PZU

PZU

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INTRODUCTION

1. Summary of consolidated financial results

In the first half of 2012, according to International Financial Reporting Standards ("IFRS"), compared with the previous year, the financial results of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("PZU Group") were shaped mainly by:

- an increase in written premium in both segments of insurance activities – life and non-life (totaling approx. +7.5%);
- improved profitability in motor insurance and other property insurance, excluding contractual quarantees (the result of the deteriorating condition of companies in the construction industry);
- a higher level of administrative expenses as a result the project for optimizing service processes and building a positive image of the PZU Group (+8.5%);
- an increase in investment income resulting specifically from the higher prices of debt instruments and introducing a new investment strategy, the effect of which was an increase in returns with a significant reduction in the volatility of investing activity results (+41.2%);
- a one-off increase in the net result in 2011 due to consolidating the Armatura Group, in the amount of PLN 118,916 thousand.

These factors had an impact on the increase in the PZU Group financial result of 10.6% to PLN 1,716,449 thousand in the first half of 2012 compared with the first half of 2011. At the same time, ROE[1] for the first half of 2012 amounted to 26.8% and increased by 2.0 p.p. compared to the same period for the prior year.

2. Macroeconomic environment in the first half of 2012

2.1. Basic trends in the economy and rate of economic growth

In the first quarter of 2012, the rate of growth of GDP slowed down to 3.5% y/y compared with 4.3% y/y in the last quarter of 2011. Domestic demand was the main factor of economic growth during the period, although the dynamics dropped to 2.7% y/y compared with 3.2% y/y in the 4th quarter of 2011. The impact of foreign trade balances on the GDP growth decreased to 0.7 percentage points in the 1st quarter of 2012 compared with 1.0 pp. in the previous quarter. This resulted from the faster pace of growth of exports than imports.

Due to the maintained level of unemployment, and poor disposable income dynamics, the pace of growth of individual consumption remained at the same level as in the 4th quarter of 2011 and amounted to 2.1% y/y. However, general consumption dynamics dropped somewhat in the 1st quarter of 1012 as a result of the fast increase in the public consumption growth rate.

In the 1st quarter of 2012, the dynamics of gross expenditure on fixed assets dropped to 6.7% y/y compared with 9.7% y/y in the previous quarter. This was due to the lower rate of growth of public expenditure on infrastructure projects, which was not offset by an increase in the dynamics of capital expenditure in large- and medium-sized enterprises and in households. At the same time, in the 1st quarter of 2012 inventories grew significantly which led to an increase in GDP during the period.

In terms of production, mainly the weaker added value dynamics in the industry (3.4% y/y compared with 6.6% y/y in the 4th quarter of 2011) contributed to the slowing of economic growth, while in the construction industry and in market services the annual growth rate of added value was higher compared with the previous quarter.

[1] ROE – annualized ratio calculated as the ratio of the net profit/(loss) to the average value of equity as at the end and beginning of the reporting period

In the first half of 2012, economic growth gradually slowed down. Based on the monthly data on business activity, we can draw the conclusion that the rate of growth of GDP in the 2nd quarter of 2012 will probably drop even further - even below 3.0% y/y. In the 2nd quarter of current year, the downward trend of production dynamics in the industry and construction sector continued. The pace of growth of retail sales also dropped. Market research also signals there will be a slowing down of the economy.

2.2. Capital market

The continuing complicated position of the Euro Area resulting from the debt crisis had a significant impact on conditions on the Polish capital market in the first half of 2012. After favourable stock market conditions in January 2012, the trend dropped for several months and ended in a rebound in June. Ultimately, over the first half of 2012 the WIG index increased by 8.6%, and the WIG20 index by 6.1%.

The first half of 2012 was favourable for Polish bond prices, which kept growing, although the market sometimes corrected the prices downwards. In consequence, the Polish profitability curve was significantly flattened. Profitability of 10-year bonds dropped the most (5.15% as at the end of June 2012 compared with 5.91% as at the end of 2011). In this period, interest on 5-year bonds dropped by 62 basis points to 4.73%, and on 2-year bonds by 20 basis points, to 4.67%. It should be emphasized that Polish government bond prices grew despite the high risk aversion and the increase in the NBP reference rate of 25 basis points in May 2012. The relatively high prices of Polish bonds were the result, among other things, of investors' searching for relatively safe assets, such as Treasury bonds, and Poland's economic perspectives – the relatively good fiscal position of the country, low supply of bonds and the anticipated start of a cycle of less stringent monetary policy during the year.

2.3. Monetary policy, interest rates, inflation

The annual CPI ratio (inflation) in the first half of 2012[2] was lower than in the second half of 2011 (by 4.0% y/y compared with 4.3% y/y respectively). The strengthening of the Polish zloty in January and February 2012, and the dying down of the impact of increased VAT rates from 2011, among other things, contributed to the drop in annual inflation in the first half of 2012. In May and June, the drop in global oil prices started to translate into lower domestic fuel prices. However, the relatively high increase in administered prices contributed to maintaining the inflation rate above the top level of acceptable fluctuations in respect of the Monetary Policy Council's ("RPP") inflation target for the first half of 2012. The irregular increase in the annual CPI ratio in June 2012 resulted mainly from the increase in food prices, which is not typical for this month (mainly fruit and meat) compared with the large drop in June 2011.

Demand factors had no impact on the maintained increased annual inflation rate in the first half of 2012. Individual consumption dynamics were maintained at a relatively low level in the period, given the low dynamics of real income per household, the unfavourable conditions on the labour market and gradual extinguishing of consumer loans. The net inflation rate (CPI net of food and energy prices) dropped to an average of 2.5% y/y in the 1st half of 2012, compared with 2.8% y/y in the second half of 2011.

Due to the maintained high inflation rate and the rather optimistic assessment of economic growth perspectives in Poland, in May 2012 the RPP increased interest rates by 25 basis points. The reference rate was thus increased to 4.75%.

2.4. Labour market and consumption

In the first half of 2012, conditions on the labour market gradually deteriorated. According to BAEL, employment dynamics dropped to 0.7% y/y in the 1st quarter 2012 compared with 0.8% y/y in the 4th quarter of 2011. According to BAEL statistics, unemployment in the period was at 10.5% compared with 10.0% in the 1st quarter of 2011, which was accompanied by an increase in the number of occupationally active people. The unfavourable trend is reflected in the data on employment in enterprises and in the data on registered unemployed. In the first

[2] Arithmetical average of the annual CPI for monthly readings

half of 2012 the annual rate of increase in employment in enterprises dropped visibly. Between February and June, employment in the enterprise sector dropped by 18.2 thousand people. The firms' prudent employment policies results from the uncertainty as to their future economic position. In June 2012 registered unemployment was higher than in the prior year (12.4% compared to 11.9%).

In these conditions, the growth rate of remuneration also dropped. Due to maintained increased inflation, this limited the dynamics of real income from labour. The dynamics of average monthly gross remuneration in the enterprise sector in the first half of 2012 amounted to 4.6% y/y (0.5% y/y in real terms) compared with 5.0% y/y (0.6% y/y in real terms) in the second half of 2011. At the same time, in the 2nd quarter of 2012, remuneration dynamics in the enterprise sector slowed significantly (3.8% y/y on a monthly average basis) and was a little lower than the respective inflation dynamics.

In view of the unfavourable employment trends and the drop in dynamics of real remuneration, the real dynamics of income from labour dropped significantly in the first half of 2012. The real payroll dynamics in the enterprise sector amounted to 1.0% y/y on a monthly average during the period, compared with 3.2% y/y in the second half of 2011.

In these conditions, maintaining the consumption dynamics from the first quarter of 2012 (2.1% y/y) may be difficult, especially in view of the slowing dynamics of consumer loans.

2.5. Foreign exchange rates

In the first half of 2012, the PLN exchange rate was highly volatile and amounted to approx. 50 grosz in respect of foreign currencies (euro, US dollar). The strengthening trend of the Polish currency observed in the 1st quarter of 2012 was reversed in April, and the PLN continued weakening in May. On the other hand, in June the value of the PLN increased and, finally, in the whole of the first half of 2012, strengthened compared with the euro, US dollar and the Swiss franc. Polish currency gained most against the euro (3.5%) and the franc (2.4%). The value of the US dollar expressed in PLN dropped by 0.8%.

2.6. Impact of macroeconomic factors on the insurance sector

The gradual slowing of economic growth in the first half of 2012 could have a negative impact on the position of the insurance sector.

