PKO 45.80 -0.22%

PZU 411,00 1,26%

TPE 6.29 -0.47%

TPS 17.66 0.34%

WIG

annual report

2010

Praktyczne rozwiązania

Andrzej Klesyk, President of the Management Board of PZU
Aleksander Grad, Minister of Treasury
Ludwik Sobolewski, President of GPW

Andrzej Klesyk, President of the Management Board of PZU

Ludwik Sobolewski, President of GPW
Andrzej Klesyk, President of the Management Board of PZU
Donald Tusk, Prime Minister
Aleksander Grad, Minister of Treasury

PKO 45.80 -0.22% PZU 411,00 1,26% TPE 6.29 -0.47% TPS 17.66

On 13 April 2010, the Polish Financial Supervision Authority approved the prospectus of PZU, which was then published on Friday, 16 April 2010. The offer of PZU was the largest one in the Central and Eastern Europe since the beginning of economic transformation and the largest one in the entire Europe since the end of 2007.

Praktyczne rozwiązania

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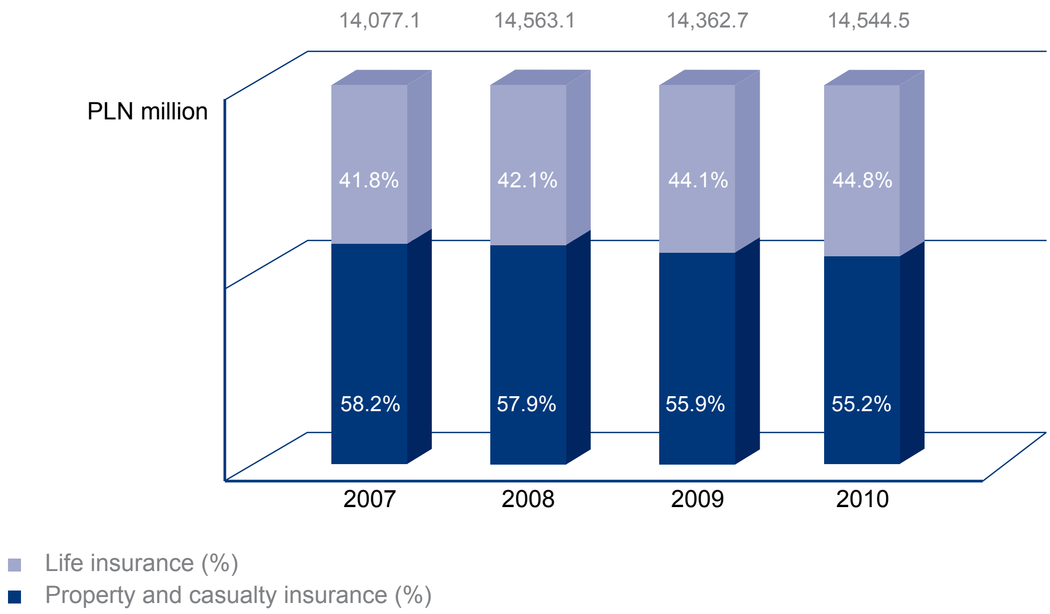
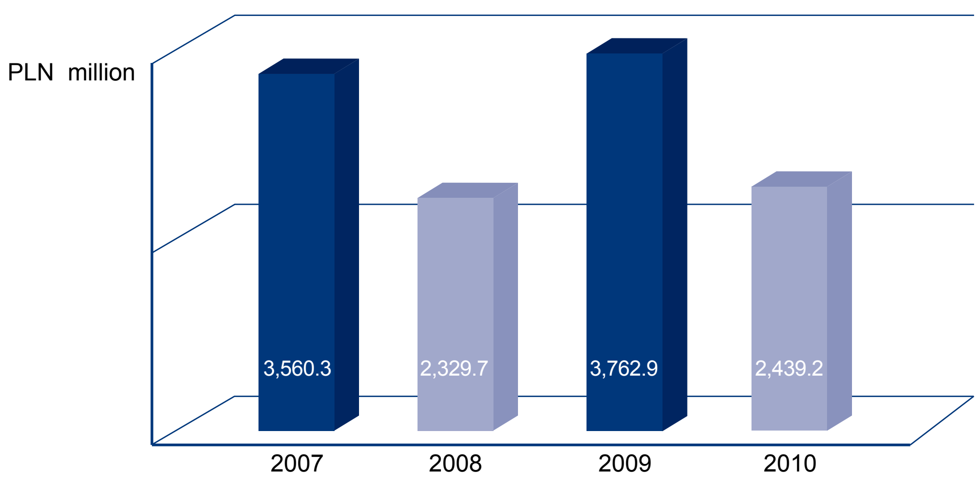
1. PZU Group Highlights

Gross written premium 2007–2010 (PLN million, %)



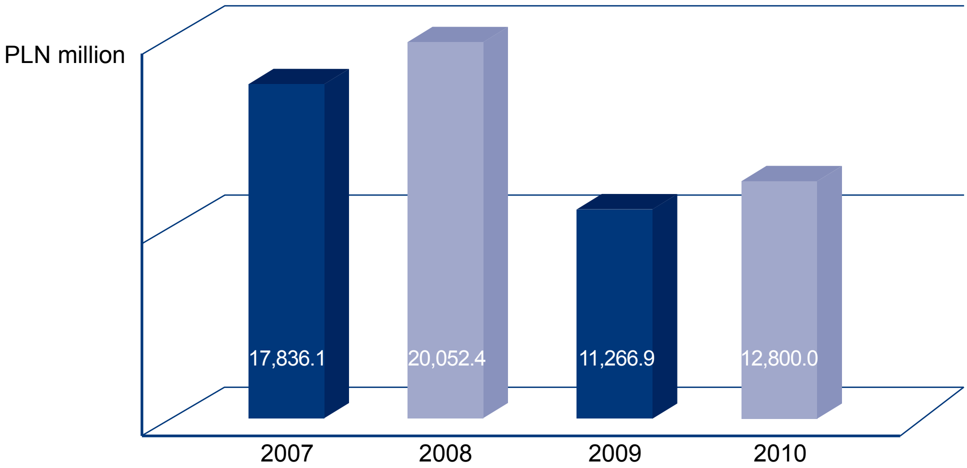
Source: Company, IAS data

Net financial result 2007–2010 (PLN million)



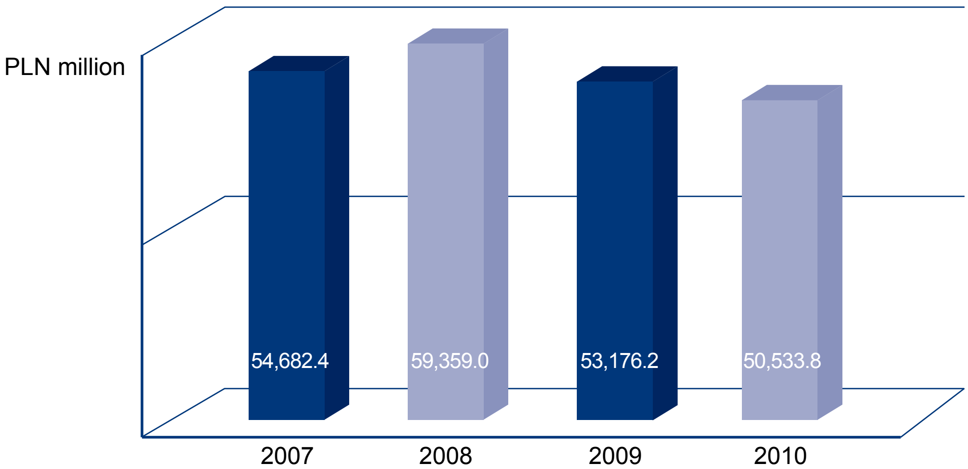
Source: Company, IAS data

Equity 2007–2010 (PLN million)



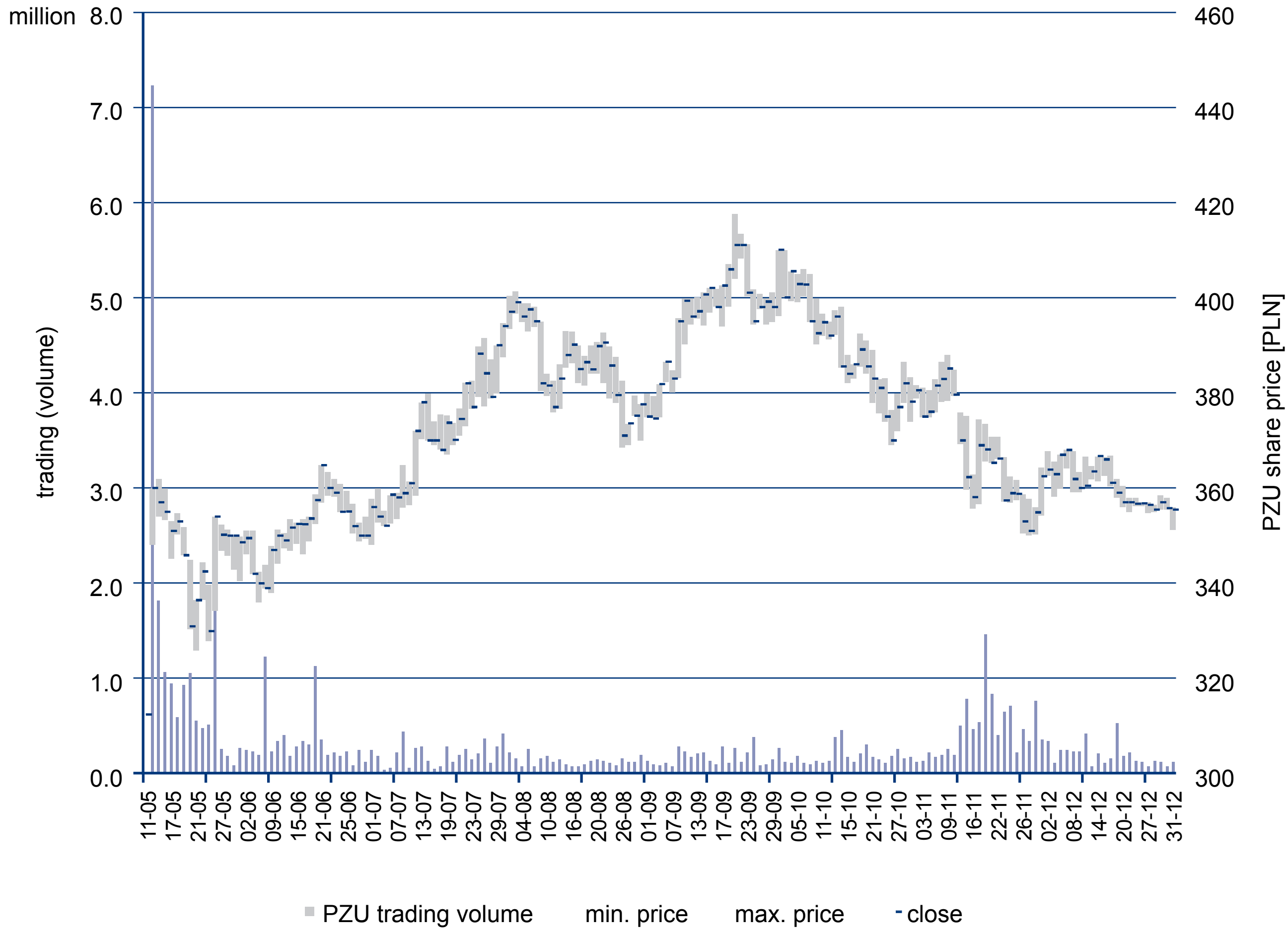
Source: Company, IAS data

Total Assets 2007–2010 (PLN million)



Source: Company, IAS data

PZU share price in 2010



2. PZU SA Supervisory Board

- Marzena Piszczek – Chairwoman of the PZU SA Supervisory Board
- Zbigniew Ćwiąkalski – Deputy Chairman of the PZU SA Supervisory Board
- Grażyna Piotrowska-Oliwa – Secretary of the PZU SA Supervisory Board
- Krzysztof Dresler – Member of the PZU SA Supervisory Board
- Dariusz Filar – Member of the PZU SA Supervisory Board
- Piotr Maciej Kamiński – Member of the PZU SA Supervisory Board
- Waldemar Maj – Member of the PZU SA Supervisory Board

Letter from the Supervisory Board Chairwoman

3. Letter from the Supervisory Board Chairwoman

Dear PZU Investors,

The year 2010 abounded in events making PZU a completely different company today from what it was twelve months ago. Its clear ownership status, the splendour of being a listed company and the steady implementation of its strategy provide grounds for optimism and make it possible to expect that PZU will pursue more important initiatives.

In the period of the global economy's gradual recovery from the crisis and the temporary volatility of the Polish currency, Poland's economy fared relatively well, recording economic growth of 3.8%. In 2010, the WIG and WIG20 stock indices, after recovering from a very strong fall, grew much more slowly than the year before, noting a YoY increase of 18.8% and 14.9%, respectively. The situation on the capital markets was relatively favourable, which enabled insurers to generate profit both on the stock and bond markets.

PZU's financial performance in 2010 was driven primarily by the restructuring of the corporate client portfolio, catastrophic and non-recurring events (floods and heavy snowfall) and restructuring processes aimed at reducing administrative expenses. In 2010, the PZU Group collected PLN 14,544 million worth of insurance premiums. Claims of PLN 10,299 million were paid out. Net profit reached PLN 2,439 million and return on equity (ROE) 20.3%. This is very good news for the shareholders.

The PZU Group remains the leader on the Polish insurance market. The non-life company's market share measured by gross written premium at the end of 2010 was 34.2%, while PZU Życie's market share was 29.6%. We have been witnessing a deceleration of the unfavourable trend observed in recent years in the area of key importance for PZU, that is retail motor insurance. PZU Życie has been consistently building its leadership position on the group insurance market, while developing its individual offer.

In 2010, PZU carried out the first stage of the employment restructuring process. Restructuring activities allowed the company to reduce its administrative expenses by PLN 145 million (-8.1%). According to its strategy, the Company also conducted work to ensure profitable growth of business, efficiency increases in the claims handling process, enhancing customer service standards, process reorganisation and cost optimisation.

I would like to thank the Management Boards and employees of the PZU Group companies for their determination in pursuing the changes which have made PZU what it is today. Implementing the projects scheduled for 2010 required courage and intensive teamwork. I am convinced that the coming years will be as successful for the company as this one was.

Chairwoman
of the PZU Supervisory Board

Marzena Piszczek

PZU Management Team

4. Management Team of PZU (as at 30.04.2011)

Andrzej Klesyk
President of the Management Board of PZU
Head of the PZU Group

Witold Jaworski
Member of the Management Board of PZU
Responsible for retail insurance, network of outlets of the Group and marketing

Przemysław Dąbrowski
Member of the Management Board of PZU
Vice President of the Management Board of PZU Życie
Head of the Financial Division
Responsible for finances, accounting and controlling

Tomasz Tarkowski
Member of the Management Board of PZU
Responsible for claim and benefit settlement

Dariusz Krzewina
President of the Management Board of PZU Życie
Director of the PZU Group
Responsible for life insurance and actuarial matters

Rafał Grodzicki
Vice President of the Management Board of PZU Życie
Director of the PZU Group
Responsible for individual life insurance, distribution, operational activity and IT

Mariusz J. Sarnowski
Vice President of the Management Board of PZU Życie
Director of the PZU Group
Responsible for enterprise insurance and reinsurance

Krzysztof D. Branny
Vice President of the Management Board of PZU Życie
Director of the PZU Group
Responsible for human resources

PGE 23.20 0.43% PGN 3.76 0.80% PKN 57.05 0.26% PKO 45.80 -0.22%

PZU 411,00 1,26% TPE 6.2

PKO 45.80 -0.22% PZU 411,00 1,26% TPE 6.29

”The public offer of our shares and the stock exchange debut are the symbol of changes we make at PZU”

Andrzej Klesyk, President of the Management Board of PZU

-0.47% TPS 17.66 0.34%

Letter from the CEO

7 791 169 7 938 984 5 177 098 5 002 543
1 287 578 46 644 27,9 96,9
26 765 773 12 789 415 2 266 308 4 544 6

2 220 299
83 2 698 739 28 936 978
17,2 8,2

5. Letter from the CEO

Dear PZU Investors,

It is my honour to convey to you the Management Board Report on the Activity of PZU and the PZU Capital Group for 2010.

In 2010, PZU became a public company. At the same time, the PZU Group continued to implement crucial changes for the firm's future. The management team pursued the objectives set forth in the PZU Group's Strategy for 2009–2011.

In 2010, Poland's macroeconomic standing was characterised by economic growth and a recovery in domestic demand and individual consumption. On the other hand, we witnessed volatility in the Polish zloty exchange rate and a lack of recovery in investments among private companies. These events exerted a moderately positive impact on insurance sales in Poland. In 2010, gross written premium increased in both life and non-life business. In this year of uncertainty, the PZU Group wrote insurance premiums of PLN 14,544 million. Net earnings were PLN 2,439 million. Catastrophic events made a significant contribution to these results: heavy snow fall and enormous flooding. Undoubtedly, the most important event for PZU in 2010 was the listing of the Company's shares. The largest floatation in recent years on the Warsaw Stock Exchange and the largest IPO in recent years in Europe turned the attention of public opinion to us. However, these events could not impede the necessary restructuring processes associated with implementing PZU's strategy in 2009–2011. A strategy that focuses on profitable growth and building a cost-effective organisation, while satisfying customer needs.

In 2010, we also restructured the corporate motor insurance portfolio as previously announced. Handling the claims related to the two waves of flooding in 2010 in Poland was a challenge and a test for PZU. The destruction wreaked by enormous flooding spanned 14 regions. The Company had to undertake extraordinary measures to organise assistance for insured customers. PZU received more than 120,000 claims in this period. Statistically, that is seven times more than usual in this time period. In total, the firm paid claims for flooding alone worth more than PLN 600 million.

In 2010, the first stage of downsizing was implemented in connection with centralising distributed functions and achieving greater specialisation among employees. This process, which was conducted while respecting all employee rights and in consultation with the trade unions, provided the employees affected by these changes with more favourable conditions than stipulated by law and considerable outplacement assistance.

The market's confidence in the changes taking place in PZU was confirmed by maintaining the Company's high rating. In July 2010, Standard & Poor's upheld the long-term credit rating and the financial strength rating at the level of A with a stable rating outlook.

On behalf of the Management Boards of the PZU Group companies I would like to thank the following parties for the most recent year of 2010. Our customers for choosing PZU as their partner to ensure their security. I would like to thank our shareholders and the Supervisory Board for their cooperation in the Company's crucial areas and moments. I would also like to thank our employees and agents for their efforts to build the firm's value and for their support in implementing the changes taking place in PZU.

Respectfully,

Andrzej Klesyk
President of the Management Board
of PZU, CEO

6. The 2010 Calendar

Date	Event
3 March 2010	Extraordinary General Meeting of PZU – resolution in the matter of preparing IFRS-compliant consolidated financial statements
16 March 2010	Extraordinary General Meeting of PZU – resolution in the matter of the Company purchasing treasury shares for retirement in connection with share price stabilisation activities
13 April 2010	PFSA (KNF) approves the Prospectus
16 April 2010	Prospectus is published
16 April 2010	PZU is awarded the status of a KDPW SA participant and its shares are registered
20–26 April 2010	Subscription for shares for Authorised Persons
20–28 April 2010	Subscription for shares for individual investors
29 April 2010	Share sale price set
30 April–5 May 2010	Subscription for shares for institutional investors
7 May 2010	GPW SA adopts a resolution on the admission and introduction of PZU shares to be traded on the stock market
12 May 2010	IPO of PZU shares on the GPW SA
17 May 2010	PZU Group's Q1 2010 report published
17 May 2010	PZU shares included in the WIG20 index
10 June 2010	Annual General Meeting of PZU accepts standalone and consolidated statements for 2009. Changes to the PZU Supervisory Board: Marzena Piszczek appointed as Chairwoman of the PZU Supervisory Board
26 August 2010	PZU Group's H1 2010 report published
9 September 2010	Remaining part of the 2009 dividend of PLN 10.91 gross per share paid out
27 September 2010	Rafał Stankiewicz, PZU Management Board Member, resigns
15 November 2010	Publication of the report of the PZU Group for Q3 2010
18 November 2010	Eureko B.V. informs of a sale of a block of shares constituing 12.99%
21 December 2010	Przemysław Dąbrowski appointed as a Member of Management Board of PZU

7. PZU Group’s financial highlights in 2010

7.1 Consolidated financial highlights of PZU (IFRS compliant)

Data from the consolidated statement of financial position	PLN thousand 31 December 2010	PLN thousand 31 December 2009	EUR thousand 31 December 2010	EUR thousand 31 December 2009
Assets	50,533,832	53,176,209	12,760,102	12,943,919
Share capital	86,352	86,352	21,804	21,019
Capital and reserves attributed to holders of parent’s share capital	12,799,800	11,266,746	3,232,028	2,742,502
Minority interest	126	133	32	32
Total equity	12,799,926	11,266,879	3,232,060	2,742,534
Weighted average basic and diluted number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Book value per common share (PLN/EUR)	148.23	130.47	37.43	31.76

Data from the consolidated income statement	PLN thousand 1 January– –31 December 2010	PLN thousand 1 January– –31 December 2009	EUR thousand 1 January– –31 December 2010	EUR thousand 1 January– –31 December 2009
Gross written premiums	14,544,457	14,362,717	3,632,119	3,308,924
Net earned premiums	14,213,013	14,485,214	3,549,349	3,337,146
Fee and commission income	288,037	340,876	71,930	78,532
Net profit/loss on investing activity	2,781,840	3,469,001	694,696	799,198
Net insurance claims	10,299,235	9,436,281	2,571,980	2,173,958
Gross profit (loss)	3,029,431	4,565,811	756,526	1,051,885
Net profit (loss) attributed to holders of parent’s equity	2,439,231	3,762,945	609,138	866,918
Minority profit (loss)	(2)	(34)	-	(8)
Weighted average basic and diluted number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted profit per common share (PLN/EUR)	28.25	43.58	7.05	10.04

Data from the consolidated statement of cash flows	PLN thousand 31 December 2010	PLN thousand 31 December 2009	EUR thousand 31 December 2010	EUR thousand 31 December 2009
Net cash flow on operating activity	469,423	(1,540,556)	117,227	(354,918)
Net cash flow on investing activity	5,329,478	9,404,126	1,330,906	2,166,550
Net cash flow on financing activity	(5,727,985)	(8,029,975)	(1,430,423)	(1,849,969)
Total net cash flow	70,916	(166,405)	17,710	(38,337)

7.2 Standalone financial highlights of PZU (based on PAS requirements)

Balance sheet data	PLN thousand 31 December 2010	PLN thousand 31 December 2009	EUR thousand 31 December 2010	EUR thousand 31 December 2009
Assets	26,213,094	28,936,978	6,618,967	7,043,712
Total equity	11,902,186	10,411,542	3,005,375	2,534,332
Weighted average basic and diluted number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Book value per common share (PLN/EUR)	137.83	120.57	34.80	29.35

Data from the technical property and casualty insurance account and the non-technical profit and loss account	PLN thousand 1 January– –31 December 2010	PLN thousand 1 January– –31 December 2009	EUR thousand 1 January– –31 December 2010	EUR thousand 1 January– –31 December 2009
Gross written premiums	7,783,936	7,791,169	1,943,846	1,794,952
Technical result on property and casualty insurance	(252,014)	166,308	(62,934)	38,315
Net profit/loss on investing activities*	4,241,350	2,837,383	1,059,172	653,685
In 2010 and 2009 revenue from commissions and fees in the pension insurance segment amounted to PLN 246,915 thousand and PLN 309,702 thousand, respectively.	3,516,709	2,510,379	878,211	578,348
Weighted average basic and diluted number of common shares	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted profit per common share (PLN/EUR)	40.73	29.07	10.17	6.70

* Includes the “Share of the net profit (loss) of subordinated units valued by the equity method” item.

