase in the share of bancassurance products in the investment portfolio (primarily taking the form of deposits).

The Company is also active on the listed shares market. The percentage share of listed shares in the investment portfolio of PZU Życie SA (without shares of Armatura Kraków S.A., entered as shares in subsidiaries) fell to 2.9% as against 6.1% the previous year. The fall was partially caused by the downturn in the equity market in 2008 and a gradual reduction of exposure in such assets.

The share of term deposits (deposits and conditional transactions) increased. At the end of 2007, these investments constituted 7.7% of the total value of the portfolio, whereas at the end of 2008 this share increased to 21.2%. This change was due to a large increase in the value of bancassurance type investments.

#### DIAGRAM 34. BREAKDOWN OF THE PZU ŻYCIE SA INVESTMENT PORTFOLIO AS AT 31ST DECEMBER 2008

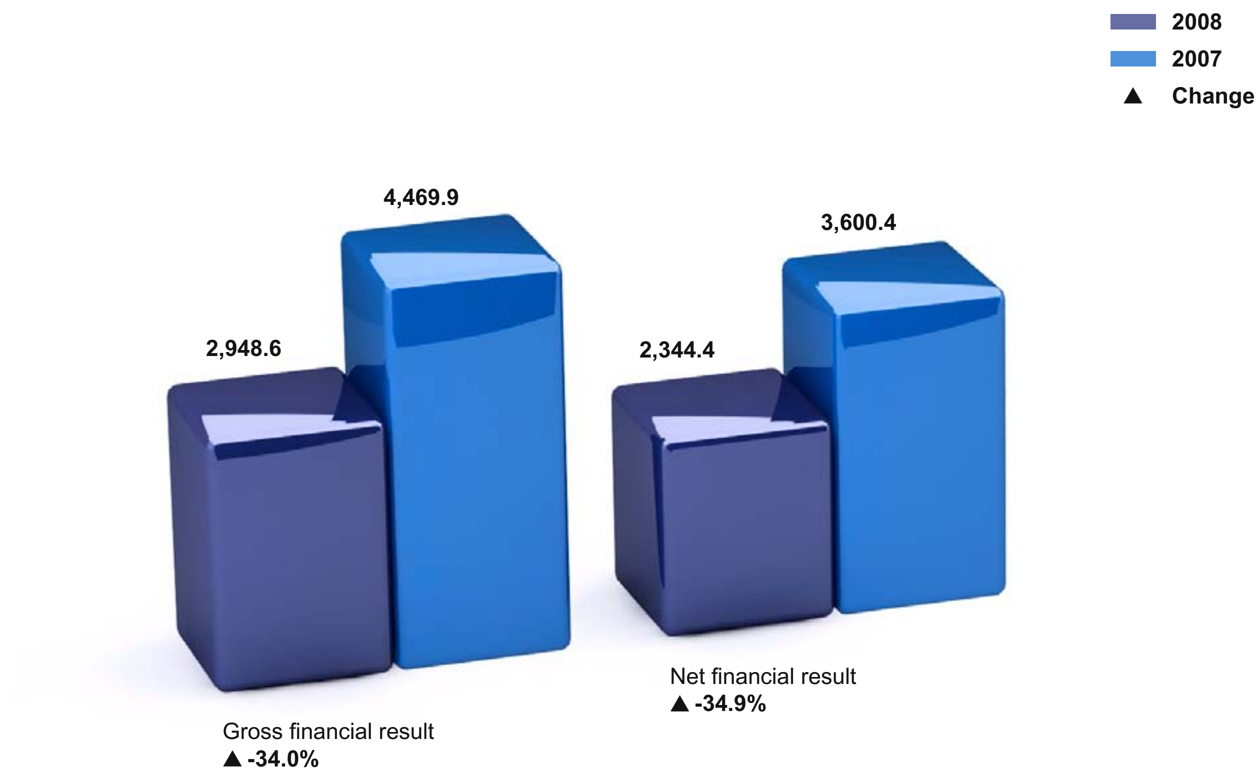



Source: Own study, The PZU Group

## 14.6. FINANCIAL RESULT

In 2008, the financial results of the PZU Group were down on the previous year. The consolidated financial result of the PZU Group for 2008 was PLN 2,344.4 million, down 34.9% on the previous year (PLN 3,600.4 million). The fall in the net result of the PZU Group was primarily due to substantially lower income from the investments of the two main insurance companies in the PZU Group. This was influenced by the poor situation on financial markets, which led to a fall in the market value of debt securities in investment portfolios.

**DIAGRAM 35. FINANCIAL RESULTS OF THE PZU GROUP (PLN, MILLION)**

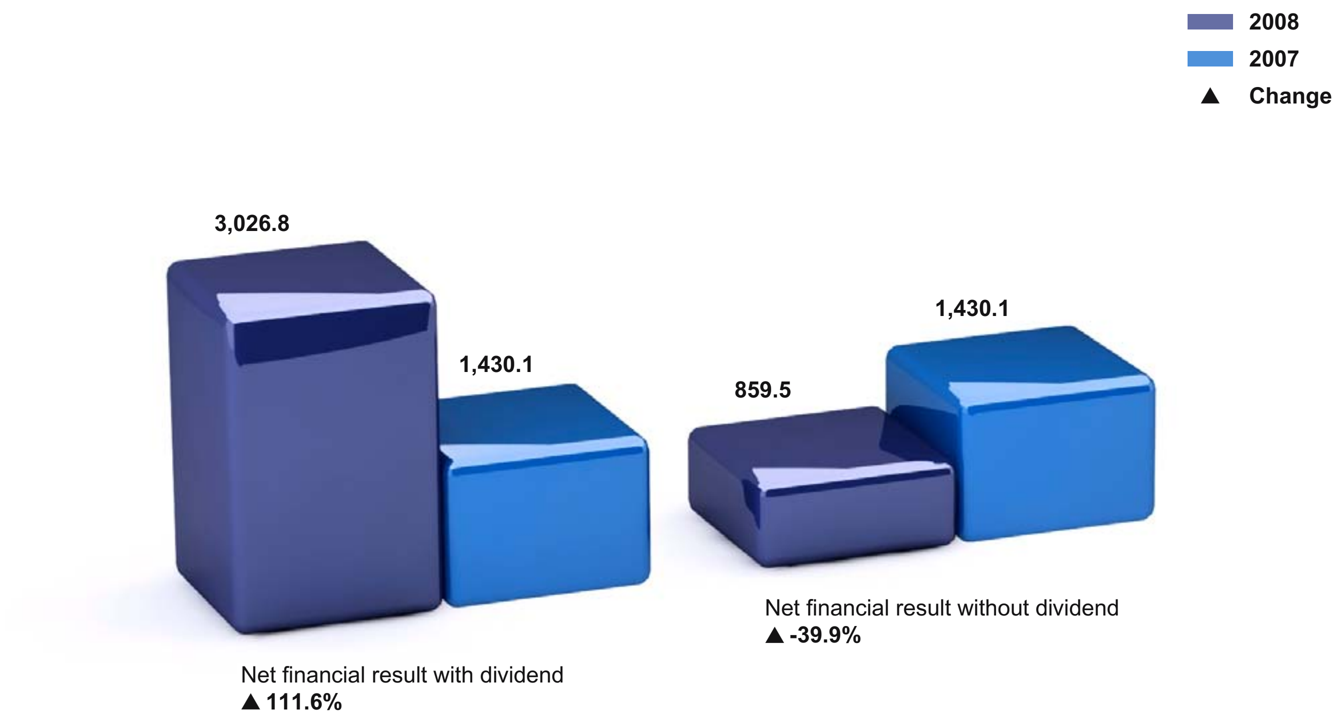



Source: Consolidated statement, The PZU Group

## PZU SA

In 2008, PZU SA generated a net profit of PLN 3,026.8 million, as compared to PLN 1,430.1 million in 2007. Subtracting the dividend obtained from PZU Życie SA (PLN 2,167.3 million), the net result of PZU SA for 2008 was PLN 859.5 million, down 39.9% on 2007 (PLN 570.6 million). This was mainly due to lower income from investment activity (down PLN 454.2 million) and a lower underwriting result (down PLN 318.4, million).

**DIAGRAM 36. FINANCIAL RESULTS OF PZU SA (PLN, MILLION)**

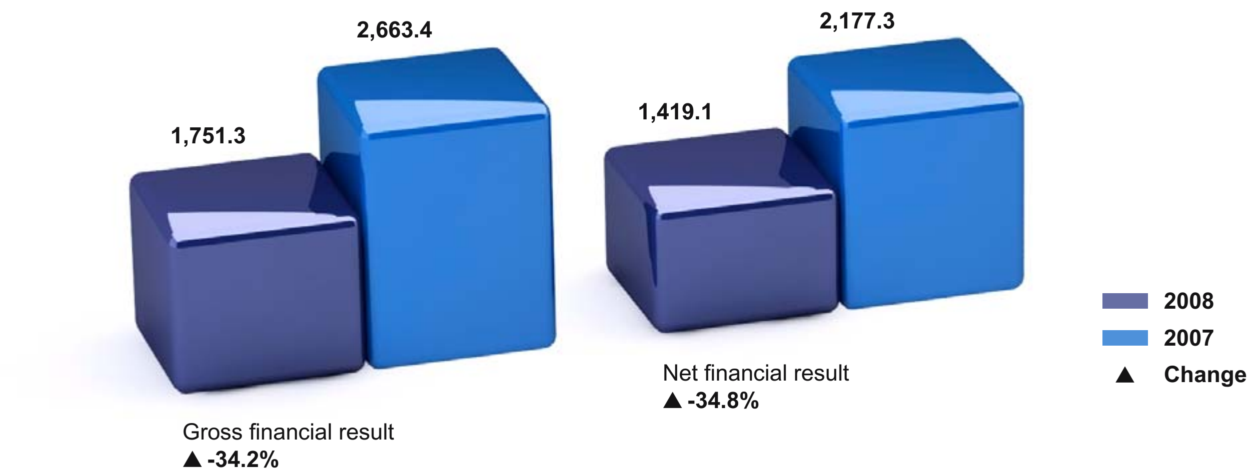



Source: PZU SA 2008 financial statement

### PZU ŻYCIE SA

The net profit generated by PZU Życie SA in 2008 was PLN 1,419.1 million (2,177.3 million in 2007), down 34.8% on 2007. The deterioration in the net result is primarily a result of lower revenues from investment activity.

DIAGRAM 37. FINANCIAL RESULTS OF PZU ŻYCIE SA (PLN, MILLION)




Source: PZU Życie SA 2008 financial statement

### PTE PZU SA

PTE PZU SA recorded an improvement in its net result, ending 2008 with a net profit of PLN 107.7 million, an increase of 5.6% on the previous year.

## 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 legislative changes).

The PZU Group's balance of gross technical reserves at the end of 2008, including estimated recourses and recoveries, amounted to PLN 37,523.1 million, up 10.4% on the position at the beginning of the reporting period. The balance of technical reserves net of the reinsurers' share was PLN 36,618 million, i.e. up 11.1% on the beginning of the reporting period.

The gross technical reserves of the PZU Group constituted 64.5% of the balance sheet total (together with the life insurance reserve, as the investment risk is borne by the insuring party and with estimated gross recourses and recoveries). The proportion of technical reserves net of the reinsurer's share to the balance sheet total was approximately 63% of the balance sheet total.

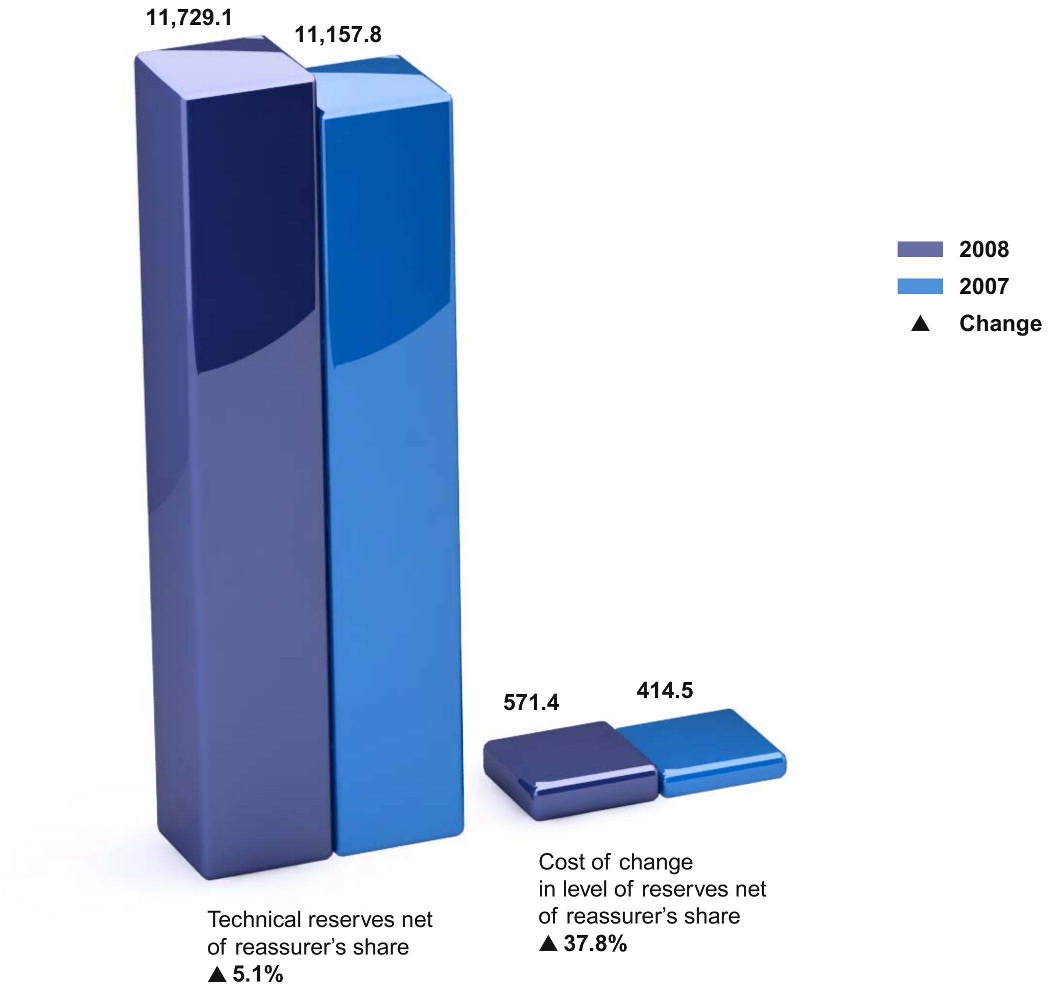
### PZU SA

The value of PZU SA's gross technical reserves, taking into account estimated recourses and recoveries, as at 31st December 2008 was PLN 12,607.4 million, 3.6% up on the value 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 amounting to 11,729.1 million, up 5.1% on the beginning of the reporting period, which is a result of changes in reinsurance programme.

The level of reserves at the end of 2008 was also influenced by the decreased technical rate used for calculating the annuity reserve, which fell from 0.5% to 0% (in 2007 from 1% to 0.5%). The level of assets to technical reserves coverage ratio increased from 180.9% at the end of 2007 to 190.9% at the end of 2008.