Deteriorating income conditions of households did not contribute to an increase in demand for insurance products. The financial position of enterprises remained rather favourable in the 1st quarter of 2012, and was accompanied by a small increase in investment activity. Moreover, the deteriorating position of the construction sector (payment backlogs) had an impact on the insurers' results.

Despite the deteriorating macroeconomic conditions, as a result of an increase in tariffs, the insurance sector noted an increase in gross written premium.

3. Market shares of PZU, PZU Życie and PTE PZU (according to PAS)

Gross written premium in the whole of the Polish insurance sector according to Polish Accounting Standards ("PAS") as at the end of March 2012[3] amounted to PLN 16,471 million, which indicates an increase of 17.4% (+PLN 2,447 million) compared with the prior year.

3.1. Property and other personal (non-life) insurance

Premiums in non-life insurance for the 1st quarter of 2012 increased by 10.5% to PLN 7,046 million compared with the first quarter of the previous year.

[3] Most current data published by the Polish Financial Supervision Authority ("PFSA") as at the time of preparing the Directors' Report of the PZU Group

The increase related specifically to motor third-party liability insurance (an increase in the tariff) and other liability insurance (statutory class 13).

The share of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", the "Issuer") measured by gross written premium on the Polish non-life insurance market was 34.6% as at the end of March 2012. PZU remains the leader on the Polish insurance market, specifically in the motor insurance sector.

Table 1. Non-life insurance market – gross written premium

PLN million

Property insurance market – gross written premium	1 January - 31 March 2012			1 January - 31 March 2011		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
Comprehensive motor insurance (AC)	567	1 479	912	582	1 413	831
Motor third-party liability insurance	742	2 254	1 512	679	2 005	1 326
Other products	1 132	3 313	2 181	996	2 959	1 963
TOTAL	**2 441**	**7 046**	**4 605**	**2 257**	**6 377**	**4 120**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, PZU data

Table 2. Non-life insurance market – analysis of gross written premium

Structure of written premium	1 January - 31 March 2012			1 January - 31 March 2011		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
Comprehensive motor insurance (AC)	23.2%	21.0%	19.8%	25.8%	22.2%	20.2%
Motor third-party liability insurance	30.4%	32.0%	32.8%	30.1%	31.4%	32.2%
Other products	46.4%	47.0%	47.4%	44.1%	46.4%	47.6%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, PZU data

Table 3. Non-life insurance market – PZU share in market premium

PZU SA share in market premium (in %)	1 January - 31 March 2012	1 January - 31 March 2011
Comprehensive motor insurance (AC)	38.3%	41.2%
Motor third-party liability insurance	32.9%	33.9%
Other products	34.2%	33.7%
TOTAL	**34.6%**	**35.4%**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, PZU data

The main reason for the drop in PZU's market share in the property insurance market is its pursuit of the corporate insurance portfolio restructuring program, mainly in the area of motor insurance, which is aimed at lowering the loss ratio. Under this program a restrictive underwriting policy is pursued in respect of areas of operation with increased risk, where the key focus is on the security of the portfolio held and earning a technical profit.

Table 4. Non-life insurance market – technical result

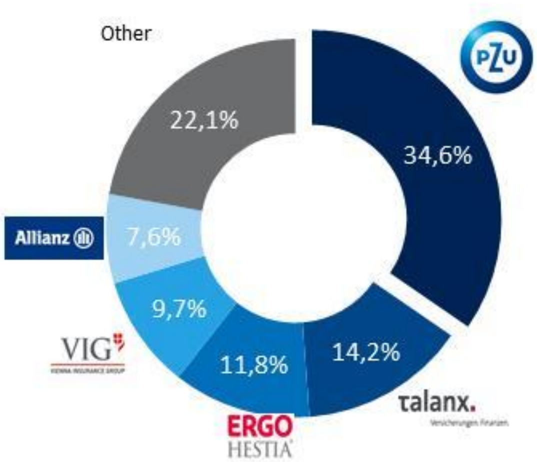
PLN million

Technical result	1 January - 31 March 2012			1 January - 31 March 2011		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
Comprehensive motor insurance (AC)	73	121	48	44	19	(25)
Motor third-party liability insurance	78	33	(45)	79	(35)	(114)
Other products	23	63	40	70	150	80
TOTAL	**174**	**217**	**43**	**193**	**134**	**(59)**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, PZU data

Due to the increase in tariffs and restructuring of the quality of the motor insurance portfolio (specifically in the corporate client segment), PZU maintained very good technical results compared with other companies on the market. This was especially noticeable in motor third-party liability insurance.

Diagram 1: Share of the largest non-life insurance companies in the market in Poland[4]



Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012

3.2. Life insurance

In the 1st quarter of 2012, gross written premium increased by +23.3% y/y, whereas in the 1st quarter of 2011 it dropped by 0.6% y/y. The development of one-off group insurance products, mainly "endowment insurance with single premium" ("poliso-lokaty") was decisive for the growth in the life insurance market in the 1st quarter of 2012. At the same time, the market noted an increase in regular premium dynamics – 4.6% y/y in the 1st quarter of 2012 compared with 4.2% y/y in the 1st quarter of 2011, mainly as a result of high unit-linked group insurance premium dynamics underwritten by Open Life TU ŻYCIE S.A.

Table 5. Life insurance market – gross written premium

PLN million

Life insurance market – gross written premium	1 January - 31 March 2012			1 January - 31 March 2011		
	PZU ŻYCIE	Market	Market without PZU Życie	PZU ŻYCIE	Market	Market without PZU Życie
Periodic premium	1 679	3 970	2 291	1 626	3 797	2 171
Single premium	1 152	5 455	4 303	419	3 850	3 431
TOTAL	**2 831**	**9 425**	**6 594**	**2 045**	**7 647**	**5 602**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, Rynek ubezpieczeń 1/2011

[4] The companies include the following Groups: Allianz Polska – ALLIANZ POLSKA S.A., EULER HERMES S.A.; Grupa Ergo Hestia – ERGO HESTIA S.A., MTU Moje Towarzystwo Ubezpieczeń S.A; Grupa Talanx w Polsce - WARTA S.A., EUROPA SA and HDI ASEKURACJA TU S.A; VIG Polska - COMPENSA TU S.A. VIG, INTERRISK TU S.A VIG., PZM TU SA VIG (merged with INTERRISK TU S.A VIG on 31 July 2012), BENEFIA TU S.A. VIG.

Table 6. Life insurance market –PZU Życie's share in the market premium

PLN million

Life insurance market – share of PZU Życie	1 January - 31 March 2012	1 January - 31 March 2011
Periodic premium	42.3%	45.5%
Single premium	21.1%	10.4%
TOTAL	**30.0%**	**26.9%**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, Rynek ubezpieczeń 1/2011

Table 7. Life insurance market – gross written premium and technical result

PLN million

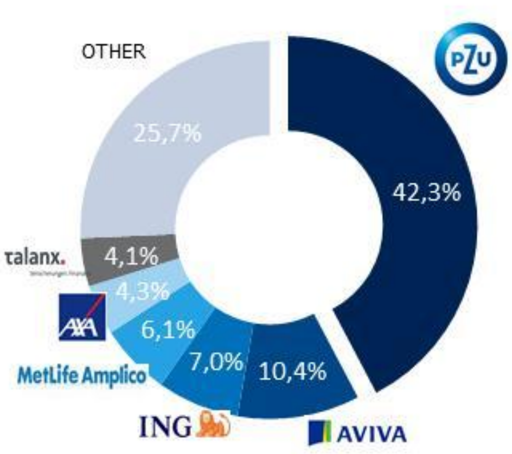
Life insurance market – gross written premium vs. technical result	1 January - 31 March 2012			1 January - 31 March 2011		
	PZU ŻYCIE	Market	Market without PZU Życie	PZU ŻYCIE	Market	Market without PZU Życie
Written premium	**2 831**	**9 425**	**6 594**	**2 045**	**7 647**	**5 602**
Technical result	**483**	**844**	**361**	**480**	**817**	**337**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012, Rynek ubezpieczeń 1/2011, PZU data

In the first quarter of 2012, the market share of Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie") increased to 30.0% (+3.1 p.p. compared with the first quarter of the prior year). The dominant share in the company's key segment of regular premium was maintained and amounts to 42.3%. Thanks to cooperation with PKO BP SA and Millennium SA banks, the share of PZU Życie in the single premium segment increased (by 10.7 p.p. to 21.1%).