7.3 Standalone financial highlights of PZU Życie (based on PAS requirements)

Balance sheet data	PLN thousand 31 December 2010	PLN thousand 31 December 2009	EUR thousand 31 December 2010	EUR thousand 31 December 2009
Assets	29,761,380	30,467,809	7,514,931	7,416,340
Total equity	6,414,677	7,375,769	1,619,745	1,795,377

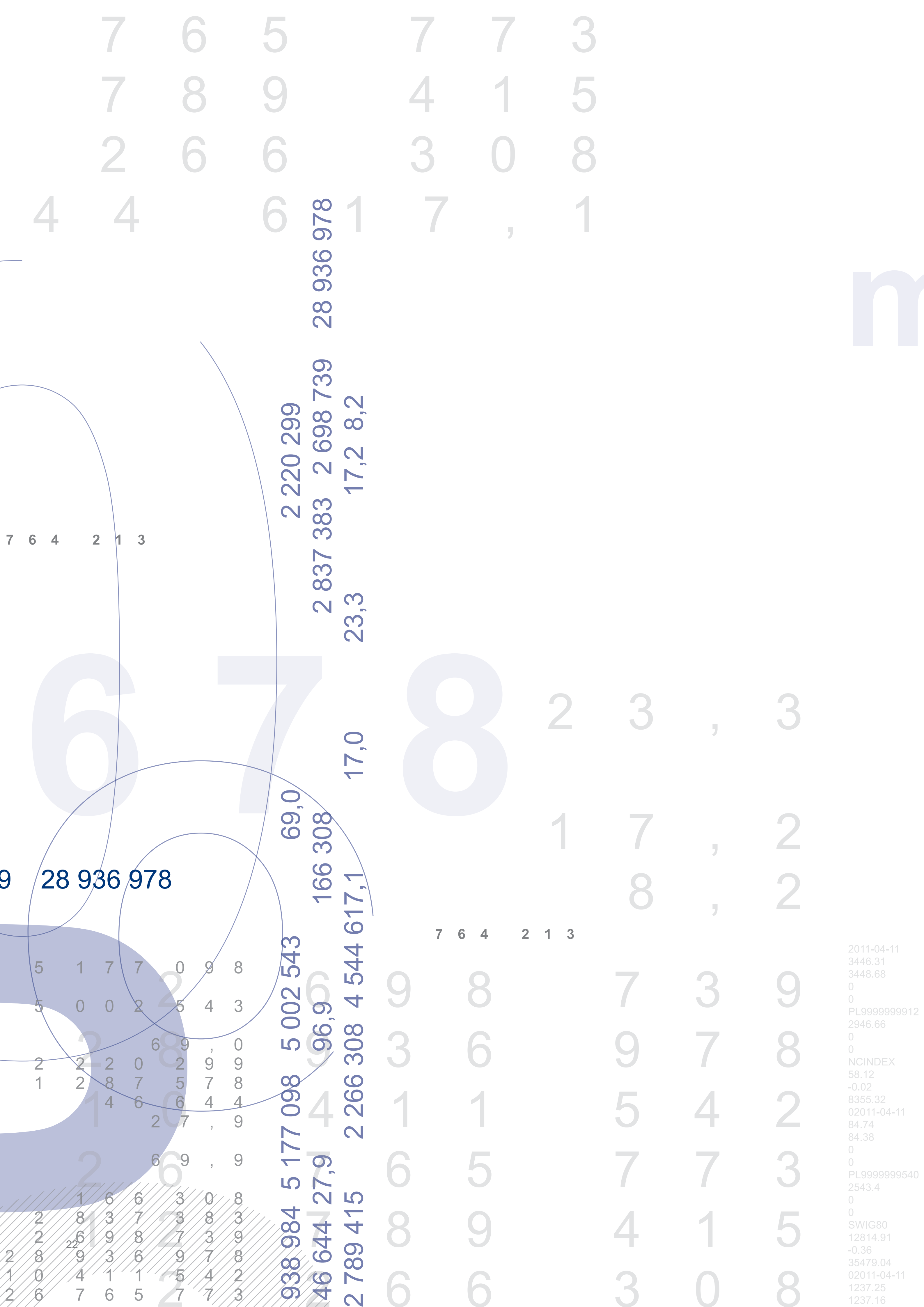
Data from the technical life insurance account and the non-technical profit and loss account	PLN thousand 1 January– –31 December 2010	PLN thousand 1 January– –31 December 2009	EUR thousand 1 January– –31 December 2010	EUR thousand 1 January– –31 December 2009
Gross written premiums	9,300,199	9,918,240	2,322,495	2,284,993
Technical life insurance result	2,139,759	2,987,965	534,352	688,376
Net profit/loss on investing activities	1,919,233	2,120,529	479,281	488,534
In 2010 and 2009 revenue from commissions and fees in the pension insurance segment amounted to PLN 246,915 thousand and PLN 309,702 thousand, respectively.	2,130,255	2,748,099	531,979	633,115

The following exchange rates were used to translate the financial data of foreign subordinated entities and to present selected financial data:

Currency	1 January– –31 December 2010	31 December 2010	1 January– –31 December 2009	31 December 2009
LTL	1.1597	1.1469	1.2571	1.1898
UAH	0.3830	0.3722	0.3897	0.3558
EUR	4.0044	3.9603	4.3406	4.1082

These exchange rates are:

- for statement of financial position items – average NBP rates as at the balance sheet date;
- for profit and loss account, statement of comprehensive income and cash flow statement items – rates calculated as the average of the NBP rates applicable on the last day of each of the months of the period.


28 936 978
2 220 299
2 837 383
2 698 739
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5 002 543
4 544 617,1
2 266 308
5 177 098
2 789 415
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PZU Group and its macroeconomic environment

8. PZU Group and its macroeconomic environment

8.1 Overview of consolidated financial performance

In 2010, gross written premium of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group (the PZU Group, the Group) amounted to PLN 14,544,457 thousand (PLN 14,362,717 thousand the year before; an increase of 1.3%).

Following single events of crisis nature, lower amount of mathematical provisions derecognised in group insurance (lower pace of converting long-term policies to annual renewable ones) and deteriorated performance on investments (decrease in the investment base following dividend payment), the operating profit of the PZU Group was materially reduced (by 32.9 percent compared to 2009).

The net profit of the PZU Group in 2010 amounted to PLN 2,439,229 thousand, showing a drop by 35.2% compared to 2009 performance.

The total costs of insurance activity (acquisition and administrative expenses) decreased by 3.7% compared to the end of the previous year. The decrease resulted mainly from restructuring activities.

At year-end, the value of financial assets was PLN 45,345,032 thousand, being 6.0% lower year on year. Equity was 13.6% higher than in the previous year and amounted to PLN 12,799,926 thousand.

At the end of 2010, ROE was 20.3%, by 3.7 p.p. lower than at the end of the previous year.

At the same time, ROA was 4.7%, by 2.0 p.p. lower than at the end of the previous year.

8.2 Macroeconomic conditions in 2010

8.2.1 Major economic trends/economic growth rate

In 2010, GDP in Poland increased by 3.8% outgrowing projections, compared to the increase by 1.6% the year before. The economic growth was triggered by growing domestic demand (4.4% increase compared to 1.1% decrease in 2009). The foreign trade balance had a slight negative impact on the GDP increase. The key triggers of domestic demand increase in 2010 included individual consumption, which grew by 3.2% compared to 2.1% in 2009 and growth of inventory, which added 1.8 p.p. to the GDP increase. The year 2010 saw a clear increase in export, among others due to economic growth in Germany and PLN exchange rate favourable for export. Import also grew rapidly, stimulated by an increase in domestic demand. Private investments of enterprises did not grow in 2010. The drop in gross expenditures on fixed assets was higher than in 2009 (1.2% drop) and amounted to 1%, despite high expenditures incurred by the public sector on investments in infrastructure. As for manufacturing of GDP, the highest growth driver was higher gross added value in the industry (9.3% versus a decrease of 0.9% in 2009). The increase in the added value in services was higher than in 2009 (1.4% vs. 0.8%), but comparing to the preceding years, it was still moderate. Despite a high growth in production of the construction and erection industry, which was observed after the winter downturn, the value added growth in the construction industry (3.9%) was lower than in 2009 (11.4%).

8.2.2 Capital market

In 2010, stock exchange indices grew more slowly than in 2009 after the rebound. At the end of 2010, WIG was 18.8% higher and WIG20 14.9% higher than at the end of the previous year. The growth trend on stock exchanges was intermitted by a temporary downturn in late January and early February and a longer slump in May and June, which resulted from the increase in global aversion to risk related to the severe debt crisis in the euro zone peripheral economies. The growth of global stock exchange indices was driven by expansive monetary policy of key central banks and sustained economic upturn.

In 2010, the prices of treasury bonds issued on the domestic market increased and their yield to maturity dropped. The YTM of five- and two-year bonds dropped by 40 b.p. and the YTM of ten-year bonds decreased by 16 b.p. (2010 year-end vs. 2009 year-end). Still, in the case of 10-year bonds, the average annual decrease was quite significant and exceeded 30 b.p. The decrease in the YTM of Polish bonds was associated with the YTM of bonds in key underlying markets, resulting from relaxed monetary policy, higher aversion to risk and the fear of the second wave of recession. Due to better economic growth prospects in developed countries, at the end of 2010, the YTM of bonds started to grow on global markets.

8.2.3 Monetary policy, interest rates, inflation

In 2010, the CPI dropped considerably from 3.5% to 2.6%. The trend was related to limited pressure of demand and salaries. In such conditions, the Monetary Policy Council maintained the reference rate at a very low level of 3.5%. After a summer drop to 2% YoY, inflation started to grow again, mainly due to the increase in prices of food and energy and it finally reached 3.1% YoY.
In October, the Monetary Policy Council decided to increase the mandatory provision rate from 3.0% to 3.5%, still the decision pertained to the period from 31 December 2010. Based on the decision, the rate returned to the level from before 30 June 2009 and it was a sign auguring the increase in interest rates. On 19 January 2011, the Monetary Policy Council decided to increase the base interest rate by 25 b.p. after 19 months.

8.2.4 Labour market and consumption

The situation on the labour market improved in 2010, but the unemployment rate registered at the end of the year (12.3%) was slightly higher than in the previous year (12.1%). Employment in the enterprise sector grew by 124 thousand people after a drop by 98 thousand in 2009. After a decrease in Q1 2010 (by 0.3% YoY), in two consecutive quarters average annual employment in the Polish economy increased gradually (respectively by 0.7% YoY and 1.6% YoY). Despite higher demand for work, unemployment of 11.5%–13% and higher professional activity observed in 2010 allowed for controlling the increase in salaries. Annual salaries growth in the Polish economy in 2010 was lower than in the preceding year (4% vs. 5.4% YoY). However, according to GUS data, average disposable income per person was in real terms 4.3% higher than in 2009.

In 2010, consumption growth increased quarter by quarter – in particular in the second half of the year, which was related to the changes in tax regulations expected in 2011 or purchases made by flood victims. The sale of cars, furniture, electronic equipment and household appliances visibly grew in 2010.

8.2.5 Exchange rates

Average annual rate of exchange of the Polish zloty increased in 2010 as compared to key global currencies such as euro (by 7.7%) and US dollar (by 3.2%). During the year the rate of exchange of the Polish zloty was considerably affected by periodic growth of aversion to risk in global financial markets, resulting from the effects of the debt crisis in peripheral economies of the euro zone. In effect, the rate of exchange of the Polish zloty deteriorated in May–July and, to a lesser extent, at the end of the year. The Polish zloty strengthened against euro by 3.6% at the end of 2010 versus the end of 2009, but the higher value of dollar in global markets resulted in the deterioration of the PLN/USD rate of exchange by nearly 4.0%. The Polish zloty also weakened versus the Swiss franc – by nearly 14.4% between the end of 2009 and the end of 2010.

8.2.6 The impact of macroeconomic factors on the insurance sector

The macroeconomic situation exerted a slight positive impact on the sale of insurance. Based on estimates, the salary income growth was slightly higher in 2010 than in 2009, still the social benefit income was lower. In such conditions, gross written premium increased faster in 2010 both in life and property insurance. Faster GDP growth and higher employment contributed to improving conditions of selling insurance services. In 2010, production, import and sale of cars increased, which created more advantageous conditions for selling comprehensive car insurance and TPL insurance. Stronger zloty, in particular comparing to euro, was one of the factors reducing the claims ratio in this insurance segment.
In 2010, the credit market was still stagnated. Despite relaxing the credit policy of banks towards enter-

prises, the demand for credit remained relatively low. The credit dynamics grew insignificantly. However, the growth in the mortgage loans remained stable. In 2010, the decrease in investments in fixed assets was even stronger than in 2009, which resulted from stagnation in private investments. The conditions for selling financial and investment-related insurance (real property insurance) were still quite difficult.

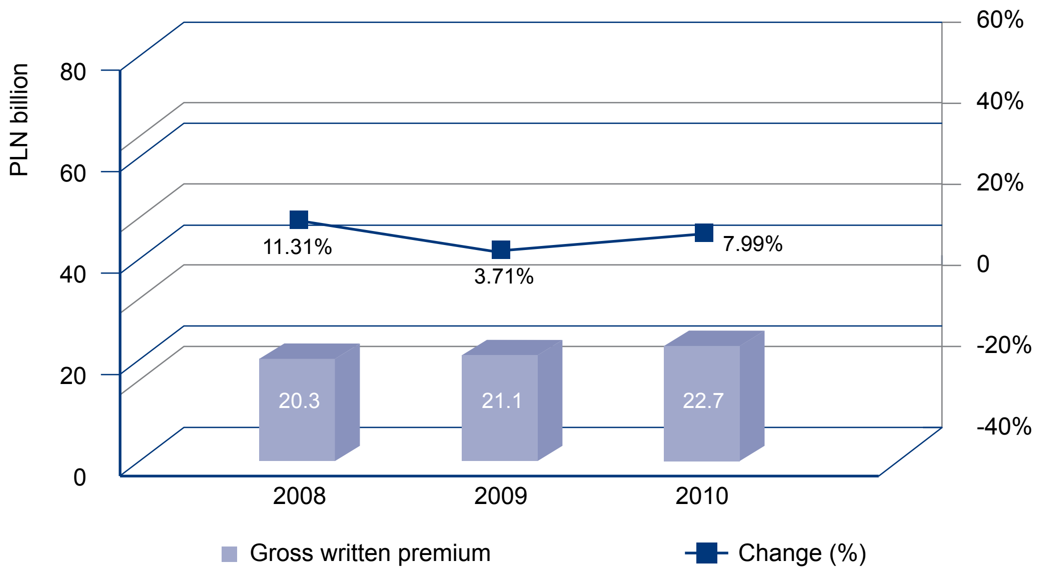
The situation on capital markets was quite advantageous in 2010, which enabled insurers to generate profit both on the stock and bond market.

8.3 Market share of PZU SA, PZU Życie SA and PTE PZU (data in line with PAS)

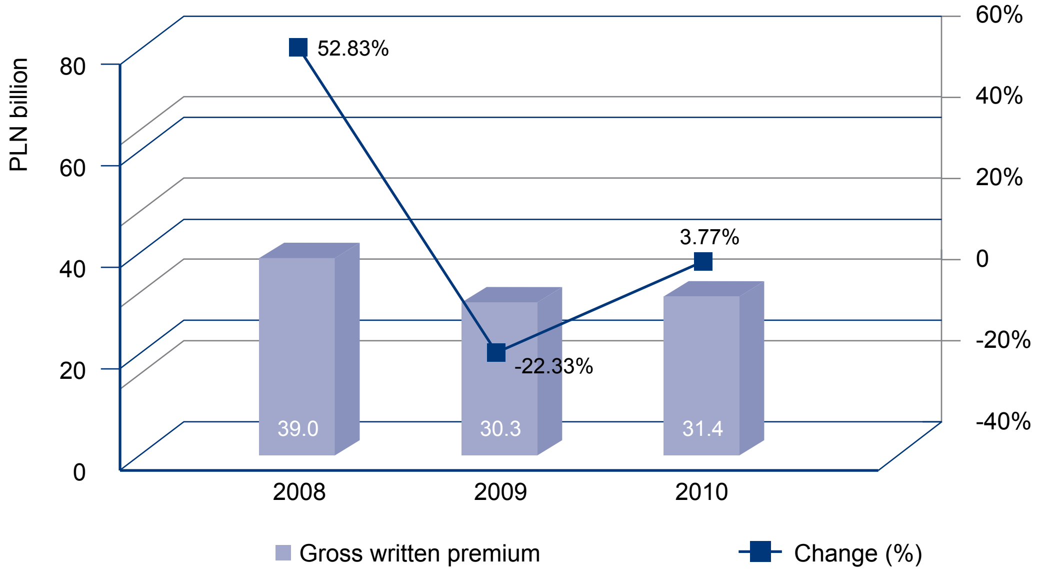
8.3.1 General insurance market

In 2010, gross written premium for the entire insurance sector in Poland amounted to PLN 54,164.1 million marking the growth of 5.5% (+ PLN 2,821.7 million) year on year. Premium written by property and casualty insurance companies increased by 8.0% (+ PLN 1,681.7 million) up to PLN 22,740.6 million, while at the same time life insurance companies recorded growth of 3.8% (+ PLN 1,140.0 million) up to PLN 31,423.5 million.

Section II – insurance market development in 2008–2010



Section I – insurance market development in 2008–2010



8.3.2 Property and casualty insurance

At the end of 2010, the market share of PZU in the Polish property and other casualty insurance market measured by gross written premium amounted to 34.2%. The share of PZU Życie in the life insurance market amounted to 29.6%. The PZU Group remains the leader in the Polish insurance market.

Gross written premium – property insurance *(PLN million)*	**2010**			**2009**		
	PZU	**Market**	**Market, excluding PZU**	**PZU**	**Market**	**Market, excluding PZU**
Comprehensive car insurance	2,257.9	5,307.3	3,049.5	2,210.2	4,931.4	2,721.2
TPL motor insurance	2,590.9	7,628.8	5,037.8	2,625.0	7,277.6	4,652.5
Other products	2,935.1	9,804.5	6,869.3	2,955.9	8,849.9	5,894.0
TOTAL	**7,783.9**	**22,740.6**	**14,956.7**	**7,791.2**	**21,058.9**	**13,267.7**

Source: Report of the Polish Financial Supervision Authority for Q4 2010, the Issuer

Written premium structure *(PLN million)*	**2010**			**2009**		
	PZU	**Market**	**Market, excluding PZU**	**PZU**	**Market**	**Market, excluding PZU**
Comprehensive car insurance	29.0%	23.3%	20.4%	28.4%	23.4%	20.5%
TPL motor insurance	33.3%	33.5%	33.7%	33.7%	34.6%	35.1%
Other products	37.7%	43.1%	45.9%	37.9%	42.0%	44.4%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

PZU SA share in market premium (%)	**2010**	**2009**
Comprehensive car insurance	42.5%	44.8%
TPL motor insurance	34.0%	36.1%
Other products	29.9%	33.4%
TOTAL	**34.2%**	**37.0%**

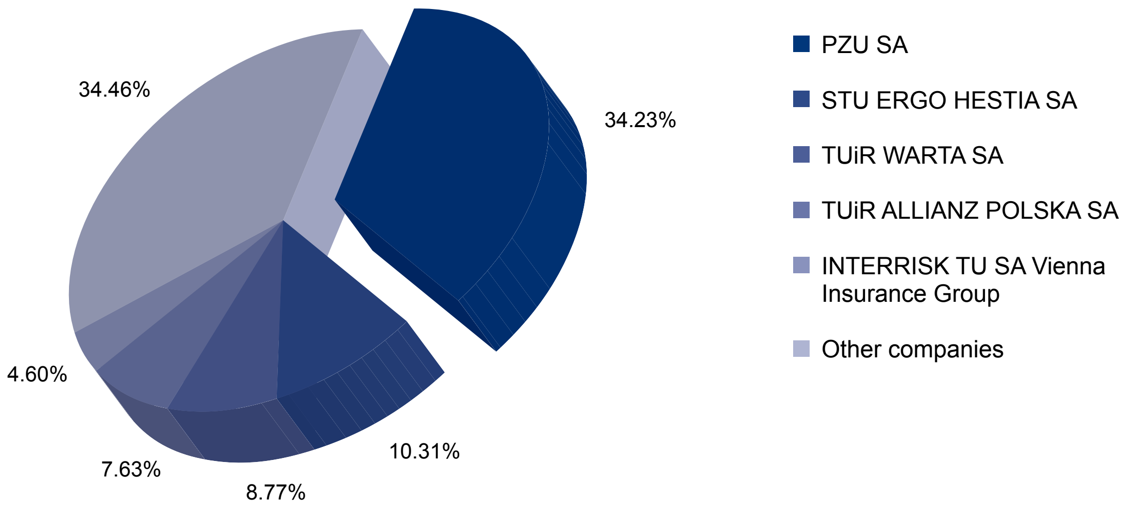
Implementation of the corporate insurance portfolio restructuring programme, in particular as regards motor insurance with its high claims ratio, was the main reason for a drop in the property insurance market share of PZU. The above programme involves restrictive underwriting policy with respect to higher risk activities.

Technical performance *(PLN million)*	**2010**			**2009**		
	PZU	**Market**	**Market, excluding PZU**	**PZU**	**Market**	**Market, excluding PZU**
Comprehensive car insurance	-148.1	-470.6	-322.4	136.1	-61.8	-197.9
TPL motor insurance	-191.5	-862.9	-671.4	-349.3	-973.7	-624.4
Other products	87.6	70.2	-17.4	379.5	780.1	400.6
TOTAL	**-252.0**	**-1,263.3**	**-1,011.3**	**166.3**	**-255.5**	**-421.8**

Source: Report of the Polish Financial Supervision Authority for Q4 2010, the Issuer

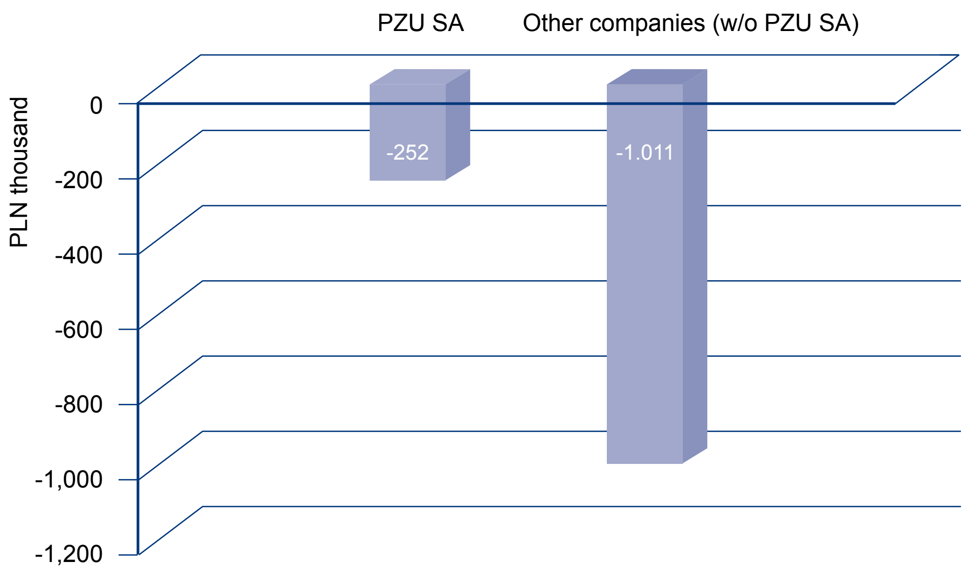
Despite catastrophic events in 2010, which had a particularly strong impact on PZU due to its leading position in the agricultural and property insurance market, in 2010 the Company's technical results remained very good compared to other market players. It was particularly visible in the motor insurance segment.