**DIAGRAM 38. TECHNICAL RESERVES NET OF THE REINSURERS' SHARE AND COST OF MOVEMENTS IN PZU SA RESERVES (IN PLN MILLION)**

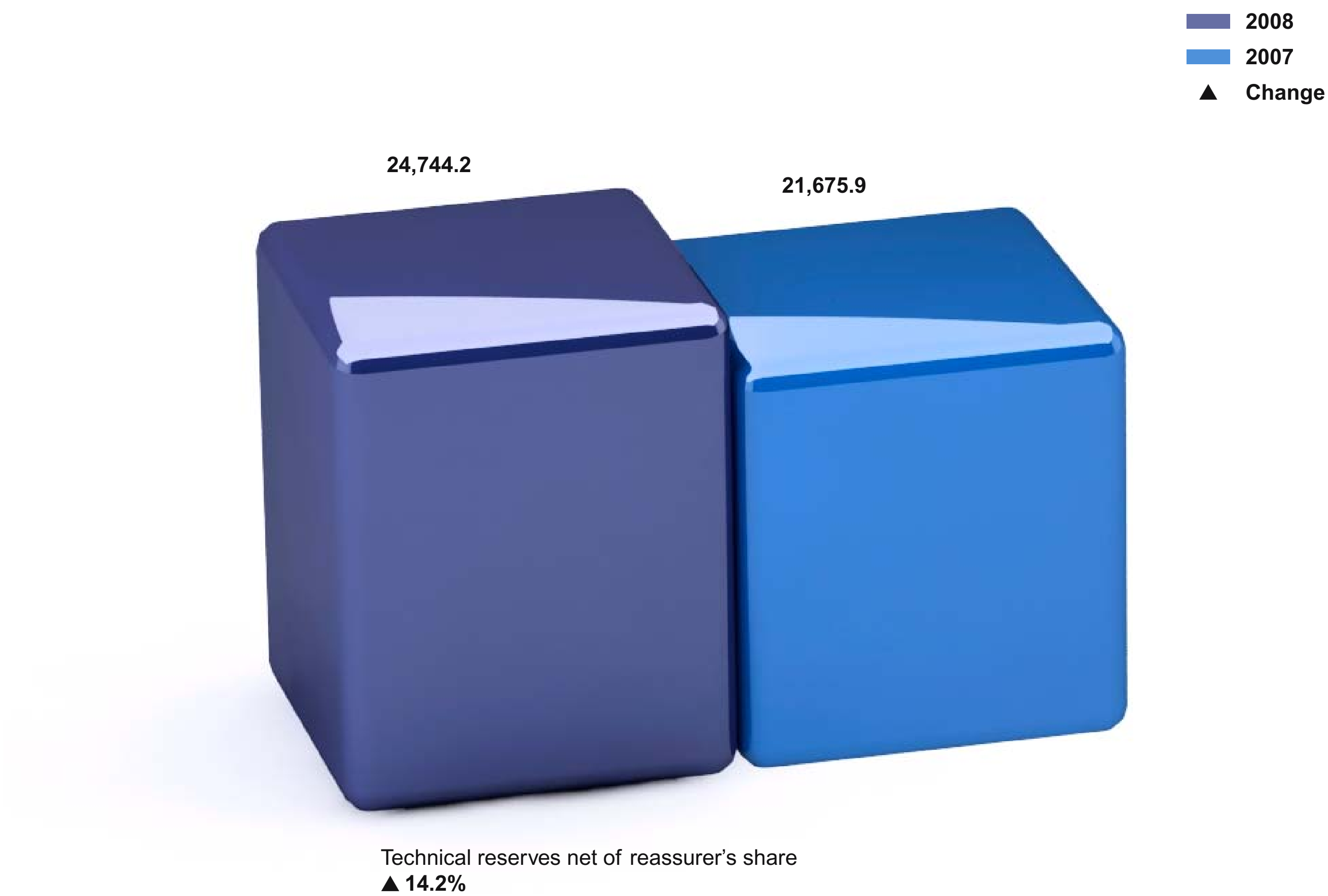



Source: PZU SA 2008 financial statement

### PZU ŻYCIE SA

The technical reserves on the insurance company account and life technical reserves where the investment risk is borne by policyholders were the most significant elements of the Company's liabilities. The level of technical reserves as at 31st December 2008 was 24,744,157,000. In comparison, as at 31st December 2007 it was PLN 21,675,897,000. The increase in life reserves was a consequence of the high rate of growth in premiums written from banking insurance with a single premium.

**DIAGRAM 39. TECHNICAL RESERVES NET OF THE REINSURER'S SHARE IN PZU ŻYCIE SA (IN PLN MILLION)**




Source: PZU Życie SA 2008 financial statement

## 14.8. PROFITABILITY, FINANCIAL SECURITY AND EFFICIENCY RATIOS OF THE PZU GROUP

### TABLE 3. PROFITABILITY RATIOS

| ITEM | 2008 | 2007 | Zmiana |
|---|---|---|---|
| **Return on equity (ROE) (in %)**<br>(net profit / average equity) x 100% | 13.0 | 23.8 | (10.8 p.p.) |
| **Return on assets (ROA) (in %)**<br>(net profit / average assets) x 100% | 4.2 | 7.1 | (2.9 p.p.) |
| **Profitability of investment activities (in %)**<br>(investment income / average investments including net life insurance assets where the investment risk is born by policyholder) | 1.6 | 5.3 | (3.7 p.p.) |
| **Profitability of technical activities (in %)**<br>(underwriting result / premium earned net of reinsurer's share) x 100% | 14.0 | 22.5 | (8.5 p.p.) |
| **Return on sales (ROS) (in %)**<br>(financial result / gross premium written) x 100% | 10.9 | 23.3 | (12.4 p.p.) |

Source: Own study, The PZU Group

The PZU Group's equity increased to PLN 19,067.9 million at the end of 2008. The return on equity (ROE) for the PZU Group reached the value of 13% in the reported period, whereas the return on assets (ROA) was 4.2%.

The lower value of profitability ratios compared to the previous year was due to the relation between a lower net income to substantially higher equity and total asset of the PZU Group. Despite the lower profitability ratios, both companies of the PZU Group retained a very high level of financial security.

Equity and the solvency margin constitute basic solvency measures and the requirement for the profit margin to be covered with equity is an obligatory one.

### TABLE 4. SOLVENCY AND LIQUIDITY RATIOS – FINANCIAL SECURITY RATIOS

| ITEM | 2008 | 2007 | Zmiana |
|---|---|---|---|
| **Solvency margin in property and casualty insurance (in PLN million), (Parent company)** | **1,338.8** | 1,271.0 | 5.3% |
| **Solvency margin in life insurance (in PLN million)** | **1,734.3** | 1,517.1 | 14.3% |
| **Own funds to cover solvency margin in property and casualty insurance (in PLN million) (Parent company)** | **16,618.9** | 14,815.5 | 12.2% |
| **Own funds to cover the solvency margin in life insurance (in PLN million)** | **6,435.3** | 5,594.2 | 15.0% |
| **Coverage ratio of the solvency margin with own funds in property and casualty insurance (in %), (Parent company)** | **1,241.3** | 1,165.6 | 75.7 p.p. |
| **Coverage ratio of the solvency margin with own funds in life insurance (in %)** | **322.6** | 424.2 | (101.6 p.p.) |
| **Guarantee capital in property and casualty insurance (in PLN million), (Parent company)** | **446.3** | 423.7 | 5.3% |
| **Guarantee capital in life insurance (in PLN million)** | **578.1** | 505.7 | 14.3% |
| **Coverage ratio of guarantee capital with own funds in property and casualty insurance (in %), (Parent company)** | **3,724.0** | 3,496.9 | 227.1 p.p. |
| **Coverage ratio of guarantee capital with own funds in life insurance (in %)** | **967.7** | 1,272.6 | (304.9 p.p.) |
| **Coverage ratio of technical reserves with assets in property and casualty insurance (in %) (parent company)** (assets for covering reserves/ technical reserves) x 100%) | **190.9** | 180.9 | 10.0 p.p. |
| **Coverage ratio of technical reserves with assets in life insurance (in %)** (assets for covering reserves/ technical reserves) x 100% | **112.8** | 116.8 | (4.0 p.p.) |

Source: Own study, The PZU Group

The above ratios show that capital requirements are covered many times over and that there is a large surplus of own funds, which illustrates the excellent position of the main companies of the PZU Group as regards financial security. In both insurance companies the level of solvency margin coverage with equity was maintained at a very high level. In PZU SA it increased to 1,241.3%, whilst in PZU Życie SA it was 322.6%. Hence, it might be concluded that both insurance companies have equity guaranteeing the coverage of liabilities towards all customers.

### TABLE 5. EFFICIENCY RATIOS

| ITEM | 2008 | 2007 | Change |
|---|---|---|---|
| **Gross loss ratio (simple) (in %)**<br>(gross claims and benefits/gross premium written) | **56.4** | 61.7 | (5.3 p.p.) |
| **Net loss ratio (in %)**<br>(claims and benefits/ premium earned net of the reinsurers' share) | **59.7** | 66.0 | (6.3 p.p.) |
| **Insurance activities expenses ratio (in %)**<br>(insurance activities expenses/ premium earned net of reinsurer's share) | **14.8** | 20.7 | (5.9 p.p.) |
| **Combined ratio (in %) (Parent company)**<br>(ratio of claims and benefits net of the reinsurers' share + ratio of insurance activities expenses) | **89.7** | 92.6 | (2.9 p.p.) |
| **Administrative expenses ratio (in %)**<br>(administrative expenses/ premium earned net of the reinsurers' share) | **7.6** | 11.0 | (3.4 p.p.) |

Source: Own study, The PZU Group

The fall in the insurance activities expenses ratio was due to the higher premium written (up 39.2% on the previous year), an in particular the increase in the premium written for life insurance (up 80%).

The 2.7% fall in administrative expenses in the PZU Group compared to 2007 was due to lower fixed costs (personal expenses, IT expenses and administrative expenses) and substantially set off the increase in direct acquisition expenses (+6%) associated with the increase in the premium written.

The combined ratio for PZU SA fell 3.3% on the previous year to a level of 89%, which was the effect of significantly lower loss ratios and administrative expenses.

If PZU were a meal? Once I organised a competition
with some friends whereby everybody had to cook a dish
on a given theme, e.g. spinach, trout or spaghetti.
No constraints. We had a wonderful feast comprised of many
dishes, all connected by a common theme and the
individual taste of all the cooks

# 15. FINANCIAL STATEMENTS AND CHARTERED AUDITORS' OPINIONS

## 15.1. INTRODUCTION TO CONSOLIDATED FINANCIAL STATEMENTS

### 15.1.1. COMPOSITION OF THE CAPITAL GROUP OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA

#### 15.1.1.1. 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 (the „PZU Capital Group", or the „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;
- Ogrodowa – Inwestycje Sp. z o.o. („Ogrodowa"), formerly PZU International Sp. z o.o. as a subsidiary subject to consolidation using the full method as of 1 January 2008;
- 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 29 September 1994 (Journal of Laws No. 76/2002, item 694 with subsequent amendments) (hereinafter referred to as "the Accounting Act").

#### 15.1.1.2. 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 66.03).

### 15.1.1.3 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 | | % of voting rights directly or indirectly owned by PZU | | Scope of activities |
|---|---|---|---|---|---|---|---|
| | | | 31 Dec 2008 | 31 Dec 2007 | 31 Dec 2008 | 31 Dec 2007 | |
| **Subsidiaries consolidated using the full method** | | | | | | | |
| 1 | PZU Życie SA | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Life insurance |
| 2 | PTE PZU SA | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Managing of pension funds |
| 3 | Centrum Informatyki Grupy PZU SA | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Supporting activities to insurance and pension funds operations |
| 4 | PZU Tower Sp. z o.o. | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Property purchase, development, lease and disposal |
| 5 | OJSC IC PZU Ukraine | Kiev (Ukraine) | 100,00% | 100,00% | 100,00% | 100,00% | Property and casualty insurance |
| 6 | UAB DK PZU Lietuva | Vilnius (Lithuania) | 99,76% | 99,72% | 99,76% | 99,72% | Property and casualty insurance |
| 7 | Ogrodowa – Inwestycje Sp. z o.o. (formerly PZU International Sp. z o.o.) | Warszawa | 100,00% | 100,00% | 100,00% | 100,00% | Property purchase, development, lease and disposal |
| **Subsidiaries not consolidated :** | | | | | | | |
| 8 | SYTA Development Sp. z o.o. w likwidacji [in liquidation] | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Trading in property, agency services in trading in property, property management |
| 9 | TFI PZU SA | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Creating, representing and managing investments funds |
| 10 | Sigma Investments Sp. z o.o. | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Investing activities. Purchase and sale of shares, bonds and other securities admitted to public trading. |
| 11 | PZU Asset Management SA | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Managing of investment portfolio at the request of third parties |
| 12 | Biuro Likwidacji i Obsługi Szkód Sp. z o.o. w likwidacji [in liquidation]* | Warsaw | – | 100,00% | – | 100,00% | Loss adjusting services at the request of insurance companies |
| 13 | Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA | Warsaw | 100,00% | 100,00% | 100,00% | 100,00% | Managing employee pension fund. |
| 14 | OJSC IC PZU Ukraine Life Insurance | Kiev (Ukraine) | 100,00% | 100,00% | 100,00% | 100,00% | Life insurance. |
| 15 | LLC SOS Services Ukraine | Kiev (Ukraine) | 100,00% | 100,00% | 100,00% | 100,00% | Assistance-type services. |
| 16 | Company with Additional Liability Inter-Risk Ukraine | Kiev (Ukraine) | 100,00% | 100,00% | 100,00% | 100,00% | Legal services. |
| 17 | UAB PZU Lietuva Gyvybes Draudimas | Vilnius (Lithuania) | 99,34% | 99,34% | 99,34% | 99,34% | Life insurance. |
| 18 | Krakowska Fabryka Armatur SA | Cracow | 67,01% | 67,01% | 67,01% | 67,01% | Manufacturing of bathroom and kitchen fixtures and fittings. |
| 19 | ICH Center SA | Warsaw | 90,00% | 56,00% | 90,00% | 56,00% | Handling claims from Green Card Insurance. |
| **Associates:** | | | | | | | |
| 20 | VIS Inwestycje SA | Warsaw | – | 45,14% | – | 45,14% | Manufacturing of tools, equipment and spares. |
| 21 | Kolej Gondolowa Jaworzyna Krynicka SA | Krynica | 37,53% | 37,53% | 36,71% | 36,71% | Operating ski-lifts. |
| 22 | Nadwiślańska Agencja Ubezpieczeniowa SA | Tychy | 30,00% | 30,00% | 30,00% | 30,00% | Handling of claims. |
| 23 | Polskie Towarzystwo Reasekuracji SA | Warsaw | 23,77% | 23,77% | 23,77% | 23,77% | Organizing and executing indirect insurance activities (reinsurance) |
| 24 | PPW Uniprom SA w upadłości | Warsaw | 21,28% | 21,28% | 21,28% | 21,28% | Publishing and publishing services |

additional information in Note. VIII.3.2 of these consolidated financial statements

| No. | Company name | Net profit (loss) | Sales revenue and financial income | Total assets | Liabilities and provisions for liabilities | Shareholders' equity |
|---|---|---|---|---|---|---|
| | **Subsidiaries not consolidated as at 31 December 2008:** | **47,920** | **325,227** | **364,638** | **108,009** | **213,611** |
| 1 | SYTA Development Sp. z o.o. w likwidacji [in liquidation][1] | (180) | 194 | 7,348 | 13,652 | (6,304) |
| 2 | TFI PZU SA | 9,220 | 43,226 | 47,732 | 12,747 | 34,985 |
| 3 | Sigma Investments Sp. z o.o.[1] | (10) | – | 50 | 2 | 48 |
| 4 | PZU Asset Management S.A. | 3,894 | 24,241 | 17,550 | 4,744 | 12,806 |
| 5 | Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA | (1) | 794 | 805 | 305 | 500 |
| 6 | OJSC IC PZU Ukraine Life Insurance[5] | (4,503) | 9,677 | 24,038 | 1,326 | 6,945 |
| 7 | LLC SOS Services Ukraine[1, 5] | 266 | 2,491 | 681 | 388 | 293 |
| 8 | UAB PZU Lietuva Gyvybes Draudimas[2, 3, 4] | (485) | 17,004 | 55,479 | 1,585 | 26,643 |
| 9 | Company with Additional Liability Inter-Risk Ukraine[1, 5] | (6) | 4 | 3 | 2 | 1 |
| 10 | Krakowska Fabryka Armatur SA | 38,360 | 222,471 | 205,529 | 72,669 | 132,860 |
| 11 | ICH Center SA | 1,365 | 5,125 | 5,423 | 589 | 4,834 |
| | **Associates not consolidated as at 31 December 2008:** | **4,725** | **243,790** | **520,794** | **180,431** | **89,097** |
| 12 | Kolej Gondolowa Jaworzyna Krynicka SA | 3,714 | 13,737 | 44,648 | 7,867 | 36,781 |
| 13 | Nadwiślańska Agencja Ubezpieczeniowa SA | 422 | 2,693 | 3,502 | 568 | 2,934 |
| 14 | Polskie Towarzystwo Reasekuracji SA[1, 2, 3, 7] | 589 | 225,338 | 420,568 | 17,664 | 151,638 |
| 15 | PPW Uniprom SA w upadłości[1, 6] | – | 2,022 | 52,076 | 154,332 | (102,256) |
| | **TOTAL** | **52,645** | **569,017** | **885,432** | **288,440** | **302,708** |

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
5. Data according to the Ukrainian Accounting Standards
6. Data as at 30 November 2004
7. Data as at 30 September 2008

## 15.1.2. INTRODUCTION

The consolidated financial statements of the PZU Capital Group for the year ended 31 December 2008 (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, Ogrodowa, 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.