The technical result of PZU Życie constitutes the majority of the results earned by all life insurance companies. It should be emphasized that PZU Życie's technical profit margin on written premium still exceeds the margin earned by the total of all other companies offering life insurance by more than threefold (17.1% vs. 5.5%).

Diagram 2: Share of the largest non-life insurance companies in the market in Poland[5]



Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2012

3.3. Pension insurance

Table 8. Position of OFE PZU (open pension fund) on the pension market in Poland

Market for pension insurance	30 June 2012			30 June 2011		
	OFE PZU	OFE market	OFE market without PZU	OFE PZU	OFE market	OFE market without PZU
Number of fund members	2 220 691	15 735 064	13 514 373	2 200 712	15 279 980	13 079 268
Net managed assets in PLN million	32 517	241 069	208 552	32 436	236 802	204 366

Source: KNF (www.knf.gov.pl). Monthly Bulletin. Rynek emerytalny 6/2012, Rynek emerytalny 6/2011

Table 9. Share of OFE PZU (open pension fund) in the pension market in Poland

Share of OFE PZU "Złota Jesień" in the market (in %)	30 June 2012	30 June 2011
Number of fund members	14.1%	14.4%
Net managed assets	13.5%	13.7%

Source: KNF (www.knf.gov.pl). Monthly Bulletin. Rynek emerytalny 6/2012, Rynek emerytalny 6/2011

As at the end of June 2012, Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("OFE PZU") had approx.. 2,221 thousand members which is 14.1% of the total number of open pension fund ("OFE") members and which puts OFE PZU third on the market. Compared with the balance as at the end of June of the prior year, the number of OFE PZU members increased by 20.0 thousand people, i.e. 0.9%.

As of 1 January 2012, there is a ban on any acquisition activities in respect of OFE, therefore, a sudden drop was noted in the number of members acquired by the funds.

As at the end of June 2012, the total value of net assets in all OFE amounted to PLN 241,068.7 million and increased by 1.8% compared with the end of 2011. OFE PZU assets increased by 0.2% during the period, to PLN 32,517.0 million, which placed OFE PZU third among all OFEs operating on the market in terms of the asset level.

[5] The companies include the following Groups: Aviva Polska - AVIVA TUnŻ S.A., BZ WBK - AVIVA TUnŻ S.A.; MetLife Amplico Polska - METLIFE TU na ŻYCIE S.A., AMPLICO LIFE S.A.; Grupa Talanx w Polsce –TunŻ Warta S.A., TUnŻ EUROPA SA, HDI-GERLING ŻYCIE TU S.A.

4. Description of the organization of the PZU Group

4.1. Organization of the PZU Group

The PZU Group engages in various insurance services. PZU Group entities offer services in the area of life insurance, other personal and property insurance, and manage client assets under an open pension fund and investment funds.

In the period from 1 January to 30 June 2012 no significant changes took place in the operations of the key PZU Group entities.

Table 10. PZU Group companies

No.	Name of entity	Registered office	Date of taking up control /signif-icant influence	% of share capital held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business
				30 June 2012	31 Dec. 2011	30 June 2012	31 Dec. 2011	
Entities covered by consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	N/A	N/A	N/A	N/A	N/A	Property and other personal (non-life) insurance
2	Powszechny Zakład Ubezpieczeń na Życie S.A. ("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%	Managing pension funds
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. ("Tower Inwestycje")	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other services.
6	PrJSC IC PZU Ukraine ("PZU Ukraine")	Kiev, the 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%	Purchasing, using, leasing and selling properties
9	Armatura Kraków SA	Kraków	07.10.1999	63.83%	63.83%	63.83%	63.83%	Manufacture of bathroom and kitchen faucets.
10	Armatoora SA	Nisko	10.12.2008	63.83%	63.83%	63.83%	63.83%	Manufacture of heaters and aluminium casts.
11	Armatoora SA i wspólnicy sp. k.	Kraków	10.02.2009	63.83%	63.83%	63.83%	63.83%	Use of free cash flows, development investments
12	Armagor SA	Gorzów Śląski	06.09.2009	63.83%	63.83%	63.83%	63.83%	Manufacture of valves, tool-related services
13	PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny (specialist open debt fund)	Warsaw	15.12.2009	100.00%	100.00%	N/A	N/A	Investing funds collected from fund members
Non-consolidated entities								
14	Towarzystwo Funduszy Inwestycyjnych	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Establishing, representing and managing investment

No.	Name of entity	Registered office	Date of taking up control /signif-icant influence	% of share capital held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business
				30 June 2012	31 Dec. 2011	30 June 2012	31 Dec. 2011	
	PZU SA ("TFI PZU")							funds.
15	PZU Asset Management SA ("PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Managing third party portfolios of securities on consignment.
16	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services.
17	UAB PZU Lietuva Gyvybes Draudimas	Vilnius, Lithuania	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance
18	PrJSC IC PZU Ukraine Life Insurance ("PZU Ukraine Life")	Kiev, the Ukraine	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance
19	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA ("MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Managing the employee pension fund.
20	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
21	Ipsilon Bis SA	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
22	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
23	Syta Development Sp. z o.o. w likwidacji	Warsaw	29.04.1996	100.00%	100.00%	100.00%	100.00%	Purchasing and selling real property, intermediation in trading and real estate management.
24	Sigma Investments Sp. z o.o. w likwidacji[6]	Warsaw	28.12.1999	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
25	Company with Additional Liability Inter-Risk Ukraine („Inter Risk")[7]	Kiev, the Ukraine	01.07.2005	0,00%	100,00%	0,00%	100,00%	Legal services.
26	LLC Finansowa Kompania Idea-Kapitał[8]	Kiev, the Ukraine	06.10.2011	0,00%	100,00%	0,00%	100,00%	Financial services
27	LLC SOS Services Ukraine	Kiev, the Ukraine	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services
28	ICH Center SA w likwidacji[9]	Warsaw	31.01.1996	90.00%	90.00%	90.00%	90.00%	The Company does not conduct activities.
Associates								
29	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17.08.1998	37.53%	37.53%	36.71%	36.71%	Managing ski and tourist lifts.
30	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance services

[6] On 19 July 2012 the Extraordinary General Shareholders' Meeting of PZU passed a resolution on initiation liquidation process on 1 August 2012
[7] Sale is described in point 4.3.
[8] Sale is described in point 4.3.
[9] On 8 March 2012 the Extraordinary General Shareholders' Meeting of PZU passed a resolution on initiation liquidation process on 16 March 2012

4.2. PZU Group companies

4.2.1. PZU

The PZU Group's Parent Company is PZU, which was established as a result of the transformation of Państwowy Zakład Ubezpieczeń (a state-owned enterprise) into a joint-stock company, where the State Treasury was the sole shareholder, on the basis of art. 97 of the Act on insurance activities of 28 July 1990 (Journal of Laws No. 11 of 2010, item 66 as amended, "the Insurance Act").

PZU's core business is conducting insurance activity and directly related activities in respect of section II insurance – Other property and personal insurance, in accordance with the categories specified in the Act on insurance activities.

1. Accident insurance, including accident at work and occupational disease;
2. Sickness insurance;
3. Comprehensive insurance of land vehicles, with the exception of rail vehicles;
4. Comprehensive insurance of rail vehicles, covering damage to rail vehicles;
5. Comprehensive insurance of aircraft covering damage to aircraft;
6. Insurance of maritime and inland navigation and vessel comprehensive insurance;
7. Insurance of goods in transport covering damage to transported goods;
8. Insurance of damage caused by natural elements;
9. Insurance of other damage to goods;
10. Insurance of all types of liability resulting from the ownership and use of land vehicles with their own drive, including the shipper's liability;
11. Insurance of all types of liability resulting from the ownership and use of aircraft, including the shipper's liability;
12. Insurance of general maritime and inland navigation liability resulting from the ownership and use of maritime and inland vessels, including the shipper's liability;
13. Liability insurance (general liability insurance);
14. Loan insurance;
15. Insurance guarantees;
16. Insurance of various financial risks;
17. Insurance of legal cover;
18. Insurance to provide assistance on behalf of people who have encountered difficulties during travel or absence in their place of residence.

Up until 31 December 2011, PZU Życie could engage in acquisition activities on behalf of open pension funds in accordance with the provisions of the Act of 28 August 1997 on the organization and operations of pension funds (Journal of Laws No. 159 of 2004, item 1667 as amended, "Act on pension funds"). In connection with the Act of 25 March 2011 on amendments to some acts related to the operation of social insurance coming into force on 1 January 2012 (Journal of Laws No. 75 of 2011, item 398), which amended among other things art. 92 of the Act on Pension Funds, introducing a ban on acquisition activities by insurance companies on behalf of open pension funds, as of 1 January 2012, the company does not engage in acquisition activities on behalf of OFE.

