

**REPORT ON THE ACTIVITIES OF
THE CAPITAL GROUP OF
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA
IN THE FIRST HALF OF 2011**



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INTRODUCTION

1. Overview of consolidated financial performance

The financial performance of the PZU Group in the first half of 2011 was mainly affected by:

- increase in the written premium in individual insurance segments of the PZU Group;
- improved profitability in the property and casualty insurance segments, mainly in relation to motor and property insurance products:
 - in the analyzed period, no natural disasters occurred, unlike in the first half of 2010, when they impacted mainly property and agricultural insurance. In the corresponding period of the previous year, the total gross claims of PLN 734 million were paid due to snow and flood losses (the share of PZU net of reinsurance was PLN 394 million);
- reduction of administrative expenses thanks to the restructuring and fixed cost cutting programs implemented in 2010;
- lower investment income (despite a good performance in Q2 2011) resulting from lower net result on realization on investments, particular on debt security portfolio, compared to the previous year;
- Armatura Group being included in consolidation: the one-off effect on net profit/loss of PLN 118.9 million.

The net profit of the PZU Group in the first half of 2011 amounted to PLN 1,552.4 thousand, showing an increase by 37.2% year on year.

At the end of the first half of 2011, ROE, the ratio of annualized net profit to average equity in the first half of 2011, equalled 24.8% and grew by 4.1 p.p. year on year.

2. Macroeconomic conditions in the first half of 2011

2.1 Key economic trends and economic growth

In Q1 2011, GDP growth rate of the Polish economy remained relatively high (4.4% y-o-y), being only slightly lower than in Q4 2010 (4.5% y-o-y). Domestic demand remained the key growth factor, although its rate somewhat dropped compared to the previous quarter. Individual consumption maintained its high growth rate (3.9% y-o-y), close to the previous quarter, despite unfavourable conditions (rapid price growth, certain purchases being postponed to the end of 2010, a decrease in consumer loans). Growth of investments in fixed assets (6.0% y-o-y) was significantly higher, also as a result of a lower reference basis from the previous year. Public infrastructural investments were still decisive for overall investment growth. Contribution of inventory to GDP increase was positive, although lower than in Q4 2010. Since slowdown in import was considerably bigger than in export, the negative impact of foreign trade balance on GDP was clearly reduced (-0.1 p.p. compared to -1.7 p.p. in Q4 2010). In terms of GDP generation, added value in the construction sector demonstrated the most rapid growth. Services and industry, though, contributed the most to the added value, showing an increase in its generation compared to the previous quarter.

In Q2 2011, GDP growth remained close to Q1, probably being just slightly lower. High growth rate of retail sales in the period (the monthly average being 14.4% y-o-y compared to 9.1% y-o-y in Q1)

supports projections to achieve at least the same individual consumption growth as in Q1 2011. The average monthly increase rate of production sold in Q2 dropped, though (5.5% y-o-y vs. 9.2% y-o-y in Q1). A significant growing trend in non-season-related production growth in industry was visible until May. In June, though, it decreased significantly compared to May. Market surveys seem to support the opinion that the global slowdown in industrial production visible in Q2 has reached Poland. Production growth in construction and assembly industry remained high, close to Q1 index, with the role of public infrastructural investments remaining crucial. The economic standing of enterprises in Q2 improved (except from construction), the demand barrier decreased, but the production growth lost momentum¹. Uncertainty regarding future business environment increased, which was accompanied with a drop in optimism of demand assessments (both domestic and foreign), which in turn resulted in enterprises being more conservative when considering investments or headcount increase.

2.2 Capital market

In Q1 2011, the average profitability of Polish bonds was significantly higher compared to Q4 2010, partly as a result of processes taking place on the global debt market. Profitability of bonds on base markets increased in response to improved economic growth projections and inflation. In this period, profitability of Polish ten-year treasury bonds ranged from 6.2% to 6.4%. The yield curve remained fairly stable.

Since the end of Q1, profitability of bonds, especially „longer-term” ones saw a decrease. The average profitability of ten-year treasury bonds was lower in Q2 2011 compared to Q1 by 24 base points, with base profitability of five-year bonds reduced by 19 b.p. and of two-year bonds by 12 b.p. In June, profitability of ten-year bonds dropped below 6%, reaching 5.84% at the end of the quarter. The profitability drop scale of five- and ten-year bonds was the same between the end of Q1 and of Q2 (44 b.p.). The yield curve became flatter. The drop in profitability of Polish treasury bonds in Q2 stemmed from the standing of the State budget being better than expected, and include very high performance on the plan of funding the credit needs (approx. 75% in mid-year) coupled with the announced intention to limit the issue of bonds. The increase in prices of bonds was supported by clear inflow of foreign capital to the domestic debt market. Profitability of Polish bonds followed that of German ones, which decreased, faced with dropping economic growth rate and increasing aversion to risk. The average spread between Polish and German ten-year treasury bonds decreased from 311 p. in Q1 to 290 p. in Q2. The response of Polish debt market to the growing debt crisis in the Euro zone was therefore quite different from that of the bond markets of peripheral Euro zone countries. In June, projected shift of the Monetary Policy Council from interest rate increase policy contributed to further material drop in profitability of “shorter-term” bonds.

In the first half of the year, WIG index grew by 1.9%, while WIG20 increased by 2.1%. Between the end of March and end of June, though, WIG dropped by 0.6%, and WIG20 by 0.5% owing to deterioration in global economic growth and increased aversion to risk on global financial markets.

¹ According to market survey performed by National Bank of Poland

2.3 Monetary policy, interest rates, inflation

The first half of 2011 saw a significant inflation growth. In May it reached 5.0% y-o-y (CPI) compared to 3.1% y-o-y at the end of 2010, and in June dropped to 4.2% y-o-y. The average growth rate of consumer product prices in the first half of 2011 increased to 4.2% y-o-y compared to 2.6% y-o-y in the second half of 2010.

Inflation growth seen in the first half of the year resulted mostly from so-called supply shocks involving growth of prices of food and energy, mainly fuels. These were global trends, in Poland enhanced with increases in power prices for households. The price increase, though, impacted also other goods and services. An increase in VAT rates in Poland contributed to the growth of prices in the period. Regular growth in base inflation indicators in the first half of 2011, though, may indicate a growth in demand pressure on prices.

Faced with a strong inflation growth, the Monetary Policy Council commenced a series of interest rate increases in the first half of the year to counteract an increase in inflation projections and the pressure to increase pays, which would result in stabilization of the pro-inflationary trend. There were four interest rate increases of 25 b.p. each, effected in January, April, May and June. At the end of June 2011 the reference rate of the National Bank of Poland was 4.5%.

2.4 Labour market and consumption

In Q1 2011, employment in national economy grew significantly (as per average employment statistics, by 2.8% y-o-y vs. 1.3% y-o-y in Q4 2010; as per BAEL statistics by 1/9% y-o-y vs. 1.2% y-o-y in the previous quarter), in particular in enterprises. The average monthly growth rate of average employment in the enterprise sector was 3.8% y-o-y in the first half of 2011 compared to 1.9% y-o-y in the second half of 2010 and -0.2% y-o-y in the first half of 2010. Between March and May 2011, though, the employment increase in the enterprise sector slowed down. Only in June, an increase in employment seen was sufficient to stop its annual drop on the level of 3.6% y-o-y compared to 4.1% y-o-y in February.

The average unemployment rate recorded in the first half of 2011 was only slightly lower, though, year-on-year (12.6% compared to 12.7%). This resulted from the growth in the number of working individuals and a reduction in the Labour Fund used to support subsidized employment forms.

The increase in employment was not accompanied with a significant growth in payroll in the first half of 2011. Therefore, inflation growth clearly reduced the increase in actual pay. The average monthly growth of the average pay in the period in the enterprise sector was 4.8% y-o-y (0.6% y-o-y in actual terms) compared to 3.8% y-o-y (1.3% y-o-y in actual terms) in the second half of 2010. Thanks to the employment increase, the average monthly growth of payroll in enterprises was slightly higher in the first half of 2011 (4.4% y-o-y) than in the second half of the previous year (3.2% y-o-y) despite growing inflation. The growing trend was blocked, though.

2.5 Foreign exchange rates

In the first half of 2011, PLN/EUR exchange rate decreased, but PLN/USD rate increased following the deterioration of the latter. At the same time, PLN exchange rate to CHF clearly decreased, the value of the latter growing on global risk markets along with risk aversion. At the end of June,

EUR/PLN rate was 0.7% higher than at the end of 2010. At the same time, the USD/PLN rate decreased by 7.2% and CHF/PLN rate increased by 4.3%. During the first half of the year, PLN rate fluctuation was fairly high, though, in response to periodic increases in risk aversion on the financial markets and more restrictive monetary policy performed of the Monetary Policy Council, as well as due to exchange of some EU funds on the currency market.

2.6 the impact of macroeconomic factors on the insurance sector

The relatively high economic growth rate being maintained in the first half of 2011 provided favourable conditions for the insurance sector activity. The improving labour market and relatively high consumption rate in the household sector supported demand for insurance products despite reduced pay growth rate in actual terms. The financial standing of enterprises continued to be very good without a significant acceleration in growth of investments in fixed assets. Therefore, it did not hinder demand for insurance products. PLN/EUR depreciation had a negative effect on the loss ratio in motor insurance through increased cost of foreign loss adjustment and potential impact on prices of imported spare parts.

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

In Q1 2011, the gross written premium in the Polish insurance industry as a whole amounted to PLN 13,979 million, which denotes a 4.2% rise (+ PLN 568 million) vs. Q1 2010. The premium in property and other personal insurance increased by 11.5%, whereas life insurance companies recorded a drop of 1.2%.

At the end of March 2011 the market share of PZU SA (hereinafter "PZU") in the Polish property and other personal insurance market, measured by gross written premium, amounted to 35.4%. The share of PZU Życie (hereinafter "PZU Życie") in the life insurance market amounted to 26.9%. (in the regular business, crucial for PZU Życie, the share amounted to 43.1%). the PZU Group remains the leader in the Polish insurance market.

The first quarter of 2011 on the property and casualty insurance market was dominated by changes in motor insurances, including adaptation of tariffs to market conditions.

Fast increase of gross written premium on the property and casualty insurance market in Q1 resulted mainly from a growth in insurance prices. PZU and VIG Group contributed the most to the growth (in nominal terms). Analysed by product, the biggest increase was seen in motor insurance (14%), property insurance (12%) and general third-party (TPL) insurance (19%).

Data in PLN million

Gross written premium – property insurance	1 January – 31 March 2011			1 January – 31 March 2010		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	581.6	1 412.5	830.9	537.1	1 228.4	691.3
TPL motor insurance	689.4	2 005.1	1 315.7	689.0	1 812.2	1 123.3
Other products	985.9	2 959.6	1 973.6	919.1	2 678.7	1 759.6
TOTAL	2 256.9	6 377.1	4 120.2	2 145.2	5 719.3	3 574.2

PZU share in market premium (%)	1 January – 31 March 2011	1 January – 31 March 2010
Comprehensive car insurance	41.2%	43.7%
TPL motor insurance	34.4%	38.0%
Other products	33.3%	34.3%
TOTAL	35.4%	37.5%

Implementation of the corporate insurance portfolio restructuring program, in particular as regards motor insurance with its high claims ratio, was the main reason for a drop in the market share of PZU. The above program involves restrictive underwriting policy with respect to higher risk activities. Additionally, a change in the premium recording method (reporting as at the contract date, not as at the date of the commencement of liability of the insurer as used until the end of 2010) contributed to the drop in the market share recorded in Q1 2011 as it caused changes in annual seasonality of the written premium (some sales are shifted from Q1 to Q4) and distorted mid-year performance.

The property sector saw an increase in profitability compared to the previous year, with property insurance companies generating a positive technical result the first time for a very long period (PLN 132 million) due to absence of natural disasters and an increase in motor insurance prices. Despite the improvement, the property insurance market of PZU is still negative from the technical results point of view.

Data in PLN million

Technical results	1 January – 31 March 2011			1 January – 31 March 2010		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	44.4	19.1	(25.3)	32.4	(97.7)	(130.1)
TPL motor insurance	79.4	(36.8)	(116.2)	20.9	(102.7)	(123.6)
Other products	69.4	149.4	80.0	(112.6)	(143.6)	(30.9)
TOTAL	193.2	131.7	(61.5)	(59.3)	(343.9)	(284.6)

In Q1 2011, the total technical loss of the market excluding PZU in the motor insurance classes exceeded PLN 140 million.

A decrease in the total written premium on the life insurance market resulted from a significant reduction in the written premium in the single premium product segment – a drop of PLN 220.2 million (5.8%).

At the same time, the regular premium segment increased by approx. PLN 129 million (3.5%). the increase in the regular premium is correlated with the growth of pay and employment in the national economy.

Data in PLN million

Life insurance market – gross written premium	1 January – 31 March 2011			1 January – 31 March 2010		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Regular premium	1 626.1	3 774.1	2 148.0	1 586.3	3 645.3	2 058.9
Single premium	419.1	3 827.5	3 408.4	250.5	4 047.7	3 797.2
TOTAL	2 045.2	7 601.7	5 556.5	1 836.8	7 693.0	5 856.1

Life insurance market – share	1 January – 31 March 2011	1 January – 31 March 2010
Regular premium	43.1%	43.5%
Single premium	11.0%	6.2%
TOTAL	26.9%	23.9%

The market share of PZU Życie SA increased mainly as a result of a higher written premium from single premium insurance, where deposits embedded in policies (bancassurance with relatively low profitability) constitute the major product group. The written premium from unit-linked insurance distributed through the banking channel increased significantly as well. As regards regular premium insurance, which is not exposed to considerable market fluctuations and does not involve significant margins, the market share of PZU remains stable and the Company's position leading among other market players.

In Q1 2011, the life insurance market maintained high profitability, although not as high as in the year before, the technical result of life insurance decreased by almost 23% to PLN 813 million, with net profit drop by 23% to PLN 755 million, due to reduced investment income.

Data in PLN million

	1 January – 31 March 2011			1 January – 31 March 2010		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Technical result	479.5	813.2	333.7	686.0	1 055.5	369.5
Net profit	453.0	755.3	302.3	655.6	979.3	323.7

The technical result of PZU Życie accounts for over half of the result generated by all life insurance companies in the market. The year-on-year drop in performance in Q1 2011 results mainly from reduced investment revenue.