### 15.1.2.1 PERIOD COVERED BY CONSOLIDATED 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 2008 to 31 December 2008.

### 15.1.2.2 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 2008. 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.

### 15.1.2.3 DISCONTINUED ACTIVITIES

The Group did not discontinue any activities during the financial year 2008 and there are no plans to discontinue any activity in the next year that could have material effect on the consolidated financial statements of the PZU Group.

### 15.1.2.4 BUSINESS COMBINATIONS

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

## 15.1.3. 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 where no appropriate national standard was available – International Financial Reporting Standards and the related Interpretations issued in the form of Ruling of the European Commission („IFRS").

### 15.1.3.1 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 consolidated 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 consolidated 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 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 |
| Closing exchange rate as at 31 December 2008 | 1,2084 | 0,3730 |
| Average exchange rate for the period from 1 Jan 2007 to 31 Dec 2008 | 1,0230 | 0,4525 |

### 15.1.3.2 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.

### 15.1.3.3 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.

#### 15.1.3.4 INVESTMENTS

##### 15.1.3.4.1 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 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 | 10% |
| Cooperative freehold right to dwelling or business premises | 2.5% |
| Buildings and constructions | 1.5 – 4.5% |

##### 15.1.3.4.2 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.

##### 15.1.3.4.3 FINANCIAL INSTRUMENTS

Upon acquisition, financial instruments are classified to the following categories:

- financial assets held for trading;
- financial assets held to maturity;
- loans and receivables;
- financial assets available for sale.

###### 15.1.3.4.3.1. 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 instrument as well as financial derivative instruments, provided they are not considered 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 are not 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 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.

#### 15.1.3.4.3.2. 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.

#### 15.1.3.4.3.3. 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”.

#### 15.1.3.4.3.4. 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 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 re-measurement of debt instruments included in this category to amortised cost are recognized under investment income. In the case of assets taken into account when establishing technical reserves, the effects of the re-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).

If an impairment loss is recorded with respect to available-for-sale financial assets, any unrealised losses on valuation recognised in the revaluation reserve are taken to the profit and loss account.

If the reasons for which the impairment loss was recognised are no longer present, the amount of the impairment loss, in full or in part, relating to the amount of previous impairment, is taken to the profit and loss account

#### 15.1.3.4.3.5. 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.

#### 15.1.3.4.3.6. 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.

### 15.1.3.5 RECEIVABLES

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.

#### 15.1.3.5.1 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".

#### 15.1.3.5.2 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".

#### 15.1.3.5.3 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

### 15.1.3.6 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 | 10% – 67% |
| Motor vehicles | 10% – 30% |
| Other tangible fixed assets | 2.5% – 50% |

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

### 15.1.3.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at nominal value.

### 15.1.3.8 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 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 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.

Included in accrued expenses are the costs relating to the current period which will be incurred in the next accounting period, that were not recognized as liabilities or accruals, including in particular the costs of acquisition, obligatory fees and reinsurance outwards.

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 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.

### 15.1.3.9 EQUITY

Share capital is stated in the books of account at nominal value. 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.

### 15.1.3.10 MINORITY INTEREST

Minority interest 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.

### 15.1.3.11 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 22 May 2003 on insurance activities (Journal of Laws No. 124/ 2003, item 1151 – hereinafter the „Insurance Activities Act"), Decree on Insurance Accounting and internal regulations concerning technical reserves.

#### 15.1.3.11.1 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 commenced prior to the end of the reporting period.

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.

#### 15.1.3.11.2 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 (unit-linked policies) – 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.

#### 15.1.3.11.3 OUTSTANDING CLAIMS RESERVES

##### 15.1.3.11.3.1. 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**
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) or subsidies to cover part of compensations due to farm producers for losses caused by drought, which are due based on the provisions of the act on insurance of crops and farm animals (Journal of Laws 2005/150, item 1249 with subsequent amendments). In estimating the balance of salvages, subrogations and subsidies, PZU accounts for the cost of salvage and subrogation recovery and the costs of obtaining subsidy.

**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.

#### 15.1.3.11.3.2. 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).

Reserve for claims reported but not paid ("the RBNP reserve") is created for claims reported and not paid at the balance sheet date. Reserve for claims reported but not paid is created individually or for high volume of claims, if it is not possible to estimate the value of an individual claim, using the average value of individual claims paid in the last quarter before the balance sheet date.

Reserve for claims incurred but not reported ("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.

Outstanding claims reserve includes also loss adjustment expenses reserve.

### 15.1.3.11.4 OTHER TECHNICAL RESERVES

#### 15.1.3.11.4.1. 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 create the catastrophe and exceptional risk reserve.

15.1.3.11.4.2. 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 Życie 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. 3581 § 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 cash benefits. The reserve for litigations is 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 investments in 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 reported at the balance sheet date, which will be awarded to the insured after the conclusion of the settlement period.

### 15.1.3.12 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 annual 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.

#### 15.1.3.12.1 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.

#### 15.1.3.12.2 PROVISION FOR UNUSED ANNUAL LEAVE

The value of provision for unused annual 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.

### 15.1.3.12.3 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. 21/1998, 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. 43/1994, 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.

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.

## 15.1.3.13 LIABILITIES

Liabilities are stated at the amount due and payable.

## 15.1.3.14 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.

## 15.1.3.15 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.

## 15.1.3.16 INVESTMENT ACTIVITIES INCOME AND EXPENSE

### 15.1.3.16.1 INCOME FROM PROPERTY AND COST OF PROPERTY MAINTENANCE

Income from investment property including rental fees received, lease rentals and other charges relating to the property management is recognized under "Investment income from property" in the general consolidated 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.

### 15.1.3.16.2 DEBT SECURITIES INCOME AND EXPENSE

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".

### 15.1.3.16.3 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.

### 15.1.3.16.4 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 policyholder are recognized in the consolidated life insurance revenue account.

### 15.1.3.16.5 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.

### 15.1.3.16.6 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 the passage of time from the date of deposit placement to the balance sheet date, inclusive.

#### 15.1.3.17 COST OF CLAIMS AND BENEFITS PAID

Included in the cost of the reporting period are all costs of paid out claims, which result from insurance events that took place in the current and prior reporting periods, as well as indirect and direct costs of loss adjusting services and movements in the OCR reserve. Claims are reduced by the balance of all subrogations, salvages and subsidies received and the movement in the estimated subrogations, salvages and subsidies. The reinsurers' share in the claims paid out was calculated for the insurance groups with reinsurance coverage, as the amount equal to the amount due to reinsurers under reinsurance treaties binding in a given insurance period.

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.

#### 15.1.3.18 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 policyholder, 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.

#### 15.1.3.19 REVENUES AND COSTS OF MANAGEMENT COMPANIES

##### 15.1.3.19.1 OFE PZU MANAGEMENT FEE

PTE PZU obtains management fee from OFE PZU in the amount stated in the Articles of Association of OFE PZU, after 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").

##### 15.1.3.19.2 HANDLING FEE

PTE PZU charges handling fee on contributions transferred from the Social Security Fund ("ZUS") to OFE PZU in the amount stated in the OFE PZU Articles of Association, after 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.

##### 15.1.3.19.3 TRANSFER-OUT FEE IN PTE PZU

Fee 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 is to be settled.

### 15.1.3.19.4 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.

### 15.1.3.19.5 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. Any excess payment in the primary part of the Guarantee Fund is returned to PTE PZU. 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.

### 15.1.3.19.6 CONTRIBUTIONS TO THE ADDITIONAL PART OF THE GUARANTEE FUND

In accordance with the Pension Fund 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.

### 15.1.3.19.7 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.

### 15.1.3.19.8 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.

### 15.1.3.19.9 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 2007 and 2008, 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.

#### 15.1.3.20 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.

#### 15.1.3.21 TAXATION

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

### 15.1.4. CHANGES IN ACCOUNTING POLICIES AND IN THE MANNER OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In 2008, 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.

#### 15.1.4.1 PRESENTATION CHANGES OF ASSETS UNDER CONSTRUCTION

In order to ensure better presentation of data in these consolidated financial statements, a reclassification was made of assets under construction from „Property, plant and equipment" to „Other intangible assets and advances for intangible assets".

The financial data as at 31 December 2007 was restated for comparability purposes which resulted in an increase in „Other intangible assets and advances for intangible assets" and a simultaneous decrease in „Property, plant and equipment" by PLN 30,535 thousand.

### 15.1.4.2 PRESENTATION CHANGES TO SELECTED FINANCIAL DATA IN THE CONSOLIDATED CASH FLOW

In the part of the Consolidated Cash Flow Statement concerning cash flow from operating activities, PZU Życie re-classified selected expense items from other operating activities to, among others, acquisition expenses, administrative expenses or re-insurance premiums paid.

| CONSOLIDATED CASH FLOW STATEMENT | 1.01–31.12.2007 (historical data) | Adjustment | 1.01–31.12 2007 (comparative data) |
|---|---|---|---|
| A. Cash flow from operating activities | | | |
| I. Inflows | 16,610,355 | – | 16,610,355 |
| II. Outflows | 14,549,226 | – | 14,549,226 |
| 1. Cash outflows from direct insurance and reinsurance inwards | 12,953,128 | (6,795) | 12,946,333 |
| 1.1. Gross premiums returns | 130,288 | – | 130,288 |
| 1.2. Claims and benefits paid out, gross | 9,108,948 | – | 9,108,948 |
| 1.3. Acquisition expenses | 1,198,061 | (10,697) | 1,187,364 |
| 1.4. Administrative expenses | 2,091,353 | 3,902 | 2,095,255 |
| 1.5. Costs of loss adjusting services and subrogation collection | 304,591 | – | 304,591 |
| 1.6. Commissions paid out and the share in profits from reinsurance inwards | 2,163 | – | 2,163 |
| 1.7. Other | 117,724 | – | 117,724 |
| 2. Cash outflows from reinsurance outwards | 200,228 | 1,978 | 202,206 |
| 2.1. Paid reinsurance premiums | 163,244 | 1,978 | 165,222 |
| 2.2. Other outwards reinsurance expenses | 36,984 | – | 36,984 |
| 3. Other operating expenses | 1,395,870 | 4,817 | 1,400,687 |
| 3.1. Expenses relating to loss adjusting services | 90,728 | – | 90,728 |
| 3.2. Purchase of intangible assets and tangible fixed assets other than investments | 181,492 | 4,054 | 185,546 |
| 3.3. Other operating expenses | 1,123,650 | 763 | 1,124,413 |
| III. Net cash flow from operating activities (I-II) | 2,061,129 | – | 2,061,129 |

### 15.1.4.3 INCLUDING OGRODOWA IN CONSOLIDATION AS OF 1 JANUARY 2008

The financial data of Ogrodowa are subject to consolidation using the full method as of 1 January 2008. In prior reporting periods, this entity has not been consolidated due to insignificance of its financial data compared to the financial data of the entire PZU Group.

## 15.1.5. SIGNIFICANT EVENTS OF THE FINANCIAL YEAR WITH A MATERIAL EFFECT ON THE STRUCTURE OF BALANCE SHEET ITEMS AND OF THE FINANCIAL RESULT

### 15.1.5.1 RECOGNITION OF IMPAIRMENT LOSS AGAINST AVAILABLE-FOR-SALE FINANCIAL ASSETS NOT USED TO COVER TECHNICAL RESERVES

Detailed information on recognition of impairment loss against available-for-sale financial assets not used to cover technical reserves was presented in Note VIII.3 of the PZU Group's consolidated financial statements for the year 2008.

## 15.1.6. SIGNIFICANT PRIOR YEAR EVENTS RECOGNISED IN THE 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 2008.

In the year 2007 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 2008.

## 15.1.7. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE NOT INCLUDED IN THE 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.

## 15.1.8. COMPARABILITY OF THE 2008 OPENING AND 2007 CLOSING BALANCES

The financial data reported in the 2008 opening balance are comparable to the financial data reported in the 2007 closing balance.

## 15.2. THE PZU GROUP – CONSOLIDATED FINANCIAL DATA

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

**THE INDEPENDENT AUDITORS' REPORT ON THE SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS**

**To the Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna**

We have audited the consolidated financial statements for the year ended 31 December 2008 of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('the Group'), for which the parent company is Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('the Company') located in Warsaw at Al. Jana Pawła II 24 ('the unabridged consolidated financial statements'), from which the attached summarized consolidated financial statements for the year ended 31 December 2008 were derived by the Company's Management Board ('the summarized consolidated financial statements'). The unabridged consolidated financial statements 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.

We conducted our audit of the unabridged consolidated financial statements, from which the summarized consolidated financial statements were derived, in accordance with the chapter 7 of the Accounting Act, dated 29 September 1994 and the auditing standards issued by the National Board of Auditors. We issued an unqualified auditors' opinion on these financial statements dated 15 April 2009.

In our opinion the attached summarized consolidated financial statements, in all material respects, are consistent with the unabridged consolidated financial statements, from which they were derived.

For a better understanding of the Group's financial position as at 31 December 2008 and the results of its operations for the period from 1 January 2008 to 31 December 2008 and of the scope of our

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audit, the attached summarized consolidated financial statements should be read in conjunction with the unabridged consolidated financial statements from which the summarized consolidated financial statements were derived and our auditors' report relating to these financial statements.

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

Dominik Januszewski
Certified Auditor No. 9707

Warsaw, 20 August 2009

## CONSOLIDATED BALANCE SHEET

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **A. Intangible assets** | **69,090** | **122,565** |
| 1. Goodwill | – | – |
| 2. Other intangible assets and advances for intangible assets | 69,090 | 122,565 |
| **B. Goodwill on related parties** | **5,118** | **11,874** |
| **C. Investments** | **52,427,196** | **46,005,868** |
| I. Property | 1,067,234 | 1,094,614 |
| 1. Freehold land, including perpetual usufruct | 167,429 | 167,025 |
| 2. Buildings and constructions, and cooperative freehold right | 852,176 | 888,909 |
| 3. Construction in progress and advances for construction in progress | 47,629 | 38,680 |
| II. Investments in related parties, of which: | 197,189 | 231,087 |
| 1. Shares in related parties | 197,002 | 205,936 |
| 2. Loans granted to related parties and debt securities issued by those entities | 187 | 25,151 |
| 3. Other | – | – |
| III. Other financial investments | 51,150,426 | 44,676,418 |
| 1. Shares and other variable income securities, participation units and investment certificates in trust funds | 2,299,541 | 3,666,545 |
| 2. Debt securities and other fixed income securities | 40,940,819 | 37,719,117 |
| 3. Shares in joint ventures | – | – |
| 4. Mortgage loans | – | – |
| 5. Other loans | 440,742 | 1,818,583 |
| 6. Term deposits with financial institutions | 7,443,360 | 1,423,777 |
| 7. Other investments | 25,964 | 48,396 |
| IV. Deposits due from cedants | 12,347 | 3,749 |
| **D. Net life insurance assets where the investment risk is borne by policyholder** | **2,571,140** | **3,778,247** |
| **E. Receivables** | **1,476,261** | **1,299,669** |
| I. Receivables from direct insurance | 1,153,879 | 1,060,795 |
| 1. Receivables from policyholders | 1,080,851 | 1,031,794 |
| 1.1. from related parties | 106 | 83 |
| 1.2. from other entities | 1,080,745 | 1,031,711 |
| 2. Receivables from insurance intermediaries (agents) | 26,855 | 26,116 |
| 2.1. from related parties | – | – |
| 2.2. from other entities | 26,855 | 26,116 |
| 3. Other receivables | 46,173 | 2,885 |
| 3.1. from related parties | 1,628 | 1,638 |
| 3.2. from other entities | 44,545 | 1,247 |