Market share of PZU SA by gross written premium (%)



PFSA (KNF), data as at 31.12.2010

Technical result of PZU SA vs. other companies



PFSA (KNF), data as at 31.12.2010

8.3.3 Life insurance

In 2010, the life insurance market improved. Gross written premium increased by approx. 3.8% to year 2009 through regular premium growth (+8.3%); single premium remained at almost identical levels (+0.03%) year to year. The increase in the regular premium is correlated with pay and employment growth, while the single premium has remained stable.

Life insurance *(PLN million)*	2010			2009		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Written premium	**9,300.2**	**31,423.5**	**22,123.3**	**9,918.2**	**30,281.0**	**20,362.8**
Technical result	**2,139.8**	**3,567.2**	**1,427.4**	**2,988.0**	**4,315.7**	**1,327.8**

Source: Report of the Polish Financial Supervision Authority for Q4 2010, the Issuer

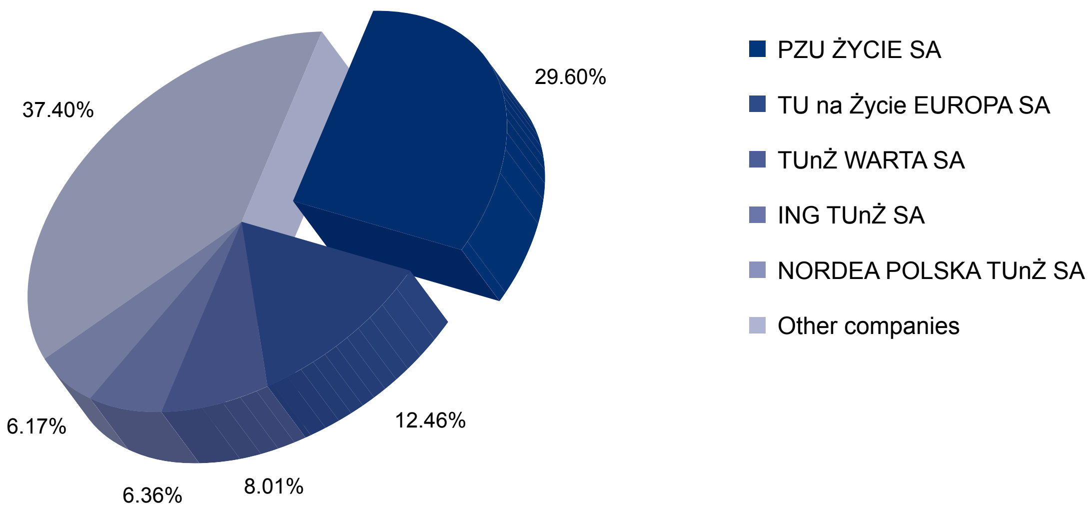
The year 2010 saw a decrease in the market share of PZU Życie resulting from a lower single premium written obtained through the banking channel (20.3% less), where deposits embedded in policies (with relatively low profitability) and resigning from sales of Fundusz Gotówka insurance, whose profitability was also poor. Reduced exposure to this sort of products results from focusing on sales of high margin ones. As regards regular premium insurance, which is not exposed to considerable market fluctuations and does not involve significant margins (YoY premium increase by 2.1%), the market share of PZU remains stable and the Company's position leading among other market players. At the end of 2010, the market share of PZU Życie measured by the gross written premium amounted to 29.6% and dropped by 3.2 p.p. compared to the end of 2009.

The technical result of PZU Życie accounts for a major part of the result generated by all life insurance companies. The YoY drop recorded during 2010 results mainly from a lower reduction in technical provisions in group life insurance due to conversion of unlimited-term contracts to annual renewable ones. Interestingly, despite the reduced technical result of PZU Życie the technical margin on premium written is still nearly four times higher than the margin generated jointly by all other life insurers on the market (23.0% compared to 6.5%).

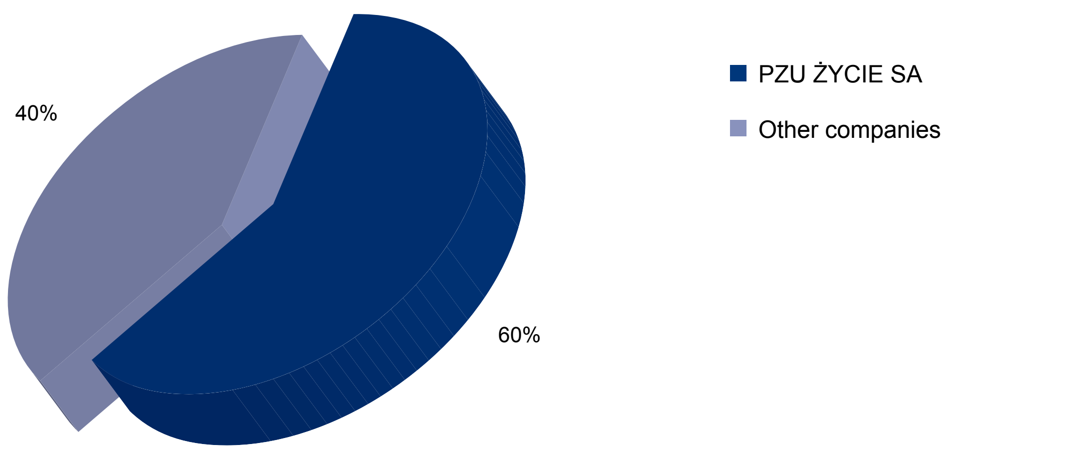
Life insurance market – gross written premium *(PLN million)*	2010			2009		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Regular premium	6,363.2	14,758.5	8,395.4	6,232.1	13,621.4	7,389.3
Single premium	2,937.0	16,664.9	13,727.9	3,686.2	16,659.6	12,973.4
TOTAL	**9,300.2**	**31,423.5**	**22,123.3**	**9,918.2**	**30,281.0**	**20,362.8**

Life insurance market shares	2010	2009
Regular premium	43.1%	45.8%
Single premium	17.6%	22.1%
TOTAL	**29.6%**	**32.8%**

Market share of PZU Życie by gross written premium (%)



Technical result share PZU Życie vs. other companies



8.3.4 Pension insurance

Pension Insurance Market *(PLN million)*	2010			2009		
	OFE PZU	Open pension fund market	Open pension fund market, excluding PZU	OFE PZU	Open pension fund market	Open pension fund market, excluding PZU
Number of OPF members	2,193,502	14,930,991	12,737,489	2,119,094	14,360,664	12,241,570
Net AUM in PLN million	30,512.5	221,461.6	190,949.1	24,584.0	179,039.9	154,455.9

Source: Report of the Polish Financial Supervision Authority for Q4 2010, the Issuer

Market share of OFE PZU "Złota Jesień" (%)	2010	2009
Number of OPF members	14.7%	14.8%
Net AUM	13.8%	13.7%

At the end of 2010, PFE PZU had about 2,193.5 thousand members constituting 14.7% of the general number of open pension funds members and gives PFE PZU the third place on the market. Compared to the end of 2009, the number of OFE PZU members increased by 74.5 thousand, i.e. 3.5% (while the total number of members rose by 4.0%).

In 2010, the number of first time clients concluding contracts with a pension fund dropped by 7% compared to 2009 due to negative demographic factors (individuals born at the time of population decline reach the production age) and worsening of the labour market conditions.

Additionally, a large number of people decided to change their fund (a 6% rise compared to 2009). OFE PZU is among funds with a positive transfer balance and holds the seventh position in net transfers in 2010.

At the end of Q4 2010, the total net assets of all funds amounted to PLN 221,461.6 million and increased by 23,7% compared to the end of 2009. During this period, the assets of OFE PZU increased by 24,1% to PLN 30,512.5 million giving OFE PZU the third place among the market players. The above rise was mainly driven by the level of premiums received from the Social Insurance Institution as well as profits on investing activities. In 2010, Social Insurance Institution provided OFE PZU with PLN 3,076.14 of premiums, which is over 9.0% higher than in 2009.

8.3.5 Investment funds

According to the Chamber of Fund and Asset Management (CFAM) at the end of December 2010, net assets of investment funds in Poland approximated PLN 116.13 billion. The value of AUM in 2010 increased by over 24%. The balance of payments and cancellations amounted to PLN 9.39 billion, while performance on AUM approximated PLN 13.15 billion. Cash funds benefited the most (approx. PLN 5.94 billion new funds) as well as debt securities (approx. PLN 1.91 billion). On the other hand, balanced investment funds saw the largest drop (approx. PLN -1.42 billion). The share of five largest investment fund associations measured by value of assets of managed investment funds amounted to 51.4% at the end of December 2010.

In terms of net AUM, TFI PZU is 13th among 31 investment fund associations included in the CFAM report. At the same time, TFI PZU remains the leader in the segment of employee pension plans among domestic investment pension funds with assets exceeding PLN 1.24 billion.

8.4 Macroeconomic factors affecting PZU Group's activities in 2011

Further improvement on the labour market is expected in 2011 (e.g. further decrease in the unemployment rate), which will result in a slight increase in the growth of household income. The GDP growth rate is expected to remain at the level reported in 2010 and the consumption and investment growth are likely to increase. These factors should positively affect the demand for insurance services.

The expected growth of inflation and short- and long-term interest rates will considerably affect the investment policy and investment income.

PZU 411,00 1,26% TPE 6.29 -0.47% TPS 17.66

Organisation of the PZU Group

9. Organisation of the PZU Group

9.1 Business activities of the PZU Group

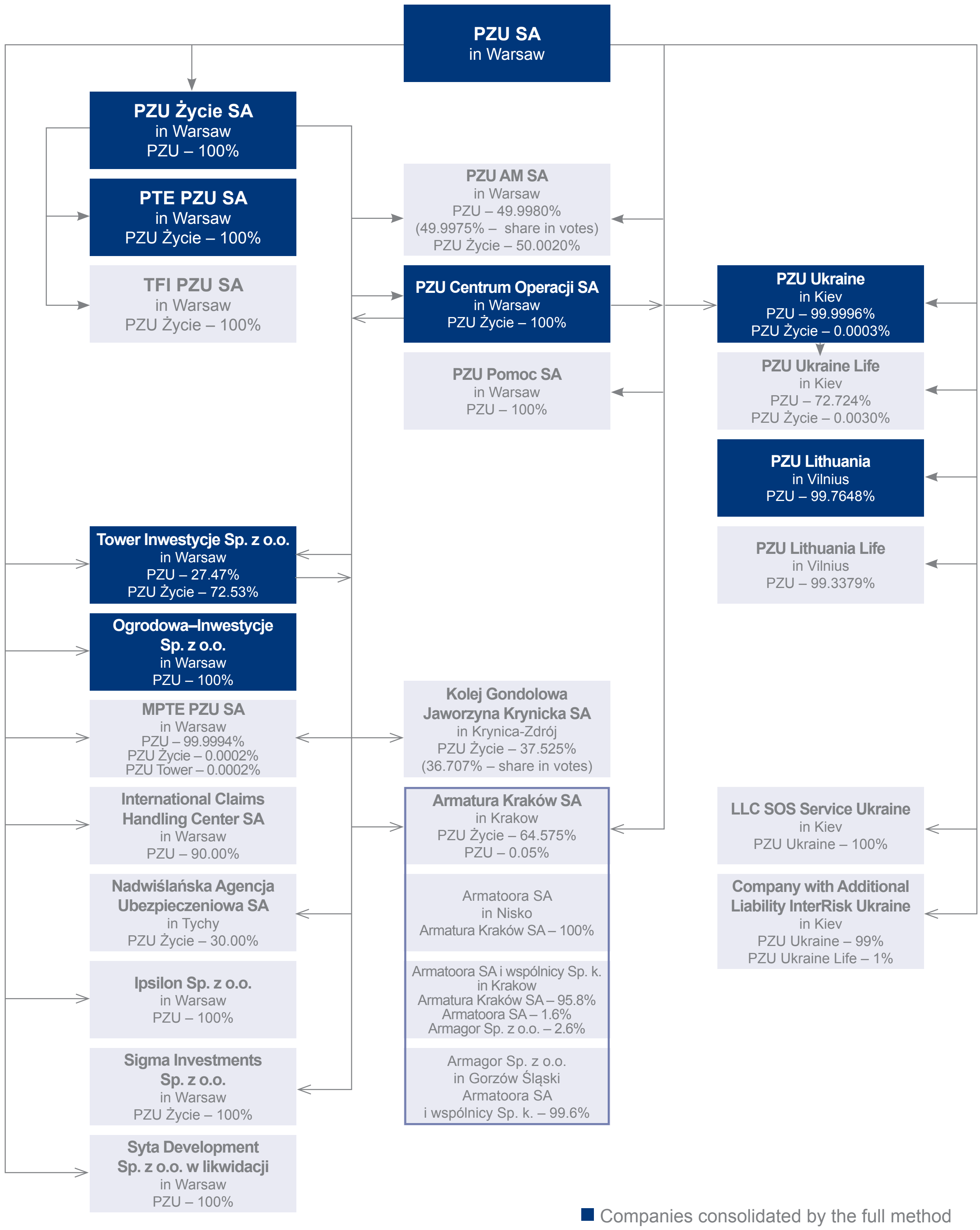
As at 31 December 2010, the PZU Group comprises PZU and seven entities included in consolidation, holding shares in eighteen not consolidated companies. PZU is the parent entity in the PZU Group. The PZU Group and some subsidiaries of PZU carry out insurance activity including property, casualty and life insurance, as well as management of pension funds, establishing and management of investment funds, and management of portfolio of a single or several financial instruments.

9.2 PZU Group Companies

9.2.1 Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU")

According to Polish NACE (PKD), the core business of PZU includes property and other casualty insurance (PKD 65.12) and according to NACE, non-life insurance (EKD 6603). The Warsaw Stock Exchange (WSE) classifies the Company in the insurance sector. Insurance activity concerns property and other casualty insurance (Section II of the Appendix to the Act of 22 May 2003 on insurance activity).

PZU Group structure as at 31 December 2010



Source: PZU Group

9.2.2 Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna ("PZU Życie")

The core business of the Company includes insurance and other directly related activities. The Company is allowed to carry out acquisition activity for open pension funds based on the Act on organisation and operation of pension funds.

The Company may carry out the following activities directly or through insurance intermediaries:
- acquisition for open-end pension funds;
- agency for banking entities;
- mediation in selling and redemption of investment fund units or units in foreign funds, open-end investment funds with registered offices in the European Union countries and open-end investment funds with registered offices in OECD countries other than EU Member States.

9.2.3 Powszechne Towarzystwo Emerytalne Spółka Akcyjna ("PTE PZU")

Based on the Articles of Association, the key business of the Company involves:
- establishing an open pension fund;
- managing the established open pension fund, representing it before third parties in a manner specified in the Articles of Association and managing more than one open pension fund.

Based on NACE classification, the core business of PTE PZU SA is auxiliary activities related to insurance as well as a pension and annuity fund.

9.2.4 Lithuanian market

On the Lithuanian market the PZU Group carries out property and life insurance activities through two entities:
- UAB DK PZU Lietuva – property and casualty insurance;
- UAB PZU Lietuva Gyvybës Draudimas – life insurance.

9.2.5 Ukrainian market

On the Ukrainian market the PZU Group carries out property and life insurance activities through two entities:
- PrJSC IC PZU Ukraine – property and casualty insurance;
- PrJSC IC PZU Ukraine Life – life insurance.

9.2.6 Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna ("TFI PZU SA")

Their scope includes establishment and management of investment funds (as their body), including intermediation in the disposal and redemption of participation units as well as representing the funds before third parties.

At present, TFI PZU SA manages 16 investment funds pursuing various investment strategies.

Its offer includes investment products and services addressed to both individual and institutional customers as well as additional savings schemes under pillar III of the social insurance system, such as:
- IKE (Individual Pension Accounts);
- Specialised Investment Programmes;
- PPE (Employee Pension Programmes);
- ZPI (Corporate Investment Programmes).

9.2.7 PZU Asset Management Spółka Akcyjna ("PZU AM SA")

The Company manages selected asset portfolios of the following PZU Group companies: PZU SA, PZU Życie SA, TFI PZU SA and Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA.
Its core business includes:
- brokerage activities within the meaning of Article 69 of the Act on trading in financial instruments including investment portfolio management on behalf of investment funds;
- provision of portfolio management services.

9.2.8 PZU Pomoc Spółka Akcyjna ("PZU Pomoc SA")

Based on its Articles of Association, the scope of activities of PZU Pomoc SA includes in particular:
- loyalty scheme management as part of other business supporting activities;
- organisation of assistance services, which involve providing assistance to customers;
- rental and lease of motor vehicles.

9.2.9 Ogrodowa–Inwestycje Sp. z o.o.

The core business of the Company includes:
- rental and management of own or leased real property;
- acquisition and sale of real property on own account;
- wire communication services;
- other business and management consulting services.

9.2.10 PZU Centrum Operacji Spółka Akcyjna ("PZU Centrum Operacji SA")

According to the Articles of Association, the core business of the Company includes:

- auxiliary activities related to insurance as well as pension and annuity funds and performance of other functions relating to investment fund management and life and pension insurance settlements;
- computer consulting services, software related services, data processing as well as database related services;
- all types of commercial activities and services on own account and in cooperation with other entities.

7 6 4 2 1 3

PZU 411,00 1,26% TPE 6,29 -0.47% TPS 17.66 0.34%

PZU activities in 2010

10. PZU activities in 2010

10.1 Rating

PZU and PZU Życie are regularly rated by credit rating agencies. The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy. It also includes a rating outlook, i.e. an assessment of the future position of the Company in the event specific circumstances occur.

In 2010, PZU and PZU Życie had a long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) at the level of A with a stable rating outlook. On 5 July 2010, Standard & Poor's Ratings Services maintained the above rating.

The table below presents the ratings of the PZU Group companies by Standard & Poor's, together with the previous year ratings.

Company name	Rating and outlook	Date of rating/ /update	Previous rating and outlook	Date of rating/ /update
PZU				
Financial strength rating	A /stable/	5 July 2010	A /stable/	16 July 2009
Credit rating	A /stable/	5 July 2010	A /stable/	16 July 2009
PZU Życie				
Financial strength rating	A /stable/	5 July 2010	A /stable/	16 July 2009
Credit rating	A /stable/	5 July 2010	A /stable/	16 July 2009

10.2 Restructuring of PZU and PZU Życie

On 29 December 2009, the Management Boards of PZU and PZU Życie announced an implementation plan of the restructuring programme for 2010–2012.

On 10 February 2010, the Management Boards of PZU and PZU Życie adopted a resolution concerning planned group lay-offs in 2010.

On 11 March 2010, the Management Boards of PZU and PZU Życie and Trade Unions operating in the companies concluded a lay-off agreement. As agreed, from 26 March to 20 November 2010, the staff restructuring and optimisation was carried out as a part of the lay-offs.

The staff restructuring is related among others to centralisation of functions which so far have been dispersed throughout several centres located in large Polish cities and higher specialisation of hired staff. It mostly affects operations, finance, claims handling and the PZU Group network.

In 2010, the change was expected to affect up to 6,655 employees of PZU SA and PZU Życie at the most and involved net reduction, i.e. cutting the number of staff in 2010 in both companies by 2,079 people.

Termination conditions offered to the dismissed people or employees who did not accept the offered terms of employment exceeded the scope provided for by the applicable laws (the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees).

The amount of additional redundancy pay depended on the salary of each employee and their time of employment at the PZU Group.

In 2010, the changes affected 6,045 employees, out of which 2,439 were given termination documents.

Dismissed employees were offered one of the largest outplacement schemes introduced in Poland in 2010.

The total 2010 restructuring costs charged to the provision amounted to PLN 147,750 thousand.

As of 31 December 2010, the provision for restructuring costs amounted to PLN 75,253 thousand (vs. PLN 158,763 thousand as of 31 December 2009), which implied a change in the provision of PLN 83,510 thousand in 2010.

10.3 Key developments and implementation of the strategy

The project activities carried out in PZU last year were directly related to the PZU Group strategy for 2009–2011, focusing on profitable growth and creating a client-focused cost-effective organisation.

The following steps related to profitable growth were carried out:

- a unified model for managing the agency network of PZU and PZU Życie has been developed and implemented; in relation to property insurance segment, the new model was launched in PZU in the second half of 2010, while in life insurance segment, in 2010 the project focused on development of managerial competencies and improved operation of agency network management structures, as well as on operational details of the model of recruitment and inception of new agents;
- a new multi-agency cooperation model has been developed, based on the new commission and motivation system; in 2010, a pilot was launched in the Pomerania region;
- the implementation of modern shared service centres for the whole PZU Group has been started; as a part of this project a countrywide typology and physical presence model for sales and service centres was developed in 2010 and the Company prepared a number of new model offices to be implemented in the first stage;
- restructuring of the sales function responsible for property insurance for the corporate sector was carried out, based on improving competences of the sales force and optimising their placement;
- as a part of developing the PZU Pomoc concept, new products were implemented: Door to Door, Assistance at Home and Assistance on the Road (sold since 2011);

The following project activities were carried out as a part of activities focused on creating effective organisation, which focuses on customer needs in the area of claims handling:

- centralising of claims handling in PZU Życie through transfer to nine centres and full implementation of a new centralised IT system (SLS Life);
- a similar process was carried out in the property insurance segment – the existing distributed property loss handling structures were centralised in nine regional centres and a pilot rehab was performed as a means of reducing permanent disability;
- the internet has been used as a channel for communicating casualty claims, requesting for claim payment and checking the status of claims. Additionally, at the end of 2010, the internet claim lodging was integrated with the claim handling system thus eliminating the need for manual data transfer;
- in cooperation with PZU Pomoc SA a healthcare centre was established and a process of service provider contracting was commenced, which significantly improved flexibility of PZU Życie regarding provision of healthcare services related to occupational medicine;
- as a part of developing the PZU Pomoc concept, a network of service providers was further developed in relation to Road Assistance as well as in the area of assistance at home; the “door-to-door” service and E-call system.

Apart from the said project related to the network of modern offices, the following activities have been taken in the area of customer service:

- the structures of managing the existing offices in the PZU Group have been unified and the process of front-office staff unification has been started in order to provide comprehensive services to customers in the life and property segment in all offices;
- an extended client service tool in group insurance was implemented with a possibility to sell property products to these clients, which should allow full use of cross-selling potential with regard to clients of PZU Życie (at present, the activity is being completed).

Moreover, the following initiatives have been carried out in PZU Group in 2010 with respect to process and cost optimisation:

- employment restructuring resulting in FTE reduction by 2,062;
- optimising and centralising of operations and insurance accounting in PZU – the project involved establishing of Back Office and Insurance Accounting Centres and standardising of sales and insurance accounting process maintenance; similar activities were carried out in relation to back office processes in PZU Życie (also including operations and insurance accounting);
- unification of internal accounting processes in PZU and PZU Życie and initiation of the implementation of unified electronic workflow;
- implementation of a common IT system for HR and payroll function in PZU and PZU Życie.

10.4 Key marketing activities in 2010

Advertising, media and the internet

In 2010, PZU performed 5 wide-scale advertising campaigns focusing on motor insurance:

- in January, the Company organised a “Newsboys” campaign, which was aimed at changing the image of PZU motor insurance. The idea of the campaign was based on the Rzeczpospolita ranking, which stated that PZU offers the least expensive TPL and comprehensive car insurance for new cars;
- in March and April, a campaign aimed at showing the flexibility of the PZU offer was carried out. The key idea was “Insure whatever you need and pay less”;
- in July–September, a campaign “Local discounts” was carried out in selected regions of Poland in order to present the attractive price offer of PZU;
- in September, the Company launched a campaign “Good comprehensive car insurance, cheap TPL insurance” focusing on the new motor insurance offer of PZU. The campaign was based on the idea ”Beware of sham insurance”;
- in early November, we started the second stage of the campaign based on the idea ”Beware of sham insurance”.