	30 June 2011			30 June 2010		
Pension Insurance Market	PTE PZU	Market	Market, excluding PTE PZU	PTE PZU	Market	Market, excluding PTE PZU
Number of fund members	2 200 712	15 279 980	13 079 268	2 158 954	14 612 907	12 453 953
Net AUM in PLN million	32 436,5	236 802,4	204 365,9	26 816,9	193 189,9	166 373,0

OFE PZU “Złota Jesień”	30 June 2011	30 June 2010
Number of fund members	14,4%	14,8%
Net AUM	13,7%	13,9%

In the first half of 2011, on the primary market, the number of first time clients concluding contracts with a pension fund dropped by 23.2% (compared to the first half of 2010) due to reduced activity in the sales network of the market segment.

The first half of 2011 was another period when a large number of people decided to change their pension funds. In the two opening transfer sessions, 315,123 people decided to change their funds, denoting a 8.4% increase y-o-y. OFE PZU is in the group of eight open pension funds with a negative transfer balance. The total number of open pension fund members in Poland at the end of June 2011 was 15,279,980 including 2,200,712 members of OFE PZU, denoting its 14.4% market share. Compared to the end of June 2010, the number of OFE PZU members increased by 41,758, i.e. 1.9%.

At the end of June 2011, the total net assets of all funds amounted to PLN 236,802 million and increased by 22.6% compared to the end of the first half of 2010. During this period, the assets of OFE PZU increased by 21.0% to PLN 32,436 million. The increase in the value of assets of OFE PZU was nearly 1.6 p.p. lower than the increase of the total value of assets in the market.

The market share of OFE PZU in terms of net assets value was 13.7% at the end of the first half of 2011 and decreased year on year by 0.2 p.p.

2.8 Macroeconomic factors that will affect the activities of the PZU Group in the second half of 2011

In the second half of 2011, factors that will impact operations of the PZU Group will include a slowdown in the global economic growth, debt crisis in the Euro zone and the fiscal condition of the United States, which, according to Standard&Poor's, have lost the top credit rating. During the two opening months of H2 2011, these factors caused significant fluctuations on financial markets related to a material increase in risk aversion. In this period, stock price reductions were observed on global stock exchanges, as well as increase in prices of bonds issued by countries considered safe by investors and beyond-average stock price fluctuations. If continued, the uncertainty will impact the investment activities of the PZU Group in H2 2011.

IN H2 2011, a slowdown of economic growth in Poland is expected as a result of global trends and uncertain demand projections. Factors favourable for PZU Group operations are observed on its foreign markets. After the recession, Lithuanian and Ukrainian economies returned to the growth path in the first half of 2010. In Lithuania, the property and casualty insurance market saw an increase mainly due to a significant growth in sales of agricultural policies. The Ukrainian insurance market growth is triggered by a rapid increase in property insurance products. Motor insurance remains the crucial segment, mainly due to intensification of the credit action.

3. Organization of the PZU Group

3.1 Organization of the PZU Group

The scope of business activities of the PZU Group includes provision of comprehensive insurance services. The Group companies offer services relating to life, other personal and property insurance as well as asset management on behalf of their customers in the form of an open pension fund and investment funds.

In the period from 1 January to 30 June 2011, the scope of activities of the major PZU Group companies did not change substantially.

No.	Entity's name	Registr ed office	Date of assuming control/signifi cant influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Core business
				30 June 2011	31 December 2010	30 June 2011	31 December 2010	
Subsidiaries subject to consolidation								
1	Powszechny Zakład Ubezpieczeń Spółka Akcyjna	Warsaw	n/a	n/a	n/a	n/a	n/a	Property and casualty insurance
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie”)	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance
3	Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU”)	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Pension fund management
4	PZU Centrum Operacji SA ("PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activities related to insurance and pension funds
5	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other financial services except from insurance and pension funds
6	PrJSC IC PZU Ukraine („PZU Ukraine”)	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Property insurance
7	UAB DK PZU Lietuva („PZU Lietuva”)	Vilnius (Lithuania)	26.04.2002	99.76%	99.76%	99.76%	99.76%	Property insurance
8	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Purchase, operation, lease and disposal of real property
9	Armatura Kraków SA ¹⁾	Kraków	07.10.1999	64.63%	64.63%	64.63%	64.63%	Manufacturing of bathroom and kitchen mixer taps
10	Armatoora SA ¹⁾	Nisko	10.12.2008	64.63%	64.63%	64.63%	64.63%	Manufacturing of heaters and aluminium casts
11	Armatoora SA i wspólnicy sp. k. ¹⁾	Kraków	10.02.2009	64.63%	64.63%	64.63%	64.63%	Use of free cash, development investments
12	Armagor SA (until 5 April 2011 named Armagor Sp. z o. o.) ¹⁾	Gorzów Śląski	06.09.2009	64.63%	64.37%	64.63%	64.37%	Manufacturing of valves and tooling services
Investment Funds subject to consolidation								
13	PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny ²⁾	Warsaw	15.12.2009	100.00%	100.00%	n/a	n/a	Investment of funds collected from members

No.	Entity's name	Registered office	Date of assuming control/significant influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Core business
				30 June 2011	31 December 2010	30 June 2011	31 December 2010	
Subsidiaries not subject to consolidation								
14	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services
15	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Assistance and medical services
16	SYTA Development Sp. z o.o. in liquidation	Warsaw	29.04.1996	100.00%	100.00%	100.00%	100.00%	Acquisition and disposal of real property, agency in real property trade, real property management
17	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU”)	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Establishing, representing, managing investment funds
18	Sigma Investments Sp. z o.o.	Warsaw	28.12.1999	100.00%	100.00%	100.00%	100.00%	Investing activity Acquisition and disposal of public companies' shares and other listed securities
19	PZU Asset Management SA (PZU AM)	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Management of securities portfolios for the account of third parties
20	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA”)	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Management of employee pension fund
21	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life”)	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance
22	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance
23	Company with Additional Liability Inter-Risk Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Legal services
24	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance
25	ICH Center SA	Warsaw	31.01.1996	90.00%	90.00%	90.00%	90.00%	Loss adjustment under Green Card (the Company has not been operating since the beginning of 2011)
Associates								
26	Kolej Gondolowa Jaworzyna Krynica SA	Krynica	17.08.1998	37.53%	37.53%	36.71%	36.71%	Ski lifts
27	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance handling

¹⁾ Consolidated using the full method since 1 January 2011.

²⁾ Consolidated using the full method since 30 June 2011.

3.2 Changes in the organization of the PZU Group

Transfer of portion of financial investments to funds

On 30 June 2011, a portion of bonds issued by the State Treasury owned by PZU Życie and classified to the portfolio of financial instruments measured at fair value through profit or loss at the initial recognition, with the fair value as at the transfer date of PLN 954,210 thousand, was transferred to PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny, with PZU Życie as the sole participant.

The objective of the transfer was to improve the effectiveness of the management of financial investments by tax optimization (CIT on capital gains and VAT paid to other companies in the PZU Group for the management of the portfolio of securities and not deducted by PZU Życie).

The above transaction had no impact on the net assets and profit/loss of the PZU Group.

Presentation, classification and the method of measurement of the assets in these interim consolidated financial statements of the PZU Group did not change as well, and the PZU fund Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny has been consolidated using the full method since 30 June 2011.

Transfer of PZU CO, TFI PZU and PZU AM from PZU Życie to PZU

In view of the plans regarding expansion of the Tax Capital Group by the companies: TFI PZU, PZU AM and PZU CO, on 14 July 2011, the Management Board of PZU passed a resolution on the acquisition of (provided the Supervisory Board of PZU gives its acceptance):

- 25,001 registered shares of PZU AM (50.002% of shares) for the price being the equivalent of PZU AM net assets attributable to the acquired shares, resulting from the financial statements of the company prepared for the last reporting period (pursuant to PAS);
- 50,000 registered shares of PZU CO (100.0% of shares) for the price corresponding to the value of shares of PZU CO recognized in the accounting records of PZU Życie as at the date of the share sale agreement (pursuant to PAS);
- 13,000 registered shares of TFI PZU (100.0% of shares) for the price corresponding to the value of shares of TFI PZU recognized in the accounting records of PZU Życie as at the date of the share sale agreement (pursuant to PAS);

On 14 July 2011, the Management Board of PZU Życie adopted resolutions to sell to PZU the above shares, provided that the Supervisory Board of PZU grants its consent.

On 9 August 2011, the Supervisory Board of PZU approved the motions of the Management Board of PZU for the acquisition of the aforesaid companies and on 18 August 2011, the Supervisory Board of PZU Życie approved the motions filed by Management Board of PZU Życie on the sale of those shares.

The purchase of shares of TFI PZU and PZU AM by PZU requires a consent of the Polish Financial Supervision Authority. Relevant applications were filed to the Polish Financial Supervision Authority on 1 August 2011 and the Authority has the right to make an objection within 60 business days. The deadline, however, can be extended if PZU is required to give additional explanations.

A decision of the Polish Financial Supervision Authority (lack of objection) is a prerequisite for transactions in shares of TFI PZU and PZU AM.

Establishment of the company Ipsilon Bis SA

On 9 August 2011, PZU established the company Ipsilon Bis SA with a share capital of PLN 100,000. Currently, the company is in the organisational phase and its business activities have not yet been determined. It is planned that the company will become part of the expanded Tax Capital Group effective from 1 January 2012.

3.3 PZU Group Companies

PZU

Powszechny Zakład Ubezpieczeń Spółka Akcyjna (hereinafter referred to as PZU) with the registered office in Warsaw at Al. Jana Pawła II 24, is the Parent in the PZU Group. It was established as a result of transformation of Państwowy Zakład Ubezpieczeń into a joint-stock company wholly owned by the State Treasury pursuant to Article 97 of the Act on insurance activity of 28 July 1990 (consolidated text: Journal of Laws No. 11 of 1996, item 62, as amended).

PZU is recorded in the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, XII Business Division of the National Court Register, under KRS number 0000009831.

According to Polish NACE (PKD), the core business of PZU includes other personal and property insurance (PKD 65.12) and according to NACE, non-life insurance (EKD 6603).

The scope of statutory activities of PZU includes organizing and carrying out:

- direct insurance and indirect (reinsurance) activities in Poland and abroad;
- activities aimed at prevention of losses and limitation of their size;
- claims adjustment activities, i.e. determination of the extent of losses, securing recourse claims, pursuing claims as well as performing other claims adjustment activities under agreements or requests filed by other insurers;
- other insurance and reinsurance services;
- acquisition activities for open pension funds based on the provisions on organization and operation of pension funds.

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 organization 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 European Union countries and open-end investment funds with registered offices in OECD countries other EU-member states.

PTE PZU

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.

Lithuanian market

In 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 Gyvybės Draudimas** – life insurance.

Ukrainian market

In 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.

PZU's subsidiary PZU Ukraina holds 100% shares in SOS Service Ukraine. The company provides assistance services to PZU Ukraina and third parties.

Both the Ukrainian insurance companies in the PZU Group have shares in the company Inter-Risk Ukraine (PZU Ukraina: 99%, PZU Ukraina Życie: 1%). The company provides debt collection services to shareholders and third parties.

TFI PZU

The key business of the Company is creating and managing of investment funds, representing them before third parties and managing the collective portfolio of securities pursuant to the provisions of the Act on investment funds.

At present, TFI PZU offers participation units of four open investment funds including two umbrella funds with nine and four separate sub-funds and manages four closed-end investments funds.

Investment products and services offered by TFI PZU are dedicated to individuals and institutions.

Further, it offers specialized investment programs based on various strategy funds selected from its offer and additional savings programs under the third social security pillar:

- systematic savings plans;
- ZPI (Corporate Investment Programs);
- IKE (Individual Pension Accounts);
- PPE (Employee Pension Programs).

PZU AM

Its core business includes:

- brokerage activities within the meaning of Article 69 of the Act on trading in financial instruments of 29 July 2005, including investment portfolio management on behalf of investment funds (Dz. U. No. 183, item 1538, with subsequent amendments);
- provision of portfolio management services with respect to:
- property, financial instruments or property rights in entities investing in the property sector;
- financial instruments not admitted to organized trading or property rights to companies;
- funds or other entities investing their assets in property rights or financial instruments.

The Company manages selected asset portfolios of the following PZU Group companies: PZU, PZU Życie, TFI PZU and Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU.

PZU Pomoc

Pursuant to 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;
- organization of assistance services, which involve providing assistance to customers;
- rental and lease of motor vehicles.

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.

PZU CO

Operations of PZU Centrum Operacji focus on support of financial products of the PZU Group. It uses its potential supporting the service of the full range of insurance products offered by the PZU Group. PZU Centrum Operacji has technical infrastructure and personnel necessary to provide services related to insurance activity and insurance agency, mass correspondence and document processing, development and maintenance of IT systems.

The core business of the Company includes:

- auxiliary services related to insurance and pension funds;
- continuous agency at conclusion of insurance, financial and investment agreements as well as assistance contracts;
- Contact Center and Data Center services, printing and IT support.

FINANCIAL PERFORMANCE of the PZU GROUP in the FIRST HALF of 2011

4. Comments to the consolidated financial performance of the PZU Group

Data in PLN '000

Data from the consolidated income statement	1 January - 30 June 2011	1 January - 30 June 2010	% change
Gross written premiums	7 673 262	7 291 854	5.2%
Net earned premiums	7 269 699	7 002 918	3.8%
Revenue from commissions and fees	156 227	130 090	20.1%
Net profit/loss on investing activities	1 079 059	1 262 140	(14.5%)
Net insurance claims	(5 018 297)	(5 120 912)	(2.0%)
Acquisition costs	(953 041)	(896 510)	6.3%
Administrative expenses	(633 196)	(767 684)	(17.5%)
Operating profit (loss)	1 902 364	1 500 095	26.8%
Gross profit (loss)	1 896 588	1 441 441	31.6%
Net profit	1 552 404	1 169 834	32.7%

4.1 Premiums

Gross written premiums for the first half of 2011 amounted to PLN 7,673.3 million (PLN 7,291.9 million the year before). The increase by PLN 381.4 million (5.2%) was caused by a higher written premium in the property and casualty insurance and in the life insurance segment.

Premium changes have been discussed in the comments to segment performance (point 5.1 and 5.2).