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| II. Reinsurance receivables | 30,421 | 23,708 |
| 1. from related parties | – | 191 |
| 2. from other entities | 30,421 | 23,517 |
| III. Other receivables | 291,961 | 215,166 |
| 1. Receivables from the State Budget | 32,029 | 653 |
| 2. Other receivables | 259,932 | 214,513 |
| 2.1 from related parties | 2,355 | 1,718 |
| 2.2 from other entities | 257,577 | 212,795 |
| **F. Other assets** | **729,697** | **707,670** |
| I. Tangible fixed assets | 183,109 | 238,042 |
| II. Cash and cash equivalents | 542,093 | 465,105 |
| III. Other | 4,495 | 4,523 |
| **G. Prepayments and deferred costs** | **929,922** | **728,004** |
| I. Deferred tax assets | 34,995 | 9,570 |
| II. Deferred acquisition costs | 454,198 | 452,230 |
| III. Accrued interest and rental charge | 149,552 | 11,532 |
| IV. Other prepayments and deferred costs | 291,177 | 254,672 |
| **Total assets** | **58,208,424** | **52,653,897** |

| EQUITY AND LIABILITIES (in PLN thousands) | | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **A. Equity** | | **19,067,881** | **16,864,989** |
| I. | Share capital | 86,352 | 86,352 |
| II. | Unpaid share capital (negative value) | – | – |
| III. | Treasury shares (negative value) | – | – |
| IV. | Reserve capital | 14,478,547 | 13,058,343 |
| V. | Revaluation reserve | 158,345 | 277,405 |
| VI. | Other reserves | – | – |
| VII. | Foreign exchange differences on translation of related parties | (15,058) | (12,445) |
| | 1. Foreign exchange gains | 4,520 | – |
| | 2. Foreign exchange losses | (19,578) | (12,445) |
| VIII. | Accumulated profits/(losses) from previous years | 2,015,246 | (145,111) |
| IX. | Net profit/(loss) | 2,344,449 | 3,600,445 |
| X. | Deductions from net profit (loss) for the financial year (negative value) | – | – |
| **B. Negative goodwill on related parties** | | **–** | **–** |
| **C. Minority capital** | | **164** | **141** |
| **D. Subordinated liabilities** | | **–** | **–** |
| **E. Technical reserves** | | **37,579,795** | **34,040,285** |
| I. | Unearned premium reserve and unexpired risk reserve | 4,126,583 | 3,969,376 |
| II. | Life insurance reserve | 20,773,185 | 16,485,953 |
| III. | Outstanding claims reserve | 8,862,657 | 8,378,098 |
| IV. | Reserve for bonuses and rebates for the insured | 1,553 | 1,474 |
| V. | Risk equalization reserve | 510,733 | 491,406 |
| VI. | Other technical reserves, as defined in Articles of Association | 733,944 | 935,731 |
| VII. | Life technical reserves, where the investment risk is borne by policyholders | 2,571,140 | 3,778,247 |
| **F. Reinsurers' share in technical reserves (negative value)** | | **(905,154)** | **(1,037,059)** |
| I. | Reinsurers' share in unearned premium reserve and unexpired risk reserve | (65,041) | (66,410) |
| II. | Reinsurers' share in life insurance reserve | – | – |
| III. | Reinsurers' share in outstanding claims reserve | (840,113) | (970,649) |
| 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)** | | **(56,648)** | **(52,087)** |
| I. | Estimated salvages and subrogations, gross | (57,630) | (52,832) |
| II. | Reinsurers' share in estimated salvages and subrogations | 982 | 745 |
| **H. Other provisions** | | **538,944** | **667,838** |
| I. | Provision for retirement benefits and similar obligations | 300,039 | 303,257 |
| II. | Deferred tax liability | 3,125 | 175,196 |
| III. | Other provisions | 235,780 | 189,385 |

| EQUITY AND LIABILITIES (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **I. Liabilities from reinsurance deposits** | **56** | **56** |
| **J. Other liabilities and special funds** | **1,260,674** | **1,354,813** |
| I. Direct insurance liabilities | 369,757 | 333,479 |
| 1. Liabilities to the policyholders, of which: | 241,332 | 209,047 |
| 1.1. to related parties | – | 2 |
| 1.2. to other entities | 241,332 | 209,045 |
| 2. Liabilities to insurance intermediaries (agents), of which: | 77,191 | 78,379 |
| 2.1. to related parties | – | – |
| 2.2. to other entities | 77,191 | 78,379 |
| 3. Other insurance liabilities | 51,234 | 46,053 |
| 3.1. to related parties, of which: | 1,146 | 963 |
| 3.2. to other entities | 50,088 | 45,090 |
| II. Reinsurance liabilities, of which: | 28,809 | 31,997 |
| 1. to related parties | – | 53 |
| 2. to other entities | 28,809 | 31,944 |
| 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 | 8,013 | 14,393 |
| V. Other liabilities | 632,549 | 719,408 |
| 1. liabilities to the State Budget | 109,309 | 524,595 |
| 2. other liabilities | 523,240 | 194,813 |
| 2.1. to related parties | 1,674 | 1,694 |
| 2.2. to other entities | 521,566 | 193,119 |
| VI. Special funds | 221,546 | 255,536 |
| **K. Accruals and deferred income** | **722,712** | **814,921** |
| I. Accrued expenses | 450,605 | 587,292 |
| II. Negative goodwill | – | – |
| III. Deferred income | 272,107 | 227,629 |
| **Total equity and liabilities** | **58,208,424** | **52,653,897** |

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Book value | 19,067,881 | 16,864,989 |
| Number of shares | 86,352,300 | 86,352,300 |
| Book value per share (in PLN) | 220,81 | 195,30 |
| Diluted number of shares | 86,352,300 | 86,352,300 |
| Diluted book value per share (in PLN) | 220,81 | 195,30 |

| OFF-BALANCE SHEET ITEMS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| 1. Contingent receivables, of which: | 6,098,064 | 4,403,198 |
| 1.1. guarantees received | 3,699 | 5,840 |
| 1.2. other | 6,094,365 | 4,397,358 |
| 2. Contingent liabilities, of which: | 1,000,077,289 | 106,233 |
| 2.1. guarantees issued | 6,599 | 8,531 |
| 2.2. bills of exchange accepted and endorsed | – | – |
| 2.3. buy and sell back assets | – | – |
| 2.4. other liabilities | 98 | 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 | 229,879 | 215,051 |
| 6. Other off-balance sheet items, of which: | 634 | 64,107 |
| – security established on the Company's assets | – | 62,700 |
| – other | 634 | 1,407 |

| DATA RELATING TO THE SOLVENCY MARGIN OF THE PARENT COMPANY | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Own funds | 16,618,912 | 14,815,493 |
| Solvency margin | 1,338,798 | 1,271,014 |
| Surplus (shortage) of own funds to cover solvency margin | 15,280,114 | 13,544,479 |
| Technical reserves | 12,607,404 | 12,164,918 |
| Assets to cover technical reserves | 24,062,266 | 22,010,171 |
| Surplus (shortage) of assets to cover technical reserves | 11,454,862 | 9,845,253 |

## CONSOLIDATED LIFE INSURANCE REVENUE ACCOUNT

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| I. | Premiums | 13,040,248 | 7,258,933 |
| | 1. Gross premium written | 13,082,075 | 7,265,830 |
| | 2. Reinsurers' share in the gross premium written | 7,307 | 9,047 |
| | 3. Movement in unearned premium reserve and unexpired risk reserve, gross | 34,520 | (2,150) |
| | 4. Reinsurers' share in movement in unearned premium reserve | – | – |
| II. | Investment income | 1,724,549 | 1,802,766 |
| | 1. Income from property | 39 | 362 |
| | 2. Income from investments in related parties | 12,557 | 15,548 |
| | 2.1. from shares | 12,287 | 115 |
| | 2.2. from loans and debt securities | 270 | 15,433 |
| | 2.3. from other investments | – | – |
| | 3. Income from other financial investments | 1,453,011 | 1,153,656 |
| | 3.1. from shares, other variable income securities, participation units and investment certificates in investment funds | 59,925 | 59,552 |
| | 3.2. Debt securities and other fixed income securities | 1,178,039 | 1,059,856 |
| | 3.3. Term deposits with financial institutions | 215,047 | 33,587 |
| | 3.4. Other deposits | – | 661 |
| | 4. Result on reversal of impairment of investments | 24,846 | 39,605 |
| | 5. Gains on realization of investments | 234,096 | 593,595 |
| III. | Unrealized gains on investments | 168,408 | 435,427 |
| IV. | Other technical income, net of reinsurers' share | 50,321 | 39,608 |
| V. | Claims and benefits | 7,517,192 | 4,918,579 |
| | 1. Claims and benefits paid out, net of reinsurers' share | 7,429,873 | 4,897,063 |
| | 1.1. Claims and benefits paid out, gross | 7,429,873 | 4,897,063 |
| | 1.2. Reinsurers' share in claims and benefits paid out | – | – |
| | 2. Movement in outstanding claims reserve, net of reinsurers' share | 87,319 | 21,516 |
| | 2.1. Movement in outstanding claims reserve , gross | 87,319 | 21,516 |
| | 2.2. Reinsurers' share in movement in outstanding claims reserve | – | – |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| VI. Movement in other technical reserves, net of reinsurers' share | 2,946,342 | 198,629 |
| 1. Movement in life insurance reserves, net of reinsurers' share | 4,287,232 | (289,527) |
| 1.1. Movement in life insurance reserves, gross | 4,287,232 | (289,527) |
| 1.2. Reinsurers' share in movement in life insurance reserves | – | – |
| 2. Movements in technical reserves, net of reinsurers' share, where the investment risk is borne by policyholders | (1,207,107) | 616,597 |
| 2.1. Movement in life insurance reserves, gross | (1,207,107) | 616,597 |
| 2.2. Reinsurers' share in movement in life insurance reserves | – | – |
| 3. Movement in other reserves defined in the Articles of Association, net of reinsurers' share | (133,783) | (128,441) |
| 3.1. Movement in other reserves defined in the Articles of Association, gross | (133,783) | (128,441) |
| 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 | 1,870 | 1,403 |
| VIII. Insurance activities | 972,590 | 907,890 |
| 1. Acquisition expenses | 356,172 | 328,280 |
| – movement in deferred acquisition costs | 8,106 | 10,696 |
| 2. Administrative expenses | 616,418 | 579,610 |
| 3. Reinsurance commission and share in reinsurers' profits | – | – |
| IX. Cost of investing activities | 675,915 | 237,015 |
| 1. Costs of property maintenance | 1,096 | 1,228 |
| 2. Other costs of investing activities | 21,304 | 31,821 |
| 3. Loss on impairment of investments | 91,994 | 9,382 |
| 4. Loss on realization of investments | 561,521 | 194,584 |
| X. Unrealized losses on investments | 1,086,251 | 569,392 |
| XI. Other technical costs, net of reinsurers' share | 46,635 | 82,647 |
| XII. Net investment income transferred to the consolidated general profit and loss account | (572,818) | 273,827 |
| **XIII. Life underwriting result, of which:** | **2,309,549** | **2,347,352** |
| – life underwriting result of related parties | 2,309,549 | 2,347,352 |

## CONSOLIDATED PROPERTY AND CASUALTY INSURANCE REVENUE ACCOUNT

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| I. | Premiums | 8,197,777 | 7,775,880 |
| | 1. Gross premium writte | 8,433,344 | 8,196,197 |
| | 2. Reinsurers' share in gross premium written | 123,088 | 171,340 |
| | 3. Movement in unearned premium reserve and unexpired risk reserve, gros | 111,201 | 283,737 |
| | 4. Reinsurers' share movements in unearned premium reserve | (1,278) | 34,760 |
| II. | Net investment income transferred from the consolidated general profit and loss account | 219,426 | 209,698 |
| III. | Other technical income, net of reinsurers' share | 57,970 | 85,138 |
| IV. | Claims and benefits | 5,171,283 | 4,999,273 |
| | 1. Claims and benefits paid out, net of reinsurers' share | 4,649,012 | 4,436,294 |
| | 1.1. Claims and benefits paid out, gross | 4,705,472 | 4,636,325 |
| | 1.2. Reinsurers' share in claims and benefits paid out | 56,460 | 200,031 |
| | 2. Movement in outstanding claims reserve, net of reinsures' share | 522,271 | 562,979 |
| | 2.1. Movement in outstanding claims reserve, gross | 390,697 | 363,714 |
| | 2.2. Reinsurers' share in movements in outstanding claims reserve | (131,574) | (199,265) |
| V. | Movement in other technical reserves, net of reinsurers' share | (68,003) | (312,712) |
| | 1. Movement in other technical reserves, gross | (68,003) | (312,712) |
| | 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 | 350 | 2,939 |
| VII. | Insurance activities expenses | 2,180,316 | 2,202,612 |
| | 1. Acquisition expenses | 1,268,902 | 1,161,246 |
| | – movement in deferred acquisition costs | (7,481) | (55,630) |
| | 2. Administrative expenses | 998,219 | 1,079,704 |
| | 3. Reinsurance commissions and share in reinsurers' profits | 86,805 | 38,338 |
| VIII. | Other technical costs, net of reinsurers' share | 500,130 | 226,108 |
| IX. | Movement in risk equalization reserve | 19,205 | (83,857) |
| X. | Property and casualty underwriting result, of which: | **671,892** | **1,036,353** |
| | – property and casualty underwriting result of related parties | (48,561) | (1,708) |

## CONSOLIDATED GENERAL PROFIT AND LOSS ACCOUNT

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| I. | Property and casualty and life insurance underwriting result | 2,981,441 | 3,383,705 |
| II. | Investment income | 1,394,885 | 1,432,680 |
| | 1. Income from property | 19,448 | 21,648 |
| | 2. Income from investments in related parties | 227 | 655 |
| | 2.1. shares | 227 | 655 |
| | 2.2. loans and debt securities | – | – |
| | 2.3. other investments | – | – |
| | 3. Income from other financial investments | 1,312,766 | 1,000,803 |
| | 3.1. shares, variable income securities, participation units and certificates in investment funds | 52,194 | 50,065 |
| | 3.2. debt securities and other fixed income securities | 1,143,442 | 885,927 |
| | 3.3. term deposits with financial institutions | 82,464 | 15,722 |
| | 3.4. other investments | 34,666 | 49,089 |
| | 4. Result on reversal of impairment of investments | 1,158 | 356 |
| | 5. Gains on realization of investments | 61,286 | 409,218 |
| III. | Unrealized gains on investments | 31,461 | 167,607 |
| IV. | Net investment income transferred from the consolidated life revenue account | (572,818) | 273,827 |
| V. | Cost of investing activities | 318,047 | 196,525 |
| | 1. Costs of property maintenance | 14,912 | 11,501 |
| | 2. Other costs of investing activities | 13,043 | 17,102 |
| | 3. Loss on impairment of investments | 106,927 | 89 |
| | 4. Loss on realization of investments | 183,165 | 167,833 |
| VI. | Unrealized losses on investments | 391,178 | 275,672 |
| VII. | Net investment income transferred to the consolidated property and casualty revenue account | 219,426 | 209,698 |
| VIII. | Other operating income | 361,456 | 345,746 |
| IX. | Other operating expenses | 312,371 | 444,696 |
| X. | Operating profit/ (loss) | 2,955,403 | 4,476,974 |
| XI. | Extraordinary gains | – | 86 |
| XII. | Extraordinary losses | 34 | 73 |
| XIII. | Amortization of goodwill on related parties | 6,756 | 7,118 |
| XIV. | Amortization of negative goodwill of related parties | – | – |
| XV. | Gross profit / (loss) | 2,948,613 | 4,469,869 |
| XVI. | Corporate income tax | 604,178 | 869,408 |
| | a) current tax | 773,920 | 1,031,008 |
| | b) deferred tax | (169,742) | (161,600) |
| 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 | (14) | 16 |
| **XX.** | **Net profit/(loss)** | **2,344,449** | **3,600,445** |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| Annualized net profit /(loss) | 2,344,449 | 3,600,445 |
| Weighted average of ordinary shares | 86,352,300 | 86,352,300 |
| Profit / (loss) per ordinary share (in PLN) | 27,15 | 41,69 |
| Diluted weighted average of ordinary shares | 86,352,300 | 86,352,300 |
| Diluted profit / (loss) per ordinary share (in PLN) | 27,15 | 41,69 |