The key purposes of these campaigns were:

- to change the way PZU motor insurance prices are perceived;
- to create a PZU image as a firm offering best motor insurance solutions on the market;
- to acquire new customers.

Apart from advertising campaigns, in 2010, a series of outdoor, press and cinema projects were carried out, including among others:

- placing displays “PZU POMOC 801 102 102” in 10 locations countrywide at main roads;
- press project – advertorials of PZU Pomoc for on the road assistance in October–December 2010;
- displays in Cinema-City network (Warsaw, Łódź) placed for the period of one year (logotypes, stairs, seats).

10.5 Corporate social responsibility activities in 2010

Social responsibility

As a part of its educational activities, PZU launched two insurance websites:

- "JakieUbezpieczenie.pl" – an informative and educational website which presents the advantages of insurance in a clear and user-friendly manner. This website is limited to information only; it cannot be used for sale;
- "ŻycieNa100procent.pl" – a website including among others savings calculators, questionnaires and product animations, interviews with celebrities, savings-promoting articles, etc.

As every year, PZU carried out preventive actions to improve public safety and mitigate various risks.

The following activities were carried out in this area in 2010:

- continuation of the cooperation with Tatra Voluntary Mountain Rescue (TOPR), Voluntary Mountain Rescue Service (GOPR) and Voluntary Water Rescue Service (WOPR);
- cooperation with the Misie Ratują Dzieci association in therapeutic and psychological assistance to children who become accident victims.

PZU acted as a sponsor and patron of various cultural and sport events – both local and countrywide. The key activities in this area include:

- sponsoring the Royal Castle in Warsaw;
- PZU zone during the Long Night of Museums at the Royal Castle in Warsaw;
- close cooperation with the National Museum in Krakow, Nowe Sukiennice Branch;
- sponsoring Teatr Wielki (The National Opera House) in Warsaw;
- sponsoring Teatr Nowy in Warsaw;
- sponsoring Martyna Wojciechowska's mountaineering "Carstensz Expedition";
- sponsoring "Rzeszów Carpathia Festival 2010";
- patronage over the Decius Villa in Krakow;
- sponsoring the Góraszka Air Picnic;
- sponsoring the European Fairy Tale Centre in Pacanów;
- sponsoring the Academy of Capital Market Leaders;
- sponsoring the "Droga na Harvard" competition.

PZU Foundation

The mission of the PZU Foundation is to carry out public benefit activities in the area of: education, culture, art, healthcare and social welfare. The Foundation performs its goals by initiating and supporting a number of ideas and projects.

The key activity of the Foundation in 2010 was to provide financing of projects carried out by non-government organisations and other organisational units, whose statutory objectives are coincident with the areas of activities of the Foundation. Moreover, the PZU Foundation continued cooperation with other well-known social organisations under partnership programmes. Financial aid was granted to the PZU Group employees in a difficult life situation.

As a part of its activities in 2010, the Foundation provided grants to non-governmental organisations which submitted their requests.

The Foundation carried out the following educational activities:

- competition for grants entitled "Enriching education in rural areas" – the objective of the competition is to support educational initiatives in rural areas and levelling out educational opportunities of children.
- partnership programmes – in cooperation with Fundacja Edukacyjna Przedsiębiorczości in Łódź and Polsko-Amerykańska Fundacja Wolności – the purpose of which is to facilitate access of young people from rural areas to higher education, by way of funding scholarships for the first year of studies.
- actuarial competition – the objective of the competition is to select the best master and doctoral thesis.

PZU Foundation supported interesting initiatives and cultural events in the area of arts and sciences, such as projects organised by the National Museum in Warsaw and in Krakow.

The social welfare initiatives included:

- competition for grants entitled "Developing social activity of disabled children and teenagers", aimed at creating a system supporting the disabled and their families, and levelling out the opportunities of the disabled in social and family life;
- grants for individuals, including PZU employees – financial support for the PZU Group employees and their families and other individuals affected by accidents or people in a difficult financial situation.

- in 2010, PZU Foundation started cooperation with the Polska Akcja Humanitarna foundation to organise help for flood victims.

As for healthcare, grants were provided to support local initiatives related to prevention and financing purchases of medical equipment for healthcentres.

10.6 Major awards and recognitions granted in 2010 to PZU Group Companies and their products and services

The PZU Group's strong presence in Poland, not only in financial markets but also in social and economic and cultural life, resulted in numerous awards and recognitions granted to the Group's companies. They were recognised for their current activity, marketing activity and corporate social responsibility activities.

Awards related to market position

Rzeczpospolita 500 List
Ranked eight on the list of 500 largest companies in the Central and Eastern Europe compiled by the Rzeczpospolita daily.

Gazeta Bankowa list of largest financial institutions
PZU Życie ranked second on the "Top 100 Financial Institutions" list. The decisive factor is the value of revenues earned.

Polityka 500 List
The PZU Group was ranked six on the Top 100 Financial Industry Companies in 2009 in the Polityka ranking.

Distinctions awarded to PZU Group products

Golden Bumper
For the second year running, PZU received a prestigious "Golden Bumper" distinction for the best insurance company. "Golden Bumper" is awarded by the Polish Chamber of Automotive Industry (PIM) based on the results of the study conducted among owners and employees of car repair shops responsible for handling motor claims. The companies are evaluated for the speed and efficiency of claims handling and quality of cooperation with loss adjusters.

Top Player 2010
The Flota magazine award for actions promoting the improvement of traffic safety.

Road traffic safety leader
Awarded to PZU for long-term involvement in various initiatives promoting safety of road traffic, including the organisation of the "Stop Madmen on the Road" campaign, taking up and implementation of the fleet safety programme promoting awareness of company car and fleet vehicle users.

PZU awarded the Product of the Year 2010 emblem
The Reader's Digest monthly awarded the Product of the Year – Readers' Selection certificates for the sixth time. The certificates were awarded to companies whose products are selected most frequently by the magazine's readers.

Recognition of the brand

Brand: symbolising trust
PZU awarded the gold European Trusted Brands emblem.

Other awards and recognitions

PZU recognised an employee-friendly company
PZU was the prize winner in the 1st edition of the "Employee-Friendly Company" competition in Mazowsze. The award shows appreciation of PZU's achievements in the area of social dialogue.

Best IPO in Eastern Europe in 2010
The IPO of PZU at the Warsaw Stock Exchange was evaluated as the best in 2010 by the East Capital capital management company.

Best campaign of 2010
The PZU TPL insurance campaign "Apologies" recognised in two prestigious contests: four awards in the Advertising Authors' Contest and a silver Effie Award.

10.7 Key HR activities

From 26 March to 20 November 2010, the company carried out staff restructuring and optimisation as part of the lay-offs, as presented in item 10.2.

Moreover, the following HR activities were carried out in 2010:

- "Academy of PZU and PZU Życie" – a programme co-financed by the European Social Fund, established by the Polish Chamber of Commerce (KIG) and Combidata Poland Sp. z o.o. The project covers training 1,281 people in ICT tools, IT technologies, project management and planning effective organisation. Based on a consent of the Polish Agency for Enterprise Development (PARP) and Combidata Poland Sp. z o.o. and in line with its business needs, PZU changed the project scope from project management to Customer Service Standards;
- investing in human capital, PZU prepared requests to PARP to co-finance training projects aimed at creating a modern sales network and developing staff competences in customer service;
- the MBA programme created in 2009 by Gdańska Fundacja Kształcenia Menedżerów for the needs of the PZU Group was supported. Programme participants include 22 managers from PZU and PZU Życie.

10.8 Key activities in Accounting Transactions and IT

The year 2010 was the first year after the implementation of consolidated IT structures responsible for IT system development and projects in the PZU Group. The introduced changes resulted in a series of financial benefits and improved IT capacity. Key changes include three functional areas.

Software providing and modification

In cooperation with other entities projects and initiatives were performed supporting the strategy of PZU Group and current business activity, which resulted in implementation of the following IT solutions:

- automation and centralisation of HR and payroll processes in PZU and PZU Życie;
- automation of registering PZU agents' activities;
- automation of commission calculating process in PZU Życie;
- supporting work of insurance agents;
- supporting sales and maintenance of the new individual product of PZU Życie;
- supporting management and publication of internal regulations.

The ongoing project included cooperation on:

- implementation of functionalities allowing automation of additional insurance handling within individually continued life insurance in PZU Życie;
- implementation of IT solutions supporting sales of selected property products to group policyholders;
- implementation of a system to support financial reporting.

Within the framework of the project work, components of the target IT structure were implemented: solutions to meet the current business needs whose design allows easy adjustment to future requirements. These solutions include:

- implementation of a shared integration platform of PZU and PZU Życie;
- implementation of PZU client data integration;
- implementation of the first version of a shared service and sales front-end of PZU and PZU Życie;
- implementation and national rollout of the central loss and claim handling system for PZU Życie (the solution shared with PZU);
- implementation of a new portal platform for the PZU Group website with pilot of self-service functions designed for clients;
- initiation of remodeling of the workflow platform and extending it to other processes in PZU and PZU Życie to allow automation of business processes.

The area involved strong remodeling of IT supporting processes and principles of cooperation with the business part of the enterprise. The Group implemented the process of "IT system architecture management". The process allows for determining and designing IT system development strategy in the PZU Group, considering business needs of the entity and the existing solutions. It allows effective planning and implementation of changes in the structure of existing IT systems. Implementation of the "initiative management" process allows clear defining and agreeing of terms and deadlines to deliver new IT solutions to business and purposeful development of the portfolio of implemented changes in terms of business effects optimisation. The project management process is also responsible for timely performance of IT liabilities to the business. All these measures resulted in IT capacity improvement by 300% compared to 2009. In 2010, IT carried out 40 projects in cooperation with the business.

At the same time, the Company focuses on the quality controls and technological supervision over service providers. In 2010, the supervision covered 81 key systems of the Group, i.e. 41% more than in the preceding year. This allowed implementation of several projects of key importance for the business.

Application maintenance and user support

In 2010, the IT infrastructure was redesigned. Two professional data processing centres were created under the project of the Data Processing Centre Relocation. Dispersed elements of the IT systems and infrastructure were centralised in these units. At the same time, the service outsourcing model was used to reduce maintenance costs of processing centres. These activities allowed improved efficiency of data processing and server protection on TIER 4 level assuring 99.995% system availability.

In order to improve application management, a central system efficiency monitoring system was implemented. The measure shall ensure proactive management of IT systems and prevention of potential breakdowns. In 2010, the central monitoring included the key systems: IT and operation's. For other systems, selected elements are monitored. In 2011, all 27 critical systems are planned to be included in the comprehensive monitoring system.

In 2010, centralising of key IT system was also carried out. Centralisation of basic was completed with projected savings of PLN 2.3 million for the nearest three years.

Strong focus was placed on regime of IT systems maintenance resulting in an increased number of systems transferred to IT for maintenance purposes. At the beginning of 2010, 48 of 200 systems operating in the Group were transferred, with just 15 included in the change management process. At present, IT maintains 120 systems with 164 included in the change management process. IT supervised system maintenance allows more efficient management of these systems and the related infrastructure. Inclusion in the change management procedures enables improved control of changes introduced to the systems and therefore more focus on their stability and development aspects.

The centralisation includes corporate mail as well. It involved pilot migration of some mailboxes. Construction of the Centralised Mailing System coupled with the Identity Management project (in 2010, the tender for the system was closed) shall improve quality of communication and data transfer via e-mail and increase security of IT system users.

The year 2010 brought significant changes regarding user support organisation. A tender for implementation of the service management system (ITSM) was closed. The existing eleven problem indication channels were replaced by one shared by all employees.

Support structures were reorganised in order to create a common Service Desk. Changes were introduced in the field support, by way of reducing headcount by 30% and simultaneous efficiency growth. Further work is focused on maximizing of problem handling efficiency at first call.

In 2010, the number of solutions reached according to this standard increased to 33%. In 2011, the level of 70% is planned for problems solved at first call.

The above measures are to reduce costs of call handling and at the same time improve user satisfaction. In 2010, call handling costs were reduced by more than 50%.

Finance and organisation

In 2010, principles were developed for efficient budget management of IT portions of implemented projects. The principles shall be implemented in 2011.

A number of master agreements with suppliers were negotiated and concluded, using the synergy effect of the PZU Group. The agreements were standardised and in many cases a multi-sourcing model was applied to provide the possibility of selecting the best offer and to ensure competitiveness of suppliers. The number of supplier contracts was reduced by 30%. An IT Supplier Portfolio was established including a target group of companies with whom IT shall cooperate on implementation, development and maintenance of IT structure systems for the nearest three years. The cooperation includes services for PZU, PZU Życie and PZU Centrum Operacji SA. This allows avoiding of one supplier monopolising provision of services and cost savings of 30%. The Company concluded master agreements for IT consulting services and a master agreement on the purchase of the Oracle technological software. In 2010, significant improvements in process management were introduced. Many IT processes are described, controlled and measured. KPI linked to incentive systems were introduced. Statistic process control methods were implemented (CFD diagrams) allowing capacity definition. Possibility to precisely calculate and control the time to market for IT is a key result of these works.

7 6 4 2 1 3

PZU 411,00 1,26% TPE 6.29 -0.47% TPS 17.66 0.34%

Activities, development directions and achievements of individual Group companies in 2010

11. Activities, development directions and achievements of individual Group companies in 2010

11.1 PZU activities in 2010

11.1.1 Sales

PZU offers a wide range of property and casualty insurance, including motor, property, casualty, agricultural and other TPL insurance. At the end of 2010, the Company's offer included 200 insurance products in 18 insurance classes. Motor insurance constitutes the most important product group offered by PZU, both in terms of the number of binding insurance contracts and the share of gross written premium in the total gross written premium of PZU.

In 2010, PZU activities focused on improving the profitability of the corporate insurance portfolio and pro-sales activities in the retail segment.

Products – mass customer

- In 2010, the company made changes in the motor insurance offer for individual customers and SMEs (Small and Medium-Sized Enterprises) – e.g. lump-sum TPL/comprehensive car insurance package for new cars was extended by vehicles aged up to three years. Due to the foregoing and further extension of the cooperation with car importers, PZU achieved very good sales results in the dealer channel.
- The company introduced a possibility to choose comprehensive car insurance options depending on the type of spare parts used during repair (to determine the claim amount – maintenance service and optimal option) and a new all risks comprehensive car insurance was implemented. It covers all types of losses irrespective of the cause.
- PZU offers also a new door-to-door service. It is an additional package of services for car owners, including collection of the damaged car, supply of the car to the PZU's Repair Network and covering substitute car expenses.
- New principles, evaluation and service tools were introduced with respect to car fleet insurance for SMEs in order to streamline the service process in this segment.
- Changes were made to the principles of insuring leased cars.
- In the area of property insurance for individual customers, sales of the "PZU Dom" and "PZU Dom Plus" comprehensive packages were
- continued. In the case of SMEs the Company sold the "PZU Doradca" package. Despite a temporary decrease in sales of property insurance in the flooded areas, high sales were generated in both customer groups. In order to develop this insurance line the discounted residential insurance offer "Ubezpiecz mury" was launched.
- As for compulsory subsidised crop insurance, a promotional offer was prepared for large no-claims farms. However, on account of lower purchase prices of agricultural produce in comparison to the previous year, the premium written on that product was lower than last year.
- In accordance with the amendments to the legislation, new products of compulsory professional TPL insurance for medical doctors and persons drawing up energy efficiency certificates were implemented. The change of professional TPL insurance for entities authorised to audit financial statements was accompanied by execution of an agreement with the National Chamber of Statutory Auditors, concerning the principles of concluding insurance contracts for the said professional group. Also the master agreement with the National Chamber of Legal Advisers concerning TPL insurance of legal advisers was renewed.
- As for accident insurance, the premium written was at the level reported last year, mainly owing to the unthreatened position of PZU in accident insurance for students and teachers and accident insurance for drivers.

Products – corporate customer

- In accordance with its strategy, PZU carried out activities aimed at improving the profitability of motor insurance for corporate customers (comprehensive car insurance and TPL motor insurance) by means a changing premium rates. Also

new terms and conditions of comprehensive car insurance for fleet customers were introduced. As a consequence of systematic underwriting activities in that product group, the technical results have already improved.
- As a part of activities aimed at improving portfolio profitability and quality in the property insurance area, the role of underwriting was increased by limiting sales to industries with the highest claims ratio, streamlining the risk classification and assessment process and more common use of additional clauses changing the insurance scope.
- Furthermore, new tools to assess the risk were implemented in the third party liability insurances and changes regarding insurance terms and conditions and evaluation principles were prepared.

Products – financial insurance

PZU offers a wide range of insurance guarantees: from insuring the construction process at every stage, through bid bonds to payment guarantees. Additionally, PZU provides guarantees, e.g. insuring projects financed by the European Social Fund. PZU contract guarantees are granted to SMEs, corporate customers and non-profit organisations.

The key driver of insurance guarantees is the situation in the economy and investments in domestic fixed assets. In 2010, the development of guarantees was driven by investments related to Euro 2012 and higher EU financing spent by responsible entities in Poland.

Products – bancassurance

In 2010, the Company developed cooperation with the existing partners, i.e. leading banks on the Polish market. Moreover, it started cooperation with ING Bank Śląski SA in the scope of insuring payment cards for retail and corporate customers and with PLL LOT SA in travel insurance.

Special insurance added to bank products were launched: insurance programmes to payment cards, insurance of buildings and residential premises added to mortgage loans.

PZU started cooperation with partners having large homogeneous customer bases and servicing mass payments. The purpose of the cooperation is to complete and develop the offer of these institutions by way of providing specialised and tailored insurance products, such as mobile phone insurance, notebook insurance, insurance covering the risk of bill payment in the case of unemployment, travel insurance and accident insurance.

The Polish Financial Supervision Authority recommendations for banks and self-regulations of the bancassurance market may affect sales in the insurance sector related to bank products. Recommendation ”T” and recommendation “S” may increase financial safety of borrowers and limit the number of bad loans and mortgage loans.

Distribution channels

The structure of the sales network in PZU is to ensure effective sales to maintain a significant share of PZU on the insurance market and high quality of rendered services. This is achieved through dual organisation of sales:
- division by distribution channel;
- customer segmentation.

In 2010, PZU offered its products via the following distribution channels:
- exclusive agents – own agency network of PZU;
- multi-agents – agents cooperating with several insurance companies;
- insurance brokers;
- bancassurance – sales through banks and other partners that sell insurance products as a part of their auxiliary services;
- direct – telephone and internet sales;
- PZU employees – sales in own offices.

11.1.2 Claims handling

The following changes were introduced in 2010 as a part of organisation of claims handling process in PZU:
- centralisation of field claims handling structures has been completed in 9 Regional Claims Handling Centres of the PZU Group (RCLS);
- the claims handling system has been integrated with the MAO system supporting fraud detection;
- the Company has implemented a new version of PZU internet notification application adjusted to the new portal www.pzu.pl and integrated with the claims handling system.

The motor claims handling in 2010 included optimisation and stabilisation of post-accident car repairs. External firms are no longer engaged in the foreign claims handling; the process has been included in the PZU structures under the first stage of centralisation of claims handling with any foreign elements.

Framework agreements were concluded with external entities with regard to property claims handling and a programme was implemented to calculate the percent of damage in crops for the claims handling purposes. A new model of cooperation with certifying physicians has been developed.

The key model assumption is to engage external entities to organise and carry out medical certificate examinations in order to ensure faster and better access to certifying services provided by medical doctors of all faculties.

PZU started cooperation with the Misie Ratują Dzieci association which organises psychological rehabilitation sessions for children. The sessions may be attended by persons injured in road accidents and those indirectly affected by accidents – people who lost their relatives or witnessed a traumatic event.

11.2 Activities of PZU Życie in 2010

Sales

Group insurance

In group insurances the year 2010 saw launches of new cover insurance products and the loyalty programme PZU Pomoc w Życiu club in cooperation with PZU Pomoc SA.

On 1 January 2010, sales of a new additional group insurance Assistant in the Case of Damage to Health started. The scope of the group insurance includes hospitalisation, surgery or an accident resulting in a permanent disability.

The insurance guarantees the entire assistance package including home care by a qualified nurse, assistance in housekeeping, child care, care for pets, provision of rehab equipment, medical transport, transport to rehab facilities, small housekeeping works, assistance for a person appointed by the insured.

Assistant in the Case of Damage to Health is also an addition to individually continued insurance. This is the first assistance product included in the portfolio to cover hospital treatment or surgery following an accident.

On 1 November 2010, the following products were launched:

- a new version of additional group insurance against serious disease. The scope of the new insurance is much broader than the existing one, with four variants of insurance instead of two, the number of diseases increased from 13 to 36, and the heart attack definition modified and adjusted to the one commonly used in contemporary medicine;
- the new version of the additional group permanent disability insurance resulting from heart attack or brain hemorrhage includes the only change in the form of the modified heart attack definition.

Prior to introducing of new versions of the above products the definition of heart attack was modified in line with recommendations of the Office for Competition and Consumer Protection;

- additional insurance against serious disease of a spouse is similar to the above new insurance from serious disease; the only difference being the health of the spouse of the insured as the insurance subject.

PZU Pomoc w Życiu club is an exclusive loyalty programme dedicated to clients holding group life insurance in PZU Życie. This is the first product of the kind launched on the insurance market, with the objective to develop client loyalty through offering of a complex coverage of life and health with a wide range of assistance services.

The programme offers a rebate system allowing discounts for services and products of partners of PZU Pomoc (e.g. car lease, mechanical and electric services, vulcanisation and tire maintenance, spare parts replacement) and the Concierge programme including free of charge concierge services (e.g. leisure; lease and provision of a replacement car or limousine with a driver; booking of conference rooms or tables in a restaurant, etc.) as well as professional services (plumber, electrician, locksmith).

Programme members are also offered a hotline with all sorts of information, e.g. travel, tourism, weather, entertainment, cultural events, addresses of companies, offices and public institutions and procedures regarding car accident or document loss. Membership is free of charge, and the scope of services offered shall be extended month by month.

In 2010, a clear growing trend was observed in group insurance contracts subject to the Public Procurement Law.

In Q3 2010, PZU Życie offered another group of clients – those with individually continued type P and P Plus policies – with insurance cover extended with five additional policies.

No significant events that could materially impact the group investment insurance market took place in 2010. The Polish Financial Supervision Authority registered 29 new employee pension schemes out of which 14 are managed by PZU Group companies (3 schemes in the form of group life insurance with Pogodna Przyszłość fund in PZU Życie and 11 in the form of premiums paid by the employer to PZU TFI).

Activities performed in 2010:

- sales activities focused on development of group product offer with special attention to non-standard offers for corporate clients;
- in the beginning of the year, a new group hospital product was launched;
- principles were developed to separate the health insurance product line from life products (implemented early in 2011);
- guidelines were developed regarding a new commission system for the Corporate Client Function (implemented early in 2011);
- construction of own medical services network including outpatient care (through PZU Pomoc SA) including occupational medicine in the fee for service model; achieving the number of 207 medical service providers around the country at year-end; the target number planned for the end of 2011 is 600 medical service providers;
- opening of a non-public outpatient clinic of PZU Pomoc.

Bancassurance

In 2010, development of bancassurance product offer was continued, both in cooperation with the existing and new partners. Following the growing trend in stock exchange indices, client interest in unit-linked products increased. Implementation of modified and new products was commenced in cooperation with both the existing and new partners including single and regular premium. Cooperation was commenced with Bank Handlowy w Warszawie S.A.

The agency contract concluded involves cooperation on sale of structured insurance (the second subscription period lasted from 9 November to 20 December). Deposits embedded in policies generated the most contribution to written premium, albeit lower than in 2009.

According to the adopted strategy, an offer of such products is conditional on the scope of cooperation with a given partner with regard to other product lines. In bancassurance products the Company focused on maintenance of the existing portfolio and preparing of new contracts related to mortgage loan insurance.