4.2 Result on investing activities

Data in PLN '000

Profit/loss on investing activities	1 January - 30 June 2011	1 January - 30 June 2010	% Change
Interest income	853 726	948 071	(10.0%)
Dividend income	50 248	46 467	8.1%
Income on investment property	12 973	12 753	1.7%
Exchange differences	(2 494)	1 838	-
Other	(19 631)	(14 662)	-
Total net investment income	894 822	994 467	(10.0%)
Net profit/loss on realization of investments	900	213 425	-
Impairment losses	(68 651)	(52 671)	-
Total net profit/loss on realization and impairment loss on investments	(67 751)	160 754	-
Net change in the fair value of assets and liabilities measured at fair value	251 988	106 919	135.7%
Investment income	1 079 059	1 262 140	(14.5%)

In the first half of 2011 and the first half of 2010 revenue from investments amounted to PLN 1,079.1 million and PLN 1,262.1 million, respectively.

A decrease in net investment income by PLN 99.6 million resulted from lower interest income due to reduction in the medium-size portfolio of debt securities, term deposits and contingent transactions on treasury securities (the portfolio was reduced in April 2010 in order to pay liabilities related to the dividend payment under composition procedures with Eureka BV) and impact of forex differences on interest income on instruments denominated in foreign currencies.

An increase in net change in fair value of assets and liabilities measured at fair value by PLN 145.1 million resulted mainly from growth in stock prices on stock exchanges in H1 201 (in the period, WIG grew by 2.0%) as opposite to a stock price decrease observed in H1 2010 (in the period, WIG dropped by 3.2%).

Net profit/loss on the investment was lower by PLN 212.5 million, among others due to differences in the revaluation reserve reclassified to the accounting profit/loss as a result of transactions on financial instruments.

4.3 Claims

A decrease in net claims by PLN 102.6 million (-2.0%) resulted mainly from absence of loss caused by snowfall and flood in the property insurance sector. The above drop was partly compensated with an increase in claims paid and a decrease in provisions in 2011 in the life insurance segment.

The reasons of the change in claims are detailed in the comment to segment performance.

4.4 Acquisition costs and administrative expenses

Acquisition costs in the first half of 2011 increased by PLN 56.5 million (6.3%) compared to the level in the first half of 2010. The increase resulted mainly from growing sales and changes in the structure of distribution channels (growth in the share of commission channels at the expense of zero-commission ones).

A decrease in administrative expenses by PLN 134.5 million (-17.5%) was the outcome of the restructuring activities performed in PZU and PZU Życie, cost optimization measures implemented in the PZU group, mainly in IT, administration and real property and a lack of IPO project expenses in the first half of 2011 (the project expenses related to the first half of 2010).

4.5 Other items

In the first half of 2011 the balance of other operating revenue and expenses increased by PLN 93.8 million year on year (a change from PLN (54.9) million to PLN 38.9 million). The above change resulted mainly from Armatura Group being consolidated in line with the full method, which resulted in one-off recognition of revenue of PLN 118.9 million.

4.6 Performance of the PZU Group

The operating profit in the first half of 2011 amounted to PLN 1,902.4 million and increased by PLN 402.3 million (26.8%) year on year, which was mainly caused by a rise in earned premium, costs of claims remaining flat and a reduction of administrative expenses in the current year. The above rise was offset with an increase in claims related to group cover policies in the life insurance segment. An increase in the operating profit led directly to a growth in the net profit by PLN 382.6 million (32.7%).

4.7 Consolidated statement of financial position

Data in PLN '000

Data from the consolidated statement of financial position	30 June 2011	31 December 2010	30 June 2010
Assets	57 301 278	50 670 557	47 575 661
Financial Assets	51 134 442	45 345 032	42 182 959
Share capital	86 352	86 352	86 352
Total equity	12 230 698	12 799 926	11 338 781

A decrease in the value of equity at the end of June 2011 resulted from reduction by the amount assigned to dividend payment resulting from distribution of profit for the year ended 31 December 2010 (PLN 2,245.2 million to payment of dividend for shareholders and PLN 1,271.5 million to supplementary capital).

The PZU Group improved profitability of its capital at the end of June 2011, both compared to the end of 2010 (+4.5 p.p.) and year on year (+ 4.1 p.p.). ROE annualized at the end of H1 2011 amounted to 24.8% (the ratio of annualized net profit to average equity in the first half of 2011).

As at 30 June 2011 and 30 June 2010, the financial assets amounted to PLN 51,134.4 million and PLN 42,183.0 million, respectively. The increase in the volume of deposits embedded policies and in the value of debt securities portfolio stemming from investment of funds obtained at interbank market through contingent transactions on treasury securities contributed to the growth in the value of this item.

4.8 Effect of one-off events on operating profit

Consolidation of the Armatura Capital Group

Since 1 January 2011, the consolidated financial data of the Armatura Capital Group ("Armatura Group"), including the financial data of Armatura Kraków SA, Armatoora SA, Armatoora i wspólnicy sp. k. and Armagora SA), have been consolidated using the full method in the consolidated financial statements of the PZU Group. The reason for the consolidation of the Armatura Group is the fact that its consolidated financial data have exceeded the materiality thresholds adopted by the PZU Group for the purposes of the consolidated financial reporting.

The table below presents key items from the consolidated statement of financial position of the Armatura Group with reconciliation to the consolidated net assets of Armatura Group as at 1 January 2011 (measured in line with the accounting principles of the PZU Group):

PLN '000

Reconciliation of net assets of the Armatura Group as at 1 January 2011	Value
Property, plant and equipment	159 199
Investment property	23 767
Receivables	102 419
Cash and cash equivalents	1 849
Assets held for sale (investment property)	76 000
Other assets	123 895
Total assets	487 129
Liabilities	(236 582)
Minority interest	(75)
Net assets	250 472

The difference between the carrying amount of shares of Armatura Kraków SA as at 1 January 2011 and the share of the PZU Group in the net assets of the Armatura Group of PLN 118.9 million was charged to the profit/loss for 2011 and presented under "Other operating revenue" of the consolidated income statement.

PLN '000

Impact of the consolidation of the Armatura Group on the consolidated profit/loss of the PZU Group	Value
Carrying amount of shares of Armatura Kraków SA (measured at historical cost including impairment loss)	42 952
Value of consolidated net assets of the Armatura Group as at 1 January 2011	250 472
Share of the PZU Group in the consolidated net assets of the Armatura Group as at 1 January 2011 (64.6250%)	161 868
Impact on consolidated profit/loss of the PZU Group	118 916

5. Comments to segment reporting

5.1 Property and casualty insurance

PLN '000

Data from the income statement – property and casualty insurance	1 January - 30 June 2011	1 January - 30 June 2010	% Change
Gross written premiums	4 339 851	4 063 840	6.8%
Net earned premiums	3 935 368	3 775 749	4.2%
Net profit/loss on investing activities*	2 232 294	3 629 441	(38.5%)

Net insurance claims	(2 619 096)	(2 956 918)	(11.4%)
Acquisition costs	(745 981)	(700 433)	6.5%
Administrative expenses	(291 849)	(393 182)	(25.8%)
Operating profit (loss)*	2 470 790	3 315 918	(25.5%)

* Includes dividend from PZU Życie of PLN 1,987,282.3 thousand in 2011 and PLN 3,120,000.0 thousand in 2010.

Effective from 1 January 2011 a change was introduced involving recognition of revenue from written premium as at the insurance agreement date instead of as at the date of the commencement of the liability of the insurer (deferred through provision against the premium in equity and liabilities). In addition, the same change was made to the date of recognition of the costs of commissions for concluded contracts in the income statement (also without any effect on the change in profit or loss, through recognition of deferred costs in liabilities).

The change did not have any impact on the consolidated profit/loss or consolidated net assets of the PZU Group.

Gross written premiums recognized in direct insurance in the property and casualty insurance segment as at the date of agreement and commencement of liability in the first half of 2011 and 2010 amounted to, respectively:

Premium recognized as at the agreement date

PLN '000

Gross written premium by product group	1 January – 30 June 2011	1 January – 30 June 2010	% change
TPL motor insurance including:	1 420 618	1 263 285	12.5%
- individual insurance*	1 219 623	1 067 754	14.2%
- corporate insurance	200 994	195 531	2.8%
Comprehensive motor insurance, including:	1 156 603	1 072 881	7.8%
- individual insurance*	835 470	749 700	11.4%
- corporate insurance	321 134	323 181	(0.6%)
Motor insurance total	2 577 221	2 336 166	10.3%
Insurance against fire and other damage to property	979 708	946 898	3.5%
Other TPL insurance (class 11, 12, 13)	298 413	291 759	2.3%
Accident and other insurance**	358 177	367 027	(2.4%)
Total property and casualty excluding motor insurance	1 636 298	1 605 684	1.9%
Total PZU	4 213 519	3 941 850	6.9%
Foreign entities and consolidation eliminations	127 037	122 630	3.6%
Total property insurance segment	4 340 556	4 064 480	6.8%

* Including SME

** the item includes credit guarantees and other financial insurance, assistance, tourist, maritime, rail and aviation insurance.

Premium recognized as at the liability commencement date

PLN '000

Gross written premium by product group	1 January – 30 June 2011	1 January – 30 June 2010	% change
TPL motor insurance including:	1 487 607	1 323 366	12.4%
- individual insurance*	1 271 046	1 123 398	13.1%
- corporate insurance	216 560	199 967	8.3%
Comprehensive motor insurance, including:	1 177 431	1 087 095	8.3%
- individual insurance*	844 418	746 531	13.1%
- corporate insurance	333 014	340 564	-2.2%
Motor insurance total	2 665 038	2 410 460	10.6%
Insurance against fire and other damage to property	999 673	955 623	4.6%
Other TPL insurance (class 11, 12, 13)	333 464	307 510	8.4%
Accident and other insurance**	329 631	370 164	(10.9%)
Total property and casualty without motor insurance	1 662 768	1 633 242	1.8%
Total PZU	4 327 807	4 043 702	7.0%
Foreign entities and consolidation eliminations	127 037	122 630	3.6%
Total property insurance segment	4 454 844	4 166 331	6.9%

** Including SME*

*** the item includes credit guarantees and other financial insurance, assistance, tourist, maritime, rail and aviation insurance.*

The increase in gross written premium by PLN 276.1 million (6.8%) in the property and casualty insurance segment resulted from a growth in sales of motor insurance, in particular in the mass client segment. The high sales followed growth in prices of motor insurance translated into an increase of the average premium amount.

Apart from motor insurance, the premium increase compared to the previous year occurred in property insurance, most of all in housing insurance (+PLN 15.5 million, and 5.8% growth y-o-y), insurance of buildings (+ PLN 5.5. million, y-o-y growth of 24%) and mining insurance (+ PLN 16.4 million, y-o-y growth of 347%).

Premium reduction in other insurance classes resulted mainly from a decrease in insurance of debtors taking cash loans (adjustment of the previous years' written premium) and insurance from lost profits.

Claims in the property and casualty segment dropped by PLN 337.8 million (-11.4%). the increase in claims in the first half of 2010 resulted from intense snowfall and floods.

In Q1 2011 losses arising from negative effect of winter and frost occurred. Over 21 thousand claims were submitted to PZU with the total value of payments and provisions created against the claims amounting to PLN 74.6 million and PLN 91.5 million, respectively. Almost all of the claims were made under the compulsory subsidized crop insurance.

The decrease in investment performance by 38.5% (PLN 1,397.1 million) observed in property and other personal insurance segment resulted mainly from the dividend received from PZU Życie being lower than the year before. Without dividend, the drop amounted to PLN 264.4 million and arose mainly from a reduced net profit on realization of investments, which resulted in turn from differences in revaluation reserve reclassified to the accounting profit/loss following transactions on financial instruments. Reduced interest income was the other factor contributing to the deteriorated performance on investments.

In the first half of 2011 acquisition costs in the property and casualty segment increased by PLN 45.5 million (6.5%). The increase resulted mainly from growing sales and changes in the structure of distribution channels (growth in the share of commission channels at the expense of zero-commission ones).

In the first half of 2011 administrative expenses decreased by PLN 101.3 million (25.8%) mainly as a consequence of the employment restructuring program implemented in 2010, savings programs performed in PZU Group companies (mainly in IT, administration and real property) and a lack of IPO project expenses in the first half of 2011 (the project expenses related to the first half of 2010).

As a result of the ABC method for indirect cost allocation, compared with the previous method (described in section 4.2 of the Interim Consolidated Financial Statements of the PZU SA Capital Group for the period of six months ended 30 June 2011), different expenses are reclassified to different categories such as acquisition, administration, loss adjustment and investment activities. However, the method has no impact on the total volume of indirect costs. As a result of the ABC method, administrative expenses in the property insurance sector went down by PLN 107.0 million whereas acquisition costs went up by PLN 60.4 million as at 30 June 2011. The difference was allocated to, respectively, loss adjustment expenses and investment activity expenses.

In the first half of 2011 and the first half of 2010 the operating profit in the property and casualty insurance segment was PLN 2,470.8 million and PLN 3,315.9 million, respectively. The decrease by PLN 845.1 million (-25.5%) as a consequence of a lower profit on investing activities (both lower dividends received from PZU Życie SA and capital markets deterioration) was partly offset by reduced claims and an increase in the gross earned premium.

Effect of one-off events on operating profit

In the first half of 2011, no one-off events occurred in the property insurance segment. In the corresponding period of 2010, mass snow losses occurred in that segment in Q1 (operating profit reduction by PLN 157 million) and floods in Q2 (operating profit reduction by PLN 237 million).

5.2 Life insurance

PLN '000

Data from the income statement – life insurance	1 January - 30 June 2011	1 January - 30 June 2010	% change
Gross written premiums	3 333 411	3 228 014	3.3%
Net earned premiums	3 335 193	3 228 180	3.3%
Net profit/loss on investing activities*	768 737	748 808	2.7%
Net insurance claims	(2 401 801)	(2 163 938)	11.0%
Acquisition costs	(157 140)	(143 939)	9.2%
Administrative expenses	(296 370)	(325 285)	(8.9%)
Operating profit (loss)*	1 221 166	1 336 171	(8.6%)

* Including revenue due to dividend from PTE PZU of PLN 99,571 thousand in 2011 and PLN 116,809 thousand in 2010.