## CONSOLIDATED CASH FLOW STATEMENT

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **A. Net cash flow from operating activities** | | |
| I. Inflows | 22,523,488 | 16,610,355 |
| 1. Cash inflows from direct insurance and reinsurance inwards | 21,870,257 | 15,877,132 |
| 1.1. Gross premium written | 21,575,818 | 15,677,702 |
| 1.2. Salvages, subrogations and claims returned | 214,151 | 128,310 |
| 1.3. Other | 80,288 | 71,120 |
| 2. Cash inflows from reinsurance outwards | 115,370 | 259,709 |
| 2.1. Cash inflows from reinsurers' share in claims paid | 102,679 | 234,207 |
| 2.2. Cash inflows from reinsurance commission and the share in reinsurers' profits | 9,073 | 11,404 |
| 2.3. Other | 3,618 | 14,098 |
| 3. Cash inflows from other operating activities | 537,861 | 473,514 |
| 3.1. Proceeds from loss adjusting services rendered | 135,983 | 102,897 |
| 3.2. Sale of intangible assets and tangible fixed assets other than investments | 4,504 | 12,233 |
| 3.3. Other inflows | 397,374 | 358,384 |
| II. Outflows | 18,005,124 | 14,549,226 |
| 1. Cash outflows from direct insurance and reinsurance inwards | 15,815,939 | 12,946,333 |
| 1.1. Gross premiums returns | 146,372 | 130,288 |
| 1.2. Claims and benefits paid out, gross | 11,569,922 | 9,108,948 |
| 1.3. Acquisition expenses | 1,219,614 | 1,187,364 |
| 1.4. Administrative expenses | 2,144,270 | 2,095,255 |
| 1.5. Costs of loss adjusting services and subrogation collection | 340,860 | 304,591 |
| 1.6. Commissions paid out and the share in profits from reinsurance inwards | 17,358 | 2,163 |
| 1.7. Other outflows | 377,543 | 117,724 |
| 2. Cash outflows from reinsurance outwards | 178,146 | 202,206 |
| 2.1. Premiums paid in respect of reinsurance outwards | 124,820 | 165,222 |
| 2.2. Other outwards reinsurance expenses | 53,326 | 36,984 |
| 3. Other operating expenses | 2,011,039 | 1,400,687 |
| 3.1. Expenses relating to loss adjusting services rendered | 339,293 | 90,728 |
| 3.2. Purchase of intangible assets and tangible fixed assets other than investments | 137,532 | 185,546 |
| 3.3. Other | 1,534,214 | 1,124,413 |
| III. Net cash flow from operating activities (I-II) | 4,518,364 | 2,061,129 |
| **B. Net cash flow from investing activities** | | |
| I. Inflows | 432,034,772 | 441,743,627 |
| 1. Sale of property | 48 | 3,834 |
| 2. Sale of shares in related parties | 73,852 | – |
| 3. Sale of shares in other entities, participation units and investment certificates in investment funds | 3,329,656 | 6,383,153 |
| 4. Sale of debt securities issued by related parties and loans repaid by those entities | 32,501 | 9,652 |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
| --- | --- | --- |
| 5. Sale of debt securities issued by other entities | 19,951,253 | 14,176,273 |
| 6. Withdrawal of term deposits with financial institutions | 206,864,509 | 184,817,106 |
| 7. Sale of other investments | 200,476,324 | 235,149,755 |
| 8. Inflows from property | 27,988 | 29,600 |
| 9. Interest received | 1,173,259 | 1,051,296 |
| 10. Dividends received | 102,965 | 105,386 |
| 11. Other inflows | 2,417 | 17,572 |
| II. Outflows | 436,472,662 | 443,699,707 |
| 1. Purchase of property | 1,541 | 8,741 |
| 2. Purchase of shares in related parties | 7,500 | 8,972 |
| 3. Purchase of shares in other entities, participation units and investment certificates in investment funds | 3,494,933 | 5,975,303 |
| 4. Purchase of debt securities issued by related parties and loans granted to those entities | – | – |
| 5. Purchase of debt securities issued by other entities | 21,863,873 | 20,807,741 |
| 6. Creation of term deposits with financial institutions | 212,723,053 | 185,152,058 |
| 7. Acquisition of other investments | 198,246,522 | 231,638,621 |
| 8. Outflows for property maintenance | 44,621 | 44,364 |
| 9. Other expenses and investments | 90,619 | 63,907 |
| III. Net cash flows from investing activities (I-II) | (4,437,890) | (1,956,080) |
| **C. Cash flow from financing activities** | | |
| I. Inflows | 1,516 | 2,795 |
| 1. Net inflow from issuance of shares and additional payments to share capital | – | – |
| 2. Loans and credits and issuance of debt securities | 1,516 | 2,795 |
| 3. Other | – | – |
| II. Outflows | 5,356 | 3,141 |
| 1. Dividends paid | 3,851 | 341 |
| 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 own debt securities | 1,502 | 2,797 |
| 5. Interest on loans and credits and debt securities issued | 3 | – |
| 6. Other financial expenses | – | 3 |
| III. Net cash flow from financing activities (I-II) | (3,840) | (346) |
| **D. Total net cash flow (A.III+/-B.III+/-C.III)** | **76,634** | **104,703** |
| **E. Balance sheet change in cash and cash equivalents, of which:** | **76,988** | **103,368** |
| – change in cash and cash equivalents due to foreign exchange differences | 354 | (1,335) |
| **F. Cash and cash equivalents at the beginning of the period** | **465,105** | **361,737** |
| **G. Cash and cash equivalents at the end of the period (F+/-D), of which:** | **542,093** | **465,105** |
| – of restricted use | 124,978 | 193,200 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| I. Shareholders' equity at the beginning of the period | 16,864,989 | 13,330,887 |
| a) changes in accounting policies | – | – |
| b) adjustments due to errors | – | – |
| I.a. Shareholders' equity at the beginning of the period, after adjustments | 16,864,989 | 13,330,887 |
| 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 perio | – | – |
| 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 | 13,058,343 | 7,869,693 |
| a) changes in accounting policies | – | – |
| b) adjustments due to errors | – | – |
| 4.1. Reserve capital at the beginning of the period, after comparative data restatement | 13,058,343 | 7,869,693 |
| 4.2. Changes in revaluation reserve | 1,420,204 | 5,188,650 |
| a) increases (due to): | 1,420,204 | 5,188,650 |
| – profit appropriation (in excess of statutory amounts) | 1,420,088 | 5,188,251 |
| – from revaluation reserve | 116 | 399 |
| b) decreases | – | – |
| 4.3. Reserve capital at the end of the period | 14,478,547 | 13,058,343 |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| 5. Revaluation reserve at the beginning of the period | 277,405 | 301,411 |
| a) changes in accounting policies | – | – |
| b) adjustments due to errors | – | – |
| 5.1. Revaluation reserve at the beginning of the period, after comparative data restatement | 277,405 | 301,411 |
| 5.2. Revaluation reserve | (119,060) | (24,006) |
| a) increases (due to): | 566,981 | 252,370 |
| – valuation of financial investments | 423,183 | 252,370 |
| – transfer of impairment losses against available for sale investments | 143,798 | – |
| b) decreases (of which): | 686,041 | 276,376 |
| – disposal and liquidation of fixed assets | 116 | 399 |
| – impairment of financial investments | 685,925 | 275,977 |
| 5.3. Revaluation reserve at the end of the period | 158,345 | 277,405 |
| 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 translation of related parties | (15,058) | (12,445) |
| 8. Accumulated profits/(losses) from previous years at the beginning of the period | 3,455,334 | 5,073,286 |
| 8.1. Accumulated profits/(losses) from previous years at the beginning of the period | 3,455,334 | 5,073,286 |
| 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 | 3,455,334 | 5,073,286 |
| a) increases | – | – |
| b) decreases (due to): | 1,440,088 | 5,218,397 |
| – dividends paid out | – | – |
| – transfer to reserve capital | 1,420,088 | 5,188,251 |
| – contribution to the Social Fund | 20,000 | 30,146 |
| 8.3. Accumulated profits/(losses) from previous years at the end of the period | 2,015,246 | (145,111) |
| 9. Net result | 2,344,449 | 3,600,445 |
| a) net profit | 2,344,449 | 3,600,445 |
| b) net loss | – | – |
| c) deductions from net profit | – | – |
| II. Shareholders’ equity at the end of the period | 19,067,881 | 16,864,989 |
| III. Shareholders’ after proposed appropriation of profits / absorption of losses | 19,039,881 | 16,844,989 |

## 15.3. PZU SA – INDIVIDUAL FINANCIAL DATA

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

**THE INDEPENDENT AUDITORS' REPORT ON THE SUMMARIZED FINANCIAL STATEMENTS**

**To the Supervisory Board of Powszechny Zaklad Ubezpieczeń Spółka Akcyjna**

We have audited the financial statements for the year ended 31 December 2008 of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('the Company') located in Warsaw at Al. Jana Pawła II 24 ('the unabridged financial statements'), from which the attached summarized financial statements for the year ended 31 December 2008 were derived by the Company's Management Board ('the summarized financial statements'). The unabridged financial statements 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.

We conducted our audit of the unabridged financial statements, from which the summarized financial statements were derived, in accordance with the chapter 7 of the Accounting Act, dated 29 September 1994 and the auditing standards issued by the National Board of Auditors. We issued an unqualified auditors' opinion on these financial statements dated 19 March 2009.

In our opinion the attached summarized financial statements, in all material respects, are consistent with the unabridged financial statements, from which they were derived.

For a better understanding of the Company's financial position as at 31 December 2008 and the results of its operations for the period from 1 January 2008 to 31 December 2008 and of the scope of our audit, the attached summarized financial statements should be read in conjunction with the

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unabridged financial statements from which the summarized financial statements were derived and our auditors' report relating to these financial statements.

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

Dominik Januszewski
Certified Auditor No. 9707

Warsaw, 20 August 2009

## PZU SA BALANCE SHEET

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 (comparative data) |
|---|---|---|
| **A. Intangible assets** | **31,855** | **40,699** |
| 1. Goodwill | – | – |
| 2. Other intangible assets and prepayments for intangible assets | 31,855 | 40,699 |
| **B. Investments** | **30,450,050** | **27,920,595** |
| I. Property | 602,697 | 333,509 |
| 1. Freehold land, including perpetual usufruct | 46,645 | 37,728 |
| 2. Buildings and constructions, and cooperative freehold right | 533,883 | 280,753 |
| 3. Constructions in progress and prepayments for constructions in progress | 22,169 | 15,028 |
| II. Investments in subordinated entities | 6,335,748 | 7,026,880 |
| 1. Shares | 6,303,548 | 6,983,405 |
| 2. Loans granted to subordinated entities and debt securities issued by those parties | 32,200 | 43,475 |
| 3. Other | – | – |
| III. Other financial investments | 23,499,258 | 20,556,457 |
| 1. Shares and other variable income securities, participation units and investment certificates in trust funds | 923,581 | 1,587,466 |
| 2. Debt securities and other fixed income securities | 21,149,694 | 17,801,244 |
| 3. Shares in joint venture | – | – |
| 4. Mortgage loans | – | – |
| 5. Other loans | 269,741 | 584,272 |
| 6. Term deposits with financial institutions | 1,156,091 | 579,461 |
| 7. Other investments | 151 | 4,014 |
| IV. Deposits due from cedants | 12,347 | 3,749 |
| **C. Net investments of life insurance funds where the investment risk is borne by policyholders** | **–** | **–** |
| **D. Receivables** | **1,162,220** | **1,061,306** |
| I. Receivables from direct insurance | 996,159 | 949,322 |
| 1. Receivables from policyholders | 943,571 | 923,375 |
| 1.1. from subordinated entities | 107 | 83 |
| 1.2. from other entities | 943,464 | 923,292 |
| 2. Receivables from insurance intermediaries | 24,182 | 23,797 |
| 2.1. from subordinated entities | – | – |
| 2.2. from other entities | 24,182 | 23,797 |
| 3. Other receivables | 28,406 | 2,150 |
| 3.1. from subordinated entities | 1,628 | 1,638 |
| 3.2. from other entities | 26,778 | 512 |

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 (comparative data) |
|---|---|---|
| II. Reinsurance receivables | 30,034 | 20,789 |
| 1. from subordinated entities | – | 392 |
| 2. from other entities | 30,034 | 20,397 |
| III. Other receivables | 136,027 | 91,195 |
| 1.Receivables from the State Budget | 128 | 133 |
| 2. Other receivables | 135,899 | 91,062 |
| 2.1. from subordinated entities | 4,135 | 7,128 |
| 2.2. from other entities | 131,764 | 83,934 |
| **E. Other assets** | **363,394** | **341,981** |
| I. Tangible assets | 107,155 | 145,903 |
| II. Cash and cash equivalents | 256,239 | 196,078 |
| III. Other | – | – |
| **F. Prepayments and deferred costs** | **717,995** | **682,415** |
| I. Deferred tax assets | – | – |
| II. Deferred acquisition costs | 358,028 | 354,851 |
| III. Accrued interest and rentals | 1,323 | 437 |
| IV. Other prepayments and deferred costs | 358,644 | 327,127 |
| **TOTAL ASSETS** | **32,725,514** | **30,046,996** |

| EQUITY AND LIABILITIES (in PLN thousands) | | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **A. Equity** | | **19,151,579** | **17,017,442** |
| I. | Share capital | 86,352 | 86,352 |
| II. | Unpaid share capital (negative value) | – | – |
| III. | Treasury shares (negative value) | – | – |
| IV. | Reserve capital | 10,245,766 | 8,825,562 |
| V. | Revaluation reserve | 5,792,663 | 6,675,440 |
| VI. | Other reserves | – | – |
| VII. | Accumulated profits/ (losses) from previous years | – | – |
| VIII. | Net profit/(loss) for the year | 3,026,798 | 1,430,088 |
| **B. Subordinated liabilities** | | **–** | **–** |
| **C. Technical reserves** | | **12,659,941** | **12,217,050** |
| I. | Unearned premium reserve and unexpired risk reserve | 3,911,924 | 3,828,549 |
| II. | Life insurance reserves | – | – |
| III. | Outstanding claims reserve (the OCR reserve) | 8,238,223 | 7,830,704 |
| IV. | Reserve for bonuses and rebates for the insured | – | – |
| V. | Risk equalization reserve | 509,794 | 489,794 |
| VI. | Reserve for premium returns to policyholders | – | – |
| VII. | Other technical reserves, as defined in Articles of Association | – | 68,003 |
| VIII. | Life technical reserves where the investment risk is borne by policyholder | – | – |
| **D. Reinsurers' share in technical reserves (negative value)** | | **(878,416)** | **(1,007,581)** |
| I. | Reinsurers' share in unearned premium reserve and unexpired risk reserve | (60,383) | (61,942) |
| II. | Reinsurers' share in life insurance reserve | – | – |
| III. | Reinsurers' share in outstanding claims reserve | (818,033) | (945,639) |
| IV. | Reinsurers' share in reserve for bonuses and rebates for the insured | – | – |
| V. | Reinsurer's 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)** | | **(52,401)** | **(51,715)** |
| I. | Estimated salvages and subrogations, gross | (52,537) | (52,132) |
| II. | Reinsurers' share in estimated salvages and subrogations | 136 | 417 |
| **F. Other provisions** | | **450,269** | **469,006** |
| I. | Provision for retirement benefits and similar obligations | 233,394 | 238,866 |
| II. | Deferred tax liability | 62,218 | 91,139 |
| III. | Other | 154,657 | 139,001 |
| **G. Liabilities from reinsurance deposits** | | **56** | **56** |

| EQUITY AND LIABILITIES (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **H. Other liabilities and Special Funds** | **790,191** | **662,453** |
| I. Direct insurance liabilities | 151,386 | 143,467 |
| 1. Liabilities to the policyholders | 62,482 | 45,837 |
| 1.1. to subordinated entities | – | 2 |
| 1.2. to other entities | 62,482 | 45,835 |
| 2. Liabilities to insurance intermediaries: | 74,545 | 75,663 |
| 2.1. to subordinated entities | – | – |
| 2.2. to other entities | 74,545 | 75,663 |
| 3. Other liabilities: | 14,359 | 21,967 |
| 3.1. to subordinated entities | 1,146 | 963 |
| 3.2. to other entities | 13,213 | 21,004 |
| II. Reinsurance liabilities: | 21,590 | 23,736 |
| 1. to subordinated entities | – | 141 |
| 2. to other entities | 21,590 | 23,595 |
| 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 | 13 | – |
| V. Other liabilities | 470,842 | 332,296 |
| 1. Liabilities to the State Budget | 73,037 | 220,807 |
| 2. Other liabilities: | 397,805 | 111,489 |
| 2.1. to subordinated entities | 2,221 | 6,251 |
| 2.2. to other entities | 395,584 | 105,238 |
| VI. Special Funds | 146,360 | 162,954 |
| **I. Accruals and deferred income** | **604,295** | **740,285** |
| I. Accrued expenses | 334,846 | 515,392 |
| II. Negative goodwill | – | – |
| III. Deferred income | 269,449 | 224,893 |
| **TOTAL EQUITY AND LIABILITIES** | **32,725,514** | **30,046,996** |

| OFF-BALANCE SHEET ITEMS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **1. Contingent receivables, of which:** | **6,098,064** | **4,403,198** |
| 1.1. guarantees received | 3,699 | 5,840 |
| 1.2. other | 6,094,365 | 4,397,358 |
| **2. Contingent liabilities, of which:** | **45,810** | **51,033** |
| 2.1. guarantees issued | 6,599 | 8,531 |
| 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 | 38,642 | 41,927 |
| **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** | **229,879** | **680,686** |
| **6. Other off-balance sheet items, of which:** | **–** | **62,700** |
| 6.1. securities established on the Company's assets | – | 62,700 |
| 6.2. other off-balance sheet items | – | – |

| | | |
|---|---|---|
| Own funds | 16,618,912 | 14,815,493 |
| Solvency margin | 1,338,798 | 1,271,014 |
| Surplus (shortage) of own funds to cover solvency margin | 15,280,114 | 13,544,479 |
| Technical reserves, gross* | 12,607,404 | 12,164,918 |
| Assets to cover technical reserves | 24,062,266 | 22,010,171 |
| Surplus (shortage) of assets to cover technical reserves | 11,454,862 | 9,845,253 |