Both PZU i PZU Życie achieved the projected level of realised written premium on bancassurance products.

Active search for new banking partners and maintenance of the existing relationships regarding insurance offers. In the adopted model, the cooperation is based on extension of the banking offer with custom-made insurance products, among others insurance programmes to payment cards, insurance of buildings and residential premises added to mortgage loans. The offer is completed with life insurance products including both coverage added to loans and the full range of investment products.

Individual insurance

In connection with the wide interest in unit-linked insurance products observed on the market (an increase of gross written premium in this product group), in 2010 PZU Życie extended its offer by launching a new product of this type: Plan na Życie (Plan for Life). It is a modern individual investment and savings insurance product with a regular premium, designed to combine saving and insurance protection. With this product, Clients may invest their funds regularly in carefully selected investment funds or use model funds and additionally set insurance protection at a desired level; this ensures great freedom in managing their insurance contracts.

Implementation of the Plan na Życie product was linked to a broad educational campaign under the slogan of “Życie na 100%” (Life at 100%). The purpose of the campaign was to educate clients how important it is today to accumulate funds for later in life. The “Życie na 100%” campaign provided effective support to the sales targets for the Plan na Życie product and reinforced the image of the PZU Group as an expert in providing modern, attractive and comprehensive protection and investment solutions.

Since interest in structured products observed on the market has not declined, constant presence on the market for those products remains a consistent objective for the Company. Through the Świat Zysków (World of Profit) insurance the Company offer its Clients an alternative or addition to other investment products. In 2010, 5 successive subscriptions of the product were conducted, with diverse investment strategies. The insurance remains in the offering and further subscriptions are planned in 2011.

During the 2010, work was also conducted on introducing a new product that would expand the Company’s protection offer. Sales of the product named PZU Ochrona Rodziny (PZU Protection of Family) were launched in early 2011. The insurance targets the Company’s existing clients holding endowment insurance, term insurance and the Plan na Życie insurance. The agreement provides coverage against a broad range of accidents. The novelty is that the Client may choose that a single agreement covers the insured but also his/her close family, i.e. the spouse and children. The product’s launch was associated with the introduction of a new service model for the Company’s existing clients in agency network structures.

Health insurance

In 2010, the product offering in health insurance was continued primarily in the group products area, focusing on customised offers for corporate Clients. In the beginning of the year, a new group version of the hospital insurance product was launched. Assumptions have also been prepared for separating the health insurance product line from the life insurance line and guidelines for a new commission system for the Corporate Client Division have been prepared. In the second half of the year, efforts were made to expand the network of medical service providers and to extend the offering based on the “fee for service” settlement model.

11.3 PTE PZU activities in 2010

In 2010, Otwarty Fundusz Emerytalny PZU "Złota Jesień" won the award for the best pension fund in the Central and Eastern Europe granted by Investment & Pension Europe (IPE) in recognition of its performance compared to competitors and reference indices, risk management and investment decision making methods, as well as involvement in implementing of corporate governance and best practices in its investment portfolio companies.

PKO 45.80 -0.22%   PZU 411,00 1,26%

22%   PZU 411,00 1,26%   TPE 6.29 -0.47%   TPS 17.66 0.34%

PKO 45.80 -0.22%   PZU 411,00 1,26%   TPE 6.29

Successful debut of PZU on the stock exchange. On the closing of the first day of quotations, investors earned more than 15% on the shares of PZU

6% TPE 6.29 -0.47% TPS 17.66 0.34%

TPS 17.66 0.34% TPE 6.29 -0.47%

7 6 4 2 1 3

INVESTORMS
3448.68
-0.33
117358.74
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2970.7
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23512.96
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7172.87
7226.06
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0
PL9999999706
2539.26

TPE 6.29 -0.47% PZU 411,00 1,26% PKO 45.80 -0.22%

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0
MWIG40
2972.23
-0.3
110280.46
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58.12
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4814.27
0
0
WIG-CHEMIA
7226.06
-0.13
11539.48
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2561.17
2553.81

PZU shares at the WSE

PGE 23.20 0.43% PGN 3.76 0.80%

12. PZU shares at the WSE

12.1 The Settlement Agreement performance and the IPO

On 1 October 2009, the State Treasury, Eureko B.V., PZU and Kappa S.A. concluded a Settlement Agreement (Agreement) to amicably settle the disputes related to the interest of Eureko B.V. and the State Treasury in PZU. One of the conditions of the Agreement was to oblige both parties to immediately start preparing the IPO of PZU shares.

On 13 April 2010, the PFSA (KNF) approved the prospectus of PZU which was published on 16 April 2010. Shares were subscribed for between 20 and 26 April 2010 in the case of authorised persons, between 20 and 28 April 2010 in the case of individual investors and between 30 April and 5 May 2010 in the case of institutional investors.

The information including data required pursuant to Article 54.3 of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies of 29 July 2005 published on 29 April 2010 specified:

- the price of shares for individual investors, authorised persons and institutional investors at PLN 312.50 per share;
- the final number of shares sold during the offering at 25,819,337 shares (29.9% of the total number of issued shares); the final number of sold shares and their share in the total number of issued shares was: Kappa S.A. – 12,866,492 (14.9%), Eureko – 8,635,230 (10.0%) and the State Treasury – 4,317,615 (5.0%);
- the number of shares sold to individual investors at 7,058,582, authorised persons at 73,938 and institutional investors at 18,686,817.

The Management Board of the National Depository for Securities (KDPW) adopted Resolutions No. 212/2010 on 16 April 2010 and No. 252/2010, 253/2010 and 254/2010 on 6 May 2010 whereby it granted PZU the status of participant of KDPW (ISSUER) (Resolution No. 212/2010) and decided to register 86,324,317 PZU shares (60,418,337 A series shares and 25,905,980 B series shares) with a code PLPZU0000011. The shares traded in the public offering were registered in KDPW on 26 April 2010 and the other shares, on 10 May 2010.

On 6 May 2010, PZU applied to the WSE for admission and introduction to trading on the primary market of the WSE of 60,418,337 A series shares and 25,905,980 B series shares.

On 7 May 2010, the Management Board of the WSE adopted Resolution 425/1020 whereby it decided to introduce 60,418,337 A series shares of PZU and 25,905,980 B series shares of PZU to trading on the primary market of the WSE on 12 May 2010. The resolution was conditional and its requirements were met on 10 May 2010.

The offering covered 25,819,337 shares of the Company. Under the Offering, 18,686,908 shares of PZU were granted to institutional investors, 7,058,491 shares – to individual investors and 73,938 shares to authorised persons. The demand of institutional investors was nine times higher than the number of shares offered. 59% of institutional investors were domestic investors and 41% were foreign investors.

Under the Offering, the Company shares were granted to 255,541 investors, including 251,288 individual investors, 1,629 authorised persons and 2,624 institutional investors.

On 12 May 2010, PZU shares were first traded at the WSE. It was one of the largest offerings in 2010 in the Central and Eastern Europe and the largest in history of the Warsaw Stock Exchange. The IPO ended a 10-year conflict of two largest shareholders of PZU, i.e. the State Treasury and the Dutch Eureko B.V. The opening price of PZU shares grew by 11.7% up to PLN 349 and the closing price reached PLN 360 per share. PZU shares are continuously traded under the abbreviated name “PZU” and designation “PZU”.

IPO costs

The total expenses related to the IPO of A series shares incurred by PZU amounted to PLN 25,611,049, including:

- the costs of preparing and carrying out the IPO: PLN 6,070,609;

- the costs of remuneration of underwriters: PLN 0;
- the cost of preparing the prospectus including the costs of consulting services: PLN 14,167,954;
- promotion costs related to the offer: PLN 5,372,486.

The costs of preparing the offer of sale of the existing shares constituted the costs of the period and were charged to the financial profit/loss for 2010. The costs in question do not include costs related to the IPO incurred by selling shareholders.

Average cost of sales per one share sold was PLN 0.99 and it did not include costs related to the IPO incurred by selling shareholders.

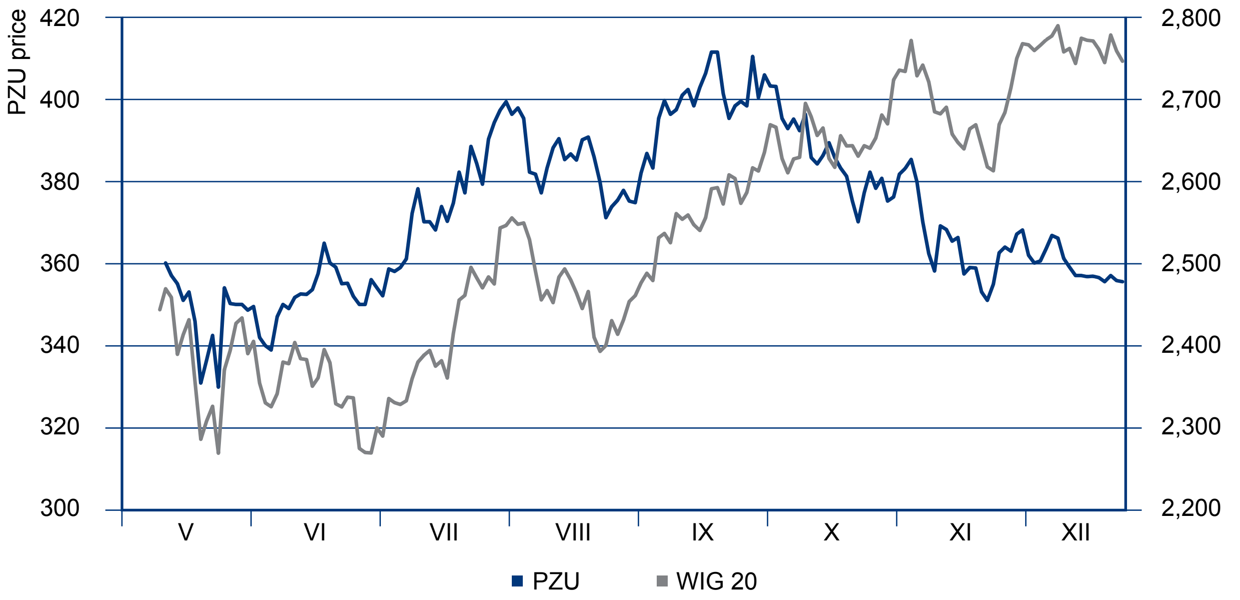
12.2 PZU share price

The shares of PZU were first traded at the WSE on 12 May 2010. The Company shares are continuously traded on the primary market of the WSE. On 17 May 2010, the Company's shares were included in the WIG20 index.

The offering covered 25,819,337 shares of PZU. Under the Offer, the Company shares were granted to 255,541 investors, including 251,288 individual investors (7,058,491 shares), 1,629 authorised persons (73,938 shares) and 2,624 institutional investors (18,686,908 shares).

The IPO ended a 10-year conflict of two largest shareholders, i.e. the State Treasury and the Dutch Eureko B.V.

Price of PZU shares compared to WIG20 in 2010



The year 2010 was the first year when shares of PZU were traded at the Warsaw Stock Exchange. After a successful debut (the increase in the closing share price amounted to 15.2% versus the offer price) the price of PZU shares were going up and reached PLN 417.50 on 21 September 2010.

Starting from October 2010, apart from market trends, the price of shares of PZU was still under the pressure of excess supply of Eureko B.V. On 18 November, after the share lockup period, Eureko sold a block of shares of the Company constituting 12.9999% of the share capital of the entity. The sales price in the process of accelerated book-building was determined as PLN 365.

Since the high-price period, the prices of PZU shares dropped by over 13% at the end of 2010. At the last session in 2010 the price was PLN 355.5. Investors that acquired shares at the issue price (PLN 312.5) at the WSE and sold them on 31 December 2010 got a 17.25% rate of return including the dividend paid in 2010 (PLN 10.91).

Average daily turnover of PZU shares in 2010 amounted to 317,391 shares and the highest level (7,225,362 shares) was reported on the day of the IPO (12 May 2010).

Key data concerning the price of the Company's shares at GPW w Warszawie S.A.

	unit	2010
Number of shares	item	86,352,300
Closing price on the last trading day in the year	PLN	355.5
Closing balance of market value of the Company	PLN	30,698,242,650
Highest closing price in the year	PLN	411
Lowest closing price in the year	PLN	330
Average trading volume per session	item	317,391
Dividend paid in the current year from previous year profit distribution and reserve capital	PLN/share	158.56

Capital market indicators

Capital market indicators as of 31 December 2010	Indicator value
P/BV (C/WK) *Market price/book value*	2.40
BVPS *Book value per share*	148.23
P/E (C/Z) *Price/Earnings per share*	12.58
EPS (PLN) *Net profit (loss)/number of shares*	28.25
DY (5) *Dividend yield (%) = dividend per one share/share price*	3.07%
DPS (PLN) *Dividend per share*	10.91
TSR *Total shareholder return = (market price of shares at the end of the year – market price of shares in the offering + dividend paid in 2010) / market price of shares in the offering*	17.25%

12.3 Dividend

On 26 March 2010, the Management Board of PZU adopted a resolution concerning the proposed distribution of profit for 2009 of PLN 2,510,380 thousand:
- 1,692,505 thousand to dividends, subject to making an advance payment towards dividend expected at the end of the 2009 financial year, described below;
- 10,000 thousand to appropriations to the Company's Social Benefit Fund;
- 807,875 thousand to reclassification to the supplementary capital.

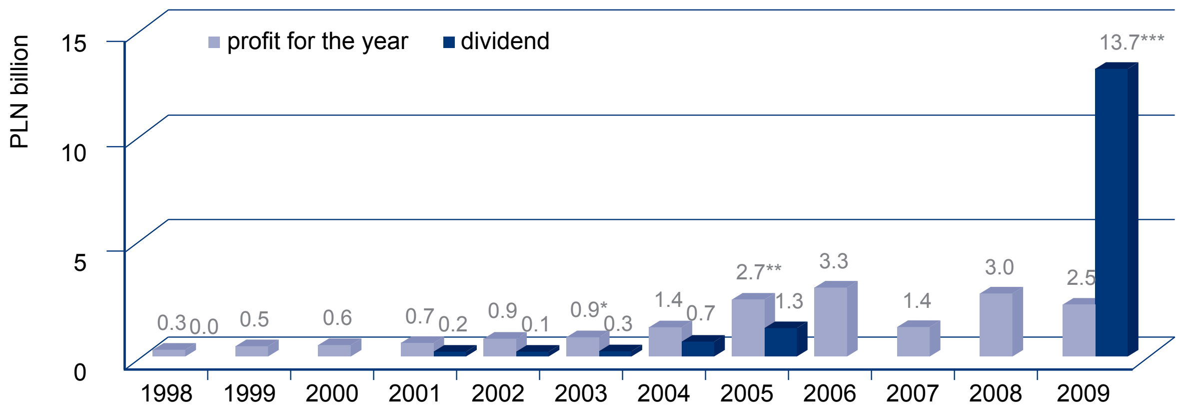
Additionally, in the resolution, the Management Board recommended to allocate an additional amount of PLN 11,999,516 thousand from the reserve capital as payment of dividend for 2009, to finance advance payments against expected dividend. The amount may be used by the Management Board, however, it has to make an advance payment against dividend expected at the end of the 2009 financial year, described below.

As a result of the advance payment towards the 2009 dividend of 26 November 2009 of PLN 12,749,917 thousand comprising:
- 750,401 thousand from the net profit for the first half of 2009 recognised in the audited financial statements of PZU prepared as of 30 June 2009;
- 11,999,516 thousand from the reserve capital to finance advance payments towards expected dividend at the disposal of the Management Board,
- the dividend still to be paid for the year ended 31 December 2009 was PLN 942,104 thousand i.e. PLN 10.91 per share.

On 10 June 2010, the Annual General Meeting of PZU adopted a resolution on profit distribution and dividend payment for the year ended 31 December 2009, sanctioning the above recommendation of PZU's Management Board.

The Annual General Meeting decided that the total amount of dividend for the year ended 31 December 2009 would be PLN 13,692,021 thousand, however PLN 12,749,917 thousand was paid on 26 November 2009 as an advance payment against dividend expected at the end of the 2009 financial year. The dividend still to be paid was PLN 942,104 thousand, i.e. PLN 10.91 per share. 25 August 2010 was set as the record date and dividend was paid on 9 September 2010.

History of distribution of net profit of PZU SA in 1998–2009 (PLN million)



**) including profit carried forward in the amount of PLN 34,428,171.93*
***) including profit carried forward in the amount of PLN 7,405,978.24*
****) including: reserve capital of PLN 11,999,515,608, out of the 2009 profit of PLN 1,692,505,080*

7 6 4 2 1 3

PZU 411,00 1,26% TPE 6.29 -0.47% TPS 17.66 0.34%

Financial performance of PZU Group in 2010

13. Financial performance of PZU Group in 2010

13.1 Events significantly affecting the activities and financial performance of PZU Group in 2010

The financial performance of PZU Group in 2010 was affected by the following factors:

- changes in the structure of written premium for property and casualty insurance segment – restructuring of the corporate portfolio;
- growing trend in life insurance, both group and individual;
- impact of catastrophic and one-off events:
  - heavy snowfalls in winter (Q1);
  - two floods in May and June (Q2);
  - smaller local floods and heavy rains in July and August;
  - lower amount of technical provisions derecognised due to conversion of multi-year policies to single-year ones in type P group life insurance; in Q3 2010 the impact of conversion gradually weakened due to reduction of the multi-year contract portfolio;
- a decrease in administrative expenses due to fixed cost reduction;
- good profit achieved on investing activities despite a significant drop in the value of the investment portfolio (advance dividend payment in November 2009 and payment of 2009 dividend);
- consistent implementation of the strategy of the PZU Group with respect to:
  - maintaining the leading position in group life insurance with a stable level of profitability of this business line;
  - restructuring of the corporate customer motor insurance portfolio quality in property and casualty insurance;
  - implementation of restructuring processes aimed at reducing administrative expenses (conclusion of negotiations concerning the collective labour agreement with the trade unions and commencement of the lay-off process).

13.2 Comments to the consolidated financial performance of the PZU Group

13.2.1 Premiums

Gross written premiums from direct and indirect insurance for 2010 amounted to PLN 14,544,457 thousand (PLN 14,362,717 thousand the year before). The growth of PLN 181,740 thousand (+1.3%) resulted mainly from development of group insurance and increasing sales of endowment insurance with a single premium in the bancassurance channel (the life insurance segment). In the property and casualty insurance segment, premium written remained on a similar level as in 2009.

Premium changes have been discussed in the comments to segment performance (items 13.3.1 and 13.3.2).

Gross written premiums	2010	2009	% change
Gross written premiums – property and casualty insurance	8,031,916	8,021,895	0.1%
In direct insurance	7,994,504	7,966,464	0.4%
In indirect insurance	37,412	55,431	-32.5%
Gross written premiums – life insurance	6,512,541	6,340,822	2.7%
Individual premiums	2,342,210	2,288,920	2.3%
In direct insurance	2,342,210	2,288,920	2.3%
In indirect insurance	-	-	-
Group insurance premiums	4,170,331	4,051,902	2.9%
In direct insurance	4,170,331	4,051,902	2.9%
In indirect insurance	-	-	-
Gross written premiums	**14,544,457**	**14,362,717**	**1.3%**

13.2.2 Investment performance

Income on investment activity was PLN 2,781,840 thousand and PLN 3,469,001 thousand in 2010 and 2009, respectively.

Profit/loss on investing activities	2010	2009	% change
Interest income	1,772,869	2,273,225	-22.0%
Dividend income	77,655	79,290	-2.1%
Income on investment property	26,523	22,678	17.0%
Exchange differences	(17,178)	14,609	-217.6%
Other	(31,285)	(26,418)	-
Total net investment income	**1,828,584**	**2,363,384**	**-22.6%**
Net profit/loss on realisation of investments	303,152	353,480	-14.2%
Impairment losses	(103,701)	(92,170)	-
Total net profit/loss on realisation and impairment loss on investments	**199,451**	**261,310**	**-**
Net change in the fair value of assets and liabilities measured at fair value	**753,805**	**844,307**	**-10.7%**
Investment income	**2,781,840**	**3,469,001**	**-19.8%**

A decrease in net investment income by PLN 534,800 thousand resulted from lower interest income. The key reason for lower investment income was reduction in the value of debt securities portfolio due to the dividend paid under the settlement with Eureko B.V. at the end of November 2009.

The “Net change in the fair value of assets and liabilities measured at fair value” decreased by PLN 90,502 thousand mainly due to a slowdown on the stock market resulting in smaller increases in equity instruments value. In 2010, Warszawski Indeks Giełdowy - the Warsaw Stock Exchange Index (WIG) reflecting changes in the prices of all listed companies increased by 18.8% compared to 46.9% in 2009.

The net profit on realisation of investments decreased by PLN 50,328 thousand, whereas losses resulting from impairment were higher by PLN 11,531 thousand. As a result, net profit/loss on realisation and impairment losses on investments dropped by PLN 61,859 thousand.

Investment policy of the PZU Group is secure. Debt securities issued by governments accounted for over 75% of the investment portfolio, both as at 31 December 2010 and 31 December 2009. A decrease in the value of these securities resulted from the closing of dividend funding transactions in April 2010 with regard to the settlement with Eureko B.V.

The increase in the share and value of equity instruments resulted mainly from a growth in their market price in 2010.

Structure of the investment portfolio *(PLN thousand)*	**2010**	**%**	**2009**	**%**
Debt securities, including:	**35,200,159**	**77.6%**	**38,787,479**	**80.4%**
issued by governments	34,291,519	75.6%	38,004,941	78.8%
other	908,640	2.0%	782,538	1.6%
Equity instruments, including:	**5,741,732**	**12.7%**	**4,767,842**	**9.9%**
listed on a regulated market	3,083,846	6.8%	2,711,646	5.6%
other (units, investment certificates, not listed stock, shares)	2,657,886	5.9%	2,056,196	4.3%
Loans, reverse repo transactions and term deposits with financial institutions	**4,296,170**	**9.5%**	**4,667,007**	**9.7%**
Other	**106,971**	**0.2%**	**15,265**	**0.0%**
TOTAL	**45,345,032**	**100.0%**	**48,237,593**	**100.0%**

13.2.3 Claims

In both segments of the PZU Group, net claims increased in total by PLN 862,954 thousand (+9.1%). In the life insurance segment it stemmed mainly from a lower level of conversion of multi-year policies to single-year ones (lower amount of mathematical provisions derecognised) and increase in payments (mainly due to increased amounts of performances in group insurance and continued insurance). In the property insurance segment it was related to a significant increase in property claims, general TPL and agricultural insurance (intensive snowfalls in Q1 2010 and flood in Q2).

The reasons for a rise in the value of claims have been presented in detail in the comments to segment performance.

13.2.4 Acquisition costs and administrative expenses

In 2010, acquisition costs grew by PLN 11,799 thousand (+0.6%) versus 2009. The increase resulted mainly from changes in sales in the property and casualty insurance segment related to restructuring of the insurance portfolio (a rise in the share of higher commission products and distribution channels) as well as changes implemented with respect to sales network management in the previous year (changes in the commission system and introduction of overrides).

A decrease in administrative expenses by PLN 145.7 thousand (-8.1%) resulted mainly from restructuring activities carried out in the PZU Group companies, including among others the employment restructuring programme in PZU and PZU Życie Head Offices in the second half of 2009. In 2010, the PZU Group continued the employment restructuring process in field units, among others aimed at improved efficiency of claim handling, centralisation of current policy maintenance and establishing of new client service standards (creating of the Group Network Function) and resulting in a significant reduction of fixed costs of current operations. Additionally, on the Capital Group level, the fixed cost optimising programme carried for half a year produced positive outcome and reduced expenditure in many areas, including administration (office supplies, mail service), real property maintenance (cleaning costs) or IT.