PLN '000

Written premium by product group – life insurance	1 January - 30 June 2011	1 January - 30 June 2010	% change
Group insurance	2 141 851	2 073 266	3.3%
Individual insurance, including:	1 191 560	1 154 748	3.2%
- individually continued insurance	910 158	897 125	1.5%
- other individual insurance	281 402	257 623	9.2%
Total	3 333 411	3 228 014	3.3%

PLN '000

Written premium by payment type - life insurance	1 January - 30 June 2011	1 January - 30 June 2010	% change
Regular premium	3 250 227	3 168 382	2.6%
Single premium	83 184	59 632	39.5%
Total	3 333 411	3 228 014	3.3%

The increase in the gross written premium by PLN 105.4 million (3.3%) resulted both from development of group insurance (+ PLN 68.6 million, y-o-y growth by 3.3%) and individual insurance (+ PLN 36.8 million, y-o-y growth by 3.2%). in relation to group insurance, mainly P type cover (employee insurance purchased by the employer), this was mainly the effect of the growing number of the insured (1.1% y-o-y growth) and an increase in the average premium (y-o-y growth by 2.5%). in individually continued insurance, premium growth resulted mainly from sales of additional insurance (in this group, y-o-y premium growth amounted to 14.3%). in other individual insurance, the premium increased as a result of high sales of investment products: Plan na Życie, a regular premium based savings-and-investment product including cover, structured products sold both through own networks and through bancassurance and IKE (Individual Pension Accounts). The growth was partly offset with expiration of endowment insurance portfolio concluded in the nineties.

Net claims paid along with the change in technical provisions amounted to PLN 2,401.8 million in the first half of 2011 and increased compared to the first half of 2010 by PLN 237.9 million. The change included an increase in claims paid accompanied with accelerated growth of provisions in unit-linked products. Key factors influencing the value of the item include:

- increase in claims in group cover insurance being controlled and predictable, mainly as a result of higher frequency of events related to the portfolio development (in particular additional insurance);
- increase in the value of technical provisions related to unit-linked insurance being higher than in 2010 following improved profitability of investments and growing sales of these products;
- higher growth of technical provisions in P type continued insurance following development of the insured portfolio and the average premium increase;
- a reduced rate of conversion of long-term agreements to one-year renewable ones in group cover insurance (the effect of provision release in H1 2011 amounted to PLN 302.9 million compared to PLN 325.4 million in H1 2010).

Investment income in the life insurance segment adjusted by dividend from PTE PZU amounted to PLN 669.2 million in H1 2011 and PLN 632.0 million in H1 2010. The positive change of the investment performance resulted mainly from growing stock prices in H1 2011 (WIG increased by 2.0% during this period) in contrast to the stock price decrease seen in H1 2010 (when WIG dropped by 3.2%) - an increase in "Net change in fair value of assets and liabilities measured at fair value".

In H1 2011 and in H1 2010 acquisition costs in the life insurance segment amounted to PLN 157.1 million and PLN 143.9 million, respectively. The change by PLN 13.2 million (9.2%) was mainly attributable to an increase in commissions paid from group cover insurance (including bancassurance) and individual investment policies (with a high first-year commission) resulting from a higher sales volume. The increase was partly offset with a drop in indirect acquisition costs.

In H1 2011 administrative expenses in the life insurance segment decreased by PLN 28.9 million (8.9%) mainly as a consequence of the savings programs (among others, employment reduction in PZU Życie in 2010 and fixed costs optimization).

In H1 2011 the operating profit in the life insurance segment decreased by PLN 115.0 million (8.6%) y-o-y, for the most part due to a controlled increase in claims paid in relation to group cover insurance.

Effect of one-off events on operating profit

As regards life insurance, in the first half of 2011 and 2010 no one-off events occurred which would have a material impact on the operating profit generated by the segment.

5.3 Investment contracts

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

	PLN '000		
Investment contract volumes by product group	1 January - 30 June 2011	1 January - 30 June 2010	% change
Group	1 462 397	32 673	4 375.9%
Individual, including:	472 745	461 623	2.4%
- individually continued	-	-	-
- other individual	472 745	461 623	2.4%
Total	1 935 142	494 296	291.5%

	PLN '000		
Investment contract volumes	1 January - 30 June 2011	1 January - 30 June 2010	% change
Regular payments	4 168	3 128	33.3%
Single payments	1 930 974	491 168	293.1%
Total	1 935 142	494 296	291.5%

In the first half of 2011 and 2010 investment contract volumes were PLN 1,935.1 million and PLN 494.3 million, respectively. The increase by PLN 1,440.8 million (291.5%) resulted mainly from higher sales of endowment investment contracts through bancassurance channel (PLN 1,429.7 million in the first half of 2011).

5.4 Pension fund activity

	PLN '000		
Data from the consolidated income statement – pension insurance	1 January - 30 June 2011	1 January - 30 June 2010	% change
Revenue from commissions and fees	128 977	115 947	11.2%
Net profit/loss on investing activities	6 521	9 281	-29.7%
Acquisition costs	(36 346)	(25 124)	44.7%
Administrative expenses	(38 972)	(40 704)	-4.3%
Operating profit (loss)	59 616	60 446	-1.4%

In H1 2011 and H1 2010 revenue from commissions and fees in the pension insurance segment amounted to PLN 129.0 million and PLN 115.9 million, respectively. The increase by PLN 13.0 million (11.2%) resulted mainly from increase in revenue from pension fund management due to a growth in the net assets of the fund.

The increase in costs of acquisition by PLN 11.2 million (44.7%) was mainly attributable to a part of deferred acquisition commissions being charged to expenses as a consequence of statutory changes (the amount of premium transferred to open pension funds being reduced from 7.3% to 2.3%).

In H1 2011, operating profit in the pension insurance segment decreased by 1.4% y-o-y and amounted to PLN 59.6 million (PLN 60.6 million in H1 2010).

The increase in the assets managed by PTE PZU to a sum of PLN 31,522.4 million was the result of premiums received from the Social Insurance Office (ZUS), results from investments and the ration of gained and lost customers. In the first half of 2011, the Social Insurance Office paid OFE PZU PLN 1,473.13 million in insurance premiums, i.e. 4.7% less than in the same period in 2010 (source: data from the Polish Financial Supervision Authority). The value of OFE PZU's participation unit went up by 2.0% in the first quarter of 2011.

6. Risk factors which may affect financial performance in the following quarters

6.1 Property and casualty insurance

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

- financial crisis in the Eurozone leading to an economic slowdown and possibility of translating into limited demand for insurance products;
- situation in the capital markets, in the second half of 2011, in particular on the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on the market trends;
- 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;
- higher probability of another "price war" in motor insurance for individual customers and SMB due to better performance of the market in Q1 2011;
- possible changes (amended laws) to the principles for measuring provisions for capitalized annuity, which may require increasing their value in line with the prudence principle;
- higher probability of partial or complete inundation due to persistent rain in June, July and August 2011;
- higher risk of unfavourable court rulings concerning the insurance market (e.g. Resolution of the Supreme Court of 13 July 2011, Ref. No. III CZP 31/11) ²
- imprecise definition of tax exemptions related to insurance and medical services in the amended VAT Act;

6.2 Life insurance

The key risk factors that can affect the performance of PZU Życie in the second half of 2011 include:

- financial crisis in the Eurozone leading to an economic slowdown and possibility of translating into limited demand for insurance products;
- situation in the capital markets, in the second half of 2011, in particular on the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on the market trends;
- 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;

² Resolution of 13 July 2011 (Ref. No. III CZP 31/11) - perpetrator in a car accident penalized by the obligation to redress the damage (Article 46/1 in connection with Article 39.5 of the Penal Code), may claim from the insurer - based on the TPL motor insurance policies (damages caused by the movement of such vehicles) - a return of the claims paid for the injured party.

- changes in the financial brokerage market, reduced increase in the popularity of independent financial advisory services thus limiting the number of sales channels of the Company;
- changes in the current mortality, longevity and incidence proportion.

6.3 Pension funds

The key risk factors that can affect the performance of PTE PZU in the second half of 2011 include:

- possible further changes in the Polish pension insurance market, in particular changes to the Act on open pension funds;
- different investment policy than that adopted by other companies, which can lead to a decrease in the rate of return below the statutory threshold.

7. Management Board's position concerning previous performance projections

The PZU Group did not publish or disclose any projections concerning separate or consolidated financial information.

ACTIVITIES OF THE PZU GROUP IN THE FIRST HALF OF 2011

8. Activities, key developments and achievements of the major PZU Group Companies

8.1 Corporate governance at the PZU Group Companies

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

PZU SA follows the corporate governance rules laid down in “Good practices of companies listed on WSE” adopted on 19 May 2010 by resolution of Giełda Papierów Wartościowych w Warszawie S.A. No. 17/1249/2010, in force as of 1 July 2010. The whole document is available at the official website of Giełda Papierów Wartościowych w Warszawie S.A.: www.corp-gov.gpw.pl.

The Management Board of PZU applies and follows Good practices of companies listed on WSE with due diligence, as they increase the Company's 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”), an organization associating insurance companies operating in 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 the 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-dobrychpraktyk>;
- Good Practices at PZU. The document emphasizes 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 decisions taken. The document is available at the Company website: http://www.pzu.pl/c/document_library/get_file?uuid=f430d2f3-0ffa-4b72-add8-c53f3668c66a&groupId=10172
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As the revised Good practices of companies listed on WSE came into force, since 1 July 2010 and in the first half of 2011, PZU SA followed all corporate governance principles set forth in Good practices of companies listed on 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 WSE with respect to corporate governance principles set forth in part I of Good practices of companies listed on 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 General Shareholders' Meeting of PZU SA 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 General Shareholders' Meeting. The remuneration depends on the function held in the Supervisory Board and is not due for a month when a member of the Supervisory Board did not attend a meeting of the Supervisory Board without a justified reason. The Supervisory Board determines if the absence of a member of the Supervisory Board 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 recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by recommendation of EC 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 General Shareholders' Meeting.

In Principle I.9 of Good practices concerning the balance of sexes in the managing bodies of the Company the composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively. Competences, not the sex are factors considered in appointing members of the Management and Supervisory Board.

8.2 Rating of the PZU Group companies by credit rating agencies

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 of specific circumstances.

As at the date of submission of this report, PZU and PZU Życie SA had an A long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) and a stable rating outlook. Every year, Standard & Poor's Ratings Services confirmed the above rating and Outlook (on 22 July 2011 and 5 July 2010, respectively).

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

Company name	Rating and outlook	Date of	Previous	Date of
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		rating/update	rating and outlook	rating/update
PZU				
Financial strength rating	A /stable/	22 July 2011	A /stable/	5 July 2010
Credit rating	A /stable/	22 July 2011	A /stable/	5 July 2010
PZU Życie				
Financial strength rating	A /stable/	22 July 2011	A /stable/	5 July 2010
Credit rating	A /stable/	22 July 2011	A /stable/	5 July 2010

8.3 Restructuring of PZU and PZU Życie

On 29 December 2009 the Management Board of PZU and PZU Życie announced an implementation plan of the restructuring program for 2010-2012.

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

In 2010, the restructuring at PZU and PZU Życie affected 6,045 employees, out of which 2,439 were made redundant.

In the period of three months ended 31 March 2011, the process of changes in PZU and PZU Życie covered approximately 90 employees, out of which 33 were made redundant, however, due to the small scale of the redundancies in PZU and PZU Życie, they were carried out as individual and not group lay-offs as was the case in 2010.

Due to the anticipated scale of the lay-offs in the subsequent months of 2011, on 11 May 2011, the Management Boards of PZU and PZU Życie announced their intention to conduct further group lay-offs.

It was estimated on that date that the change would affect up to 3,316 people, i.e. that a decrease in the number of employees in PZU and PZU Życie would amount to 1,212 employees in 2011.

The 2011 staff restructuring process is related to the continuation of the initiatives commenced in 2010, and includes further integration of separate teams carrying out similar tasks at PZU and PZU Życie, implementation of IT tools and optimisation of processes to allow increasing work efficiency, as well as further centralisation of some functions in the central units. The 2011 staff restructuring process mainly covers the areas of operations, finance, administration, personnel and payroll, loss adjustment and networks in all areas of the regional offices, central units and Headquarters of PZU and PZU Życie.

In accordance with the provisions of the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees (Journal of Laws No. 90 item 844 as amended "Act on special principles applicable to termination of employment"), the level and execution of group lay-offs were consulted with the trade unions operating at PZU and PZU Życie, they concluded with an arrangement regarding the wording of an agreement setting forth the terms and conditions of the 2011 staff restructuring, reached on 26 May 2011 and signed on 30 May 2011 ("Arrangement").

The Arrangement includes information about the number of employees affected by the restructuring, criteria for redundancy selection, financial package, principles of protection of selected employee groups and the group lay-offs implementation schedule.

Pursuant to the provisions of the Arrangement:

- the group lay-offs process as part of the restructuring process began on 13 June and will end on 10 October 2011;
- staff restructuring at PZU, consisting in changes in the employment terms and conditions or – in the absence of employees' acceptance – dismissals, will affect 1,706 employees and 1,041 employees will definitely receive employment termination notices;
- staff restructuring at PZU Życie, consisting in changes in the employment terms and conditions or – in the absence of employees acceptance – dismissals, will affect 1,317 employees and 637 employees will definitely receive employment termination notices;
- considering that some of the employees are employed at PZU and PZU Życie on a part-time basis, the total number of employees affected by the changes (in the terms and conditions of employment) will not exceed 3,303. Both companies will lay off up to 1,199 people.

Termination terms and conditions offered to the dismissed employees or employees who did not accept the terms and conditions of employment offered to them in the previous and current stages of the restructuring process (2010 and Q1 2011) were and are better than those provided for by the applicable laws (the "Act on special principles applicable to termination of employment"). The amount of additional redundancy pay was and is contingent on the salary of each employee and their time of employment at the PZU Group.

In the period of three months from 1 April to 30 June 2011, the process of changes at PZU and PZU Życie covered 347 employees, out of which 248 were given employment termination notices.

During the period from 1 January to 30 June 2011, the total restructuring costs charged to the provision amounted to PLN 17.7 million (in 2010: PLN 147.8 million and in the period from 1 January to 30 June 2010: PLN 28.0 million).

As at 30 June 2011, the provision for restructuring costs was PLN 56.6 million (31 March 2011: PLN 61.5 million, as at 31 December 2010: PLN 75.3 million, as at 30 June 2010: PLN 133.0 million, as at 31 December 2009: PLN 158.8 million), which implied a change in the provision of PLN 18.7 million in the period of 6 months ended 30 June 2011 (in the whole 2010: PLN 83.5 million, in the period of six months ended 30 June 2010: PLN 25.8 million).

8.4 Key developments and implementation of the strategy

The project activities carried out in the first half of 2011 were directly related to the implementation of the PZU Group strategy for 2009-2011, focusing on profitable growth and creating a client-focused cost-effective organization.