4.2.2. PZU ŻYCIE

PZU Życie's core business is conducting insurance activity and directly related activities in respect of section I insurance – Life insurance, in accordance with the categories specified in the Act on insurance activities:

1. Life insurance;
2. Dowry insurance, providing for children;
3. Capital fund-linked life insurance;
4. Annuity insurance;
5. Accident and sickness insurance, if they supplement the insurance referred to above in items 1-4.

Until 31 December 2011, PZU Życie could engage in acquisition activities on behalf of open pension funds in accordance with the provisions of the Act on pension funds. Similarly to PZU, as of 1 January 2012 the company does not conduct acquisition activities on behalf of OFE.

4.2.3. PTE PZU

PTE PZU manages the third largest open pension fund on the Polish market in terms of net asset value - Otwarty Fundusz Emerytalny PZU "Złota Jesień" in accordance with the provisions of the Act on pension funds. Moreover, PTE PZU manages the voluntary pension fund Dobrowolny Fundusz Emerytalny PZU ("DFE PZU") – the first fund of the type in Poland which commenced operating activities as an entity managed by a universal pension fund management company.

4.2.4. Lithuanian market

The PZU Group conducts activities on the Lithuanian market in the area of property and life insurance via two companies:

- PZU Lietuva – property and personal insurance;
- UAB PZU Lietuva Gyvybës Draudimas – life insurance.

4.2.5. Ukrainian market

The PZU Group conducts activities on the Ukrainian market in the area of property and life insurance via two companies:

- PZU Ukraine – property and personal insurance;
- PZU Ukraine Life – life insurance.

4.2.6. TFI PZU

TFI PZU engages in establishing investment funds and, as their authority, in their management, including intermediation in selling and repurchasing participation units and representing funds vis-à-vis third parties in accordance with the Act of 27 May 2004 on investment funds (Journal of Laws No. 234 of 2011, item 1391 as amended, "Act on investment funds").

Currently TFI PZU manages 22 investment funds and sub-funds with various investment strategies.

TFI PZU offers investment products and services both to retail and institutional clients, including additional savings programs under Pillar III of the social insurance program, which include:

- IKE (Individual Pension Accounts);
- Specialized Investment Programs;
- PPE (Employee Pension Plans);
- ZPI (Company Investment Plans).

4.2.7. PZU AM

The operations of PZU AM comprise:

- conducting brokerage activities within the meaning of the Act of 19 July 2005 on trading in financial instruments (Journal of Laws No. 211 of 2010, item 1384 as amended), including managing the investment portfolios of investment funds;
- providing portfolio management services.

PZU AM manages selected asset portfolios of PZU, PZU Życie companies and provides management services in respect of investment portfolios managed by TFI PZU on the basis of art. 46 clause 1 of the Act on investment funds and assets of Employee Pension Fund "Słoneczna Jesień" managed by Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU (intercompany pension fund management company) on the basis of art. 152 clause 1, on the basis of the Act on Pension Funds.

4.2.8. PZU Pomoc SA

The core business of PZU Pomoc SA is:

- organizing assistance services consisting of providing assistance to Clients;
- managing post-accident assets;
- conducting Internet auctions and Internet trading;
- managing loyalty programs;
- other activities within the scope of healthcare.

4.2.9. Ogrodowa-Inwestycje Sp. z o.o.

The core business of Ogrodowa-Inwestycje Sp. z o.o. is rental and management of own or leased real properties.

4.2.10. PZU CO

Activities of PZU CO cover business in the area of the following services:

- auxiliary activities related to insurance and pension and disability pension funds;
- constant intermediation in underwriting insurance contracts, financial and investment, and assistance contracts;
- Contact Center services;
- Data Center services;
- printing services;
- IT services.

4.3. Changes in the organizational structure of the PZU Group

Transfer of part of financial investments to funds

On 2 February 2012 another part of the 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 and thus classified at the initial measurement, with a market value as at the transfer date of PLN 953.162 thousand, was transferred to the specialist debt open ended investment fund - PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny, the sole participant of which is PZU Życie.

The transaction was aimed at improving the effectiveness of financial investment management, among other things, by tax optimization (in respect of CIT on capital gains and VAT paid to-date to other PZU Group companies for managing securities portfolios and not deductible by PZU Życie).

The above transaction had no impact on the net assets or financial results of the PZU Group.

Sale of the Company with Additional Liability Inter-Risk Ukraine

On 22 December 2011 PZU Ukraine and PZU Ukraine Life concluded an agreement with Powszechna Kasa Oszczędności BP SA ("PKO BP SA") for the sale of the Company with Additional Liability Inter-Risk Ukraine for a total amount of PLN 2,500 thousand.

On 16 January 2012 the ownership rights to shares in Inter-Risk were transferred to the acquirer. The profit realized on the sale of shares amounted to PLN 2,286 thousand.

Sale of the Company LLC Finansowa Kompania Idea-Kapitał

On 23 March 2012, in accordance with the agreement of 20 March 2012, the ownership rights to shares in LLC Finansowa Kompania Idea-Kapitał were transferred to the public joint-stock company Publiczna Spółka Akcyjna Kredobank, for a total of UAH 4,100 thousand.

FINANCIAL RESULTS OF THE PZU GROUP IN THE FIRST HALF OF 2012

5. Commentary to the consolidated financial results of the PZU Group

5.1. Premiums

Gross written premium from direct and indirect insurance amounted to PLN 8,246,274 thousand in the first half of 2012 (PLN 7,673,262 thousand in the first half of 2011).

Development of the following products was decisive for the increase in sales:

- a new hospital accident (NNW) insurance, liability insurance for the corporate client and modified liability insurance for healthcare facilities (an increase in guarantee amounts) in the corporate insurance segment;
- motor third-party liability insurance in the mass insurance segment (an increase in tariffs);
- group protection insurance (an increase in the average premium and number of insured, including the dynamic development of new sales) and individually continued insurance (high dynamics of selling additional riders);
- endowment insurance with a single premium, investment-linked in the bancassurance channel, in the individual insurance segment.

Changes in premiums are described in detail in the comments to segment results (item 6.1 and item 6.2).

Table 11. Analysis of gross written premium in the PZU Group

PLN'000

Gross written premium	1 January - 30 June 2012	1 January - 30 June 2011	% change
Gross written premium in property and personal insurance	4 599 862	4 339 851	*6.0%*
In direct insurance	4 588 749	4 326 888	6.1%
In indirect insurance	11 113	12 963	*(14.3)%*
Gross written premium in life insurance	3 646 412	3 333 411	*9.4%*
Individual premiums	1 410 085	1 191 560	*18.3%*
In direct insurance	1 410 085	1 191 560	*18.3%*
In indirect insurance	-	-	-
Group insurance premiums	2 236 327	2 141 851	*4.4%*
In direct insurance	2 236 327	2 141 851	*4.4%*
In indirect insurance	-	-	-
Gross written premiums	**8 246 274**	**7 673 262**	***7.5%***

5.2. Claims

The following factors had the largest impact on the increase in net claims and benefits (taking into account changes in the technical reserves) of PLN 496,338 thousand, i.e. +9.9%:

- higher sales of investment-linked individual products in the bancassurance channel (an increase in actuarial reserves of PLN 204,736 thousand);
- the lower pace of conversion[10] of long-term policies into annual renewable contracts in type P group insurance (a lower drop in actuarial reserves of PLN 171,056 thousand y/y compared with the prior period);
- an increase in claims reserves in respect of contract guarantees in the corporate client segment in connection with a series of bankruptcies in the construction industry.

At the same time, an improvement in the loss ratio was noted in motor insurance[11] of 5.9 p.p. in the first half of 2012, among other things in connection with lower frequency of claims (more favourable driving conditions). As at the end of June 2012 the ratio amounted to 69.8%.

5.3. Acquisition and administrative expenses

In the first half of 2012 acquisition costs increased by PLN 45,836 thousand (+4.8%) compared with the first half of 2011. This increase was mainly the result of changes in the area of group insurance sales and sales of individually continued insurance in connection with the increase in gross written premium of type P protective insurance, specifically via the brokerage channel, and indirect costs in this segment.