13.2.5 Other items

In 2010, the balance of other operating revenue and expenses improved by PLN 129,278 thousand year on year (a change from PLN (-333,516) thousand to

PLN (-204,238) thousand. The above resulted mainly from the fact that the obligatory payment made to the National Health Fund in relation to TPL motor insurance is no longer required.

The reasons for the above change have been presented in detail in the segment performance section.

13.2.6 Performance and performance ratios of the PZU Group

The operating profit in 2010 amounted to PLN 3,088,085 thousand and was lower by PLN 1,513,666 thousand (-32.9%) year on year, which was mainly caused by a rise in net claims paid in the current year and a lower value of released technical provisions in the life insurance segment. A drop in the operating profit led directly to a decrease in the net profit by PLN 1,323,682 thousand (-35.2%).

Data from the consolidated income statement *(PLN thousand)*	**2010**	**2009**	**% change**
Gross written premiums	14,544,457	14,362,717	*1.3%*
Net earned premiums	14,213,013	14,485,214	*-1.9%*
Revenue from commissions and fees	288,037	340,876	*-15.5%*
Net profit/loss on investing activities	2,781,840	3,469,001	*-19.8%*
Net insurance claims	(10,299,235)	(9,436,281)	*9.1%*
Acquisition costs	(1,851,404)	(1,839,605)	*0.6%*
Administrative expenses	(1,663,163)	(1,808,881)	*-8.1%*
Operating profit (loss)	3,088,085	4,601,751	*-32.9%*
Gross profit (loss)	3,029,431	4,565,811	*-33.6%*
Net profit	2,439,229	3,762,911	*-35.2%*
Minority profits (loses)	(2)	(34)	*-94.1%*
Weighted average basic and diluted number of common shares	86,352,300	86,352,300	
Basic and diluted earnings (loss) per common share (in PLN)	28.25	43.58	*-35.2%*

Data from the consolidated statement of cash flows *(PLN thousand)*	**2010**	**2009**	**% change**
Net cash generated by operating activities	469,423	(1,540,556)	–
Net cash used in/generated by investment activities	5,329,478	9,404,126	*-43.3%*
Net cash used in financing activities	(5,727,985)	(8,029,975)	*-28.7%*
Total net cash flows	70,916	(166,405)	–

At the end of 2010, ROE was 20.3%, by 3.7 p.p. lower than at the end of the previous year.

At the same time, ROA was 4.7%, by 2.0 p.p. lower than at the end of the previous year.

In 2010, the Combined Operation Ratio (COR) in property and casualty insurance gained to 104.5% and increased by 5.5 b.p. comparing to the preceding year. The increase was caused mainly by higher claim ratio duo to heavy winter and flood in the 1st and 2nd quarter. Slightly higher level of acquisition cost results from changes in product structure and changes in distribution channels. Operation ratios in property and casualty insurance segment are presented in item 13.3.1.

13.2.7 Assets and liabilities structure

Financial assets accounting for 89.7% of the balance sheet total are the key asset item. At the end of 2010, they amounted to PLN 45,345,032 thousand and was 6.0% lower than at the end of 2009.

A decrease in financial assets at the end of 2010 results mainly from repayment (on 22 April 2010) of liabilities arising from a sell-buy-back transaction entered into with the objective to finance PZU's advance dividend payment for 2009 in the amount of PLN 4,086,821 thousand.

On 10 June 2010, the Annual General Meeting of PZU decided that the total amount of dividend for the year 2009 would be PLN 13,692,021 thousand, whereas its portion of PLN 12,749,917 thousand was paid on 26 November 2009 against dividend expected at the end of the 2009 financial year. The dividend still to be paid was PLN 942,104 thousand, i.e. PLN 10.91 per share. 25 August 2010 was set as the record date and dividend was paid on 9 September 2010.

Equity was 13.6% higher than in the previous year and amounted to PLN 12,799,926 thousand.

Data from the consolidated statement of financial position *(PLN thousand)*	**2010**	**2009**	**% change**
Assets	50,533,832	53,176,209	*-5.0%*
Share capital	86,352	86,352	
Minority interest	126	133	*-5.3%*
Total equity	**12,799,926**	**11,266,879**	***13.6%***
Weighted average basic and diluted number of common shares	86,352,300	86,352,300	
Book value per common share (in PLN)	148.23	130.48	*13.6%*

13.3 Comments to segment reporting

13.3.1 Property and casualty insurance

Data from the income statement – property and casualty insurance *(PLN thousand)*	**2010**	**2009**	**% change**
Gross written premiums	8,032,762	8,023,727	*0.1%*
Net earned premiums	7,700,289	8,147,140	*-5.5%*
Net profit/loss on investing activities	4,090,758	2,836,093	*44.2%*
Net insurance claims	(5,690,846)	(5,642,669)	*0.9%*
Acquisition costs	(1,385,570)	(1,366,522)	*1.4%*
Administrative expenses	(967,244)	(1,055,255)	*-8.3%*
Operating profit (loss)	3,613,184	2,719,193	*32.9%*

** Includes dividend from PZU Życie of PLN 3,120,00 thousand and PLN 1.419,146 thousand in 2010 and 2009, respectively.*

Gross written premiums in direct insurance in the property and casualty insurance segment (after intra-segment adjustments) for 2010 and 2009 amounted to PLN 8,031,916 thousand and PLN 8,021,895 thousand, respectively. An increase by PLN 9,035 thousand (0.1%) resulted mainly from growing sales of motor and property insurance products. Sales of motor insurance in the retail customer segment dropped by 0.7% (lower sales mainly at the beginning of the year – at year end increases are observed), whereas due to portfolio restructuring and poor conditions on the lease market sales in the corporate customer segment decreased by 19.7% (the total written premiums in motor insurance decreased by 5.8%). The above decrease was partly offset by a 2.0% rise in written premiums in other TPL insurance. A drop in the value of premiums earned in 2010 by PLN 446,851 thousand (-5.5%) year on year was for the most part the effect of higher costs relating to changes in the balance of provisions for unearned premiums and unexpired risks. An increase in the provision for unearned premium was higher than the year before since its carrying amount at the end of 2008 was high (due to good sales performance in 2008) and decreased in 2009 following reduction in written premium. In the last months of 2010, it increased again due to sales improvement.

Gross written premiums in direct property and casualty insurance (by classes specified in section II of the attachment to the Act on insurance activity) *(PLN thousand)*	**2010**	**2009**	**% change**
Accident and sickness insurance (class 1 and 2)	505,616	503,242	0.5%
TPL motor insurance (class 10)	2,668,813	2,699,655	-1.1%
Other motor insurance (class 3)	2,314,797	2,266,895	2.1%
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	48,766	45,346	7.5%
Insurance against fire and other damage to property (classes 8, 9)	1,640,743	1,597,276	2.7%
TPL insurance (classes 11, 12, 13)	500,237	476,883	4.9%
Credit insurance and suretyship (classes 14, 15)	68,066	67,959	0.2%
Assistance (class 18)	175,915	148,783	18.2%
Legal protection (class 17)	777	800	-2.9%
Other (class 16)	70,774	159,625	-55.7%
Gross written premiums in direct property and casualty insurance (by classes specified in section II of the attachment to the Act on insurance activity)	**7,994,504**	**7,966,464**	**0.4%**

Taking into account intra-group adjustments and excluding gross written premium on indirect insurance totaling to PLN 37,412 thousand in 2010 and PLN 55,431 thousand in 2009.

An increase in the value of claims in the property and casualty insurance segment by PLN 48,177 thousand (0.9%) was caused mainly by claims resulting from a heavy snowfall and melt, floods which struck Poland and a growing frequency of claims regarding motor insurance.

An increase in the value of claims in 2010 versus the previous period was caused mainly by mass claims, such as:

- floods (May–June) – the total gross amount of PLN 652,641 thousand (net amount of PLN 230,408 thousand);
- snowfalls (January–March) – the total gross amount of PLN 169,427 thousand (net amount of PLN 138,978 thousand).

In 2010, investment income grew by PLN 1,254,665 thousand up to PLN 4,090,758 thousand due to an increased dividend received from PZU Życie (the 2010 dividend amounted to PLN 3,120,000 thousand compared to PLN 1,419,146 thousand in 2009). Investment income of the Group excluding the dividend dropped by PLN 446,189 thousand due to financial assets reduction following the payment of PLN 12,749,917 thousand in 2009 and deterioration of capital markets.

In 2010, acquisition costs in the property and casualty segment increased by PLN 19,048 thousand. The increase resulted from a change in the product structure (a rise in the share of higher commission products), changes in the structure of distribution channels (an increase in the share of commission channels at the expense of automatic non-commission renewals) as well as changes in sales implemented in the previous year, i.e. standardisation of commission rates and introduction of additional bonuses supporting agent effectiveness and making their remuneration conditional on the goals set (the so-called overrides).

In 2010, a decrease in administrative expenses of PLN 88,011 thousand was seen (8.3%; excluding the one-off appropriation to the Social Benefit Fund of PLN 10,000, the decrease would amount to PLN 98,011 thousand, i.e. by 9.3%), mainly due to employment restructuring in the head office of PZU carried out in H2 2009 and cost optimisation activities performed in the Group. The activities brought a desirable outcome in the form of 14.8% reduction of FTE at the end of 2010 YoY and a decrease in personnel costs by 9.6% YoY despite unplanned additional costs of remuneration arising from handling of flood effects. At the same time, tighter cost regime in 2010 brought positive results – among others in the form of reduced IT, administrative and depreciation/amortisation expenses.

An increase in the balance of other operating revenue and expenses by PLN 65,391 thousand resulted primarily from the fact that the obligation to make payments to the National Health Fund was cancelled (in 2009, the remaining capitalised costs were settled) accompanied with a reduction in reinsurance commission and profit sharing in 2010.

In 2010 and 2009, the operating profit in the property and casualty insurance segment was PLN 3,613,184 thousand and PLN 2,719,193 thousand, respectively. An increase by PLN 893,991 thousand (32.9%) as a consequence of a higher profit on investing activities (mainly higher dividends received from PZU Życie) as well as a lower level of other operating expenses was partly offset by higher claims and a drop in the net earned premium.

Effect of one-off events on operating profit

As regards the property insurance segment, one-off events with a material impact on the Company's operating profit occurred both in 2010 and 2009.

The key events of 2010 include:
- snowfalls (Q1) – the total gross amount of PLN 169,427 thousand (net amount of PLN 138,978 thousand);
- floods (May–June) – the total gross amount of PLN 652,641 thousand (net amount of PLN 230,408 thousand);
- a reduced investment base due to dividend payment: in November 2009, in the amount of PLN 12,749,917 thousand as a result of a settlement concluded and the remaining part of the 2009 dividend paid on 9 September 2010 in the amount of PLN 942,104 thousand.

In 2009, the events included the statutory payment to the National Health Fund reducing the operating profit by PLN 119,381 thousand.

13.3.2 Life insurance

Data from the income statement – life insurance *(PLN thousand)*	**2010**	**2009**	**% change**
Gross written premiums	6,512,541	6,340,822	2.7%
Net earned premiums	6,514,124	6,339,878	2.7%
Net profit/loss on investing activities	1,688,815	1,858,322	-9.1%
Net insurance claims	(4,607,139)	(3,793,582)	21.4%
Acquisition costs	(360,488)	(391,911)	-8.0%
Administrative expenses	(601,314)	(619,764)	-3.0%
Operating profit (loss)	**2,581,675**	**3,282,367**	**-21.3%**

Written premium by product group – life insurance *(PLN thousand)*	**2010**	**2009**	**% change**
Group insurance	4,170,331	4,051,902	2.9%
Individual insurance, including:	2,342,210	2,288,920	2.3%
- individually continued insurance	1,797,331	1,776,050	1.2%
- other individual insurance	544,879	512,870	6.2%
Total	**6,512,541**	**6,340,822**	**2.7%**

Written premium by payment type – life insurance *(PLN thousand)*	**2010**	**2009**	**% change**
Regular premium	6,356,029	6,222,032	2.2%
Single premium	156,512	118,790	31.8%
Total	**6,512,541**	**6,340,822**	**2.7%**

An increase in the gross written premium by PLN 171,719 thousand (2.7%) resulted mainly from growth of group insurance – a rising number of the insured, higher average premium in group cover products as well as higher premium in single premium endowment products distributed through the bancassurance channel. The premium derived from Employee Pension Plans and group health insurance increased as well. In individually continued insurance, premium growth resulted mainly from sales of additional insurance including the new extension "Assistant in the Case of Damage to Health". The significant premium growth in individual insurance stems from:

- five subscriptions for Świat Zysków single-premium insurance;
- launch of a new regular premium savings and investment product with an insurance element called Plan na Życie;
- in cooperation with CITI Bank Handlowy SA, launch of a new individual term product with a single premium.

The changes were partly offset with expiration of endowment insurance portfolio concluded in the nineties.

A rise in the value of net claims paid and change in the balance of technical provisions by PLN 813,557 thousand (21.4%) was the effect of payments growth by 5.3% accompanied with a growth in provisions compared to a significant drop in 2009.

Claims increased by PLN 22,729 thousand mainly following a rise in claims in group cover insurance, continued insurance and increased endowment amounts from individual endowment policies concluded in the 1990s. The growth was partly offset with a decrease in payments from individual and group investment insurance (mainly individual pension accounts and Pogodna Jesień) and a reduced "old portfolio" claims.

The difference in the balance of technical provisions (PLN 588,828 thousand) resulted mainly from a slower conversion of multi-year group cover policies into single-year renewable ones (in the first half of 2010, PLN 520,261 thousand of provisions was released in group cover insurance, while in the corresponding period of 2009 the amount was PLN 1,339,811 thousand). At the same time, the Company saw a decrease in loss provisions resulting from changes in loss handling procedures, including lead time reduction.

In 2010, investment income dropped by PLN 169,507 thousand to PLN 1,688,815 thousand. The main reason was a reduced performance on treasury securities (following dividend payment at the beginning of the year).

In 2010 and 2009, acquisition costs in the life insurance segment amounted to PLN 360,488 thousand and PLN 391,911 thousand, respectively. The change by – PLN 31,423 thousand resulted mainly from:

- a reduced commission on cover insurance distributed through the bancassurance channel – effects of reduced sales; an increase in commissions paid in relation to group cover insurance resulting from the growth share of the premium earned through the broker channel; slowdown in the increasing trend in the share of premium earned through the broker channel in the total gross written premium compared to 2009;
- a decrease in indirect acquisition costs.

Administrative expenses in the life insurance segment decreased by PLN 18,450 thousand (-0.3%), except for a one-off appropriation to the Company's Social Benefit Fund (PLN 5,000 thousand), administrative expenses dropped by PLN 23,450 thousand year on year (3.8%), mainly as a result of cost saving measures applied including headcount reduction and fixed costs optimising programme carried out in the PZU Group.

In 2010 and 2009, other net operating revenue and expenses in the life insurance segment amounted to PLN -52,323 thousand and PLN -110,576 thousand, respectively. A net change in the balance of other operating revenue and expenses by PLN 58,253 thousand resulted among others from a provision for GraphTalk elimination system of PLN 31,292 thousand recognised in 2009 (in 2010, just PLN 764 thousand) and from reduced revenue from derecognised impairment loss on mortgage loan for MetroProjekt (PLN 2,609 thousand in 2010 vs. PLN 16,642 thousand in 2009).

In 2010, the operating profit in the life insurance segment decreased by PLN 700,692 thousand (21.3%) for the most part due to a lower value of released technical provisions in group cover insurance (e.g. conversion of long-term contracts into one-year renewable ones).

Effect of one-off events on operating profit

As regards life insurance, both in 2010 and 2009 no one-off events occurred which would have a material impact on the operating profit generated by the segment.

13.3.3 As regards life insurance, both in 2010 and 2009 no one-off events occurred which would have a material impact on the operating profit generated by the segment.

Investment contracts concluded by PZU Życie are recognised under "Unallocated (consolidation exclusions and other)". Investment contract accounting is based on the deposit method. In consequence, investment contract volumes are not classified as revenue in accordance with IFRS.

Investment contract volumes by product group *(PLN thousand)*	**2010**	**2009**	**% change**
Group	1,897,092	2,502,495	-24.2%
Individual, including:	890,566	1,074,132	-17.1%
- individually continued	-	-	-
- other individual	890,566	1,074,132	-17.1%
Total	**2,787,658**	**3,576,627**	**-22.1%**

Volumes acquired from investment contracts *(PLN thousand)*	**2010**	**2009**	**% change**
Single payments	7,136	9,255	-22.9%
Total	2,780,522	3,567,372	-22.1%
Total	**2,787,658**	**3,576,627**	**-22.1%**

A drop by PLN 788,969 thousand (22.1%) resulted mainly from recalling an individual unit-linked single-premium product "Fundusz Gotówka" (PLN 701,161 thousand) as well as lower sales of endowment investment contracts sold through the bancassurance channel (PLN 606,828 thousand). The above change is party offset by increased sales of unit-linked products distributed through the bancassurance channel (PLN 341,193 thousand) and a rise in gross written premium from an investment endowment product "Pewny Zysk" (PLN 179,198 thousand).

13.3.4 Pension fund activity

Data from the consolidated income statement – pension insurance *(PLN thousand)*	**2010**	**2009**	**% change**
Revenue from commissions and fees	246,915	309,702	-20.3%
Net profit/loss on investing activities	16,121	17,392	-7.3%
Acquisition costs	(48,738)	(61,177)	-20.3%
Administrative expenses	(93,119)	(122,425)	-23.9%
Operating profit (loss)	122,446	143,972	-15.0%
In 2010 and 2009, revenue from commissions and fees in the pension insurance segment amounted to PLN 246,915 thousand and PLN 309,702 thousand, respectively.	**99,571**	**116,882**	**-14.8%**

A drop by PLN 62,787 thousand (-20.3%) resulted mainly from the introduction of a statutory limitation of the fee charged by PTE PZU on premiums transferred by the Social Insurance Institution to the pension fund. The fee was reduced as of 1 January 2010 from 7% to 3.5%.

A decrease in acquisition costs by PLN 12,439 thousand (-20.3%) was for the most part the effect of changes in the sales network structure as well as lower costs of incentive schemes and training for the sales network. Administrative expenses of PTE PZU dropped by PLN 29,306 thousand (-23.9%), which was mainly a consequence of lower transfer agent costs (effective from January 2010, the monthly account maintenance rate was reduced), lower marketing and PR expenses, sales integration within the PZU Group (transfer of some employees from PTE PZU to other PZU Group companies) as well as employment reduction.

The operating profit decreased by PLN 21,526 thousand (15.0%), which corresponded to the drop in the value of revenue from commissions and fees (partly offset by a decrease in costs).

The net profit decreased by PLN 17,311 thousand (-14.8%), which corresponded to the drop in the operating profits.

At the end of 2010, the assets managed by PTE PZU amounted to PLN 30,512,533 thousand and increased by PLN 5,929,573 thousand (+24.1%) comparing to 2009.

13.4 Risk factors which may affect financial performance in the following periods

13.4.1 Property and casualty insurance

The key risk factors that can affect the performance of the PZU Group Companies in 2011 include:

- unchanged unemployment rate in 2011 and a slowdown in individual consumption, which may translate into a lack of demand for insurance products;
- price pressure of competitors;
- growing trends in the claims ratio;
- stronger position of insurance brokers, which may result in increased acquisition costs;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy – lower yield may result in worse investment profitability and the need to change the technical rates applied by the Company;
- situation on the capital market in 2011, in particular at the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on market trends;
- imprecise definition of tax exemptions related to insurance and medical services in the amended VAT Act;
- low flexibility of numerous product applications in the PZU Group companies, impeding fast adaptation to market needs;
- possible changes (amended laws) to the principles for measuring provisions for capitalised annuity, which may require increasing their value in line with the prudence principle;

- increase in the average cost of casualty claims due to a growing share of private healthcare and the principle of compensation for a relative's death (Article 446 § 4 of the Civil Code), which may require an increase in the value of TPL motor insurance provisions;
- risk of higher number and value of claims and victims related to the act on group claims, which came into force;
- changes in regulations applicable to banks, which may result in a reduced number of mortgage loans granted and debtor insurance policies.

13.4.2 Life insurance

Key risks that can affect the performance of PZU Życie in 2011:
- unchanged unemployment rate in 2011 and a slowdown in individual consumption, which may translate into a lack of demand for insurance products;
- potential increase in competition in group insurance arising from the growing role of brokers in the segment and the requirement to hold tender for group insurance applicable to entities subject to the Public Procurement Act;
- changes in the financial brokerage market, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels of the Companies;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy – lower yield may result in worse investment profitability and the need to change the technical rates applied by the Company, as well as the European Embedded Value amount;
- situation on the capital market, in particular at the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on the market trends;
- any changes to the generally applicable regulations or their interpretations with respect to technical management of group insurance products by individuals designated for that purpose by policyholders;
- changes in the current mortality, longevity and incidence proportion;
- little flexibility of many product applications used in PZU Group companies hindering fast adjustment to market needs and maintenance of certain products within a time period allowing effective competition in the new investment products area.

13.4.3 Pension funds

Key risks that can affect the performance of PTE PZU in 2011:
- possible further changes in the pension insurance system leading to a drop in the value of the pension premium transferred by the Social Insurance Institution to pension funds, establishment of subfunds and laying down the principles for market acquisition;
- unchanged unemployment rate in 2011 translating into a lower number of new fund members;
- low pace of pay increase affecting growth of premiums paid by pension fund members;
- changes in the financial brokerage market, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels of the Companies;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy – lower yield may reduce the profitability of the Fund's investments and management fees collected by the Company;
- situation in the capital market in 2011, in particular at the Warsaw Stock Exchange – a portion of the income is generated on the Fund's investing activities translating into value of assets and fees charged by the Company for management services.

13.5 Other selected PZU Group companies – development and performance

13.5.1 PZU Lietuva

At the end of 2010, PZU Lietuva ranked four on the Lietuva's property and casualty insurance market. As the entire market, the company saw a YoY drop of written premium (in 2010, the marked was reduced by -4.5%). Despite difficult situation on capital markets, investment income remains stable and allows recording a financial profit at year end (pre-audit data). The reduced written premium results among others from the decision on restructuring of the corporate portfolio, in particular TPL due to high claims ratio, which resulted in withdrawal from cooperation with some clients.

Catastrophic losses arising from flood, wind, snow and fire on Lisco Gloria ferry where facilities insured by

PZU Lietuva were located significantly contributed to the technical result.

In line with the assumptions, employees in HO and field units are unified. The restructuring activities allowed reduction of administrative expenses in the Companies by 19% compared to 2009, which resulted in improved financial performance.

Marketing and sales support include new incentive systems for agents, coordinators and brokers.
On 1 August 2010, responsibilities of directors in regional branches were combined and since then they have been in charge both for the sale of property and casualty and life insurance products. Under the one-company project, separate units selling property and casualty insurance products were merged with life insurance selling facilities.

13.5.2 PZU Ukraine

In 2010, PZU Ukraine saw a significant increase in premium accompanied with a slight growth of the Ukrainian insurance market – it extended its classic market share from 2.44% to 3.16% being the tenth biggest on the classical property and casualty insurance market (data as at the end of Q3 2010) and continued the growing trend commenced in 2009.

In sales changes were introduced to comprehensive car insurance product (programme update) and voluntary TPL scope was simplified. It was accredited by well recognised banks including Ukrsocbank (UniCredit Group), Raiffeisen Bank Aval (corporate client insurance). Cooperation was initiated with car dealers including NIKO Motors (Mitsubishi) and TOYOTA Ukraine.

On 30 December 2010, the Insurance Supervisory Authority decided to issue a new license for PZU Ukraine regarding the sale of MTPL for an unlimited period of time.

On 18 January 2011, PZU concluded transactions involving sales of treasury shares for redemption with the following subsidiaries: PrJSC IC PZU Ukraine (“PZU Ukraine”) and PrJSC IC PZU Ukraine Life Insurance (“PZU Ukraine Life”).

The capital restructuring of the above companies (recording of share capital reduction) shall be closed in Q2 2011.