Sales

Key activities aimed at achieving profitable growth:

- The implementation of well-visible modern sales-focused offices shared by the whole PZU Group. As a part of this project the first stage of the process has been started in 2011 (40 modern offices opened in line with the new model).
- Implementation of analytical CRM which has allowed for creating a unified PZU customer base. The tool supports customer segmentation and will be used to design cross-selling campaigns.
- Restructuring of the sales function responsible for property insurance for the corporate sector has been completed, thanks to developing competences of the sales force and optimizing their placement.

Loss adjustment

The following project activities were carried out as a part of initiatives focused on creating effective organization focusing on customer needs in loss adjustment:

- Implementation of a new model of cooperation with certifying physicians has been prepared to allow for reduction of loss adjustment expenses;
- A number of improvements were made to the technical and core processes of loss adjustment in motor insurance in order to lower the costs;
- The first version of the management module in the loss adjustment system was developed in order to improve efficiency of reporting repairs to appropriate repair shops in the Repair Network. Works on creating a complex model of cooperation with the network of repair shops have been started.

Operations

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

- The management structures of the existing offices in the PZU Group have been unified and the process of front-office staff unification has been continued 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 has been implemented with an option to sell property products to these clients, which should allow full use of cross-selling potential with regard to clients of PZU Życie (the sales force is being trained now). The sales will start in Q3 2011.

Process and cost optimization

Moreover, the following initiatives have been carried out in PZU Group in the first half of 2011 with respect to process and cost optimization:

- Starting the next stage of staff restructuring aimed at reducing headcount by 1,200 FTEs;

- Starting the implementation of the ERP class system shared by PZU and PZU Życie, based on unified processes of internal management, insurance accounting, purchases, real property and a common chart of accounts;
- Finalized implementation of the service bus, central system integration system and one of the key components of corporate architecture. Thirty-eight IT systems have been connected to this universal tool which allows for building a single interface in the application to communicate with numerous systems.
- Starting works aimed at creating a central HR and payroll centre providing services for all employees, contractors and intermediaries of PZU and PZU Życie in one location;
- Launching activities aimed at automation of payments, liabilities and account assignment under a wider process of optimization and centralization of operations and insurance accounting in PZU;
- Further reduction of administrative expenses, including optimization of printing equipment utilization, archiving and modernization of the telecommunication system.

8.5 Key marketing activities in the first half of 2011

In the first half of 2011 promotional activities of PZU and PZU Życie focused on promoting PZU as a modern insurance company offering a number of products tailored to various individual market requirements (PZU practical solutions).

Additionally, the PZU Group launched a new advertising format which was used in all promotional campaigns. The format is based on contrasting the irony of fate with practical solutions offered by PZU and comments of a detached observer.

The following communication advertising campaigns were run as a part of the new strategy:

- "Nowy Format" (New Format) – communication campaign promoting products of Stała Suma Ubezpieczenia and Auto non-stop. At the same time, the Company launched an introductory campaign of Nowy Format.
- "Pakiet Młodzi Kierowcy" (Young Drivers Package) – a campaign promoting a product targeted at drivers aged 18-26.

Not only did the Company launch image campaigns for its products but it also conducted branding campaigns of PZU Życie, promoting the entity as an expert providing complex and modern investment and insurance solutions. The Company run the following campaigns:

- "PZU Życie" – a product campaign targeted at ambitious persons aspiring to improve the quality of life of their families and themselves.
- "PZU Pomoc w Życiu" (PZU Help in Life) – a campaign promoting group insurance with an optional PZU Pomoc card for employees.

Apart from the media campaigns the Company carried out a number of sponsoring activities which had a direct positive effect on the PZU image. The Company acted as a sponsor and patron of various 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 and in Nowe Sukiennice in Cracow;
- patronage over the National Museum in Cracow;
- sponsoring a project of Akcjonariat Obywatelski;
- sponsoring "Rzeszów Carpathia Festiwal 2011";
- patronage over the Decius Villa in Kraków;
- sponsoring the Academy of Capital Market Leaders;
- sponsoring the "Droga na Harvard" competition.

Promotional image building campaign was not limited to external communication. The Company organized three big gala events related to sales competitions organized by PZU and PZU Życie: award ceremony for the competition for best employees of the Network Management Function and best sales representatives in group insurance of PZU Życie and the second common Sales Congress of PZU and PZU Życie.

As a part of its educational activities, the PZU Group managed 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; cannot be used for selling activities.
- "ŻycieNa100procent.pl" – a website with savings calculators, questionnaires and product animations, interviews with celebrities, savings-promoting articles, etc.

Like in the previous years, the PZU Group carried out preventive actions to improve public safety and mitigate various risks. The following activities were carried out in this area in the first half of 2011:

- continuation of the cooperation with Tatra Voluntary Mountain Rescue (TOPR), Voluntary Mountain Rescue Service (GOPR) and Voluntary Water Rescue Service (WOPR);
- prevention program "Policja 2008" (Police 2008);
- prevention activities carried out as a part of the Kia Lotos Race project;
- "Bezpieczna Flota" (Safe Fleet) prevention program – training sessions for fleet drivers;
- cooperation with "Misie Ratuja Dzieci" association, which organizes psychological rehabilitation sessions for children;
- "Zdrowa Gmina" (Healthy Community) prevention program aimed at detecting cancer.

8.6 PZU activities first half of 2011

In the first half of 2011, PZU activities focused to a large extent on the continuation of restructuring of the corporate insurance portfolio and pro-sales activities in order to boost the sales in the retail segment.

Products – retail segment

Motor insurance

- In June 2011, the Company made changes to its motor insurance offering for individual customers and SMB. The key changes are in respect of determination of new rules for motor insurance in the fourth year in the event of a transfer from lump-sum premium insurance to a package, whose rules are defined in the premium tariffs, and verification of terms and conditions of the insurance in individual customer and vehicle segments in correspondence to their profitability.
- Effective from 1 June 2011, PZU introduced the PZU Discount Protection insurance, which can be included in the vehicle owners' mandatory third-party insurance or comprehensive car insurance for retail and SMB clients. Clients who purchase the additional insurance together with their third party or comprehensive motor insurance for 12 months, will retain their bonus-malus discount at the same rate as the rate applicable before an event covered by the third party or comprehensive motor insurance, for which damages were paid out, reducing their no-claims insurance premium discount.
- PZU also made changes in to the third-party and comprehensive motor insurance pricing, adjusting it to the changing market conditions.

Property insurance

- In the first half of 2011, work continued on changes to the property insurance offering for retail clients, in respect of the terms of insurance against the flood risk. Depending on the degree of flood risk, adjustments were made to the pricing of PZU DOM and PZU DOM Plus insurances in individual areas. The changes came into effect on 1 July 2011.

Insurance for SMB

- The Company upgraded its key product dedicated to the SMB clients – the PZU DORADCA comprehensive insurance. Changes to the general terms and conditions were aimed at increasing the availability of the products to all clients in the SMB segment (possibility of expanding the scope by assistance services, insure against risks specific to the type of activity by adding auxiliary clauses, such as PZU HOTEL clause addressed to clients from the hotel and catering industry), as well as increasing the profitability of the product. The updated product will also replace the PZU PARTNER and PZU HOTEL products which have been discontinued due to their low popularity ratings among clients. The changes came into effect on 1 July 2011.

Personal insurance:

- In March 2011, a new type of insurance was introduced, Wojażer – PZU Pomoc w Podróży (Voyager – PZU Travel Assistance), which replaced five of PZU's old products (Wojażer; International insurance against costs of medical treatment and accidents; Comprehensive insurance of foreigners staying in Poland; "Bezpieczny Turysta" (Safe Tourist) comprehensive insurance, Accident insurance for children and young participants in summer camps). The flexibility of the product (general terms and conditions include insurance of medical treatment, basic assistance package and 10 additional clauses) and the possibility of extending coverage by additional risks allows the Company to tailor the insurance to individual client needs.

Agricultural insurance

- As regards compulsory subsidized crop insurance, new updated tariffs were introduced, taking into account the hitherto financial results from that type of insurance.

Products – corporate customer

In the first half of 2011, PZU activities focused to a large extent on the continuation of the initiatives carried out in the previous year and were concentrated on improvement in the corporate insurance portfolio quality.

- In accordance with its strategy, PZU carried out activities aimed at improving the profitability of motor insurance for corporate customers (comprehensive and third-party motor insurance) using selective risk assessment among other things. As a consequence of systematic underwriting activities in that product class, technical results have already improved. Modifications were also made to selected provisions of the general terms and conditions of comprehensive motor insurance for corporate clients.
- As regards property insurance, the Company continued activities aimed at improving portfolio profitability and quality by reducing sale and tightening the underwriting criteria to match them 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.
- As regards insurance of entities conducting therapeutic activities, initiatives were launched to adjust the product offering to the new system of adjustment of loss resulting from medical events.

Products –bancassurance

In the first half of 2011, the Company developed cooperation with the existing partners, i.e. leading banks in the Polish market. In addition, cooperation in the insurance of telephones and laptop computers commenced with PTK Centertel Sp. z o.o.

Loss adjustment

A number of improvements were made to motor loss adjustment in order to lower the costs and improve the quality of loss adjustment (sealing the process). As regards comprehensive motor insurance, the average damages payment went up in spite of a decrease in the number of losses, mainly as a result of an increase in the number of payments of damages for theft-related losses. As regards third-party motor insurance, the average loss value went down as a result of a decrease in the average personal claims.

Property loss adjustment was determined by two elements: payment of damages for high loss (mainly for previous years) and contributions to the loss resulting from the floods that took place in May, June and August last year. The contributions to the last year's flood loss paid in the first half of 2011 were the result of the damages paid on big loss suffered by corporate clients (e.g. settlement of repair work) and contributions resulting from reconsideration of claims filed by the injured parties. Those payments were charged to previously recognised provisions.

Agricultural loss adjustment in the first half of 2011 was dominated by two types of risk occurring on a large scale: negative effects of the winter that occurred in March and April and freezing conditions in May. As a result, the losses suffered were higher than usual, which translated into a higher number of

payments for agricultural loss. PZU received over 11 thousand losses resulting from the longer period with winter conditions and over 10 thousand claims related to the freezing conditions. The total value of related payments and provisions were, respectively, PLN 74.6 million and PLN 91.5 million. Almost all of the claims were made under the compulsory subsidized crop insurance.

As regards accident insurance, it is worth noting that the Company introduced loss adjustment using a simplified method whereby the value of the damages paid is lower than in the traditional process of loss adjustment involving a medical board.

Notwithstanding the aforesaid, a number of improvements in the loss adjustment process were introduced in the first half of the 2011. These are:

- Streamlining of the process of mutual recognition of recourse claims in motor insurance and property insurance between PZU and other insurers;
- Development of the Loss Notification Platform ensuring full electronic communication with PZU's Repair Network using PZU's electronic IT system of loss adjustment;
- Changes to the adjustment of total loss and utilisation of PZU's Online Help auction platform used for eliciting offers for purchase of the remains of vehicles in total losses.
- Execution of agreements with a few contractors who will provide services in respect of expressing expert medical opinions for the purpose of loss adjustment under third party motor insurance and accident insurance – the new model of expressing medical opinions will shorten the waiting lists and improve the quality of service.

8.7 Activities of PZU Życie in the first half of 2011

In the first half of 2011, PZU Życie focused on the sale of products with a regular premium and initiatives aimed at maintaining the profitability of group contracts.

Products –group and individually continued insurance

- Effective from 1 April 2011, changes were made to the general terms and conditions of insurance that are included in the offer of PZU Życie SA. Modifications were made to group insurance coverage, investment insurance and individually continued insurance. The changes comprised comprehensive updates of provisions resulting from adapting agreement templates to the latest interpretations of legal provisions and regulations applicable on the market, as well as unification of a number of solutions in order to optimise the process of executing, performing insurance agreements and the running costs thereof.
- In the first half of 2011, the Polish Financial Supervision Authority registered 15 new employee pension schemes, including six in the form of premiums paid by the employer to PZU TFI investment funds. As regards programmes in the form of group life insurance with an insurance capital fund, at the request of the employer conducting the programme, the supervisory authority made a decision to change the existing manager to PZU Życie.

Products – individual insurance

- The key initiative carried out in the first half of 2011 in regard of individual products was introduction of a PZU Ochrona Rodziny (Family Protection) new coverage product. The product is dedicated to the existing clients who are parties to given insurance agreements. It provides comprehensive coverage to the insured and his family. Thanks to its package structure, the product offers customers flexibility in selecting an individual coverage scope to match their particular insurance needs;
- The sale of the Plan na Życie (Plan for Life) product, introduced at the beginning of 2010, remained at a high level. After the first six months of 2011, the number of policies in the portfolio was 13.4 thousand and the value of written premiums totalled PLN 19.4 million at the end of the first half of 2011. Plan na Życie is a multi-year product which requires regular premium payments, which supports development of a long-term portfolio with a high profitability;
- During the first half of 2011, PZU conducted three subsequent subscriptions for the Świat Zysków (World of Profit) structured insurance, which is very popular among customers looking for secure investment products offering a higher return than bank deposits. The “Świat Zysków” insurance is an alternative or additional product to other investment products. The gross written premiums for the first half of 2011 totalled PLN 38.9 million.

Products – health insurance

As a result of the activities carried out in the area of health insurance in the first half of 2011, the following initiatives were realised:

- introduction of PZU POMOC as a new provider of occupational medicine services and a coordinator of a chain of medical subcontractors based on the fee-for-service model. By the end of the first half of 2011, approximately 400 medical entities signed contracts under the PZU POMOC in the whole of Poland;
- preparation of a new outpatient product offer based on PZU POMOC. The offer mainly targets corporate clients who want to provide their employees with modern and customer-tailored health insurance products;
- comprehensive modification of general terms and conditions of health products;
- change in the commission system in health products aimed at stimulating the rate of sales of health products.

Products –bancassurance

- The sale of so-called unit-linked products, i.e. tied to investment funds, in particular the Prestige Investment Programme offered in cooperation with Bank Millennium SA (denominated in PLN and foreign currencies), remained at a high level, the same as the level of sales in the comparable period in 2010. At the same time, the Company continued development of a new unit-linked insurance that will be launched in Q3 2011;
- Two subscriptions were held for structured life insurance as a result of cooperation with Bank Handlowy SA. More subscriptions are planned for the second half of 2011. Talks have been held with other banks regarding commencement of cooperation with a view to offering structured programmes of PZU Życie SA;

- As regards insurance coverage, the Company continued cooperation with its existing partner banks in the first half of 2011. Since the mortgages market has been regaining stability, work is underway on development of an insurance offer related to mortgage products offered by banks.