The increase in administrative expenses of PLN 53,511 thousand (+8.5%) was mainly the result of projects aimed at optimizing customer service processes and building a positive image of the PZU Group.

Moreover, continuation of the fixed costs optimization program brought about positive effects and enabled reducing expenses in many areas, such as personnel, administration (office stationery, postal services), real estate management (costs of cleaning) or overheads (remuneration on civil law contracts, advisory services).

5.4. Other operating income and other operating expenses

The balance of other operating income and expenses in the first half of 2012 was PLN 123,116 thousand lower than in the same period of the prior year (change from +PLN 38,853 thousand to –PLN 84,263 thousand). The main reason for the change in the above item was commencement, as of 1 January 2011, of consolidation of the Armatura Group, on an acquisition basis, in the PZU Group financial statements, which led to recognizing one-off income of PLN 118,916 thousand in the prior year.

5.5. Results of the PZU Group

In the first half of 2012, net profit amounted to PLN 1,716,449 thousand and was 10.6% compared with the same period of the prior year.

The following factors were decisive for the increase in net profit noted in the first half of 2012:

- an increase in net earned premium (+PLN 597,037 thousand) at appropriately higher net claims and benefits (+PLN 496,338 thousand);
- higher income from investing activities as a result of introducing a new investment strategy and lower returns on Treasury bonds (+PLN 444,845 thousand).

[10] Effect of conversion calculated on the basis of data according to IFRS
[11] Analysis only for PZU

At the same time, the positive changes were offset by:

- an increase in administrative expenses (+PLN 53,511 thousand) as a result of projects aimed at optimizing customer service processes and building a positive image of the PZU Group;
- consolidating the Armatura Group – a one-off impact on net 2011 profit of PLN 118,916 thousand.

At the same time, ROE[12] for the first half of 2012 amounted to 26.8% and increased by 2.0 p.p. compared with the same period of the prior year.

Table 12. Data from the consolidated income statement of the PZU Group

PLN'000

Data from the consolidated income statement	1 January - 30 June 2012	1 January - 30 June 2011	*% change*
Gross written premium	8 246 274	7 673 262	*7.5%*
Net premium earned	7 866 736	7 269 699	*8.2%*
Fee and commission income	116 359	156 227	*(25.5)%*
Net result on investing activities	1 523 904	1 079 059	*41.2%*
Net claims and benefits	(5 514 635)	(5 018 297)	*9.9%*
Acquisition costs	(998 877)	(953 041)	*4.8%*
Administrative expenses	(686 707)	(633 196)	*8.5%*
Operating profit/(loss)	2 135 556	1 902 364	*12.3%*
Profit/(loss) before tax	2 122 751	1 896 588	*11.9%*
Net profit	1 716 449	1 552 404	*10.6%*
Profits (losses) of minority interests	(484)	(1 559)	*X*
Basic and diluted weighted average number of ordinary shares in issue	86 352 300	86 352 300	-
Basic and diluted earnings per one ordinary share (in PLN)	19.88	18.00	*10.4%*

Table 13. Basic profitability ratios of the PZU Group

Profitability ratios of the PZU Group	1 January - 30 June 2012	1 January - 30 June 2011	% change
Return on equity (ROE) *(net profit/loss /average equity*) x 100%*	26.8%	24.8%	*2.0 p.p.*
Return on assets (ROA) *(net profit/loss /average assets*) x 100%*	6.5%	5.8%	*0.7 p.p.*
Administrative expense ratio *(administrative expenses / net premium earned)*	8.7%	8.7%	*0.0 p.p.*
Sales margin *(net profit (loss)/ gross written premium)x100%*	21.0%	20.6%	*0.4 p.p.*

5.6. Consolidated statement of financial position

The main component of the assets are investments[13] (financial assets and investment properties) comprising 91.1% of total assets. As at the end of June 2012 the balance of financial assets dropped by 4.2% compared with their balance as at the end of June 2011. The drop in the balance of financial assets was the result of lower prices of equity instruments due to the drop in the WIG index (40,811 points as at the end of the first half of 2012 compared with 47,976 points as at the end of the first half of 2011) which was partly offset by an increase in prices of debt instruments as a result of a drop in returns on Treasury bonds (returns on 2-year Treasury bonds dropped by 19 basis points y/y, and of 5-year bonds by 63 basis points).

Equity was 4.2% higher than in the same period of the prior year and amounted to PLN 12,740,584 thousand.

The key component of total liabilities and equity were technical reserves ("RTU"), which comprised ca. 61.9% of the balance sheet total. As at the end of June 2012 they amounted to PLN 33,584,783 thousand, which is an increase of 4.8% compared with the balance as at the end of June 2011. The increase in the balance of RTU as at the end of June 2012 was specifically the result of an increase in the outstanding claims reserve in property and personal insurance, and of the positive growth of premium.

[12] ROE – annualized ratio calculated as the ratio of the net profit to the average amount of equity as at the end and beginning of the reporting period
[13] Balance of investments without accounting for the negative valuation of derivatives

Additionally, the balance of investment contracts dropped by PLN 1,436,514 thousand, i.e. 29.3% as a result of much higher payments from endowment products in the bancassurance channel during the last 12 months compared with the premium collected over the period (which increased the balance of investment contracts).

The drop in the balance of liabilities compared with 30 June 2011 resulted mainly from lower liabilities to credit institutions (of PLN 2,507,438 thousand) in respect of sell-buy-back transactions. At the same time liabilities to PZU shareholders in respect of dividends as at the end of June 2012 amounted to PLN 1,940,392 thousand (including dividend from 2011 year profit amounted to PLN 1,936,882 thousand) compared with PLN 2,306,045 thousand (including dividend from 2010 year profit amounted to PLN 2,249,000 thousand) as at the end of June 2011.

Table 14. Main balance sheet items of the PZU Group

PLN'000

Main balance sheet items	30 June 2012	30 June 2011	% change
Assets, including:	54 267 604	57 301 278	(5.3)%
Financial assets and investment properties	49 423 408	51 590 436	(4.2)%
Receivables	1 911 945	2 437 444	(21.6)%
LIABILITIES AND EQUITY, including:	54 267 604	57 301 278	(5.3)%
Equity	12 740 584	12 230 698	4.2%
Technical reserves	33 584 783	32 047 864	4.8%
Investment contracts	3 472 589	4 909 103	(29.3)%
Liabilities	3 110 588	6 812 821	(54.3)%
Accruals and deferred income	485 359	410 887	18.1%

5.7. Impact of one-off events on operating results

PZU increased the provisions for claims under contractual guarantees and reduced estimated income due to the share in reinsurers' profits as a result of numerous bankruptcies in the building industry (effect on profit or loss of PLN 132,555 thousand).

Additionally, in the first half of 2011, PLN 118,916 thousand was recognized in the books in respect of commencement of consolidation of the Armatura Group.

6. Commentary to segment reporting

6.1. Corporate insurance – Property and personal insurance

Table 15. Gross written premium in the corporate insurance segment (non-life)

PLN'000

Gross written premium by product groups	1 January - 30 June 2012	1 January - 30 June 2011	% change
Motor third-party liability insurance	209 225	200 994	4.1%
All risks motor insurance	296 656	321 134	(7.6)%
Total motor insurance	505 881	522 128	(3.1)%
Fire and other property damage insurance	184 342	194 344	(5.1)%
Other liability insurance (cat. 11, 12, 13)	208 622	140 397	48.6%
Accident insurance (NNW) and others*	142 420	59 077	141.1%
Total property and personal insurance net of motor insurance	535 384	393 818	35.9%
TOTAL	**1 041 265**	**915 946**	**13.7%**

* This item includes loan guarantees and other financial insurance, travel insurance, assistance insurance, maritime, rail and air transport insurance.

In the corporate insurance segment the increase in gross written premium of PLN 125,319 thousand (+13.7%) compared with the first half of 2011 resulted specifically from the sale of:

- the new accident insurance on behalf of patients in respect of medical events (hospital NNW +PLN 65,942 thousand; as of 1 January 2012 the insurance became obligatory, however the Ministry of Finance amended legislation exempting healthcare institutions from the obligation of insurance cover);
- liability insurance for the corporate client (+PLN 24,268 thousand) and modified liability products for healthcare entities (+PLN 44,890 thousand, mainly due to the effect of an increase in guaranteed sums);
- Motor third-party liability insurance as an effect of increases in tariffs, which translated into an increase in the average premium (+PLN 8,231 thousand).