The transactions will not impact the financial profit/loss of PZU.

13.5.3 Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna (“TFI PZU SA”)

Key sales initiatives included:
- active search for employee pension schemes;
- continuing extension of the distribution network;
- promotion campaign regarding investment plans carried out in mass media;
- in cooperation with PZU Group companies, carrying out a market survey aimed at exploration of investment behaviour, in particular perception of the investment fund market;
- promotion activities aimed at increase of pension awareness of Poles in cooperation with the Chamber of Fund and Asset Management.

In 2010, the Company modified its product offer. Among others, work aimed at transforming open-end investment funds into one umbrella fund with sub-funds were carried out, as well as establishing of dedicated closed-end funds.

Key achievements in 2010:
- winning fourteen new employee pension schemes;
- attracting new distributors of investment fund units: BOŚ Bank SA, Podkarpacki Bank Spółdzielczy and Bank Spółdzielczy Rzemiosła;
- commencing cooperation on new unit-linked product with Towarzystwo Ubezpieczeniowe Benefia na Życie SA;
- concluding an agreement with PKP SA regarding establishment and management of closed-end investment fund on the real property market.

TFI PZU SA created PZU Dłużny Rynków Wschodzących, a sub-fund of PZU SFIO Globalnych Inwestycji. Additionally, PZU FIO Optymalnej Alokacji was transformed into a sector stock fund PZU FIO Energia Medycyna Ekologia.

Risk factors influencing the activities and performance of TFI PZU SA in 2010:
- growing competition on the investment fund market resulting in decreasing maintenance fee income and AUM fees;
- situation in the capital market, in particular on the Warsaw Stock Exchange and other European and world stock exchanges – most of the investment income of TFI PZU SA is conditional on the market trends;
- interest rate fluctuation.

In terms of net AUM, TFI PZU SA is 13th among 31 investment fund associations included in the CFAM report. At the same time, TFI PZU SA remains the leader in the segment of employee pension plans among domestic investment pension funds with assets exceeding PLN 1.24 billion.

At the end of 2010, the total net assets of funds managed by TFI PZU SA increased by 14% YoY and amounted to PLN 3,229.8 million. An increase in net assets resulted from a positive balance of payments and redemptions of the fund members and increase in investment value.

13.5.4 PZU Asset Management Spółka Akcyjna ("PZU AM SA")

In line with adopted assumptions, in 2010 PZU AM SA provided services solely to the PZU Group companies including PZU, PZU Życie, TFI PZU SA and MPTE.

According to plans, in 2010 the following new products were implemented:
- PZU Dłużny Rynków Wschodzących;
- PZU FIO Energia Medycyna Ekologia;
- portfolio hedging the sale of structured products.

The following projects were carried out:
- construction of investment portfolio for real property sector in PZU Group;
- preparing implementation of new fund management service, among others FIZ RE Income dedicated to institutional investors;
- concepts, negotiations of investment contract and work on startup of a closed-end investment fund for real property sector FIZ RE Value Opportunity for PKP SA;
- modifying model portfolio management process under Plan na Życie product (in cooperation with PZU Życie).

The following projects were continued:
- input of PZU and PZU Życie portfolios to investment funds (in cooperation with PZU, PZU Życie and TFI PZU SA);
- for entities not included in the Group:
    - asset management (portfolios and pension funds);
    - startup and management of closed-end funds (infrastructure, real property).

13.5.5 PZU Pomoc Spółka Akcyjna ("PZU Pomoc SA")

In November 2010, an initiative was started aimed at building and development of PZU Pomoc w Życiu club. Each club member is offered privileges including, among others:
- use of PZU Pomoc SA assistant;
- special custom-made offers;
- rebate programme allowing discounts for goods and services offered by PZU Pomoc SA.

Another initiative carried out by PZU Pomoc SA in 2010 involved launch of "helping hand" vehicles with special markings dedicated to provision of specialist services in the case of household breakdowns.

13.5.6 PZU Centrum Operacji Spółka Akcyjna ("PZU Centrum Operacji SA")

In 2010, performance of the Company was influenced by a decrease in income from transfer agent services due to reduced rates and the employment restructuring programme necessitating the payment of lay-off benefits (headcount reduction by 14.5%).

Key initiatives implemented in 2010:
- relocation of PZU Centrum Operacji SA to the new premises at Postępu 18;
- relocation of IT resources to the newly established Data Centre in Piaseczno;
- extension of Call Centre (increased number of positions in two locations with redundant infrastructure);
- implementing of Information Security Management System ISO 27001 and Continuity Plan based on BS 25999;
- employment restructuring.

13.6 Key developments planned

The objective of the PZU Group is to maintain the leading position on the Polish insurance services market and to generate profit for the shareholders. The Management Board intends to analyse potential possibilities of revenue source diversification by way of grasping business opportunities arising in Poland and possibilities of international expansion.

The PZU Group intends to accomplish these objectives by focusing on the following activities:

- maintaining the market share and focusing on profitability of core operations. The PZU Group shapes its product portfolio, distribution channels and principles of risk measurement and acceptance in a manner allowing for profitable growth in all key markets. The PZU Group differentiates its approach to particular segments of the Polish insurance market, depending on market share and profitability of particular products;
- as a part of individual motor insurance, the objective of PZU is to stop the process of losing market share and maintain profitability by active pricing policy. The key element of the strategy is “PZU Pomoc” assistance service. It allows PZU to offer outstanding services and therefore to maintain product advantage and loyalty of key customer groups. “PZU Pomoc SA” is also a platform which allows for acquiring new clients despite growing competition;
- the purpose of PZU under individual property insurance is to introduce a new version of residential premises insurance, which will improve the competitiveness of the PZU offer by way of allowing for more precise adjustment of the insurance cover to individual needs;
- PZU will start a number of initiatives aimed at improving profitability and maintaining the market share of products for SMEs which are a fast growing customer group.

The Management Board assumes that it will achieve these objectives by way of implementing initiatives, such as centralising dispersed processes, unifying shared functions in the whole Group, reducing headcount and investing in new technologies, in particular those related to effectiveness of customer service.

A significant portion of initiatives takes place in claims handling.

The key initiatives include:

- The project of optimising claims handling in motor insurance:
  - the change in the model of cooperation with garages by way of improving effectiveness of the Repair Network, optimisation of the management module in the Repair Network and the dealers’ channel;
  - completion of centralisation of adjustment of losses with foreign elements;
  - implementation of tools for automatic review of cost estimates and invoices;
  - implementation of tools for simplified claims handling;
  - developing rules of defining recourse responsibility in losses for own policies and system support for the process;
  - mass correspondence service managed by claims handling system – Mass Printing;
  - developing the payroll system for the Claims Handling Department and key performance indicators;
- The project of optimising claims handling in motor insurance:
  - launching the platform which allows for requesting third-party inspection automatically, through the internet;
  - optimisation of expenses prepared by Mobile Property Experts;
  - implementation of application for simplified claims handling related to the construction industry;
  - integration of expert systems to prepare cost estimates for repair and construction works in the SLS Central IT System managing the liquidation process;
  - implementation of the internet platform to manage the loss effects, which allows for optimising the property loss value;
- E-szkoda project:
  - creation of the Communication platform for seasonal loss adjusters;
  - creation of the Internet Module of Settlements with Assistance Service Providers;
  - creation of integration services in view of cooperation with brokers’ applications;
  - creation of the internet notification form for foreigners;
  - creation of the functionality informing of the claims handling status by SMS;
- The Kłos project:
  - limiting the time for claims handling in crop insurance, by way of optimising calculations and eliminating unnecessary documentation.

13.7 Risk management

13.7.1 Risk management policy

Key risk management assumptions

PZU developed and implemented a risk management system focusing on both risk control and ensuring the adequate level of capitalisation. Operational risk identification, analysis, measurement, control, management and reporting allow PZU to meet its obligations to customers and business partners and to satisfy the requirements resulting from legal provisions and external regulations.

Risk management is based on three lines of defense:
- Line 1: risk management at the business (organisational) unit level in accordance with valid procedures, guidelines and limits. At this level, risk management is additionally supported by internal control principles.
- Line 2: risk management through specialised units and committees (established for the purpose of specific risk management) within the existing risk management framework, based on the applicable principles, methodologies and procedures.
- Line 3: the internal audit whose tasks include independent control and audit of key risk management system elements and control activities embedded in the Group's operations. Additionally, this line includes monitoring the implementation of auditor's recommendations.

Key risk management principles

Risk management in PZU is based on the following key principles:
- Controlled risk acceptance: financial strength and sustainable value growth are an integral part of the business strategy adopted by PZU. In order to achieve the above objectives, the PZU operations are carried out in compliance with a clearly defined risk policy and subject to risk limitations;
- Clear responsibility: the operations of PZU are based on assignment of tasks, competencies and responsibilities. Designated employees are accountable for the risk they undertake, and their incentives are aligned with the business objectives of PZU;
- Adaptation to changes in the business environment: the ability to respond to changes in the business environment resulting from both external conditions and internal changes is an integral part of the risk control process in PZU.

Risk appetite

The risk appetite reflects the maximum level of acceptable risk that may be assumed by the organisation and it is closely related to the business strategy and financial objectives. It may be described both in terms of quality and quantity.

PZU manages risk in a manner which ensures that the equity level and its availability are at least at the level of "AA" rating of Standard & Poor's Ratings Services (S&P).

In the case of market risk, risk appetite is determined based on the Value-at-Risk (VaR). VaR is a widely used approach to risk assessment resulting from a given portfolio of financial assets in the given time horizon.

The risk appetite is defined in the form of limits approved by one of the following committees:
- Asset and Liability Management Committee (ALCO);
- Credit Risk Committee at PZU and PZU Życie (CRC);
- Investment Committee at PZU and PZU Życie (IC);
- Financial Insurance and Guarantee Risk Committee at PZU (KRUFiG).

The next step involves allocation of risk limits to organisational units at lower levels of the organisational structure.

Risk profile

If individual risks are identified, the risk management process is centralised in the PZU Group. The foregoing applies to market risk, credit risk relating to investments and reinsurance as well as liquidity risk. Insurance risk is managed at the level of individual companies depending on the nature of their operations. Credit risk related to insurance and financial guarantees is managed at the level of PZU as such operations are carried out only by that entity.

Risk management at PZU is focused on identification and management of material risks occurring in individual business areas through setting appropriate limits (definition of the risk appetite), monitoring and clear division of obligations and responsibilities relating to risk management in a given area. The risk profile is reported annually to the Management Board of PZU.

PZU controls particular risk types by way of quantitative analysis (e.g. model-based risk assessment) as well as qualitative analysis (it is the most important in the case of qualitative risks, such as strategic or reputation risk). Based on the analysis, PZU determines its risk profiles and exposure to particular risk types reported annually to the Management Boards of PZU and PZU Życie.

13.7.2 Establishment of the Risk Division within the structure of PZU and PZU Życie

In 2010, the position of a Risk Officer was established within the structure of PZU and PZU Życie and a Risk Office was established in those entities.

The scope of responsibilities of the Risk Office includes:
- development of the risk management system;
- identification of investment, insurance and operational risks, their measurement as well as development and implementation of an effective risk reporting system;
- development and implementation of an internal model for investment, insurance and operational risks;
- development of an effective system of reporting profitability of operations, taking into account the cost of capital;
- ensuring the PZU Group's compliance with the requirements of the Solvency II Directive as well as other external acts regarding the insurance and operational risk management system.

13.7.3 Risk types

Insurance risk

PZU and PZU Życie manage the insurance risk using the following tools:
- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, current estimate monitoring and premium adequacy assessment;
- underwriting;
- reinsurance.

The provisioning policy is based on:
- the prudence principle with respect to determining the value of technical provisions;
- the going concern principle, which assumes that the methodology of creating technical provisions should not be changed unless significant circumstances occur, which would justify such change.

Technical provisions are estimated under the supervision of key actuaries.

The purpose of the rating policy carried out by PZU and PZU Życie is to guarantee an adequate premium level. Simulations concerning the projected technical result in the following years are carried out when preparing premium rates. At the same time, regular premium adequacy and portfolio profitability analyses are carried out based on various types of analyses and lists, such as evaluation of the technical result of a given product for a given financial year.

PZU introduced an underwriting process which is independent of the sales function, involving risk assessment and taking risk acceptance decisions for SMEs and corporate clients.

The objective of the reinsurance programme at PZU is to secure its core business by mitigation of risk that may have an adverse impact on the financial position of the Company. The above goal is achieved mainly through obligatory reinsurance contracts with additional facultative reinsurance.

The basis for obligatory coverage of PZU are non-proportional contacts, characteristic of insurers with high capitals, which protect reassured portfolios against effects of large one-off losses or accumulation of numerous losses resulting from a single event.

Market risk

Market risk in PZU and PZU Życie results from two key sources:
- activities related to matching assets and liabilities (the ALM portfolio); and
- activities related to strategic asset allocation, i.e. determining optimal mid-term asset structure (SAA portfolios).

Market risk management is based on the management functions independence of the risk control function, implementing and maintaining close risk controls and independence of the decision and reporting function. The investing principles approved by the Supervisory Board of PZU constitute the basis for investment activities. Detailed market risk management standards and principles have been defined in the Investing Activities Manual, PZU Market Risk Management Policy and Investment Purposes and Guidelines. Market risk is measured using Value at Risk or scenario analysis. Risk measurement is compliant with

Solvency II. In order to effectively manage market risk, the Company determines limits in the form of capital amounts allocated to a given market risk and limits for particular market risk factors (BPV limits for interest rate risks and exposure limits to stock risk).

As part of PZU AM management of the SAA PZU and PZU Życie portfolio, the risk is measured based on the VaR method.

Just as in PZU and PZU Życie, the functions related to portfolio management and risk control are assigned to two separate PZU AM entities. The risk control functions are exercised by the Risk Control Office at PZU AM.

Credit risk

The exposure of PZU and PZU Życie to credit risk results directly from investing activities, activities in the financial insurance and guarantees segment, reassurance contracts and bancassurance activities. The PZU Group distinguishes three types of credit risk exposure:

- the risk of bankruptcy of the issuer of financial instruments acquired or traded by PZU, e.g. corporate bonds.
- the risk that a PZU contractor fails to perform its obligations related to reassurance or derivatives not traded on stock exchange, bancassurance activities, etc.;
- the risk that a PZU contractor fails to perform its obligation towards a third party, e.g. cash receivable insurance, insurance guarantees.

Exposure concentration limits are set for credit risk resulting from the PZU Group investment activities. The said limits are determined using:

- internal ratings – for facilities granted to companies and local authorities
- exposure limits – for banks.

The table below presents credit risk ratios used to calculate the credit risk.

Standard & Poor's rating	AAA	AA	A	BBB	BB	No rating
(%) ratio for 2010	0.82	0.74	1.97	5.60	17.45	30.82
(%) ratio for 2009	0.70	0.70	1.70	4.40	14.60	30.40

** In the case of exposure to mortgages with no rating, the ratio of 2% was adopted.*

Threshold exposures are defined for insurance and guarantees. The assessment is based on:

- simulation models used for estimating VaR and TVaR for guarantees and insurance of cash receivables.
- scoring sheets.

Operational risk

Operating risk management in PZU and PZU Życie is decentralised and it is carried out by all organisational units.

Strategic management with respect to operational risk is carried out by the Management Boards of PZU and PZU Życie.

In order to streamline the process of identifying and determining the scale and importance of operational risk, in April 2009 the event base for operational risk was implemented. Operational risk events are recorded in the base if the related loss exceeds PLN 1,000. Operational Risk Coordinators have been appointed in all branches and they are responsible for the process of collecting and reporting data concerning operational risk from controlled units.

Liquidity risk

Liquidity risk involves inability to settle liabilities to customers or counterparties at maturity.

Financial liquidity risk of PZU and PZU Życie may result from three types of events:

- shortages of liquid funds versus current needs;
- illiquidity of financial instruments held by the Company;
- a structural gap between the maturity of assets and liabilities.

In the liquidity risk management process, PZU and PZU Życie SA control liquidity in the short, medium and long term.

The level of liquidity risk at PZU is measured by estimating the shortages of cash required for liability payments.

PZU applies asset and liabilities management (ALM) measures aimed at matching the structure of financial investments which cover technical provisions to the nature of such provisions and at minimising the related risks.

Strategic risk

Strategic risk results from changes in business environment, disadvantageous strategic decisions, inappropriate implementation of business strategies and lack of reaction to changes in business environment. Strategic risk management is carried out along with preparing and updating the strategy of the PZU Group. Changes and factors affecting business objectives and environment of the PZU Group are identified in the process of strategic analyses.

Reputation risk

Reputation risk is the risk of an event or action which will adversely affect the Company image among its customers and business partners, therefore weakening the PZU Group's ability to operate effectively. Reputation risk is limited by defined principles, which, if followed, ensure the Company reliability for its customers and business partners. The process is additionally supported by activities aimed at early detection of potential problems which may lead to reputation loss.

13.7.4 Risk sensitivity

Sensitivity of the asset portfolio *(PLN million)*	Change in risk factor	2010		2009	
		Impact on net financial profit/ /loss	Impact on equity	Impact on net financial profit/ /loss	Impact on equity
Interest rate risk	down by 100 bp.	156	299	88	238
	up by 100 bp.	-149	-283	-83	-227
Currency risk	up by 20%	167	167	152	152
	down by -20%	-167	-167	-152	-152
Risk of equity instrument prices	up by 20%	283	416	231	371
	down by -20%	-283	-416	-239	-379

The above table sums up the results of the sensitivity analysis of the net profit/loss and equity to changes in the interest rate risk, currency risk and the risk of changes in the prices of equity instruments. The analysis does not present the effect of changes in the measurement of investments on the net financial profit/loss or equity which are taken into consideration while determining the value of the provision.

An increase in the sensitivity to the interest rate risk at the end of 2010 compared to the end of 2009 resulted from an increase in the duration of the debt security portfolio and higher exposure to derivatives with interest rate risk.

Financial assets exposed to the currency risk include investments and debt securities. They secure expenditure due to technical provisions denominated in foreign currencies, exposure to equity instruments quoted on a stock exchange other than the WSE, exposure to derivatives denominated in foreign currencies and financial assets of consolidated insurance companies in Lithuania and Ukraine. An increase in sensitivity to the currency risk as of the end of 2010 compared to 2009 results mainly from higher exposure to investments (derivatives, listed shares) denominated in foreign currencies which do not cover technical provisions.

An increase in the sensitivity of the portfolio of financial assets to changes in the measurement of listed equity instruments at the end of 2010 compared to 2009 results from higher exposure to equity instruments with other price risk.

13.7.5 Stress tests

To comply with the requirement imposed by the Polish Financial Supervision Authority (KNF) on insurance companies, PZU conducted stress tests relating to financial data reported as of 31 December 2009 in line with the PFSA guidelines and submitted their results by the end of July 2010. The stress tests showed that PZU had sufficient capitals to safely continue as a going concern if adverse events with considerable financial implications occur in its business environment.

Notes

14. Notes

14.1 Application of corporate governance principles in PZU SA

In its business activities, the PZU Management Board follows the highest corporate governance standards and ethical principles. The company confirms compliance with the highest corporate governance and corporate social responsibility standards by aligning the internal regulations with the provisions of law and ethical standards applied in the insurance market as well as adopted codes and internal regulations.

PZU follows the corporate governance rules laid down in “Good practices of companies listed at the WSE” adopted on 19 May 2010 by resolution of GPW No. 17/1249/2010, in force since 1 July 2010. The entire document is available at the official website of GPW: www.corp-gov.gpw.pl.

The PZU Management Board applies and follows “Good practices of companies listed at the WSE” with utmost due diligence, as they increase the Company value for shareholders.

Apart from the aforementioned corporate social responsibility principles the Company applies ethical standards and other corporate social responsibility principles presented in the following documents:

- Code of Good Insurance Practice adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance (“PIU”) which is an organisation associating insurance companies operating on the Polish market. The document is the code of conduct for insurance companies specifying their relationships with customers, insurance intermediaries, supervisory body and the Insurance Ombudsman as well as media; governing the relationships between the insurers and setting standards of operation of insurance companies which participate in public trading in securities. The document is available at the PIU website: http://piu.org.pl/zasady-dobrych-praktyk/project/132/pagination/1
- Good Practices at PZU. The document emphasises the role of ethical standards applicable to all aspects of PZU operations presenting sound business practices at PZU. It promotes the culture of compliance with the law, decision-making based on ethical standards and responsibility for taken decision. The document is available at the Company website: http://www.pzu.pl/

Application of “Good practices of companies listed at the WSE”

Since the IPO, the PZU Management Board strives to ensure access to Company information to all shareholders, to respect their rights regardless of the number of shares held. To ensure transparent operations and compliance with ethical standards, PZU adopted “Good practices of companies listed at the WSE” constituting an appendix to the resolution No. 12/1170/2007 of the Board of the WSE of 4 July 2007.

The By-laws of PZU adopted by the Annual General Meeting on 2 December 2009 incorporate the rules laid down in the Code of Commercial Companies applicable to corporate governance at public companies as well as provisions which are to ensure PZU’s compliance with the corporate governance principles laid down in “Good practices of companies listed on Annual General Meeting”. Similar changes introduced to the Regulations of the PZU Supervisory Board on 4 March 2010 reflect, among others, the provisions of the Good Practices applicable to powers and independence of Supervisory Board Members as well as activities of the committees appointed by the PZU Supervisory Board.

From the IPO to the end of Q2 2010, PZU issued one announcement regarding non-compliance with selected principles laid down in “Good practices of companies listed at the WSE” concerning recommendations indicated in items II.1, II.2 and III.1.

“Good practices of companies listed at the WSE” not applied by 30 June 2010.

Principle II.1 of “Good practices concerning the content of the corporate website” and II.2 of “Good practices concerning the English version of the website” were not fully complied with, as the Company had only a Polish language website where it placed selected documents and statements specified in principle II.1 of Good practices. The website did not provide the following information: regulations of the Management Board, regulations of the Supervisory Board, professional resumes of members of the Supervisory Board, annual reports on the activities of the Supervisory Board, including works of its committees with the evaluation of operations of the Supervisory Board provided by the Supervisory Board and the evaluation of the internal controls and key risk management in the Company and relations of a Supervisory Board Member with a shareholder controlling more than 5% of the total number of votes in the Annual General Meeting. Only a part of the Company's corporate website concerning investor relations has been translated into English.

It should be stressed that the principles II. 1 and II. 2 were not fully applied, as the shares of the Company were not admitted to trading on a regulated market and the Company was not obliged to apply Good practices. After the Company shares were admitted for public trading, works aimed at completing information presented on the corporate website of the Company to include the data required in Good practices were not finalised.

Principle III.1 of Good practices, concerning preparation and presentation of the Supervisory Board's assessment of the situation of the company to the Annual General Meeting was not followed. Based on the Company By-laws and regulations of the Supervisory Board, the Supervisory Board presents a brief assessment of the situation of the Company including internal controls and key risk management to the Annual General Meeting but it is not obliged to carry out and present the assessment of its works to the Annual General Meeting. The Supervisory Board takes a decision concerning compliance with the said rule.

As of 1 July 2010 the Company started to apply principle II.1 and II.2 set forth in "Good practices of companies listed at the WSE" with respect to running a corporate website. Furthermore, as the Supervisory Board of PZU assessed its work and presented the results of the assessment to the Annual General Meeting of the Company on 10 June 2010, principle III.1 of the Good Practices has been fully complied with.

Additionally, guidelines for Supervisory Boards of the PZU Group companies regarding the internal control audit, the risk management system as well as the supervisory board's self-assessment have been laid down.

As the revised "Good practices of companies listed at the WSE" came into force, since 1 July 2010 PZU followed the corporate governance principles set forth in "Good practices of companies listed at the WSE", subject to recommendations stipulated in I.5. and I.9 of Good practices. The announcement on non-compliance with selected provisions of these Recommendations was not issued in line with the exclusion of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of the WSE with respect to corporate governance principles set forth in part I of "Good practices of companies listed at the WSE", in accordance with the resolution No. 1014/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. dated 11 December 2007.