Loss adjustment

In the first half of 2011, the number of claims under group insurances and individually continued insurances was merely 1.2 million and constituted a 7% increase year-on-year.

The highest growth in the number of claims was in respect of the flagship product – a P-type group life insurance, whose share in the total number of claims is over 60%. The increase in the number of claims led to an increase in total damages paid out, which went up by 12% compared with the first half of 2010. In addition, the sum of the damages paid out was impacted to a large extent by increasing the sums insured and executing new insurance agreements on increasingly better terms and conditions and with higher sums insured. Even though the total sum of damages paid out went up, the average payment of damages in the first half of 2011 was lower than during the comparable period in the previous year. The decrease in the average payment of damages is particularly visible in benefits paid out as a result of permanent health damage, where the average payment has been reduced by 14 % mainly as a result of implementation of simplified and in absentia loss adjustment procedures. Thanks to the launch of a new IT tool in the area of loss adjustment, the average time required to handle claims by the Front Office units is less than 10 minutes. The average damages payment time has been reduced as well - in the first half of 2011, the average loss adjustment time was reduced by 64% to 5.3 days. Substantial reduction in the average response time has been obtained in all claims groups, namely life, health and accident insurances. As regards events with the highest number of claims, namely the death of the insured/co-insured, a decision to pay out damages was made on average within only one day and as a result clients received their benefits within only three days. The reduction in the average loss adjustment time was possible thanks to a number of improvements made to the process of loss adjustment, such as the possibility of making claims by the Internet and telephone, electronic documentation flow, simplified and in absentia loss adjustment, which reduces instances when a customer has to visit a branch in order to provide information or documents in person.

In the first half of 2011, selected PZU Życie SA branches offered their clients on a trial basis a new “Autowypłata” form of payment of damages. This form provides an alternative to payments made by postal order and allows the clients collecting damages in a branch of a bank cooperating with PZU. All of Poland will soon be covered by the trial programme.

In addition, just as PZU SA, PZU Życie SA has signed agreements with a few contractors who will provide services in respect of expressing medical expert opinions for loss adjustment purposes. The new decision-making model is to provide clients with a wide access to physicians, shorten the waiting lists for medical check-ups and improve the quality of service.

8.8 Activities of PTE PZU in the first half of 2011

In the first half of 2011, PTE PZU launched an initiative aimed at making adjustments to the rules of remuneration in the distribution companies and sales network with relation to statutory changes to the amount of the premium paid to open pension funds (a decrease in the amount of premium paid to

open pension funds from 7.3% to 2.3%). The adjustments will result in an improvement in the profitability of new business and so will the new lower rates for management of the Fund's assets negotiated and implemented in that period under an annex to an agreement with the existing depository. Nevertheless, driven by the best interest of members of the Fund, the Management Board made a decision based on a tender to change the depository to OFE PZU "Złota Jesień". This decision, in combination with adherence to the existing standards and quality of service, will lead to a further decrease in the Fund's operating expenses, because the winning offer is financially attractive. An appropriate motion in this respect has been filed in with the Financial Supervision Authority.

An increase in acquisition costs of PTE PZU in the first quarter of 2011 was mainly the result of charging some of the accrued acquisition costs to expenses as a consequence of the statutory changes.

In addition, in the first half of 2011, the Company took actions in respect of adapting customer service and notification of members about their balances to the new possibilities resulting from the provisions of the act.

9. Other selected PZU Group companies – directions for development and performance

9.1 PZU Lietuva

In the first half of 2011, PZU Lietuva was ranked third on the property and casualty insurance market. The Company recorded a slight drop (0.3%) in the written premium compared with the same period in the previous year. At the same time, the market grew by 11.7% while PZU Lietuva's share dropped from 12.9% in the same period of the previous year to 11.5% in the current period. This was mainly due to the corporate portfolio restructuring, which is a result of a high number of claims under motor insurances. Also the share of the Company's key competitors from the TOP5 went down in favour of companies outside the Top Five. The growth on the insurance market mainly results from the sale of agricultural insurances subsidised from the state budget which are distributed via the chain of Vereinigte Hagelversicherung under an agreement with the Lithuanian government.

As a consequence of the restructuring and realisation of the objectives resulting from PZU Lietuva's strategy, the company is able to achieve profit..

9.2 PZU Ukraine

In Q1 2011, PZU Ukraine saw a significant increase in premium, which exceeded the growth observed on the market, and it extended its classic market share from 3.23% to 3.68%, making the company in the 11th biggest on the property and casualty insurance market in Ukraine.

In the first half of 2011, PZU Ukraine changed its accounting policy and focused on profitability instead of market share. For that purpose the company began efforts to increase the efficiency of its distribution channel, namely agents and retail points. Thanks to an increase in over-the-counter sale,

administrative expenses were reduced and administrative activities were delegated to the sales force. Segmentation of agents was implemented and a programme for agents' professional growth corresponding with the segmentation. The Company launched cooperation with big Ukrainian banks and car dealers regarding the sale of bank loan-insurance packages accompanying the sale of motorcars and in respect of bancassurance development.

In addition, the Company has undertaken other pro-profitability initiatives, such as headcount reduction and restructuring of the insurance portfolio.

9.3 TFI PZU

In the first half of 2011, TFI PZU's key achievements included:

- active acquisition of employee pension schemes (in the first half of 2011, six new schemes were registered and three are awaiting registration with the Financial Supervision Authority);
- establishment of the PZU FIO Parasolowy umbrella fund. The fund was established as a result of transforming nine open investment funds managed by TFI PZU into one open investment fund with sub-funds. The PZU FIO Parasolowy fund concentrates funds representing different investment strategies with different risk rates and investment horizons. The PZU FIO Parasolowy offers safe and stable growth sub-funds,

In the first half of the year, the total net assets of the investment funds managed by TFI PZU dropped by 0.6% and amounted to PLN 3,211.9 million, placing TFI PZU 14th among 35 investment funds associated in the Chamber Fund and Asset Management. TFI PZU remains the leader in the segment of Employee Pension Schemes among domestic investment funds with assets of PLN 1,357.6 million. For its high standards of service offered to the Employee Pension Scheme customers, in June 2011, the Foundation of Polish Promotion awarded TFI PZU's product was with the "Teraz Polska" emblem.

In April 2011, the PZU Energia Medycyna Ekologia (Energy Medicine Ecology) sub-fund was branded as "ODKRYCIE ROKU 2011" in the seventh edition of the Laur Konsumenta/Klienta competition. The title was awarded to the PZU Energia Medycyna Ekologia sub-fund for its innovative character, good prospects for the product's recognition by market and the high growth in its popularity.

9.4 PZU AM

In the first half of 2011, PZU AM provided services solely to the core companies in the PZU Group, i.e. PZU, PZU Życie and the TFI PZU and MPTE funds.

In addition, PZU AM carried out the following projects:

- development of the PZU Group's investment portfolio in the real property sector;
- cooperation with TFI PZU on development of new closed-end investment funds FIZ RE Income and FIZ RE Value Opportunity dedicated to PKP;
- management of model investment funds as part of the "Wielowalutowy Program Inwestycyjny" unit-linked product (in cooperation with PZU Życie);

9.5 PZU Pomoc

In the first half of 2011, PZU Pomoc's key initiatives were:

- sale launch of new types of PZU Pomoc cards comprising:
 - Pomoc w Drodze assistance, also valid throughout Europe;
 - Pomoc w Domu assistance;
- launch of the PZU Business Club loyalty program;
- launch of the PZU POMOC ONLINE auction platform for selling damaged property (total loss).

9.6 PZU CO

In the first half of 2011, PZU CO SA continued developing its operations through realisation of the following:

- key project initiatives, such as the Auction Platform for PZU Pomoc SA and the programme of collection of premiums for PZU Życie SA from the individually continued group life insurances;
- development of a hotline by means of rerouting of calls from local branches to No. 0 801 102 102 and launch of a service of placing orders for payment forms;
- optimisation activities regarding service processes and further restructuring of the existing resources.

In the first half of 2011, the key factor impacting the results of PZU was lowering Transfer Agent service rates for TFI PZU and PZU Życie by means of optimisation of service processes.

10. Key developments planned

The PZU Group's key objective is to maintain the leading position on the Polish market of insurance services and to earn an attractive return for shareholders. In addition, the Management Board intends to analyse potential scenarios of diversification of revenue sources by taking advantage of the business opportunities in Poland and expansion onto foreign markets. The PZU Group intends to reach the aforesaid goals by focusing on the following:

- Maintenance of the market share and simultaneous focus on the profitability of the core activities. The PZU Group develops its product portfolio, distribution channels and principles of measurement and acceptance of risk in order to achieve profitable growth on its key markets. The PZU Group diversifies its approach to different segments of the Polish insurance market depending on the market share and profitability of individual products;
- As regards group life insurances and individually continued insurances, the strategy of PZU's Management Board intends to gain new customers in particular in the SMB segment and increase the number of products sold to the existing customers;

- The PZU Group has launched many initiatives aiming to retain its market share; those initiatives target in particular the SMB sector, which potentially constitutes the fastest growing customer group regarding both group life insurance, as well as property and casualty insurance;
- PZU's plans also include further improvements in loss adjustment with a view to increase the effectiveness and further optimise processes, which should translate into an improvement in customer satisfaction and loss adjustment cost savings.

The Management Board assumes that the aforesaid goals can be achieved following implementation of a number of initiatives, including centralisation of processes in the areas where they have been dispersed until now, unification of Group-common functions, reduction of number of employees and investments in new technologies, especially those related to implementation of efficient customer service processes.

11. Risk management

11.1 Risk management policy

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

Risk management in the PZU Group 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 the PZU Group. In order to achieve the above objectives, the PZU Group's operations are carried out in compliance with a clearly defined risk policy and subject to risk limitations.
- Clear responsibility: the operations of the PZU Group 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 the PZU Group.
- Adaptation to change 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 the PZU Group.

PZU and PZU Życie manage their insurance risk using the following tools:

- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, monitoring of current estimates and assessment of premium adequacy;
- reinsurance.

11.2 Stress tests

To comply with the requirement imposed by the Polish Financial Supervision Authority on insurance companies, PZU and PZU Życie conducted stress tests relating to financial data as at 31 December 2010 in line with the guidelines of the Financial Supervision Authority and submitted their results by 31 July 2011. In addition, the PZU Group has undergone the European Stress Tests conducted in the insurance sector by EIOPA, whose results have been submitted to the Financial Supervision Authority. The stress tests have shown that PZU Group has sufficient capital to safely continue as a going concern if adverse events with considerable implications occur in their business environment.

ADDITIONAL INFORMATION

12. Shareholders of PZU

12.1 List of shareholders holding at least 5% in the total number of votes at the General Shareholders' Meeting

As at the date of this interim report, shareholders holding at least 5% in the total number of votes at the General Shareholders' Meeting are:

No.	Shareholder's name	Number of shares and votes	Percentage shares in the share capital and total number of votes at GSM
1	State Treasury	30 385 253	35.1875 %
2	ING Otwarty Fundusz Emerytalny	4 339 308	5.0251 %
3	Other shareholders	51 627 739	59.7874 %
Total		86 352 300	100.0000%

12.2 Changes in the ownership structure of the issuer's material block of shares

In the period from 1 January 2011 to the date of this interim report, a significant change took place in the ownership structure of material blocks of shares of PZU, whereby on 10 June 2011, the State Treasury disposed of 8,635,230 shares in PZU in block transactions constituting a 10.0000% share in the share capital and the same share in the total number of votes. Before the change took place, the State Treasury held 39,020,483 shares, which constituted a 45.1875% share in the share capital and the same share in the total number of votes. In addition, as a result of acquisition of shares in transactions conducted at the Stock Exchange, on 22 July 2011, ING Otwarty Fundusz Emerytalny managed by ING Powszechne Towarzystwo Emerytalne S.A. became the owner of PZU shares constituting over 5% of votes at the Company's General Shareholders' Meeting. Before the acquisition, PZU Fundusz held 4 309 423 shares, which constituted 4.9905% of the Company's share capital and the same share in the total number of votes. Since the change took place, PZU Fundusz has held 4 339 308 shares, which constituted 5.0251% of the share capital and the total number of votes.

12.3 Shares or rights to shares held by members of management or supervisory bodies of PZU

No.	Body / Name and surname	Number of shares / rights To shares as at the date of this interim report (i.e. 25 August 2011)	Number of shares / rights as at the date of the previous interim report (i.e. 12 May 2011)	Change between dates
Management Board				
1	Andrzej Klesyk	-	-	-
2	Witold Jaworski	-	-	-
3	Przemysław Dąbrowski	-	-	-
4	Tomasz Tarkowski	80	80	-
5	Marcin Halbersztadt /1	-	not applicable	-
6	Bogusław Skuza /3	500	not applicable	-
7	Ryszard Trepczyński /3	-	not applicable	-
Directors of the PZU Group				
1	Dariusz Krzewina	-	-	-
2	Rafał Grodzicki	-	-	-
Supervisory Board				
1	Marzena Piszczyk	-	-	-
2	Zbigniew Ćwiąkalski	-	-	-
3	Krzysztof Dresler	-	-	-
4	Waldemar Maj	30	30	-
5	Dariusz Filar	-	-	-
6	Zbigniew Derdziuk /2	-	not applicable	-
7	Dariusz Daniluk /2	-	not applicable	-
Total		610	110	

1/ Appointed to the Management Board on 15 May 2011.

2/ Appointed to the Supervisory Board on 30 June 2011.

3/ Appointed to the Management Board on 1 July 2011.

13. Other information

13.1 Changes in the composition of management and supervisory bodies of PZU

Management Board of PZU

Composition of the Management Board of PZU as at 31 December 2010:

- Andrzej Klesyk - Chairman of the Board;
- Witold Jaworski - Member of the Board;
- Przemysław Dąbrowski - Member of the Board.

On 27 June 2011, the three-year office term of the Management Board expires and therefore on 2 February 2011 the Supervisory Board resolved to open qualification procedure for the position of the Chairman of the Management Board and six Members of the Board for a new term. Selected

Management Board members would be in charge of the following tasks: retail business, corporate business, investments, finance, operations and loss adjustment and IT.