On the other hand, a drop in written premium was noted in the all risks motor insurance (AC) despite an increase in the average premium of 16%, as a result of the loss of part of the portfolio (the effect of a restrictive underwriting policy).

Table 16. Results of the corporate insurance segment (non-life)

PLN'000

Data from the income statement - corporate insurance (non-life)	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	1 041 265	915 946	13.7%
Net premium earned	881 205	824 296	6.9%
Investment income	62 995	63 686	(1.1)%
Net claims and benefits	(616 841)	(576 936)	6.9%
Acquisition costs	(171 873)	(146 409)	17.4%
Administrative expenses	(49 283)	(42 953)	14.7%
Operating profit/(loss)	90 206	120 701	(25.3)%

In the first half of 2012, net insurance claims and benefits amounted to PLN 616,841 thousand, which represented an increase of PLN 39,905 thousand (+6.9%) compared with the first half of 2011. A significant increase in net claims and benefits was noted in financial insurance – an increase in claims reserves in respect of contract guarantees related to a series of bankruptcies in the construction industry. A drop in claims and benefits was noted in other insurance.

In motor insurance dedicated to the corporate client, the loss ratio dropped by 9.8 p.p. to 69.1%, which was the result of:

- verifying the insurance portfolio in connection with changes in underwriting policies, by limiting the number of unprofitable clients;
- more favourable driving conditions (lower claims frequency).

In other types of insurance (with the exception of motor and financial insurance) there was a drop in net claims and benefits, which was the result of:

- a changed approach to individual risk measurement;
- a smaller number of large single claims and no catastrophic events.

Income from investing activities allocated according to transfer prices to the corporate insurance segment for the first half of 2012 and the first half of 2011 amounted to PLN 62,995 thousand and PLN 63,686 thousand respectively.

Acquisition costs in the corporate insurance segment for the first half of 2012 and the first half of 2011 amounted to PLN 171,873 thousand and PLN 146,409 thousand respectively, which is an increase of 17.4%. The share of total commission in written premium dropped, mainly due to a lower share of commission in the brokerage channel, in respect of which despite the increase in sums insured the commission paid is often not increased, and also as a result of introducing a new product with lower commission rates to the offer (hospital NNW).

The increase in administrative expenses in the first half of 2012 (+PLN 6,330 thousand) compared with the first half of 2011 was caused by the project to optimize customer service processes building a positive image of the PZU Group.

Operating profit in the corporate insurance segment in the first half of 2012 and in the first half of 2011 amounted to PLN 90,206 thousand and PLN 120,701 thousand respectively. The deterioration in results in financial insurance in connection with a series of bankruptcies in the construction industry had an impact on the drop in operating profit. Other types of insurance noted an increase in profitability.

6.2. Mass insurance - non-life

Table 17. Gross written premium in the mass insurance segment (non-life)

PLN'000

Gross written premium by product groups	1 January – 30 June 2012	1 January – 30 June 2011	% change
Motor third-party liability insurance	1 304 242	1 219 623	6.9%
All risks motor insurance	819 419	835 470	(1.9)%
Total motor insurance	2 123 661	2 055 093	3.3%
Fire and other property damage insurance	782 660	785 363	(0.3)%
Other liability insurance (cat. 11, 12, 13)	187 160	158 016	18.4%
Accident insurance (NNW) and others*	301 877	299 101	0.9%
Total property and personal insurance net of motor insurance	1 271 697	1 242 480	2.4%
TOTAL	**3 395 358**	**3 297 573**	**3.0%**

* This item includes loan guarantees and other financial insurance, travel insurance, assistance insurance, maritime, rail and air transport insurance.

In the mass insurance segment there was an increase in gross written premium of PLN 97,785 thousand (+3.0%) compared with the first half of 2011. This change resulted mainly from:

- increases in motor third-party liability insurance tariffs in 2011 (an increase in average premium);
- an increase in written premium in other liability insurance categories – the effect of implementing modified liability products for healthcare entities, in respect of individuals and small and medium enterprises ("SME");
- a drop in sales in fire and other property damage claims (the effect of a drop in the sales of mandatory insurance of farm buildings as a result of the growing price competition);
- a lower written premium in all risks (AC) motor insurance, among other things, as a result of the shrinking car sales market, both in respect of new and second-hand cars purchased by individuals.

Table 18. Results of the mass insurance segment (non-life)

PLN'000

Data from the income statement - mass insurance (non-life)	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	3 395 358	3 297 573	3.0%
Net premium earned	3 202 969	3 007 884	6.5%
Investment income	264 864	244 533	8.3%
Net claims and benefits	(2 016 550)	(1 981 812)	1.8%
Acquisition costs	(558 903)	(567 315)	(1.5)%
Administrative expenses	(251 702)	(221 679)	13.5%
Operating profit/(loss)	511 492	342 512	49.3%

In the first half of 2012, net insurance claims and benefits increased by +1.8% y/y, i.e. at a lower rate than the increase in net premium earned. Specifically, an improvement was noted in profitability in motor insurance, where the loss ratio dropped by 4.8 p.p. to a level of 70.0% as a result of more favourable driving conditions (lower claims frequency). At the same time in the first half of 2012, the number of large-scale single claim payments in property insurance was low.

Both in the first half of 2012 and in the first half of 2011 large claims were reported in agricultural insurance due to natural reasons. The amount of claims in both periods was similar.

The 8.3% increase in income from investments allocated according to transfer prices to the mass segment compared with the prior year resulted among other things from higher RTU, in accordance with the level of which risk-free income is calculated.

Acquisition costs in the mass insurance segment dropped by 1.5% despite the increase in sales, due to a lower level of indirect costs. At the same time, direct acquisition costs increased as a result of higher sales and the growing share of more expensive distribution channels (including: brokerage, agency and multiagency). This increase was partly offset by a change in the product mix – an increased share of sales of motor third-party liability insurance products characterized by lower commission.

The increase in administrative expenses in the first half of 2012 (+PLN 30,023 thousand) compared with the first half of 2011 was caused by the campaign to change the image of the PZU Group and the project to optimize customer service processes.

Improved profitability in motor insurance (lower claims frequency) and in property insurance (a drop in the loss ratio as a result of the absence of large losses was decisive for the increase in operating profit in the mass insurance segment of PLN 168,980 thousand (+49.3%) compared with the first half of 2011.

6.3. Group insurance and individually continued insurance in the life sector

Table 19. Gross written premium in the group insurance and individually continued insurance segment

PLN'000

Written premium by type of payment – group and individually continued insurance	1 January – 30 June 2012	1 January – 30 June 2011	% change
Regular premium	3 126 582	3 017 571	3.6%
Single premium	42 264	34 437	22.7%
TOTAL	**3 168 846**	**3 052 008**	**3.8%**

The increase in gross written premium of PLN 116,838 thousand (+3.8%) resulted mainly from:

- group protection insurance (an increase in the average premium and number of insured, including the dynamic development of new sales);
- acquiring premiums from health insurance underwritten in group form (new clients and introducing a new drug product to the offer);
- selling additional riders and increasing the sum insured in individually continued products;
- continued cooperation with banking intermediaries – in the first half of 2012 the highest increase in sales was noted in protective products for borrowers and in endowment insurance with single premium offered together with Bank Millennium SA.

Table 20. Results of the group insurance and individually continued insurance segment

PLN'000

Data from the income statement – group insurance and individually continued insurance	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	3 168 846	3 052 008	3.8%
Group insurance	2 236 327	2 141 851	4.4%
Individually continued insurance	932 519	910 157	2.5%
Net premium earned	3 168 032	3 050 480	3.9%
Investment income	441 019	393 613	12.0%
Net claims and benefits	(2 104 649)	(2 095 812)	0.4%
Change in other net technical reserves	(221 193)	(16 143)	x
Acquisition costs	(162 975)	(128 618)	26.7%
Administrative expenses	(288 138)	(272 425)	5.8%
Operating profit/(loss)	802 172	913 915	(12.2)%
Operating profit/(loss) with elimination of the conversion effect*	661 701	593 275	11.5%

*conversion effect according to PAS

The increase in the net amount of claims and benefits (of PLN 8,837 thousand, i.e. 0.4%) was mainly the result of higher surrenders of group employee pension insurance Pracowniczy Program Emerytalny and higher endowment payments in structured banking products (in both cases offset against changes in the actuarial reserve). At the same time, a drop in endowment payments in short-term endowment products in the bancassurance channel was noted (also offset against the change in the actuarial reserve). For group and continued protection insurance, the net value of insurance claims and benefits increased only slightly year on year and the higher premium income dynamics led to a drop in the loss ratio.