As for principle I.5 of Good practices, concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board are determined by the Annual General Meeting of PZU and those of the Management Board are set based on a resolution of the Supervisory Board.

Remunerations of members of the Supervisory Board are finally determined in the resolution of the Annual General Meeting. The remuneration depends on the function held in the Supervisory Board and is not due for a month when a Supervisory Board Member did not attend a meeting of the Supervisory Board without a justified reason. The Supervisory Board determines if the absence of a Supervisory Board Member is justified or not by adopting an applicable resolution.

The principles of remunerating members of the Management Board were determined by the Supervisory Board. The remuneration of members of the Management Board has a few components and includes the base salary, benefits and annual bonus, payable once a year and dependent on the decision of the Supervisory Board taken in the form of a resolution based on business and financial performance in a given financial year.

The policy of remunerating members of the management and supervisory bodies does not include all elements indicated in the Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by Commission Recommendation of 30 April 2009 (2009/385/EC). Moreover, the Company did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the said rule will be taken by the Supervisory Board and the Annual General Meeting.

Principle I.9 of Good practices concerning the balance of sexes in the managing bodies of the Company came into force during the term of office of the Management Board and the Supervisory Board, therefore it was not taken into account at the time of appointing members of the Company bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or the Annual General Meeting, respectively. Competences, not the sex are factors considered in appointing members of the Management and Supervisory Board.

14.2 Managing and supervisory bodies of the Company and their committees

Management Board of PZU

In accordance with the By-laws of the Company, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years. Members of the Management Board, including the CEO, are appointed and dismissed by the Supervisory Board, however, members of the Management Board are appointed and dismissed by the Supervisory Board at the request of the CEO. The CEO of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Management Board of PZU from 1 January 2010 to 31 December 2010:

Positions in the PZU SA Management Board as of 1 January 2010:
- Andrzej Piotr Klesyk – CEO of PZU;
- Rafał Iwo Stankiewicz – Member of the PZU Management Board;
- Witold Stanisław Jaworski – Member of the PZU Management Board.

On 27 September 2010, Rafał Stankiewicz resigned from the position of a Member of the PZU Management Board.

Composition of the Management Board of PZU from 28 September 2010:
- Andrzej Piotr Klesyk – CEO of PZU;
- Witold Stanisław Jaworski – Member of the PZU Management Board.

On 30 September 2010, the PZU Supervisory Board transferred a Supervisory Board Member, Dariusz Filar, to temporarily hold the position of a Member of the PZU Management Board. Dariusz Filar assumed the position on 1 October 2010.

Composition of the Management Board of PZU from 1 October 2010:
- Andrzej Piotr Klesyk – CEO of PZU;
- Witold Stanisław Jaworski – Member of the PZU Management Board;
- Dariusz Filar – Member of the PZU Supervisory Board transferred to hold the position of a Member of the PZU Management Board.

On 21 December 2010, the PZU Supervisory Board appointed Przemysław Dąbrowski to the position of a Member of the PZU Management Board. At the same time, as of 21 December 2010, the resolution of the PZU Supervisory Board concerning the transfer of Dariusz Filar to the PZU Management Board expired.

Composition of the Management Board of PZU from 21 December 2010:
- Andrzej Piotr Klesyk – CEO of PZU;
- Witold Stanisław Jaworski – Member of the PZU Management Board;
- Przemysław Dąbrowski – Member of the PZU Management Board.

The current term of the PZU Management Board started on 27 June 2008 and will end on 27 June 2011. The mandates of members of the Management Board expire no later than on the date of the Annual General Meeting approving the financial statements for the last full financial year of their term.

By resolution dated 15 March 2011, the Supervisory Board of PZU, as a result of recruitment procedure conducted, appointed Andrzej Klesyk as the President of the Management Board for a new term of office. The term of office will last three full subsequent financial years. The first full financial year is 2012.

Moreover, on 21 April 2011, the Supervisory Board of the Company appointed as Members of the Management Board of PZU:
- Przemysław Dąbrowski (appointment for a new term of office)
- Marcin Halbersztadt (appointment for the current term of office as of 15 May 2011 and for a new term of office)
- Witold Jaworski (appointment for a new term of office)

- Bogusław Skuza (appointment for a new term of office as of 1 July 2011);
- Tomasz Tarkowski (appointment for the current term of office as of 21 April 2011 and for a new term of office)
- Ryszard Trepczyński (appointment for a new term of office as of 1 July 2011).

Supervisory Board

The Supervisory Board is composed of seven to nine members. The number of members is specified during the Annual General Meeting. Members of the Supervisory Board are appointed by the Annual General Meeting for a shared term which includes three consecutive full financial years. Additionally, at least one Supervisory Board Member should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising the Issuer and entities in the PZU Group. The Independent Member is obliged to present the Company with a written statement that all independence criteria provided for in the By-laws have been met and inform the Company if the criteria are no longer met. Additionally, the By-laws provide the Treasury with the right to appoint and dismiss one Supervisory Board Member by way of a written statement submitted to the Management Board if the share of the State Treasury in the Company falls below 50% of all the Company's shares. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the PZU Supervisory Board as of 1 January 2010:

- Tomasz Gruszecki Chairman
- Marcin Majeranowski Deputy Chairman
- Alfred Bieć Member
- Marco Vet Member
- Tomasz Przesławski Member
- Marzena Piszczek Member
- Waldemar Maj Member

On 5 January 2010, Tomasz Przesławski i Alfred Bieć were dismissed from the PZU Supervisory Board following a decision of the Minister of Treasury. On the same date Piotr Maciej Kamiński and Grażyna Piotrowska-Oliwa were appointed to the Supervisory Board of PZU. Composition of the PZU Supervisory Board from 5 January 2010:

- Tomasz Gruszecki Chairman
- Marcin Majeranowski Deputy Chairman
- Waldemar Maj Member
- Piotr Maciej Kamiński Member
- Marco Vet Member
- Grażyna Piotrowska-Oliwa Member
- Marzena Piszczek Member

On 12 January 2010, the Eureko B.V. and Bank Millenium dismissed Marco Vet from the PZU Supervisory Board and appointed Jurgen B. J. Stegmann. Composition of the PZU Supervisory Board from 12 January 2010:

- Tomasz Gruszecki Chairman
- Marcin Majeranowski Deputy Chairman
- Waldemar Maj Member
- Piotr Maciej Kamiński Member
- Jurgen B.J. Stegmann Member
- Grażyna Piotrowska-Oliwa Member
- Marzena Piszczek Member

On 9 June 2010, the Company received a resignation of Jurgen Stegmann from the position of a Member of the PZU Supervisory Board and a resignation of Marcin Majeranowski from the position of a member and Deputy Chairman of the Supervisory Board. On 10 June 2010, the Annual General Meeting of PZU dismissed Tomasz Gruszecki, the Chairman, from the Supervisory Board and appointed Zbigniew Ćwiąkalski, Krzysztof Dresler and Dariusz Filar as members of the PZU Supervisory Board.

Composition of the PZU Supervisory Board from 10 June 2010:

- Zbigniew Ćwiąkalski Member
- Krzysztof Dresler Member
- Dariusz Filar Member
- Waldemar Maj Member
- Piotr Maciej Kamiński Member
- Grażyna Piotrowska-Oliwa Member
- Marzena Piszczek Member

On 16 June 2010, the Supervisory Board of PZU was established. The Supervisory Board decided to appoint Marzena Piszczek the Chairperson, Zbigniew Ćwiąkalski the Deputy Chairman and Grażyna Piotrowska-Oliwa, the Secretary of the Board.

On 30 September 2010, following resignation of Rafał Stankiewicz from the position of a Member of the PZU Management Board, the Supervisory Board transferred Dariusz Filar, to temporarily hold the position of a Member of the PZU Management Board. Dariusz Filar assumed the position on 1 October 2010. He held the position until 21 December 2010, when the Supervisory Board of PZU appointed Przemysław Dąbrowski a member of the PZU Management Board.

Between 1 October and 21 December 2010, Dariusz Filar did not participate in the work of the Supervisory Board of PZU.

The current term of the PZU Supervisory Board started on 17 December 2008 and will end on 17 December 2010. The mandates of members of the Supervisory Board expire no later than on the date of the Annual General Meeting approving the financial statements for the last full financial year of their term, i.e. on the date of the Annual General Meeting in 2011.

Committees within the Supervisory Board

IPO Committee

In accordance with the By-laws and the Settlement Agreement, on 19 January 2010 the Supervisory Board of the Company appointed an IPO Committee composed of three persons by delegating members of the Supervisory Board to individually perform supervisory activities. The Committee has been appointed for the period until the Company shares are listed on a regulated market as understood by the Act on trading in financial instruments of 29 July 2005, i.e. until 7 May 2010. Detailed tasks and terms and conditions of appointing members of the IPO Committee and its functioning have been specified in a resolution of the Supervisory Board.

The IPO Committee was responsible for supervising the activities of the Company's Management Board relating to the initial public offering and providing the Company's Supervisory Board with opinions concerning the issues related to the initial public offering.

The Committee was composed of: Waldemar Maj (Chairman of the Committee – Supervisory Board Member, an Independent Expert), Piotr Maciej Kamiński (Member of the Committee, Supervisory Board Member appointed by the State Treasury), Jurgen B. J. Stegmann (Member of the Committee – Supervisory Board Member recommended by Eureko). The composition of the Committee did not change.

Audit Committee

The By-laws provide for appointing an audit committee by the Supervisory Board. The Committee is composed of three members, including at least one independent member qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Audit Committee was appointed by a resolution of the Supervisory Board on 3 June 2008. As of 31 December 2010, its members included: Marzena Piszczek (Chairperson of the Committee), Dariusz Filar (Member of the Committee) and Grażyna Piotrowska-Oliwa (Member of the Committee). Grażyna Piotrowska-Oliwa was appointed by the Supervisory Board as an independent member, qualified in accounting and auditing as understood by Article 86.4 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009.

Promotion and Compensation Committee

In accordance with the By-laws, once the Company's shares are listed on a regulated market, as understood by the Act on trading in financial instruments of 29 July 2005, the Supervisory Board my appoint a promotion and compensation committee. Detailed tasks and the method of appointing members of the promotion and compensation committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote in groups, the promotion and compensation committee is not appointed and its tasks are carried out by the entire Supervisory Board.

The promotion and compensation committee is an advisory and consultative body to the Supervisory Board for matters related to establishing the management structure, including organisational issues, remuneration system and the amount of remuneration and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee will be composed of four persons. As of 16 June 2010 members of the Promotion and Compensation Committee appointed by the Supervisory Board included: Zbigniew Ćwiąkalski

(Chairman of the Committee), Dariusz Filar (Member of the Committee), Piotr Maciej Kamiński (Member of the Committee) and Marzena Piszczek (Member of the Committee). As of 31 December 2010, the composition of the Promotion and Compensation Committee has not changed. The Committee is dissolved once five members of the Supervisory Board are elected in a vote in groups and its rights are then taken by the entire Supervisory Board.

Strategy Committee

The Supervisory Board may appoint permanent advisory and consultative committees to perform its supervision in the Company. As of 29 July 2010, the Supervisory Board appointed a strategy committee comprising: Waldemar Maj (Chairman of the Committee), Krzysztof Dresler (Member of the Committee), Marzena Piszczek (Member of the Committee) and Grażyna Piotrowska-Oliwa (Member of the Committee). As of 31 December 2010, the composition of the Strategy Committee has not changed.

The job of the Strategy Committee is to give opinions about all strategic documents presented to the Supervisory Board by the Management Board (in particular the development strategy of the Company) and present the Supervisory Board with recommendations concerning planned investment with material impact on the Company's assets.

Group Directors

In January 2010, as part of implementation of the new management model of the PZU Group the following positions were established:

- PZU Group Director on Managing the Group's Branches in the PZU Head Office (on 1 February 2010, Dariusz Krzewina was appointed to this position);
- PZU Group Director on Development of the Group's Outlets in the PZU Head Office (on 1 February 2010, Rafał Grodzicki was appointed to this position);
- PZU Group Director on Finances in the PZU Head Office (on 30 January, Przemysław Dąbrowski was appointed to this position);
- PZU Group Director on Operations in the PZU Head Office (on 30 January, Mariusz J. Sarnowski was appointed to this position).

On 12 August 2010, the position of PZU Group Director on Human Resources Management in the PZU Head Office was created and on the same day Krzysztof Branny was appointed to it (starting from 1 September 2010).

On 6 October 2010, names of the positions were altered from "Director in the PZU Group for" to "PZU Group Director".

On 2 January 2011, Przemysław Dąbrowski resigned from the position of the PZU Group Director, and on 24 January 2011 he was dismissed from the position by the Management Board and replaced by Tomasz Tarkowski on 1 February 2011. As a result of appointment as a Member of the Management Board of PZU, Tomasz Tarkowski resigned from the position of Director of the PZU Group, effective as of 21 April 2011.

Except for Tomasz Tarkowski, all the persons referred to above are members of PZU Życie Management Board.

14.3 PZU shareholders holding directly or indirectly significant blocks of shares

As of 31 December 2010, the sole shareholder of the Company with a significant block of shares is the State Treasury. The Treasury holds 39,020,483 shares which accounts for 45.1875% of the share capital of the Company.

Other shareholders held less than 5% of the share capital – the total of 47,331,817 shares which accounted for 54.8125% of the share capital of the Company. The share capital of the Issuer is divided into 86,352,300 common shares with the face value of PLN 1 each, giving right to 86,352,300 votes at the Annual General Meeting.

Shareholding structure in 2009–2010

Shareholder	As of 31 December 2009		
	Number of shares	Interest in the share capital	Share in votes at the Annual General Meeting
State Treasury	43,338,098	50.19%	50.19%
Eureko B.V.	19,856,968	23.00%	23.00%
Kappa S.A.	12,866,492	14.90%	14.90%
Other shareholders	10,290,742	11.92%	11.92%
Total	86,352,300	100.00%	100.0%

Shareholder	As of 31 December 2010		
	Number of shares	Interest in the share capital	Share in votes at the Annual General Meeting
State Treasury	39,020,483	45.19%	45.19%
Other shareholders	47,331,817	54.81%	54.81%
Total	86,352,300	100.00%	100.00%

As part of the IPO which took place on 12 May 2010, the shares of the Company were sold by the following shareholders: Kappa S.A. (12,866,492 sold shares, 14.9% of the share capital of PZU), Eureko B.V. (8,635,230 sold shares, 10% of the share capital of PZU) and the Treasury (4,317,615 sold shares, 5% of the share capital of PZU).

On 18 November 2010, Eureko B.V. sold 11,223,818 shares of the Company accounting for 12.9999% of the share capital of PZU. This way the share capital of Eureko B.V. in PZU dropped to approx. 0.002%.

At the time of the sale Eureko B.V. announced that the lockup period for shares which were not sold and also for the 3,575,488 shares of PZU held by JP Morgan Chase Bank, NA, subject to the swap transaction concluded with Eureko, would be 90 days, and for 39,020,483 shares held by the Treasury – 180 days.

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

Main tables

15. Main tables from the consolidated statements of the PZU Group according to IFRS

15.1 Consolidated statement of financial position

Assets *(PLN thousand)*	**31 December 2010**	**31 December 2009**
Intangible assets	109,067	85,069
Goodwill	8,381	19,631
Property, plant and equipment	990,411	1,043,811
Investment real properties	441,014	346,552
Entities carried by the equity method	-	-
Financial assets		
Financial instruments held to maturity	20,305,758	23,327,568
Financial instruments available for sale	8,623,082	10,027,845
Financial instruments carried at fair value through profit or loss	12,118,252	10,213,631
Loans	4,297,940	4,668,549
Receivables, including receivables under insurance contracts	1,597,549	1,383,978
Reinsurers' share in the technical reserves	771,850	748,313
Estimated salvage and subrogation	77,812	82,330
Deferred income tax assets	16,645	24,913
Current income tax receivables	9,958	87,599
Deferred acquisition cost	502,815	481,139
Accruals and prepayments	232,140	252,944
Other assets	7,455	15,781
Cash and cash equivalents	423,703	366,556
Assets related to continuing operations	**50,533,832**	**53,176,209**
Non-current assets earmarked to be sold and assets comprising groups to be sold	–	–
Total assets	**50,533,832**	**53,176,209**

Liabilities and equity *(PLN thousand)*	**31 December 2010**	**31 December 2009**
Capital		
Issued share capital and other capital attributable to parent's shareholders		
Share capital	86,352	86,352
Other capital	6,649,782	5,802,568
Reserve capital	6,296,313	5,485,014
Revaluation reserve	392,268	340,970
FX gains from converting subordinated units	(38,799)	(23,416)
Retained earnings	6,063,666	5,377,826
Profit (loss) brought forward	3,624,435	2,365,282
Net profit (loss)	2,439,231	3,762,945
Charges to net profit during the financial year	–	(750,401)
Minority interest	126	133
Total equity	**12,799,926**	**11,266,879**

Liabilities *(PLN thousand)*	**31 December 2010**	**31 December 2009**
Technical reserves		
Unearned premium reserve and unexpired risk reserve	3,975,861	3,846,600
Life insurance reserve	14,570,725	14,582,590
Unpaid claims reserve	5,157,080	4,456,464
Reserve for capitalised annuities	4,862,552	4,874,653
Reserve for bonuses and rebates for the insureds	6,177	5,071
Other technical reserves	614,692	698,918
Technical reserves for life insurance if the policyholder bears the investment risk	2,296,089	2,017,501
Investment contracts		
- with guaranteed and set conditions	2,270,568	2,632,054
- for the client's account and risk	1,273,947	1,094,475
Reserves for employee benefits	257,916	260,946
Other reserves	212,559	314,595
Deferred income tax reserve	404,956	444,053
Current income tax liabilities	1,743	3,056
Derivative instruments	11,730	3,533
Other liabilities	1,132,079	5,974,052
Accruals and deferred income		
Prepayments and accruals	474,272	464,126
Deferred income	210,960	236,643
Liabilities related to continuing operations	**37,733,906**	**41,909,330**
Liabilities related directly to non-current assets classified as earmarked to be sold	–	–
Total liabilities	**37,733,906**	**41,909,330**
Total liabilities and equity	**50,533,832**	**53,176,209**

15.2 Consolidated profit and loss account

Consolidated profit and loss account *(PLN thousand)*	**1 January– –31 December 2010**	**1 January– –31 December 2009**
Gross written premiums	14,544,457	14,362,717
Reinsurers' share in gross written insurance premium	(200,853)	(162,758)
Net written premium	**14,343,604**	**14,199,959**
Change in the balance of the net unearned premium reserve	(130,591)	285,255
Net earned premiums	**14,213,013**	**14,485,214**
Revenue from commissions and fees	288,037	340,876
Net investment income	1,828,584	2,363,384
Net result on the realisation of investments and impairment charges	199,451	261,310
Net change in the fair value of assets and liabilities measured at fair value	753,805	844,307
Other operating income	89,297	260,066
Claims and movements in insurance liabilities	(10,854,407)	(9,470,174)
Claims and movements in insurance liabilities ceded to re-insurers	555,172	33,893
Net insurance claims	**(10,299,235)**	**(9,436,281)**
Claims and change in the valuation of investment contracts	(176,765)	(275,057)
Acquisition costs	(1,851,404)	(1,839,605)
Administrative expenses	(1,663,163)	(1,808,881)
Other operating expenses	(293,535)	(593,582)
Operating profit (loss)	**3,088,085**	**4,601,751**
Financial expenses	(58,654)	(35,940)
Share of the net profit (loss) of units carried by the equity method	–	–
Gross profit (loss)	**3,029,431**	**4,565,811**
Income tax		
- current part	(639,298)	(632,407)
- deferred part	49,096	(170,493)
Net profit (loss), including	**2,439,229**	**3,762,911**
- profit (loss) attributed to holders of parent's equity	2,439,231	3,762,945
- minority profits (losses)	(2)	(34)

Net profit (loss) on continuing operations	2,439,229	3,762,911
Net profit (loss) on discontinued operations	–	–
Weighted average basic and diluted number of common shares	86,352,300	86,352,300
Basic and diluted profit (loss) on continuing operations per common share (PLN)	28.25	43.58
Basic and diluted profit (loss) on discontinued operations per common share (PLN)	–	–
Basic and diluted profit (loss) per common share (PLN)	28.25	43.58

15.3 Consolidated cash flow statement

Consolidated cash flow statement *(PLN thousand)*	**1 January– –31 December 2010**	**1 January– –31 December 2009**
Cash flow on operating activity		
Proceeds	18,470,571	19,181,014
- proceeds on gross insurance premiums	14,521,524	14,526,646
- proceeds on investment contracts	2,787,658	3,576,627
- proceeds on reinsurance commissions and profit-sharing	10,779	11,781
- payments received from reinsurers for their share of claims paid	466,219	173,025
- other operating proceeds	684,391	892,935
Expenditures	(18,001,148)	(20,721,570)
- insurance premiums paid for reinsurance	(154,254)	(143,575)
- commissions paid and profit-sharing on inward reinsurance	(4,152)	(24,413)
- gross claims paid	(9,295,988)	(8,871,634)
- claims paid on account of investment contracts	(3,026,424)	(5,991,022)
- acquisition expenditures	(1,450,351)	(1,322,888)
- administrative expenditures	(2,135,292)	(2,142,752)
- interest expenditures	(225)	(170)
- income tax expenditures	(110,228)	(617,902)
- other operating expenditures	(1,824,234)	(1,607,214)
Net cash flow on operating activity	**469,423**	**(1,540,556)**
Cash flow on investing activity		
Proceeds	270,016,909	419,444,801
- proceeds from investment property	5,628	6,546
- sale of intangible assets and property, plant and equipment	7,859	2,712
- sale of ownership interests and shares	4,416,405	3,430,935
- realisation of debt securities	31,510,882	34,672,090
- liquidation of term deposits in credit institutions	129,179,172	182,406,133
- realisation of other investments	103,641,528	197,472,475
- interest received	1,191,346	1,393,811

Consolidated cash flow statement *(PLN thousand)* **– continued**	**1 January– –31 December 2010**	**1 January– –31 December 2009**
- dividends received	64,089	60,030
- other investment proceeds	–	69
Expenditures	(264,687,431)	(410,040,675)
- purchase of investment property	(1,329)	(283)
- expenditures for the maintenance of investment property	(8,152)	(8,431)
- purchase of intangible assets and property, plant and equipment	(155,850)	(155,781)
- purchase of ownership interests and shares	(4,561,101)	(3,625,911)
- reduction of cash balance due to discontinued consolidation of investment funds	(201)	(43,784)
- purchase of debt instruments	(27,390,996)	(30,645,717)
- purchase of term deposits in credit institutions	(127,601,087)	(178,998,253)
- purchase of other investments	(104,929,875)	(196,505,813)
- other expenditures for investments	(38,840)	(56,702)
Net cash flow on investing activity	**5,329,478**	**9,404,126**
Cash flow on financing activity		
Proceeds	578	4,712,755
- credits, loans and debt securities issues	578	4,712,755
Expenditures	(5,728,563)	(12,742,730)
- dividends paid to holders of parent’s equity	(921,239)	(12,742,237)
- amortisation of credits and loans and redemption of own debt securities	(4,807,324)	(493)
Net cash flow on financing activity	**(5,727,985)**	**(8,029,975)**
Total net cash flow	**70,916**	**(166,405)**
Cash and cash equivalents at the beginning of the period	366,556	533,206
Change in the cash balance due to foreign currency differences	(13,769)	(245)
Cash and cash equivalents at the end of the period, including:	423,703	366,556
- restricted cash	22,426	29,666

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15. PZU Group contact data

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PGE 23.20 0.43% PGN 3.76 0.80% PKN 57.05 0.26%