On 15 March 2011, Supervisory Board of PZU appointed Andrzej Klesyk to the new Management Board as the Chairman.

On 21 April 2011, the Supervisory Board of PZU made another decision concerning the composition of the new Management Board.

The Supervisory Board decided to appoint to the Management Board the following persons:

- Tomasz Tarkowski - as Member of the Management Board responsible for the supervision of loss adjustment (appointed also to the existing term as of 21 April 2011).
- Bogusław Skuza - as Member of the Management Board responsible for the supervision of the corporate business;
- Ryszard Trepczyński - as Member of the Management Board responsible for the supervision of investments;
- Marcin Halbersztadt - as Member of the Management Board responsible for the supervision of IT (appointed also to the existing term as of 15 May 2011).

The Board also extended the term for two Members of the Management Board:

- Przemysław Dąbrowski - responsible for the supervision of finance;
- Witold Jaworski - responsible for the supervision or retail business.

Pursuant to the decision of the Supervisory Board of PZU, Bogusław Skuza and Ryszard Trepczyński were appointed to the new Management Board as of 1 July 2011.

Following a General Shareholders' Meeting of 30 June 2011 which approved the separate and consolidated financial statements of PZU for 2010, the new term of the Management Board started on the day following the Meeting, i.e. on 1 July 2011. The term is shared and lasts three consecutive full financial years. The first full financial year is 2012. By the date of submission of these interim statements, the composition of the Management Board of PZU had not undergone any changes.

Supervisory Board of PZU

Composition of the Supervisory Board as at 31 December 2010:

- | | |
|----------------------------|--------------------------------|
| • Marzena Piszczek | Chairperson of the Board; |
| • Zbigniew Ćwiąkański | Vice-Chairperson of the Board; |
| • Grażyna Piotrowska-Oliwa | Secretary of the Board; |
| • Waldemar Maj | Member of the Board; |
| • Piotr Kamiński | Member of the Board; |
| • Krzysztof Dresler | Member of the Board; |
| • Dariusz Filar | Member of the Board. |

In accordance with the By-laws of PZU, the number of members of the Supervisory Board is specified by a resolution of the General Meeting of the Company. Members of the Supervisory Board are appointed for a shared term which lasts three consecutive full financial years. The Supervisory Board selects the Chairperson and Vice-Chairperson from among its members.

On 30 June 2011, the General Shareholders' Meeting of PZU adopted resolutions whereby the number of Members of the Supervisory Board of PZU was set at seven and such number of persons was appointed to the new Supervisory Board. The new Supervisory Board was formed on 30 June 2011 and comprised the following persons:

- | | |
|-----------------------|--------------------------------|
| • Marzena Piszczek | Chairperson of the Board; |
| • Zbigniew Ćwiąkalski | Vice-Chairperson of the Board; |
| • Krzysztof Dresler | Secretary of the Board; |
| • Waldemar Maj | Member of the Board; |
| • Dariusz Filar | Member of the Board; |
| • Zbigniew Derdziuk | Member of the Board; |
| • Dariusz Daniluk | Member of the Board. |

The first full financial year of the new Supervisory Board is 2012. By the date of submission of these interim statements, the composition of the Supervisory Board of PZU had not undergone any changes.

Directors of the PZU Group

Directors at the PZU Group as at 31 December 2010:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Dąbrowski;
- Mariusz Sarnowski;
- Krzysztof Branny.

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.

Tomasz Tarkowski ceased to act as the PZU Group Director on 21 April 2011 following his appointment to the Management Board.

On 7 July 2011 following resignation from the position of Vice-Chairman of the Management Board of PZU Życie filed on 20 June 2011, the Management Board of PZU dismissed Mariusz Sarnowski from the position of the PZU Group Director.

On 16 August 2011, Krzysztof Branny resigned from the positions of the Member of the Management Board of PZU Życie and Director of the PZU Group.

Directors at the PZU Group from 17 August 2011 to the date of submission of this interim report:

- Dariusz Krzewina;
- Rafał Grodzicki;

All the present Directors at the PZU Group are also members of PZU Życie Management Board.

13.2 Issues, redemption and repayment of debt and equity securities

In the first half of 2011, PZU did not issue, redeem or repay any debt or equity securities.

13.3 Credit facility/loan collateral or guarantees given by PZU or its subsidiaries

During the first half of 2011, neither PZU nor its subsidiaries gave credit facility/loan collateral or guarantees - to one entity or a subsidiary of such an entity - if the total value of the existing collateral or guarantees constituted the equivalent of at least 10% of the equity of PZU.

13.4 Proceedings before court, body competent to hear arbitration proceedings or a public authority body

The entities in the PZU Group are parties to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings are those held before the President of the Office of Competition and Consumer Protection (UOKiK), before the Polish Financial Supervision Authority and those related to own real property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for the PZU Group. Most disputes the PZU Group companies are parties to pertain to two companies: PZU and PZU Życie.

PZU and PZU Życie consider such claims when creating technical provisions for reported damages, considering the probability of an unfavourable decision of the court and estimating the value of probable settlement. Disputable claims regarding revaluation of annuities at PZU Życie are recognized in other technical provisions in the amount of annual annuity in excess of the corresponding provision amount as determined under mathematical provisions for life insurance purposes.

During the 6 months ended 30 June 2011 and by the date of submission of the interim statements, the PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public administration body concerning liabilities or receivables of PZU or an entity related directly or indirectly, with a unit value of at least 10% of the equity of PZU.

As at 30 June 2011 the total value of all 21,853 cases heard by courts, bodies competent to hear arbitration proceedings or public administration bodies involving the PZU Group companies was PLN 1,567.1 million. The amount includes PLN 1,142.7 million of liabilities and PLN 424.4 million of receivables of the PZU Group companies, which accounted for 10.21% and 3.79% of the equity of PZU calculated in line with PAS, respectively.

Dispute with CSC Computer Sciences Polska Sp. z o.o.

On 9 April 2010 the Court of Arbitration served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. ("CSC" which demanded payment of EUR 8.4 million with respect to implementation of the GraphTalk system at PZU Życie. Following further amendments in claim, CSC is demanding the total of PLN 36.8 million.

The amount sought by CSC includes the claims related to licence fees, implementation works, maintenance of the computer system, service works, fee for computer systems, liquidated damages and capitalized interest.

On 31 May 2010 in response to the statement of claim, PZU Życie requested that the Court of Arbitration rule that the court temporarily refuses jurisdiction for some claims and dismissed the entire claims. In the opinion of PZU Życie, the claims of CSC are either unfounded or have not been proven.

PZU Życie also filed a counter claim against CSC, demanding payment of PLN 71.9 thousand as a return of remuneration collected by CSC under the concluded contract or as damages for undue performance of obligations under the concluded contract. In response to the counter claim, on 31 August 2010, CSC requested that the claim of PZU Życie be dismissed in whole, indicating the absence of evidence to accept it.

Additionally, on 21 December 2010, PZU Życie placed a motion regarding amicable settlement related to the amount of PLN 123.3 million claimed from CSC as damages arising from non-diligent contractual performance and alternatively refund of the contractual fee paid to CSC in the amount of PLN 71.9 million. During the court proceedings on 8 February 2011 the parties failed to reach a settlement. The court discontinued the case for amicable settlement. The decision is valid.

Proceedings conducted by the Office of Competition and Consumer Protection against PZU Życie

On 1 June 2005, at the request of several petitioners, the President of UOKiK instituted antimonopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might breach the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the proceedings, the President of UOKiK imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie, the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant.

PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of UOKiK. on 31 May 2010 the Court issued a ruling whereby it dismissed the appeal of PZU Życie on the grounds that the decision of the President of UOKiK of 25 October 2007 was not correctly served on PZU Życie and thus the period available to PZU Życie to appeal against the decision did not start. The ruling has been appealed against by both parties. Having considered the appeals placed by

the plaintiff and the defendant, in a ruling of 26 October 2010, the court of second instance cancelled the disputed decision.

In a ruling of 17 February 2011, the District Court in Warsaw – Consumer and Competition Protection Court – partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision.

13.5 Related party transactions

In H1 2011, PZU or its subsidiaries did not conclude related party transactions, which individually or jointly would constitute a significant amount, on non-arms length terms.

13.6 Seasonal or cyclical business

Operations of the PZU Group are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in IAS 34.21.

13.7 Discontinued operations

In H1 2011 PZU Group entities subject to consolidation did not discontinue any activities.

ICH Center SA, a subsidiary excluded from consolidation, discontinued its statutory operations (i.e. Green Card loss adjustment services) effective from the beginning of 2011 .

13.8 Significant events after the end of the reporting period

- Transfer of PZU CO, TFI PZU and PZU AM from PZU Życie to PZU described in point 3.2.
- Changes in the composition of the Management Board of PZU and Directors of the PZU Group have been described in point 13.1.

13.9 Business Combination

In H1 2011, no business combinations occurred.

13.10 Appointment of a statutory auditor

On 13 May 2011 the Supervisory Board of PZU appointed Deloitte Audyt Sp. z o. o. z with the registered office in Warsaw, Al. Jana Pawła II 19, entered on the list of entities authorized to audit financial statements under no. 73 by the National Chamber of Statutory Auditors as the entity authorized to audit the financial statements of PZU, prepared in line with the Accounting Act and the consolidated financial statements of the PZU Group for 2011, prepared in line with the International Financial Reporting Standards.

13.11 Changes in the by-laws of PZU

On 1 June 2011, upon the request of the State Treasury, the Extraordinary Shareholders' Meeting of PZU adopted a resolution to change the By-Laws of PZU and passed all changes included in the request of the shareholder.

Changes in the By-laws were connected with:

- editorial changes: removal of transitory provisions related to the operations of PZU before and after listing on the regulated market to improve the transparency of the By-laws of PZU - deleted provisions which have become redundant as the conditions described in the provisions were fulfilled.
- restriction of the voting right of the shareholders following adoption of the rules of accumulation and reduction of votes.

The voting right of the shareholders was restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the General Meeting, with the reservation that for the needs of determination of the obligations of parties acquiring material blocks of shares provided for in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws 185 of 2005, item. 1539, as amended) and Act on insurance activity of 22 May 2003 (Journal of Laws of No. 11 of 2010, item 66, as amended, "Act on insurance activity") such voting restrictions will not apply. For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up.

The restrictions do not apply to the State Treasury and the shareholders co-operating with it based on agreements concerning joint voting rights attached to the shares. The voting restrictions expire when the interest of the State Treasury in the share capital of PZU will fall below 5%;

- appointment of the Supervisory Board.

Members of the Supervisory Board of PZU are appointed and dismissed by the General Meeting.

Until the interest of the State Treasury in the share capital of PZU is above 20%, half of the members of the Supervisory Board are appointed by the General Meeting from among the persons indicated by the State Treasury.

Once the right of the State Treasury expires, it is transferred to another shareholder representing the highest interest in the share capital of PZU, provided that its share will be at least 20% of the share capital.

Additionally, until the State Treasury remains the shareholder of the Company, it has the right to appoint and dismiss one member of the Supervisory Board by a written representation to the Management Board, in accordance with Article 354.1 of the Code of commercial companies (Journal of Laws No. 94 of 2000, item 1037, as amended). Such appointment and dismissal is effective upon the service of a relevant representation to the Management Board and does not require a resolution of the General Meeting.

On 6 June 2011, pursuant to Article 32.2.4 and 32.2.7 of the Act on insurance activity, PZU requested that the Polish Financial Supervision Authority approves the changes to the By-laws. On 28 June 2011, the Polish Financial Supervision Authority approved the changes.

In accordance with the current By-laws of PZU (version registered at the National Court Register on 9 September 2010), the consolidated text of the By-laws of PZU is determined by the Supervisory Board of PZU, which passed the consolidated text of the By-laws on 29 July 2011. Changes to the By-laws will come into force upon registration by the registry court. The By-laws registered on 9 September 2010 remain effective, until the court gives a ruling concerning the changes in data in the National Court Register.

The above changes to the By-laws resulted from the need to ensure a stable position of PZU. They ensure stability in the exercising of the voting rights attached to shares and this way prevent actions leading to speculative trade in the shares of PZU, especially those which could result in temporary investment decisions. The objective of the changes concerning the rules of appointment of the Supervisory Board is to ensure a long-term stability in the management of PZU and consistent fulfilment of the set goals.

The changes prevent an entry of a strategic investor into PZU.

13.12 Decrease in the share capitals of insurance companies in the PZU Group in Ukraine

On 10 March 2010, PZU Ukraine and on 21 April 2010, PrJSC IC PZU Ukraine Life Insurance received protocols concerning a breach of the licence requirements from the Ukrainian insurance supervision due to inappropriate level of net assets (pursuant to the regulatory requirements, the net assets of an insurance undertaking may not be lower than the share capital).

In view of the above, in 2010 the share capitals of the companies were increased. The second stage of the capital restructuring was redemption of treasury shares.

On 27 December 2010, Extraordinary Shareholders Meetings of PZU Ukraine and PZU Ukraine Life passed resolutions regarding redemption of:

- 29,207,233 shares at a price lower than the nominal price (UAH 10) i.e. UAH 7.19 per share;
- 167,989 shares at a price lower than the nominal price (UAH 100) i.e. UAH 21.43 per share.

On 18 January 2011, PZU concluded:

- with PZU Ukraine, an agreement on the sale of 29,207,233 shares at UAH 7.19 per share totalling to UAH 210,000 thousand (the equivalent of USD 26,448 thousand (PLN 75,380 thousand) was received on 31 January 2011);
- with PZU Ukraine Life, an agreement on the sale of 139,991 shares at UAH 21.43 per share totalling to UAH 3,000 thousand (the equivalent of USD 378 thousand (PLN 1,077 thousand) was received on 31 January 2011).

On 2 February 2011, based on the above agreements, PZU transferred ownership of the shares to acquirers.

The remaining 27,998 shares of PZU Ukraine Life designed for redemption were purchased from PZU Ukraine (pursuant to an agreement concluded on 18 January 2011). In this way, PZU did not lose the controlling interest in PZU Ukraine Life.

On 25 March 2011, Extraordinary Shareholders Meetings of PZU Ukraine and PZU Ukraine Life passed resolutions regarding redemption of shares and reduction of the share capital:

- PZU Ukraine - redemption of 29,207,233 shares of the face value of UAH 10.00 per share, of the total value of UAH 292,072 thousand and reduction of the share capital by such amount, from UAH 308,226 thousand to UAH 16,154 thousand;
- PZU Ukraine Life - redemption of 167,989 shares of the face value of UAH 100.00 per share, of the total value of UAH 16,799 thousand and reduction of the share capital by such amount, from UAH 33,000 thousand to UAH 16,201 thousand.