* net of estimated gross salvages and subrogations

## PROPERTY AND CASUALTY INSURANCE REVENUE ACCOUNT

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| **I.** | **Premiums (1-2+/-3+/-4)** | **8,028,557** | **7,590,398** |
| | 1. Gross premium written | 8,217,789 | 7,981,990 |
| | 2. Reinsurers' share in the gross premium written | 104,298 | 152,418 |
| | 3. Movement in unearned premium reserve and unexpired risk reserve, gross | 83,375 | 277,215 |
| | 4. Reinsurers' share in movement in unearned premium reserve | (1,559) | 38,041 |
| **II.** | **Net investment income, transferred from the Profit and Loss Account** | **219,426** | **204,419** |
| **III.** | **Other technical income, net of reinsurers' share** | **56,185** | **74,306** |
| **IV.** | **Claims (1+/-2)** | **5,063,091** | **4,900,080** |
| | 1. Claims paid out, net of reinsurers' share | 4,528,652 | 4,329,030 |
| | 1.1. claims paid out, gross | 4,586,363 | 4,512,263 |
| | 1.2. reinsurers' share in claims paid out | 57,711 | 183,233 |
| | 2. Movement in outstanding claims reserve, net of reinsurers' share | 534,439 | 571,050 |
| | 2.1. Movement in outstanding claims reserve, gross | 407,114 | 377,260 |
| | 2.2. Reinsurers' share in movement in outstanding claims reserve | (127,325) | (193,790) |
| **V.** | **Movement in other technical reserves, net of reinsurers' share** | **(68,003)** | **(312,712)** |
| | 1. Movement in other technical reserves, gross | (68,003) | (312,712) |
| | 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** | **350** | **3,116** |
| **VII.** | **Insurance activities expenses (1+2-3)** | **2,080,925** | **2,102,083** |
| | 1. Acquisition expenses, of which: | 1,230,011 | 1,115,203 |
| | 1.1. movement in deferred acquisition costs | (3,177) | (50,379) |
| | 2. Administrative expenses | 939,278 | 1,022,369 |
| | 3. Reinsurance commissions and the share in reinsurers' profits | 88,364 | 35,489 |
| **VIII.** | **Other technical expenses, net of reinsurers' share** | **489,542** | **222,869** |
| **IX.** | **Movement in risk equalization reserve** | **20,000** | **(83,007)** |
| **X.** | **Property and casualty insurance underwriting result** | **718,263** | **1,036,694** |

## PROFIT AND LOSS ACCOUNT

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| **I.** | **Property and casualty underwriting result** | **718,263** | **1,036,694** |
| **II.** | **Investment income (1+2+3+4+5):** | **3,521,245** | **1,398,665** |
| | 1. from property | 6,443 | 5,725 |
| | 2. from investments in subordinated entities, of which: | 2,170,349 | 3,325 |
| | 2.1. shares | 2,167,480 | 655 |
| | 2.2. loans and debt securities | 2,869 | 2,670 |
| | 2.3. other investments | – | – |
| | 3. Income from other financial investments, of which: | 1,282,366 | 980,377 |
| | 3.1. shares, variable income securities, participation units and certificates in investment funds | 51,469 | 49,165 |
| | 3.2. debt securities and other fixed income securities | 1,133,623 | 877,115 |
| | 3.3. term deposits with financial institutions | 63,188 | 5,012 |
| | 3.4. other investments | 34,086 | 49,085 |
| | 4. Gains on impairment of investments | 1,158 | 356 |
| | 5. Gains on realization of investments | 60,929 | 408,882 |
| **III.** | **Unrealized gains on investments** | **20,613** | **161,830** |
| **IV.** | **Net investment income transferred from the Life Revenue Account** | **–** | **–** |
| **V.** | **Cost of investing activities (1+2+3+4)** | **282,289** | **184,992** |
| | 1. Cost of property maintenance | 465 | 301 |
| | 2. Other costs of investing activities | 12,816 | 16,929 |
| | 3.Losses on impairment of investments | 85,630 | 89 |
| | 4. Losses on realization of investments | 183,378 | 167,673 |
| **VI.** | **Unrealized losses on investments** | **464,670** | **293,612** |
| **VII.** | **Net investment income transferred to the Property and Casualty Revenue Account** | **219,426** | **204,419** |
| **VIII.** | **Other operating income** | **41,315** | **47,767** |
| **IX.** | **Other operating expenses** | **51,913** | **176,432** |
| **X.** | **Operating profit/ (loss)** | **3,283,138** | **1,785,501** |
| **XI.** | **Extraordinary gains** | **–** | **86** |
| **XII.** | **Extraordinary losses** | **–** | **19** |
| **XIII.** | **Gross profit/ (loss)** | **3,283,138** | **1,785,568** |
| **XIV.** | **Corporate income tax** | **256,340** | **355,480** |
| **XV.** | **Other obligatory decreases of profit/ (increases of loss)** | **–** | **–** |
| **XVI.** | **Net profit/ (loss)** | **3,026,798** | **1,430,088** |

## CASH FLOW STATEMENT

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **A. Net cash flows from operating activities** | **416,009** | **1,095,896** |
| **I. Inflows** | **8,823,026** | **8,732,981** |
| **1. Cash inflows from direct insurance and reinsurance inwards, of which:** | **8,487,583** | **8,304,523** |
| 1.1. Gross premium written | 8,247,122 | 8,155,759 |
| 1.2. Salvages and subrogations, gross | 206,380 | 121,151 |
| 1.3. Other | 34,081 | 27,613 |
| **2. Cash inflows from reinsurance outwards** | **112,287** | **247,226** |
| 2.1. Cash inflows from reinsurers' share in claims paid | 99,596 | 221,724 |
| 2.2. Cash inflows from reinsurance commission and the share in reinsurers' profits | 9,073 | 11,404 |
| 2.3. Other | 3,618 | 14,098 |
| **3. Cash inflows from other operating activities** | **223,156** | **181,232** |
| 3.1. Proceeds from average adjuster services rendered | 135,519 | 102,022 |
| 3.2. Sale of intangible assets and tangible fixed assets other than long-term investments | 2,523 | 4,001 |
| 3.3. Other inflows | 85,114 | 75,209 |
| **II. Outflows** | **8,407,017** | **7,637,085** |
| **1. Cash outflows from direct insurance and reinsurance inwards** | **7,320,102** | **7,021,570** |
| 1.1. Gross premium returns | 145,222 | 128,587 |
| 1.2. Claims paid out, gross | 4,158,454 | 4,230,279 |
| 1.3. Acquisition expenses | 837,444 | 817,314 |
| 1.4. Administrative expenses | 1,628,713 | 1,605,365 |
| 1.5. Costs of loss adjusting services and subrogation collection | 177,113 | 138,445 |
| 1.6. Commissions paid out and the share in profits from reinsurance inwards | 17,358 | 2,163 |
| 1.7. Other outflows | 355,798 | 99,417 |
| **2. Cash outflows from reinsurance outwards** | **155,954** | **169,482** |
| 2.1. Premiums paid in respect of reinsurance outwards | 102,628 | 132,498 |
| 2.2. Other outwards reinsurance expenses | 53,326 | 36,984 |
| **3. Other operating expenses** | **930,961** | **446,033** |
| 3.1. Expenses relating to average adjuster services rendered | 339,293 | 90,728 |
| 3.2. Purchase of intangible assets and tangible fixed assets other than long-term investments | 80,122 | 75,324 |
| 3.3. Other | 511,546 | 279,981 |
| **B. Net cash flows from investing activities** | **(352,008)** | **(1,107,483)** |
| **I. Inflows** | **161,197,068** | **187,670,584** |
| 1. Sale of property | – | – |
| 2. Sale of shares in subordinated entities | 19 | – |
| 3. Sale of shares in other entities, participation units and investment certificates in investment funds | 502,166 | 2,057,476 |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| 4. Sale of debt securities issued by subordinated entities and loans repaid by those entities | 43,233 | 7,107 |
| 5. Sale of debt securities issued by other entities | 13,187,030 | 10,374,569 |
| 6. Withdrawal of term deposits with financial institutions | 63,598,476 | 69,818,753 |
| 7. Sale of other investments | 81,622,546 | 105,344,902 |
| 8. Inflows from property | 7,713 | 6,261 |
| 9. Interest received | 26,842 | 21,083 |
| 10. Dividends received | 2,209,017 | 40,358 |
| 11. Other inflows | 26 | 75 |
| **II. Outflows** | **161,549,076** | **188,778,067** |
| 1. Purchase of property | 244,919 | – |
| 2. Purchase of shares in subordinated entities | 176,074 | 90,304 |
| 3. Purchase of shares in other entities, participation units and investment certificates in investment funds | 792,149 | 1,603,087 |
| 4. Purchase of debt securities issued by subordinated entities and loans granted to those entities | 32,200 | – |
| 5. Purchase of debt securities issued by other entities and loans granted to those entities | 15,876,168 | 13,938,835 |
| 6. Creation of term deposits with financial institutions | 63,935,478 | 70,201,297 |
| 7. Acquisition of other investments | 80,478,480 | 102,930,162 |
| 8. Outflows for property maintenance | 5,707 | 6,289 |
| 9. Other expenses and investments | 7,901 | 8,093 |
| **C. Net cash flows from financing activities** | **(3,840)** | **(343)** |
| **I. Inflows** | **1,516** | **2,795** |
| 1. Net inflow from issuance of shares and additional payments to share capital | – | – |
| 2. Loans and credits and issuance of debt securities | 1,516 | 2,795 |
| 3. Other | – | – |
| **II. Outflows** | **5,356** | **3,138** |
| 1. Dividends paid | 3,851 | 341 |
| 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 | 1,502 | 2,797 |
| 5. Interest on loans and credits and debt securities issued | 3 | – |
| 6. Other outflows from financing activities | – | – |
| **D. Total net cash flows** | **60,161** | **(11,930)** |
| **E. Balance sheet change in cash and cash equivalents, of which:** | **60,161** | **(11,930)** |
| 1. change in cash and cash equivalents due to foreign exchange differences | 503 | (363) |
| **F. Cash and cash equivalents at the beginning of the period** | **196,078** | **208,008** |
| **G. Cash and cash equivalents at the end of the period, of which:** | **256,239** | **196,078** |
| 1. of restricted use | 67,344 | 109,669 |

## STATEMENT OF CHANGES IN EQUITY

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **I. Shareholders' equity at the beginning of the period** | **17,017,442** | **13,448,705** |
| a) changes in accounting policies | – | – |
| **I.a. Shareholders' equity at the beginning of the period, after adjustments** | **17,017,442** | **13,448,705** |
| **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** | **8,825,562** | **5,564,534** |
| 4.1. Changes in reserve capital | 1,420,204 | 3,261,028 |
| a) increases (due to:) | 1,420,204 | 3,261,028 |
| – share premium | – | – |
| – statutory profit appropriation | – | – |
| – profit appropriation (in excess of statutory amounts) | 1,420,088 | 3,260,883 |
| – from revaluation reserve – disposal of fixed assets | 116 | 145 |
| b) decreases (due to:) | – | – |
| – absorption of losses | – | – |
| – other decreases | – | – |
| **4.2. Reserve capital at the end of the period** | **10,245,766** | **8,825,562** |
| **5. Revaluation reserve at the beginning of the period** | **6,675,440** | **4,516,936** |
| 5.1. Changes in revaluation reserve | (882,777) | 2,158,504 |
| a) increases (due to:) | 503,172 | 2,425,782 |
| – valuation of Financial investments | 417,551 | 2,425,782 |
| – transfer of impairment losses on Investment available-for-sale | 85,621 | – |
| b) decreases (due to:) | 1,385,949 | 267,278 |
| – valuation of financial investments | 1,369,565 | 267,133 |
| – transfer of impairment losses on investment available-for-sale – deferred tax | 16,268 | – |
| – valuation of property | – | – |
| – disposal and liquidation of fixed assets | 116 | 145 |
| **5.2. Revaluation reserve at the end of the period** | **5,792,663** | **6,675,440** |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **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** | **1,430,088** | **3,280,883** |
| **7.1. Accumulated profits from previous years at the beginning of the period** | **1,430,088** | **3,280,883** |
| a) adjustments due to fundamental errors | – | – |
| **7.2. Accumulated profits/ (losses) from previous years at the beginning of the period, after adjustments** | **1,430,088** | **3,280,883** |
| a) increases | – | – |
| b) decreases (due to:) | 1,430,088 | 3,280,883 |
| – dividends paid out | – | – |
| – transfer to reserve capital | 1,420,088 | 3,260,883 |
| – transfer to Social Fund | 10,000 | 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** | **3,026,798** | **1,430,088** |
| a) net profit | 3,026,798 | 1,430,088 |
| b) net loss | – | – |
| **II. Shareholders' equity at the end of the period** | **19,151,579** | **17,017,442** |
| **III. Shareholders' equity after proposed appropriation of profits / absorption of losses** | **19,130,579** | **17,007,442** |

## 15.4. PZU ŻYCIE SA – INDIVIDUAL FINANCIAL DATA

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

**THE INDEPENDENT AUDITORS' REPORT ON THE SUMMARIZED FINANCIAL STATEMENTS**

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

We have audited the financial statements for the year ended 31 December 2008 of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna ('the Company') located in Warsaw at Al. Jana Pawła II 24 ('the unabridged financial statements'), from which the attached summarized financial statements for the year ended 31 December 2008 were derived by the Company's Management Board ('the summarized financial statements'). The unabridged financial statements 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.

We conducted our audit of the unabridged financial statements, from which the summarized financial statements were derived, in accordance with the chapter 7 of the Accounting Act, dated 29 September 1994 and the auditing standards issued by the National Board of Auditors. We issued an unqualified auditors' opinion on these financial statements dated 19 March 2009.

In our opinion the attached summarized financial statements, in all material respects, are consistent with the unabridged financial statements, from which they were derived.

For a better understanding of the Company's financial position as at 31 December 2008 and the results of its operations for the period from 1 January 2008 to 31 December 2008 and of the scope of our audit, the attached summarized financial statements should be read in conjunction with the

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unabridged financial statements from which the summarized financial statements were derived and our auditors' report relating to these financial statements.