The difference in changes in technical reserves (an increase in reserves of PLN 221,193 thousand, PLN 205,050 thousand more than in the first half of 2011) resulted mainly from the lower pace of conversions of long-term policies into annual policies renewable in type P group insurance (the conversion effect[14] in the first half of 2012 translated into releasing PLN 140,471 thousand in reserves, PLN 180,170 thousand less than in the first half of 2011), and from an increase in the reserve in investment-type products (higher sales in the first half of 2012 in the bancassurance channel and better investment activity results).

Income from investing activities comprise income allocated according to transfer prices and income from investment-type products. In the group insurance and the individually continued insurance segment, investment income increased by PLN 47,406 thousand, mainly due to higher income in investment-type products – the effect of more favourable conditions on the financial markets. Income allocated according to transfer prices remained at a similar level.

In the first half of 2012 and 2011 acquisition costs in the group insurance and individually continued insurance segments amounted to PLN 162,975 thousand and PLN 128,618 thousand respectively. The change of PLN 34,357 thousand (26.7%) resulted mainly from:

- an increase in commissions paid in respect of protective group insurance as a result of an increase in the portfolio, high sales of new policies in the first half of 2012 and a growing share of premiums acquired through the brokerage channel;
- an increase in indirect acquisition costs, among other things, fees for the sales network related to acquiring new clients in group insurance (modifications and portfolio operations) and withdrawing PTE PZU products.

The increase in administrative expenses in the first half of 2012 of PLN 15,713 thousand (+5.8%) compared with the first half of 2011 was mainly related to new project initiatives aimed at enhancing and automating service processes building a positive image of the PZU Group.

Operating profit in the group and individually continued insurance segment dropped by PLN 111,743 thousand (-12.2%) in the first half of 2012, mainly as a result of the lower effect of the conversion of long-term contracts into renewable contracts in type P group insurance. After eliminating the conversion effect in type P group insurance, the operating profit increased y/y by PLN 68,426 thousand (+11.5%) year on year.

6.4. Individual insurance – life insurance

Table 21. Gross written premium in the individual insurance segment

PLN'000

Premium written by type of payment – individual insurance	1 January – 30 June 2012	1 January – 30 June 2011	% change
Regular premium	228 740	232 655	(1.7)%
Single premium	248 826	48 748	410.4%
TOTAL	**477 566**	**281 403**	**69.7%**

The increase in gross written premium of PLN 196,163 thousand (+69.7%) resulted from:

- the high sales dynamics of the new individual unit-linked insurance product with single premium introduced in November 2011 in cooperation with Bank Millennium SA;
- good sales results in respect of a structured product in cooperation with Citibank Handlowy;
- developing a unit-linked product with a regular premium "Plan na Życie" introduced to the offer in 2010.

These changes were partly offset by sales of structured insurance with single premium "Świat Zysków" which were lower than in the same period of the prior year and the expiry of the endowment insurance portfolio underwritten in the 1990s.

Table 22. Results of the individual insurance segment

PLN'000

Data from the income statement – individual insurance	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	477 566	281 403	69.7%

[14] Effect of conversion calculated on the basis of data according to PAS

Net premium earned	480 632	284 713	68.8%
Investment income	150 084	130 285	15.2%
Net claims and benefits	(267 690)	(296 252)	(9.6)%
Change in other net technical reserves	(214 083)	26 156	x
Acquisition costs	(40 497)	(28 522)	42.0%
Administrative expenses	(24 909)	(24 132)	3.2%
Operating profit/(loss)	87 788	97 163	(9.6)%

The drop in net insurance claims and benefits (a drop of PLN 28,562 thousand, i.e. 9.6%) was mainly the effect of lower surrenders in respect of endowments from the old individual endowment policies portfolio underwritten in the 1990s.

The difference in the balance of technical reserves (an increase in reserves of PLN 214,083 thousand compared with the drop of PLN 26,156 thousand in the first half of 2011) resulted mainly from new high sales of investment-linked insurance through the bancassurance channel and significantly better investment results, which translated into an increase in unit-linked insurance reserves. Also the slower maturing of the portfolio of old individual endowment policies underwritten in the 1990s increased the effect of the high growth in the actuarial reserve.

Income from investing activities consists of income allocated according to transfer prices and income from investment-type products. In the individual insurance segment, they increased by PLN 19,799 thousand, mainly due to the increased income from investment-linked products – the effect of better conditions on financial markets. Income allocated according to transfer prices remained at a similar level.

The increase in acquisition costs in this segment (of PLN 11,975 thousand, i.e. 42.0%) resulted mainly from the dynamic growth of sales of investment products through the bank channel.

In consequence of the events described above, the operating profit of the segment dropped by PLN 9,375 thousand to PLN 87,788 thousand.

6.5. Investments

In the first half of 2012 income from investing activities[15] of the PZU Group increased by 41.2% compared with the same period of the prior year.

Income from investing activities in the investment segment comprise the excess of income from PZU and PZU Życie investments over the income allocated according to their transfer prices to insurance segments (corporate insurance segment, mass, group and individually continued, and individual insurance segment) and investment contracts. This income increased by 137.2%.

Table 23. Results of investing activities – by segment

PLN'000

Results of investing activities – by segment	1 January – 30 June 2012	1 January – 30 June 2011	change %
Investment segment (external operations)	597 997	252 135	137.2%
Insurance activity segments (PZU and PZU Życie)	918 962	832 117	10.4%
Other segments and adjustments	6 945	(5 193)	x
TOTAL	**1 523 904**	**1 079 059**	**41.2%**

In the first half of 2012 a new investment strategy was introduced which resulted in an increase in profitability with a simultaneous reduction in the volatility of results on investing activities.

The increase in the investing activities of the PZU Group and in the investment segment itself was caused, among other things, by an increase in the price of bonds (the return on 2-year Treasury bonds dropped by 19 basis points y/y, and of 5-year bonds by 63 basis points) and equity instruments on the financial markets (the WIG index increased in the first half of 2012 by 8.6% compared with 1.9% in the first half of 2011).

[15] Investment income includes "Investment income" resulting from external transactions, with the exclusion of valuation of receivables.

The increase in income on investing activities on equity instruments of PLN 192,890 thousand resulted from better conditions on the financial markets in the current year than in the same period of the prior year.

The drop in market interest rates in the first half of 2012 contributed to the increase in the results on debt instruments of PLN 215,617 thousand.

An increase of PLN 40,749 thousand on derivatives, purchased mainly to manage risk (such as market risk) was noted compared with the analogous period of the prior year.

Table 24. Results on investment activity

PLN'000

Results on investment activity	1 January – 30 June 2012	1 January – 30 June 2011	change %
Equity instruments	299 926	107 036	180.2%
Debt instruments	1 271 377	1 055 760	20.4%
Investment properties	41	3 607	(98.9)%
Derivative instruments	65 881	25 132	162.1%
Receivables	(92 742)	(102 211)	(9,3)%
Other	(20 579)	(10 265)	100.5%
TOTAL	**1 523 904**	**1 079 059**	**41.2%**

Investing activities of the PZU Group are conducted in compliance with the statutory requirements, by applying an appropriate degree of safety, liquidity and profitability. Debt securities issued by the State Treasury constituted over 70% of the investments portfolio[16] both as at 30 June 2012 and as at 30 June 2011.

The drop in the share and value of equity instruments was caused, among other things, by the drop in their market valuation in the period from the end of the first half of 2011 to the end of the first half of 2012 and adapting their volume to the current investment strategy of the PZU Group.

Table 25. Investments (including investment contracts)

PLN'000

Investments (including investment contracts)	30 June 2012	Structure as at 30 June 2012	30 June 2011	Structure as at 30 June 2011
Equity instruments, including:	4 907 562	9.9%	5 886 928	11.4%
Quoted equity instruments	4 782 653	9.7%	5 760 769	11.2%
Other equity instruments	124 909	0.2%	126 159	0.2%
Debt instruments, including:	43 914 508	88.9%	45 159 068	87.6%
Debt securities	36 196 897	73.3%	38 864 177	75.4%
Reverse repo transactions and deposits	6 751 356	13.7%	6 257 646	12.1%
Borrowings	966 255	1.9%	37 245	0.1%
Investment properties	534 493	1.1%	455 994	0.9%
Derivatives (net value)	30 703	0.1%	50 443	0.1%
TOTAL	**49 387 266**	**100.0%**	**51 552 433**	**100.0%**

6.6. Pension insurance

Table 26. Results of the pension insurance segment

PLN'000

Income statement data – pension insurance	1 January – 30 June 2012	1 January – 30 June 2011	% change
Fee and commission income	96 308	128 977	(25.3)%
Investment income	6 320	6 521	(3.1)%
Acquisition costs	(11 222)	(36 346)	(69.1)%
Administrative expenses	(32 501)	(38 972)	(16.6)%
Operating profit/(loss)	58 708	59 616	(1.5)%

[16] The investment portfolio covers financial assets (including investment contracts), investment properties and the negative valuation of derivatives.