Changes to the by-laws of PZU Ukraine and PZU Ukraine Life resulting from the reduction of the share capitals were registered on 28 March 2011 and the entire process of capital reduction was completed on 28 April 2011 with a certificate of shares issue registration by the State Commission for Securities and Stock Market.

On 22 June 2011, having analysed the financial statements of PZU Ukraine as at 31 December 2010, Ukrainian Insurance Supervisory Authority found it in breach of the license requirement (according to which the net assets of an insurance company cannot be lower than its share capital) and ordered PZU Ukraine to eliminate the breach by 30 September 2011. The share capital reduction as described above resulted in elimination of the breach in April 2011.

Capital shortage at PZU Ukraine Life

Due to a reduction of the share capital of PZU Ukraine Life and then a significant increase in the EUR/UAH exchange rate, the company ceased to meet the minimum share capital requirement, which the Ukrainian insurance act sets at EUR 1,500 thousand (in accordance with the EUR/UAH exchange rate as at 31 March 2011 it was UAH 16,823 thousand which meant a capital shortage by UAH 622 thousand as at that date).

On 18 April 2011, the Supervisory Board of PZU Ukraine and PZU Ukraine Life were presented a plan for mutual capital injection of approx. UAH 8,000 thousand, i.e. the shares of PZU Ukraine Life will be assumed by PZU Ukraine and vice versa. Thanks to the transactions the licence requirements will be met without additional funds of PZU.

On 30 June 2011, based on recommendations of the Supervisory Boards, Extraordinary Shareholders Meetings of PZU Ukraine and PZU Ukraine Life, passed resolutions to:

- increase the share capital of PZU Ukraine Life by UAH 2,500 thousand and equity by UAH 7,872 thousand through an issue of 25,000 shares with the face value of UAH 100 per share and the issue price of UAH 314.88 per share,
- increase the share capital of PZU Ukraine by UAH 1,800 thousand and equity by UAH 7,517 thousand through an issue of 180,000 shares with the face value of UAH 10 per share and the issue price of UAH 41.76 per share.

It is planned that the changes to the by-laws of PZU Ukraine and PZU Ukraine Life resulting from the increase in the share capital will be registered by the end of Q3 2011 and the certificates of the State Commission for Securities and Stock Market will be issued at the beginning of Q4 2011.

13.13 Price of PZU's shares

In H1 2011, the price of PZU shares increased by 5.5% in relation to the closing prices of the last WSE quotation of 2010. In the same period, WIG20 increased by 2.1%.

By mid-March 2011, the price of PZU shares was in the sideways trend stage ranging from PLN 340 to PLN 360. In late March, the price entered a growing trend, which lasted until 25 May 2011, and reached its maximum of PLN 396.80. At the last session of the reporting period, the price was PLN 375. The lowest closing price of PZU shares in the reporting period was PLN 337.50, with the highest of PLN 396.80. The average daily turnover of PZU shares in H1 2011 amounted to 265,181 shares with the highest daily turnover of 1,659,172 shares observed on 9 June 2011.

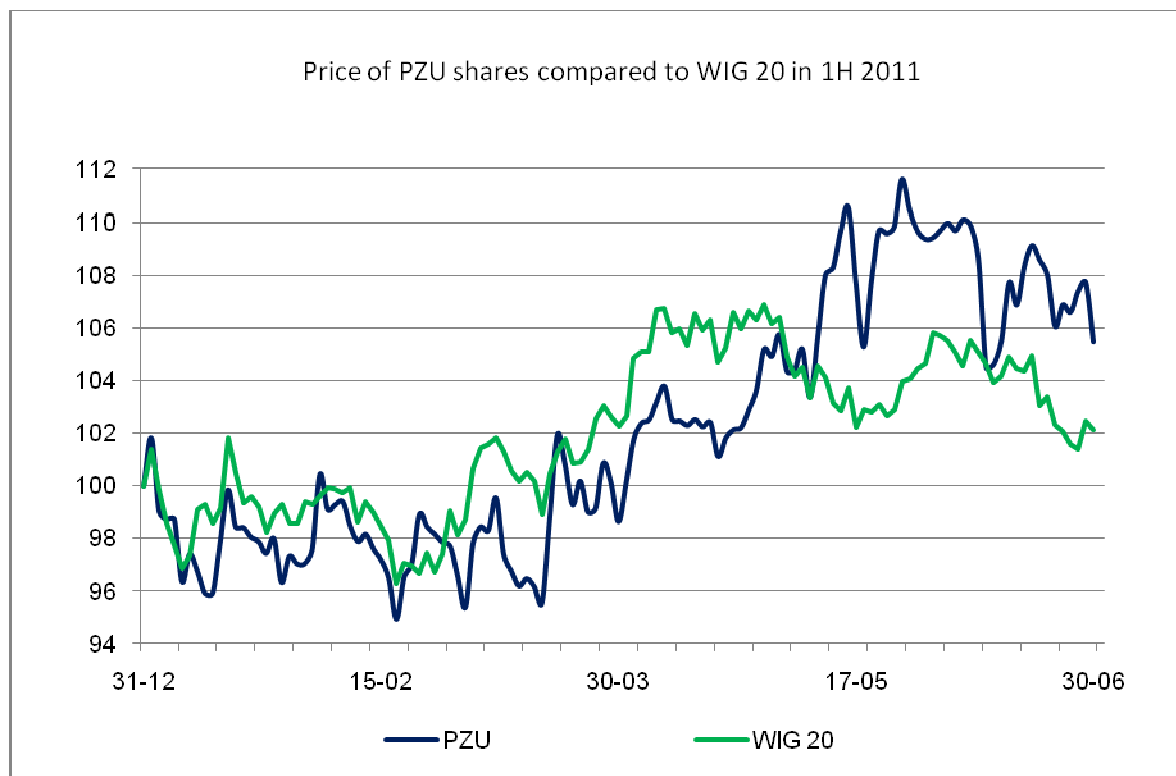
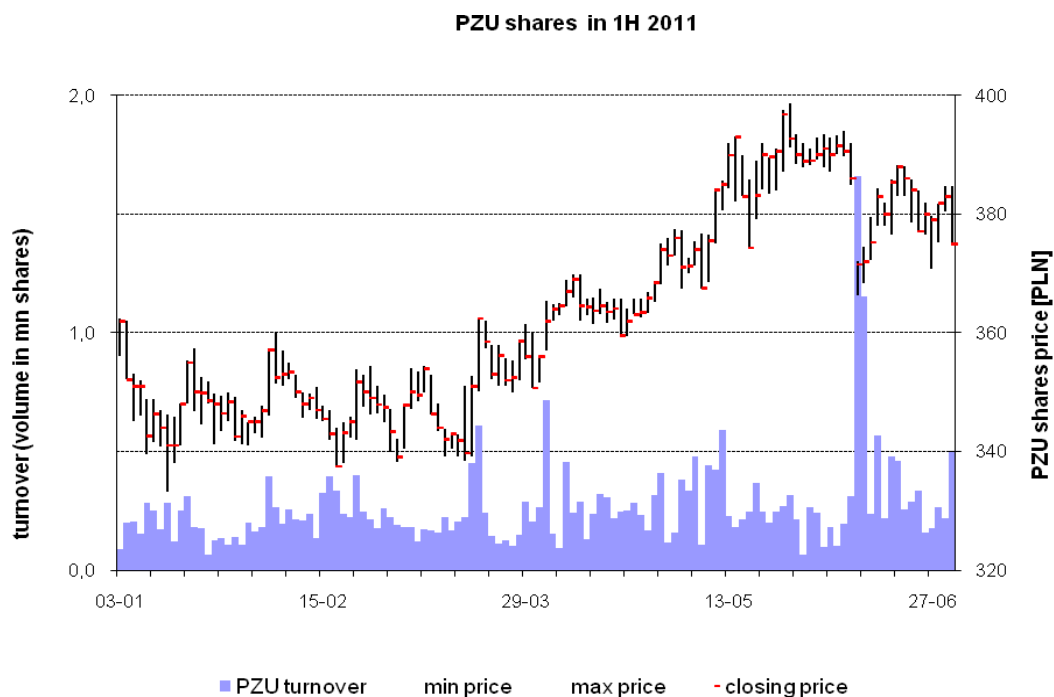
Changes in prices of PZU shares in the reporting period were attributable to market trends, as well as other factors, including possible offering made by State Treasury, potential changes in the Management Board of PZU, or information regarding possibility to increase dividend paid over 25-45% of the consolidated net profit as per International Financial Reporting Standards (IFRS).

On 15 March 2011, Supervisory Board of PZU appointed Andrzej Klesyk to the new Management Board as the Chairman. On 21 April 2011, the Supervisory Board of PZU appointed two members of the old Management Board for the next office term: Przemysław Dąbrowski and Witold Jaworski. Other new Management Board members included Marcin Halbersztadt, Bogusław Skuza, Tomasz Tarkowski and Ryszard Trepczyński.

On 11 May 2011, the Management Board of PZU passed a resolution regarding the dividend policy of the Company, which assumes in particular that the amount of dividend paid by PZU shall range from 50% to 100% of the consolidated net profit as per IFRS.

On 10 June 2011, the State Treasury sold 8,635,230 shares in PZU (10% of the share capital). The transaction had the form of accelerated book building with the price of PLN 367 per share.

On 30 June 2011, the Management Board of PZU presented the General Shareholders Meeting with information regarding capital and dividend policy. The GSM decided to distribute the profit of PZU for the financial year ended 31 December 2010: the amount of PLN 2,245,159,800.00, accounting for 92.04% of consolidated net profit as per IFRS, was assigned to dividend payment, denoting gross dividend of PLN 26.00 per share. The record date has been determined as 30 September 2011. The dividend payment date was determined at 21 October 2011.



* the price of PZU shares and WIG 20 level as at 31 December 2010 = 100

Key data concerning the price of the Company's shares in GPW w Warszawie S.A. (WSE)

	unit	01/01/2011-30/06/2011
Number of shares	item	86 352 300
Closing price on the last trading day in the reporting period	PLN	375.00
Closing balance of market value of the Company	PLN	32 382 112 500
Highest closing price in the reporting period	PLN	396.80
Lowest closing price in the reporting period	PLN	337.50
Average trading volume per session	item	265 181

Capital market indicators

Capital market indicators as of 30 June 2011	Indicator value
P / BV (C / WK) <i>Market price/book value</i>	2.65
BVPS <i>Book value per share</i>	141.64
P / E (C / Z) <i>Price/Earnings per share</i>	20.86
EPS (PLN) <i>Net profit (loss)/number of shares</i>	17.98
DY (%) <i>Dividend yield (%)= dividend per one share/share price</i>	6.93%
DPS (PLN) <i>Dividend per share</i>	26.0

13.14 Dividend

As regards the profit for 2010 and the preceding years, only the profit disclosed in the separate financial statements of the parent company, drawn up in accordance with the Polish Accounting Standards (PSR), is subject to distribution.

On 11 May 2011, the Management Board of PZU adopted resolution concerning the dividend policy of PZU. The assumptions include:

- the basis for the dividend paid by PZU for a given financial year will be the consolidated profit/loss of the PZU Group in accordance with IFRS;
- dividend amount:

- cannot be lower than 50% and higher than 100% of the consolidated net profit disclosed in the consolidated financial statements prepared in line with IFRS;
 - cannot be higher than the separate net profit of PZU disclosed in the separate financial statements prepared in line with PAS;
 - cannot lead to a reduction of the equity of PZU below the amount corresponding to 250% of the solvency margin;
 - cannot lead to a reduction in the financial strength of the PZU Group below the level corresponding to the AA rating of Standard & Poor's;
 - should consider additional capital needs of PZU in the twelve months following approval of the consolidated financial statements of the PZU Group for a given year by the Management Board of PZU.
- the equity and the solvency margin are calculated in line with the prudential standards established for the Polish insurance market.

Also on 11 March 2011, the Management Board of PZU adopted a resolution concerning the proposed distribution of net profit for 2010 of PLN 3,516.7million:

- PLN 2,245.2 million for dividend for shareholders;
- PLN 1,271.5 million to supplementary capital.

On 30 June 2011 the General Shareholders' Meeting of PZU adopted a resolution concerning distribution of net profit for 2010 compliant with the above suggestion assuming payment of dividend of PLN 26.00 per share and specifying the record date at 30 September 2011 and the day of payment at 21 October 2011.

REPRESENTATIONS of the MANAGEMENT BOARD of PZU

14. Correctness and reliability of presented financial statements

According to the best knowledge of the Management Board of PZU:

- the interim consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group for the six months ended 30 June 2011 and comparative data;
- the interim separate financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the six months ended 30 June 2011 and comparative data (as per PAS);

were prepared in accordance with the effective accounting principles and provide a true, fair and clear picture of the economic and financial standing of the PZU Group and PZU, respectively, and their financial performance.

The Management Board of PZU states that the report on the activities of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group presents a true picture of the development and achievements of the PZU Group, including a description of basic threats and risk.

15. Selection of the entity authorized to audit financial statements

The Management Board of PZU states that the entity authorized to audit financial statements, Deloitte Audyt Sp. z o. o., which has reviewed:

- the interim consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group for the six months ended 30 June 2011 (as per IFRS);
- the interim separate financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the six months ended 30 June 2011 (as per PAS);

was appointed in accordance with the law.

The appointed entity and certified auditors carrying out the review have fulfilled the conditions necessary to issue unbiased and independent review reports in accordance with valid legal regulations and professional standards.

Date	Name and surname	Position/Function	
24 August 2011	Andrzej Klesyk	Chairman of the Management Board of PZU	(-) (signature)
24 August 2011	Witold Jaworski	Member of the Management Board of PZU	(-) (signature)
24 August 2011	Przemysław Dąbrowski	Member of the Management Board of PZU	(-) (signature)
24 August 2011	Tomasz Tarkowski	Member of the Management Board of PZU	(-) (signature)
24 August 2011	Marcin Halbersztadt	Member of the Management Board of PZU	(-) (signature)
24 August 2011	Bogusław Skuza	Member of the Management Board of PZU	(-) (signature)
24 August 2011	Ryszard Trepczyński	Member of the Management Board of PZU	(-) (signature)

The above Report on the Activities of the Capital Group of PZU SA is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.