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

Dominik Januszewski
Certified Auditor No. 9707

Warsaw, 20 August 2009

## PZU ŻYCIE SA BALANCE SHEET

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **A. Intangible assets** | **31,280** | **76,080** |
| 1. Goodwill | – | – |
| 2. Other intangible assets and prepayments for intangible assets | 31,280 | 76,080 |
| **B. Investments** | **27,859,379** | **24,792,721** |
| I. Property | 381,884 | 242,428 |
| 1. Freehold land, including perpetual usufruct | 89,845 | 84,526 |
| 2. Buildings and constructions, and collective freehold right | 266,579 | 134,250 |
| 3. Constructions in progress and prepayments for constructions in progress | 25,460 | 23,652 |
| II. Investments in subordinated entities, including: | 820,248 | 993,049 |
| 1. Shares | 820,248 | 853,483 |
| 2. Loans granted to subordinated entities and debt securities issued by those entities | – | 139,566 |
| 3. Other | – | – |
| III. Other financial investments | 26,657,247 | 23,557,244 |
| 1. Shares and other variable income securities, participation units and investment certificates in investment funds | 1,374,805 | 2,061,057 |
| 2. Debt securities and other fixed income securities | 19,355,377 | 19,555,365 |
| 3. Shares in joint venture | – | – |
| 4. Mortgage loans | – | – |
| 5. Other loans | 171,001 | 1,234,311 |
| 6. Term deposits with financial institutions | 5,733,284 | 665,662 |
| 7. Other investments | 22,780 | 40,849 |
| IV. Deposits due from cedants | – | – |
| **C. Net assets of Unit-linked insurance** | **2,571,140** | **3,778,247** |
| **D. Receivables** | **199,109** | **191,222** |
| I. Receivables from direct insurance | 74,134 | 67,976 |
| 1. Receivables from policyholders, including: | 59,125 | 67,433 |
| 1.1. from subordinated entities | – | – |
| 1.2. from other entities | 59,125 | 67,433 |
| 2. Receivables from insurance intermediaries, including: | 119 | 150 |
| 2.1. from subordinated entities | – | – |
| 2.2. from other entities | 119 | 150 |
| 3. Other receivables | 14,890 | 393 |
| 3.1. from subordinated entities | – | – |
| 3.2. from other entities | 14,890 | 393 |

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| II. Reinsurance receivables, including: | – | – |
| 1. from subordinated entities | – | – |
| 2. from other entities | – | – |
| III. Other receivables | 124,975 | 123,246 |
| 1. Receivables from the State Budget | 122 | 65 |
| 2. Other receivables, including: | 124,853 | 123,181 |
| 2.1 from subordinated entities | 5,452 | 3,073 |
| 2.2 from other entities | 119,401 | 120,108 |
| **E. Other assets** | **328,889** | **318,201** |
| I. Tangible assets | 53,292 | 70,233 |
| II. Cash and cash equivalents | 273,481 | 245,640 |
| III. Other | 2,116 | 2,328 |
| **F. Prepayments and deferred costs** | **356,446** | **156,440** |
| I. Deferred tax asset | 70,445 | – |
| II. Deferred acquisition costs | 85,593 | 93,699 |
| III. Accrued interest and rentals | 146,824 | 9,326 |
| IV. Other prepayments and deferred costs | 53,584 | 53,415 |
| **TOTAL ASSETS** | **31,346,243** | **29,312,911** |

| EQUITY AND LIABILITIES (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **A. Equity** | **5,934,705** | **6,697,157** |
| I. Share capital | 295,000 | 295,000 |
| II. Unpaid share capital (negative value) | – | – |
| III. Treasury shares (negative value) | – | – |
| IV. Reserve capital | 4,206,071 | 4,206,071 |
| V. Revaluation reserve | 14,488 | 18,833 |
| 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 | 1,419,146 | 2,177,253 |
| X. Net profit deductions during financial year (negative value) | – | – |
| **B. Subordinated liabilities** | – | – |
| **C. Technical reserves** | **24,744,157** | **21,675,897** |
| I. Unearned premium reserve and unexpired risk reserve | 106,391 | 71,870 |
| II. Life insurance reserves | 20,773,185 | 16,485,953 |
| III. Outstanding claims reserve (the OCR reserve) | 557,944 | 470,625 |
| IV. Reserve for bonuses and rebates for the insured | 1,553 | 1,474 |
| V. Risk equalization reserve | – | – |
| VI. Other technical reserves, as defined in Statute | 733,944 | 867,728 |
| VII. Unit-linked technical reserves | 2,571,140 | 3,778,247 |
| **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 | – | – |
| **F. Other provisions** | **127,667** | **190,864** |
| I. Provision for retirement benefits and other obligatory benefits | 59,943 | 57,972 |
| II. Deferred tax liability | – | 82,508 |
| III. Other | 67,724 | 50,384 |

| EQUITY AND LIABILITIES (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **G. Liabilities from reinsurance deposits** | – | – |
| **H. Other liabilities and Special Funds** | **417,309** | **627,909** |
| I. Direct insurance liabilities | 196,141 | 171,561 |
| 1. Liabilities to the policyholders, including: | 166,105 | 155,805 |
| 1.1. to subordinated entities | – | – |
| 1.2. to other entities | 166,105 | 155,805 |
| 2. Liabilities to insurance intermediaries, including: | 21 | 175 |
| 2.1. to subordinated entities | – | – |
| 2.2. to other entities | 21 | 175 |
| 3. Other liabilities, including: | 30,015 | 15,581 |
| 3.1. to subordinated entities | – | – |
| 3.2. to other entities | 30,015 | 15,581 |
| II. Reinsurance liabilities, including: | 2,252 | 2,252 |
| 1. to subordinated entities | – | – |
| 2. to other entities | 2,252 | 2,252 |
| 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 | 8,000 | 14,393 |
| V. Other liabilities | 136,853 | 348,274 |
| 1. Liabilities to the State Budget | 26,669 | 278,400 |
| 2. Other liabilities | 110,184 | 69,874 |
| 2.1. to subordinated entities | 2,639 | 1,755 |
| 2.2. to other entities | 107,545 | 68,119 |
| VI. Special Funds | 74,063 | 91,429 |
| **I. Accruals and deferred income** | **122,405** | **121,084** |
| I. Accrued expenses | 120,334 | 118,892 |
| II. Negative goodwill | – | – |
| III. Deferred income | 2,071 | 2,192 |
| **TOTAL EQUITY AND LIABILITIES** | **31,346,243** | **29,312,911** |

| OFF-BALANCE SHEET ITEMS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| 1. Contingent receivables, of which: | – | – |
| 1.1. guarantees received | – | – |
| 1.2. other | – | – |
| 2. Contingent liabilities, of which: | 1,000,031,479 | 55,200 |
| 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 | 5,594,240 | 6,435,293 |
| Solvency margin | 1,734,314 | 1,517,094 |
| Surplus (shortage) of own funds to cover solvency margin | 3,859,926 | 4,918,199 |
| Technical reserves, gross | 24,744,157 | 21,675,897 |
| Assets to cover technical reserves | 27,917,095 | 25,313,567 |
| Surplus (shortage) of assets to cover technical reserves | 3,172,938 | 3,637,670 |

## LIFE INSURANCE REVENUE ACCOUNT

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| I. | Premiums | 13,040,247 | 7,258,933 |
| | 1. Gross premium written | 13,082,075 | 7,265,830 |
| | 2. Reinsurers' share in premium written, gross | (7,307) | (9,047) |
| | 3. Change in unearned premium reserve and unexpired risk reserve | (34,521) | 2,150 |
| | 4. Reinsurers' share in change in unearned premium reserve and unexpired risk reserve | – | – |
| II. | Investment income | 1,827,918 | 1,879,349 |
| | 1. Income from investments in real estate | 339 | 362 |
| | 2. Income from investments in subordinates | 121,167 | 106,466 |
| | 2.1. from shares | 114,289 | 83,998 |
| | 2.2. from loans and bonds | 6,878 | 22,468 |
| | 2.3. from other investments | – | – |
| | 3. Income from other financial investments | 1,453,011 | 1,153,656 |
| | 3.1. from shares and variable-rate income securities, participation units and investment certificates from investment funds | 59,925 | 59,552 |
| | 3.2. from bonds and fixed-rate income securities | 1,178,039 | 1,059,856 |
| | 3.3. from term deposits held in financial entities | 215,047 | 33,587 |
| | 3.4. from other investments | – | 661 |
| | 4. Gain on revaluation of investments | 19,305 | 25,270 |
| | 5. Gain on sale of investments | 234,096 | 593,595 |
| III. | Unrealized investment gains | 182,822 | 495,397 |
| IV. | Other technical income on own share | 50,321 | 39,608 |
| V. | Claims and benefits | (7,517,334) | (4,918,881) |
| | 1. Claims and benefits paid on own share | (7,430,015) | (4,897,365) |
| | 1.1. Claims and benefits paid, gross | (7,430,015) | (4,897,365) |
| | 1.2. Reinsurers' share in claims and benefits paid | – | – |
| | 2. Change in outstanding claims reserve on own share | (87,319) | (21,516) |
| | 2.1. Change in outstanding claims reserve, gross | (87,319) | (21,516) |
| | 2.2. Reinsurers' share in change in outstanding claims reserve | – | – |
| VI. | Change in other technical reserves on own share | (2,946,341) | (198,629) |
| | 1. Change in life insurance reserve on own share, including: | (4,287,232) | 289,527 |
| | 1.1. Change in life insurance reserve, gross | (4,287,232) | 289,527 |
| | 1.2. Reinsurers' share in change in life insurance reserve | – | – |
| | 2. Change in unit-linked technical reserves on own share | 1,207,107 | (616,597) |
| | 2.1. Change in unit-linked technical reserves, gross | 1,207,107 | (616,597) |
| | 2.2. Reinsurers' share in change in unit-linked technical reserves | – | – |
| | 3. Change in other technical reserves described in Statute on own share | 133,784 | 128,441 |
| | 3.1. Change in other technical reserves described in Statute, gross | 133,784 | 128,441 |
| | 3.2. Reinsurers' share in change in other technical reserves described in Statute | – | – |
| VII. | Bonus and rebates including change in reserves, on own share | (1,870) | (1,403) |

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| VIII. | Insurance activity costs | (980,199) | (912,494) |
| | 1. Acquisition costs including: | (356,450) | (328,864) |
| | – change of deferred acquisition costs | (8,106) | (10,696) |
| | 2. Administration costs | (623,749) | (583,630) |
| | 3. Reinsurers commission and share in reinsurers' profits | – | – |
| IX. | Investment activity costs | (676,166) | (237,070) |
| | 1. Real estate maintenance costs | (1,331) | (1,228) |
| | 2. Other investment activity costs | (21,322) | (31,876) |
| | 3. Losses on revaluation of investments | (91,992) | (9,382) |
| | 4. Losses on sale of investments | (561,521) | (194,584) |
| X. | Unrealized investment losses | (1,131,481) | (571,086) |
| XI. | Other technical costs on own share | (46,635) | (82,647) |
| XII. | Net income on investment transferred to general profit and loss account | 500,563 | (401,651) |
| **XIII.** | **Life underwriting profit/(loss)** | **2,301,845** | **2,349,426** |

## PROFIT AND LOSS ACCOUNT

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| I. Life underwriting profit/(loss) | 2,301,845 | 2,349,426 |
| 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 | (500,563) | 401,651 |
| 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 | 64,236 | 72,702 |
| IX. Other operating costs | (114,172) | (160,344) |
| X. Operating profit/(loss) | 1,751,346 | 2,663,435 |
| XI. Extraordinary gains | – | 13 |
| XII. Extraordinary losses | – | (13) |
| XIII. Gross profit/(loss) | 1,751,346 | 2,663,435 |
| XIV. Corporate income tax | (332,200) | (486,182) |
| a) current part | (484,700) | (589,725) |
| b) deferred part | 152,500 | 103,543 |
| XV. Other obligatory charges | – | – |
| **XVI. Net profit/(loss)** | **1,419,146** | **2,177,253** |
| Net profit/(loss) (annualized) | 1,419,146 | 2,177,253 |
| Weighted average number of common shares | 11,800,000 | 11,800,000 |
| Profit/(loss) per common share (in PLN) | 120,27 | 184,51 |

## CASH FLOW STATEMENT

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **A. Cash flow on operating activity** | **–** | **–** |
| I. Inflows | 13,195,995 | 7,376,721 |
| 1. Inflows from direct activity and inwards reinsurance | 13,151,170 | 7,325,533 |
| 1.1. Cash inflows from premium, gross | 13,105,661 | 7,283,255 |
| 1.2. Cash inflows from recoveries, recoupments and returns of claims paid | – | – |
| 1.3. Other inflows from direct activity | 45,509 | 42,278 |
| 2. Inflows from reinsurance | – | – |
| 2.1. Reinsurers share in claims and benefits paid | – | – |
| 2.2. Inflows from reinsurance commission and share in reinsurers' profits | – | – |
| 2.3. Other reinsurance inflows | – | – |
| 3. Inflows from other operating activity | 44,825 | 51,188 |
| 3.1. Inflows from activity on behalf of other insurance companies | – | – |
| 3.2. Sale of intangible assets and tangible assets other than investments | 1,454 | 7,646 |
| 3.3. Other inflows | 43,371 | 43,542 |
| II. Outflows | (9,173,913) | (6,540,059) |
| 1. Outflows from direct activity and inwards reinsurance | (8,332,699) | (5,763,769) |
| 1.1. Premium returns, gross | – | – |
| 1.2. Claims and benefits paid, gross | (7,275,031) | (4,740,377) |
| 1.3. Outflows due to acquisition | (333,993) | (318,167) |
| 1.4. Outflows due to administration | (551,966) | (529,930) |
| 1.5. Outflows for claims handling and pursuit of recoveries | (154,983) | (156,988) |
| 1.6. Commission paid and share in inwards reinsurance profits | – | – |
| 1.7. Other outflows from direct activity and inwards reinsurance | (16,726) | (18,307) |
| 2. Reinsurance outflows | (7,828) | (11,025) |
| 2.1. Reinsurers share in premium paid | (7,828) | (11,025) |
| 2.2. Other reinsurance outflows | – | – |
| 3. Outflows from other operating activities | (833,386) | (765,265) |
| 3.1. Outflows from activity on behalf of other insurance companies | – | – |
| 3.2. Purchase of intangible assets and tangible assets other than investments | (42,367) | (99,896) |
| 3.3. Other outflows | (791,019) | (665,369) |
| III. Net cash flow on operating activities (I-II) | 4,022,082 | 836,662 |
| **B. Cash flows from investments activities** | **–** | **–** |
| I. Inflows | 251,265,959 | 240,211,467 |
| 1. Sale of real estate | – | – |
| 2. Sale of shares in subordinates | 73,833 | – |
| 3. Sale of shares in companies, participation units and investment certificates in investment funds | 2,825,302 | 4,307,811 |
| 4. Proceeds from debt securities issued by subordinates and repayment of loans given to subordinates | 146,445 | 28,273 |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| 5. Proceeds from debt securities issued by other companies | 8,689,048 | 3,537,838 |
| 6. Liquidation of term deposits in financial institutions | 119,387,137 | 101,358,640 |
| 7. Proceeds from other investments | 118,853,778 | 129,804,853 |
| 8. Inflows from real estate | 339 | 362 |
| 9. Interest received | 1,126,775 | 1,024,759 |
| 10. Dividends received | 162,853 | 132,461 |
| 11. Other inflows from investment activities | 449 | 16,470 |
| II. Outflows | (253,094,922) | (240,942,092) |
| 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 | (2,702,754) | (4,371,442) |
| 4. Purchase of debt securities issued by subordinates and repayment of loans given to subordinates | – | – |
| 5. Purchase of debt securities issued by other companies | (7,865,495) | (6,538,633) |
| 6. Purchase of term deposits in financial institutions | (124,531,713) | (101,267,447) |
| 7. Purchase of other investments | (117,937,568) | (128,708,459) |
| 8. Outflows from real estate maintenance | (1,331) | (1,228) |
| 9. Other outflows from investment activities | (56,061) | (54,883) |
| III. Net cash flow from investment activities (I-II) | (1,828,963) | (730,625) |
| **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 | – | – |
| II. Outflows | (2,167,253) | – |
| 1. Dividends | (2,167,253) | – |
| 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) | (2,167,253) | – |
| **D. Total net cash flow (A.III+/-B.III+/-C.III)** | **25,866** | **106,037** |
| **E. Change in cash balance, including:** | **27,841** | **105,788** |
| – change in cash due to foreign exchange differences | **1,975** | **(249)** |
| **F. Cash at the beginning of the period** | **245,640** | **139,852** |
| **G. Cash at the end of the period (F+/-D), including:** | **273,481** | **245,640** |
| – restricted cash | **55,866** | **82,825** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **I. Equity at the beginning of the period** | **6,697,157** | **4,517,269** |
| a) changes in accounting policies | – | – |
| b) adjustments due to fundamental errors | – | – |
| **I.a. Equity at the beginning of the period, restated** | **6,697,157** | **4,517,269** |
| **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** | **4,206,071** | **2,279,488** |
| 4.1. Changes in reserve capital | – | 1,926,583 |
| a) increases | – | 1,926,583 |
| – 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 |
| b) decreases | – | – |
| – loss coverage | – | – |
| – other decreases | – | – |
| **4.2. Reserve capital at the end of the period** | **4,206,071** | **4,206,071** |
| **5. Revaluation reserve at the beginning of the period** | **18,833** | **6,452** |
| a) changes in accounting policies | – | – |
| b) adjustments due to fundamental errors | – | – |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **5a. Revaluation reserve at the beginning of the period, restated** | **18,833** | **6,452** |
| 5.1. Changes in revaluation reserve | (4,345) | 12,381 |
| a) increases | 58,177 | 19,105 |
| – valuation of long-term financial assets | – | 19,105 |
| – transfer of impairment losses on available-for-sale investments to the profit and loss account | 58,177 | – |
| b) decreases | 62,522 | 6,724 |
| – valuation of long-term financial assets | 62,522 | 6,470 |
| – valuation of real estate | – | – |
| – sale or liquidation of tangible assets | – | 254 |
| **5.2. Revaluation reserve at the end of the period** | **14,488** | **18,833** |
| **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** | **2,177,253** | **1,936,329** |
| **7.1. Profit from previous years at the beginning of the period** | 2,177,253 | 1,936,329 |
| a) changes in accounting policies | – | – |
| b) adjustments due to fundamental errors | – | – |
| **7.2. Profit from previous years at the beginning of the period, restated** | **2,177,253** | **1,936,329** |
| a) increases | – | – |
| b) decreases | 2,177,253 | 1,936,329 |
| – dividends paid | 2,167,253 | – |
| – 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)** | **1,419,146** | **2,177,253** |
| a) net profit | 1,419,146 | 2,177,253 |
| b) net loss | – | – |
| II. Equity at the end of the period | **5,934,705** | **6,697,157** |
| III. Equity at the end of the period, after proposed profit distribution/loss coverage (*) | **5,934,705** | **6,697,157** |

(*) On 26 May 2008 the Ordinary General Meeting of PZU Życie SA resolved to designate 1,419,146 thousand to dividend.

# 15.5. PTE PZU SA – INDIVIDUAL FINANCIAL DATA

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

**THE INDEPENDENT AUDITORS' REPORT ON THE SUMMARIZED FINANCIAL STATEMENTS**

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

We have audited the financial statements for the year ended 31 December 2008 of Powszechne Towarzystwo Emerytalne PZU S.A. ('the Company') located in Warsaw at Al. Jana Pawła II 24 ('the unabridged financial statements'), from which the attached summarized financial statements for the year ended 31 December 2008 were derived by the Company's Management Board ('the summarized financial statements'). The unabridged financial statements 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.

We conducted our audit of the unabridged financial statements, from which the summarized financial statements were derived, in accordance with the chapter 7 of the Accounting Act, dated 29 September 1994 and the auditing standards issued by the National Board of Auditors. We issued an auditors' opinion including an emphasis of matter on these financial statements dated 6 March 2009. The emphasis of matter referred to the recognition of upfront fee on social security contributions and management fees (based on the payments into a bank account of the contributions or bonds received, which payments had been actually received and converted to fund units) as well as delays in the Social Security Office transferring the social security contributions.

In our opinion the attached summarized financial statements, in all material respects, are consistent with the unabridged financial statements, from which they were derived.

1

For a better understanding of the Company's financial position as at 31 December 2008 and the results of its operations for the period from 1 January 2008 to 31 December 2008 and of the scope of our audit, the attached summarized financial statements should be read in conjunction with the unabridged financial statements from which the summarized financial statements were derived and our auditors' report relating to these financial statements.

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

Dominik Januszewski
Certified Auditor No. 9707

Warsaw, 20 August 2009

## PTE PZU SA BALANCE SHEET

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **A.** Non-current assets | **174,138** | **90,266** |
| **I.** Intangible assets | **218** | **18** |
| 1. Costs of completed development work | – | – |
| 2. Goodwill | – | – |
| 3. Other intangible assets | 218 | 18 |
| 4. Advance payments towards intangible assets | – | – |
| **II. Property, plant and equipment** | **1,487** | **1,906** |
| 1. Fixed assets | 1,487 | 1,906 |
| a) land (including perpectual usufruct of land) | – | – |
| b) buildings, premises and civil and marine engineering facilities | – | – |
| c) technical plant and machinery | 324 | 194 |
| d) means of transportation | 1,088 | 1,588 |
| e) other fixed assets | 75 | 124 |
| 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 | **167,667** | **86,546** |
| 1. Real estate | – | – |
| 2. Intangible assets | – | – |
| 3. Long-term financial assets | 167,667 | 86,546 |
| a) in affiliated entities | – | – |
| – ownership interests or shares | – | – |
| – other securities | – | – |
| – granted loans | – | – |
| – other long-term financial assets | – | – |
| b) in other entities | 167,667 | 86,546 |
| – ownership interests or shares | – | – |
| – other securities | 167,667 | 86,546 |
| – granted loans | – | – |
| – other long-term financial assets | – | – |
| 4. Other long-term investments | – | – |
| **V. Long-term prepayments and accruals** | **4,581** | **1,611** |
| 1. Deferred tax assets | 4,581 | 1,611 |
| 2. Other accruals | – | – |

| ASSETS (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **B.** Current assets | **184,942** | **254,167** |
| **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 | **2,748** | **5,081** |
| 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 | 2,748 | 5,081 |
| a) for goods and services with a term of payment: | 2,462 | 4,980 |
| – up to 12 months | 2,462 | 4,980 |
| – above 12 months | – | – |
| b) on taxes, subsidies, customs duties, social security and health insurance or other services | – | – |
| c) others | 286 | 101 |
| d) under litigation | – | – |
| **III.** Short-term investments | **182,060** | **248,788** |
| 1. Short-term financial assets | 179,726 | 246,641 |
| a) in affiliated entities | – | – |
| – ownership interests or shares | – | – |
| – other securities | – | – |
| – granted loans | – | – |
| – other short-term financial assets | – | – |
| b) in other entities | 146,368 | 196,716 |
| – ownership interests or shares | – | – |
| – other securities | 146,368 | 196,716 |
| – granted loans | – | – |
| – other short-term financial assets | – | – |
| c) cash and other cash assets | 33,358 | 49,925 |
| – cash on hand and on accounts | 33,358 | 49,925 |
| – other cash | – | – |
| – other cash assets | – | – |
| 2. Other short-term investments | 2,334 | 2,147 |
| **IV. Short-term prepayments and accruals** | **134** | **298** |
| **Assets, total** | **359,080** | **344,433** |

| EQUITY AND LIABILITIES (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **A. Equity** | **312,245** | **303,372** |
| **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** | **1,393** | **(1,821)** |
| **VI. Other reserve capital** | **–** | **–** |
| **VII. Profit (loss) from previous years** | **–** | **–** |
| **VIII. Net profit (loss)** | **107,661** | **102,002** |
| **IX. Charges to net profit during the financial year (negative value)** | **–** | **–** |
| **B. Liabilities and reserves for liabilities** | **46,835** | **41,061** |
| **I. Reserves for liabilities** | **17,127** | **1,915** |
| 1. Deferred tax liabilities | 2,965 | 1,434 |
| 2. Reserve for pension and similar benefits | 763 | 481 |
| – long-term | 711 | 475 |
| – short-term | 52 | 6 |
| 3. Other reserves | 13,399 | – |
| – long-term | 13,399 | – |
| – 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 | – | – |

| EQUITY AND LIABILITIES (in PLN thousands) | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **III. Short-term liabilities** | **15,067** | **26,079** |
| 1. To affiliated entities | 2,788 | 124 |
| a) For goods and services with a maturity of: | 2,788 | 124 |
| – up to 12 months | 2,788 | 124 |
| – above 12 months | – | – |
| b) others | – | – |
| 2. To other entities | 12,118 | 25,843 |
| a) credits and loans | – | – |
| b) by issuing debt securities | – | – |
| c) other financial liabilities | – | – |
| d) for goods and services with a maturity of | 3,434 | 2,375 |
| – up to 12 months | 3,434 | 2,375 |
| – above 12 months | – | – |
| e) advances received towards deliveries | – | – |
| f) bill of exchange liabilities | – | – |
| g) on taxes, customs, insurance and other benefits | 8,481 | 23,281 |
| h) on compensation | 1 | 3 |
| i) others | 202 | 184 |
| 3. Special purpose funds | 161 | 112 |
| **IV. Accruals and deferred income** | **14,641** | **13,067** |
| 1. Negative goodwill | – | – |
| 2. Other accruals | 14,641 | 13,067 |
| – long-term | – | – |
| – short-term | 14,641 | 13,067 |
| **Total equity and liabilities** | **359,080** | **344,433** |

## PROFIT AND LOSS ACCOUNT (COMPARABLE VERSION)

| (in PLN thousands) | | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|---|
| **A. Net sales revenues and equivalents, including:** | | **291,829** | **263,744** |
| | – from affiliated entities | – | – |
| I. | Net revenues on the sales of products | 291,829 | 263,744 |
| 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** | | **162,455** | **149,893** |
| I. | Depreciation | 703 | 628 |
| II. | Consumption of materials and energy | 1,208 | 1,099 |
| III. | Third party services | 82,750 | 78,629 |
| IV. | Taxes and fees, including: | 301 | 263 |
| | – excise tax | – | – |
| V. | Payroll | 20,557 | 18,335 |
| VI. | Payroll-related expenses | 3,438 | 3,025 |
| VII. | Other types of costs | 53,498 | 47,914 |
| VIII. | Cost of merchandise and materials sold | – | – |
| **C. Profit (loss) on sales (A-B)** | | **129,374** | **113,851** |
| **D. Other operating income** | | **645** | **370** |
| I. | Profit on the sale of non-financial non-current assets | – | 3 |
| II. | Subsidies | – | – |
| III. | Other operating income | 645 | 367 |
| **E. Other operating expenses** | | **14,036** | **1,305** |
| I. | Loss on the sale of non-financial non-current assets | 6 | – |
| II. | Revaluation of non-financial assets | – | – |
| III. | Other operating expenses | 14,030 | 1,305 |
| **F. Operating profit (loss) (C+D-E)** | | **115,983** | **112,916** |
| **G. Financial income** | | **17,318** | **13,150** |
| I. | Dividends and profit-sharing, including: | – | – |
| | – from affiliated entities | – | – |
| II. | Interest, including: | 5,758 | 2,629 |
| | – from affiliated entities | – | – |
| III. | Profit on the sale of investments | 3,950 | 4,420 |
| IV. | Revaluation of investments | 7,601 | 6,099 |
| V. | Others | 9 | 2 |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **H. Financial expenses** | **218** | **161** |
| I. Interest, including: | – | – |
| – to affiliated entities | – | – |
| II. Loss on the sale of investments | – | – |
| III. Revaluation of investments | – | – |
| IV. Others | 218 | 161 |
| **I. Profit (loss) on economic activity (F+G-H)** | **133,083** | **125,905** |
| **J. Result on extraordinary events (J.I.-J.II.)** | **–** | **–** |
| I. Extraordinary gains | – | – |
| II. Extraordinary losses | – | – |
| **K. Gross profit (loss) (I±J)** | **133,083** | **125,905** |
| **L. Income tax** | **25,422** | **23,903** |
| **M. Other tax charges (increasing losses)** | **–** | **–** |
| **N. Net profit (loss) (K-L-M)** | **107,661** | **102,002** |

## CASH FLOW STATEMENT (INDIRECT METHOD)

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **A. Cash flow on operating activity** | | |
| **I. Net profit (loss)** | **107,661** | **102,002** |
| **II. Total adjustments** | **(12,243)** | **12,913** |
| 1. Depreciation | 703 | 628 |
| 2. FX gains (losses) | – | – |
| 3. Interests and profit sharing (dividends) | (18,065) | (11,473) |
| 4. Profit (loss) on investing activity | 6 | 3 |
| 5. Change in the balance of reserves | 15,212 | (1,219) |
| 6. Change in the balance of inventory | – | – |
| 7. Change in the balance of receivables | 2,334 | 2,325 |
| 8. Change in the balance of current liabilities, except for credits and loans | (11,012) | 20,311 |
| 9. Change in the balance of prepayments, deferred income and accruals | (1,233) | 3,187 |
| 10. Other adjustments | (188) | (849) |
| **III. Net cash flow on operating activity (I±II)** | **95,418** | **114,915** |
| **B. Cash flow on investing activity** | | |
| **I. Inflows** | **210,763** | **232,716** |
| 1. Sale of intangible assets and tangible assets | 33 | 248 |
| 2. Sale of investments in real estate and intangible assets | – | – |
| 3. From financial assets, including: | 210,730 | 232,468 |
| a) in affiliated entities | – | – |
| b) in other entities | 210,730 | 232,468 |
| – sale of financial assets | 200,000 | 228,354 |
| – dividends and profit-sharing | – | – |
| – repayment of granted long-term loans | – | – |
| – interest | 10,730 | 4,114 |
| – other inflows from financial assets | – | – |
| 4. Other investment inflows | – | – |
| **II. Outflows** | **220,746** | **244,787** |
| 1. Purchase of intangible assets and tangible assets | 522 | 1,395 |
| 2. Investments in real estate and intangible assets | – | – |
| 3. In financial assets, including: | 220,224 | 243,392 |
| a) in affiliated entities | – | – |
| b) in other entities | 220,224 | 243,392 |
| – purchase of financial assets | 220,224 | 243,392 |
| – granted long-term loans | – | – |
| 4. Other investment outflows | – | – |
| **III. Net cash flow on investing activity (I-II)** | **(9,983)** | **(12,071)** |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **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** | **102,002** | **83,883** |
| 1. Re-acquisition of own shares | – | – |
| 2. Dividends and other disbursements to owners | 102,002 | 83,883 |
| 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)** | **(102,002)** | **(83,883)** |
| **D. Total net cash flow (A.III±B.III±C.III)** | **(16,567)** | **18,961** |
| **E. Balance sheet change in cash balance, including:** | **(16,567)** | **18,961** |
| – change in the cash balance on account of FX gains | – | – |
| F. Cash and cash equivalents at the beginning of the period | **49,925** | **30,964** |
| G. Cash and cash equivalents at the end of the period (F±D), of which: | **33,358** | **49,925** |
| – of restricted use (Social Fund) | 165 | 112 |

## STATEMENT OF CHANGES IN EQUITY

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| **I. Equity at the beginning of the period (OB)** | **303,372** | **287,627** |
| – adjustments due to fundamental errors | – | – |
| – changes in accounting principles | – | – |
| **I.a. Equity at the beginning of the period, adjusted** | **303,372** | **287,627** |
| 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 | 171,191 | 171,190 |
| 4.1. Changes to reserve capital | 0 | 0 |
| 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): | – | |
| – loss covering | – | |
| 4.2. Reserve capital at the end of the period | 171,191 | 171,190 |
| 5. Revaluation reserve at the beginning of the period | (1,821) | 554 |
| 5.1. Changes to revaluation reserve | 3,214 | (2,374) |
| a) increases (due to): | 3,214 | – |
| – revaluation of investments | 3,214 | – |
| b) decreases (due to): | – | 2,374 |
| – revaluation of investments | – | 2,374 |
| 5.2. Revaluation reserve at the end of the period | 1,394 | (1,820) |

| (in PLN thousands) | 01.01–31.12 2008 | 01.01–31.12 2007 |
|---|---|---|
| 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 | 102,002 | 83,883 |
| 7.1. Opening balance of accumulated profit from previous years | 102,002 | 83,883 |
| – adjustments due to errors | – | – |
| 7.2. Profits from previous years at the beginning of the period, adjusted | 102,002 | 83,883 |
| a) increases (due to): | – | – |
| – appropriation profits from previous years | – | – |
| b) decreases (due to): | 102,002 | 83,883 |
| – coverage of losses from previous years | – | – |
| – dividend paid | 102,002 | 83,883 |
| 7.3. Profits from previous years at the end of the period | – | – |
| 7.4. Losses from previous years at the beginning of the period | – | – |
| – adjustments due to fundamental errors | – | – |
| – adjustments for changes in accounting principles | – | – |
| 7.5. Losses from previous years at the beginning of the period, adjusted | – | – |
| a) increases (due to): | – | – |
| – transfer of losses from previous years to be covered | – | – |
| b) decreases (due to): | – | – |
| – coverage with profits from previous years | – | – |
| – covering loss with reserve capital | – | – |
| 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 | 107,661 | 102,002 |
| a) net profit | 107,661 | 102,002 |
| b) net loss | – | – |
| c) charges to profits | – | – |
| II. Equity at the end of the period (CB) | **312,245** | **303,372** |
| III. Equity after considering the proposed distribution of profits (coverage of losses) | **312,245** | **303,372** |

# 16. CONTACT DETAILS OF THE PZU GROUP

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