Fee and commission income ("Income of non-insurance entities on core activities") in the pension insurance segment dropped by PLN 32,669 thousand (-25.3%) compared with the same period of the prior year. These changes specifically resulted from:

- a drop in revenue from the fee on contributions of PLN 33,713 thousand (statutory reduction in the fees transferred by ZUS to OFE from 7.3% to 2.3%);
- an increase in the management fee (higher level of OFE PZU assets); and
- an increase in income from the reserve account (of PLN 457 thousand and PLN 634 thousand respectively).

The statutory reduction in the contributions transferred to OFE had an impact on the drop in the fees collected by ZUS of PLN 7,618 thousand (-65.6%) disclosed in administrative expenses.

The drop in acquisition costs of PLN 25,124 thousand (-69.1%) resulted specifically from the statutory ban on acquisition activities on behalf of OFE as of the beginning of 2012.

In the first half of 2012 the costs related to the launching and operation of DFE PZU amounted to PLN 2,552 thousand, most of which related to acquisition operations and the promotion of new products.

Operating profit for the first half of 2012 and the first half of 2011 amounted to PLN 58,708 thousand and PLN 59,616 thousand respectively.

As at the end of June 2012, there were 2,220.7 thousand members of OFE PZU which constituted 14.1% of the total number of open pension funds and gives OFE PZU third place on the market in this respect.

6.7. The Ukraine

Table 27. Results of the Ukrainian segment (non-life)

PLN'000

Income statement data – the Ukraine	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	64 717	52 434	23.4%
Net premium earned	53 167	40 833	30.2%
Investment income	10 011	7 277	37.6%
Net claims and benefits	(26 124)	(26 537)	(1.6)%
Acquisition costs	(17 711)	(13 428)	31.9%
Administrative expenses	(13 436)	(11 859)	13.3%
Operating profit/(loss)	5 907	(3 714)	X

Appreciation of the exchange rate of the Ukrainian currency (UAH) to the PLN, used to translate data for the first half of 2012 – 15.4% y/y - had a significant impact on particular income statement items of PZU Ukraine.

The increase in gross written premium of 23.4% in the first half of 2012 compared with the first half of 2011 resulted from an increase in sales to the corporate client and direct sales (by the company's employees). Moreover, travel insurance, corporate property insurance and motor insurance played a special role in the increase in written premium.

Investment income increased by 37.6% compared with the first half of the prior year due to the drop in returns on debt instruments (bonds) and an increase in the base of liquid assets as a result of selling Inter Risk (in accordance with the sales agreement by and between PZU Ukraine, PZU Ukraine Life and Powszechna Kasa Oszczędności BP SA for a total of PLN 2,500 thousand dated 22 December 2011).

In the first half of 2012 an improvement was noted in the loss ratio (+15.9 p.p.), which was possible thanks to limiting popular but loss-incurring medical insurance and balancing the portfolio with the profitable portfolio of property insurance.

The increase in acquisition costs of 31.9% resulted from an increase in sales of property, motor, and travel insurance which are charged higher with reference to the sales acquired.

Administrative expenses in the original currency (UAH) were 1.6% lower year on year, which was related to the strict cost control policy. The increase of 13.3% expressed in PLN resulted from foreign exchange differences.

The increase in the operating results of PLN 9,621 thousand was mainly the effect of positive dynamics of the net premium earned, the lower pace of growth of net insurance claims and benefits and an increase in investment income.

6.8. Lithuania

Table 28. Results of the Lithuanian segment (non-life)

PLN'000

Income statement data - Lithuania	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	99 034	76 638	29.2%
Net premium earned	81 098	63 095	28.5%
Investment income	3 960	3 440	15.1%
Net claims and benefits	(50 774)	(40 071)	26.7%
Acquisition costs	(24 153)	(18 754)	28.8%
Administrative expenses	(8 687)	(6 814)	27.5%
Operating profit/(loss)	1 444	896	61.2%

Appreciation of the exchange rate of the Lithuanian currency (LTL) to the PLN, used to translate data for the first half of 2012 – 6.5% y/y - had a significant impact on particular income statement items of PZU Lietuva.

Gross written premium increased by 29.2%, mainly due to increased sales of casco and health insurance.

The increase in investment income of 15.1% compared with the same period of the prior year resulted from the improvement in the conditions on the equities market in the first half of 2012.

Net claims and benefits increased by 26.7%, specifically in respect of health insurance in which the company significantly increased its market share in the prior year. Additionally, the loss ratio in motor insurance dropped compared with the same period of the prior year.

Acquisition cost dynamics (+28.8%) were on a similar level to the growth dynamics of gross written premium (+29.2%). Administrative expenses increased by 27.5%, mainly due to the increase in remuneration costs caused by the need to set up provisions for unused holiday pay (a cyclic occurrence in the first half of the year).

The increase in operating results of PLN 548 thousand resulted from changes in the Lithuanian currency against the PLN.

6.9. Investment contracts

Investment contracts are accounted for under the deposit method, in consequence the transaction volumes from investment contracts do not constitute revenues according to IFRS.

Table 29. Gross written premium in the investment contract segment

PLN'000

Premium written by type of payment – individual insurance	1 January – 30 June 2012	1 January – 30 June 2011	% change
Regular premium	7 157	4 168	71.7%
Single premium	1 537 882	1 930 974	(20.4)%
TOTAL	**1 545 039**	**1 935 142**	**(20.2)%**

Gross written premium acquired from investment contracts dropped by PLN 390,103 thousand (-20.2%) in the first half of 2012 compared with the same period of the prior year. Changes in the level of gross written premium resulted mainly from:

- lower sales of short-term endowment products and unit-linked insurance through the banking channel;
- an increase in sales of short-term endowment products through the company's own channel;
- launching a new investment product, individual pension insurance account "Indywidualne Konto Zabezpieczenia Emerytalnego".

Table 30. Results of the investment contract segment

PLN'000

Income statement data – investment contracts	1 January – 30 June 2012	1 January – 30 June 2011	% change
Gross written premium	1 545 039	1 935 142	(20.2)%
Group insurance	1 311 919	1 462 397	(10.3)%
Individual insurance	233 120	472 745	(50.7)%
Net premium earned	1 544 232	1 935 142	(20.2)%
Investment income	94 264	29 766	216.7%
Net claims and benefits	(1 621 671)	(599 156)	170.7%
Change in other net technical reserves	1 446	(1 360 567)	x
Acquisition costs	(13 552)	(22 432)	(39.6)%
Administrative expenses	(6 871)	(6 292)	9.2%
Operating profit/(loss)	4 165	(10 523)	x

Income on investing activities in the investment contract segment increased by PLN 64,498 thousand as an effect of the better conditions on the financial markets.

The higher value of net insurance claims and benefits (+PLN 1,022,515 thousand) resulted from the much higher level of surrenders in respect of short-term investment-linked endowment insurance, mainly through the bancassurance channel.

The drop in technical reserves of PLN 1,446 thousand in the first half of 2012 compared with PLN 1,360,567 thousand in the first half of 2011 was a derivative of the much higher surrenders volume of the investment-linked short-term endowment insurance product accompanied by lower sales.

The drop in acquisition costs of PLN 8,880 thousand (-39.6%) resulted from a change in the sales structure – replacing the unit – linked insurance by endowment insurance which is characterized by lower commission.

The above factors translated into an improvement in the operating results in the segment of PLN 14,688 thousand, to PLN 4,165 thousand.

7. Risk factors which could have an impact on the financial results in the second half of 2012

7.1. Insurance activities

The risk factors which could have an impact on the results on insurance activities in the following six months comprise mainly:

- the re-escalation of the Euro Zone financial crisis which led to an economic slowdown could translate into a drop in demand for insurance products and an increase in the loss ratio of the financial insurance portfolio;
- bankruptcies of construction companies will translate into a significant increase in the loss ratio in financial insurance, specifically in respect of contract guarantees as a result of not meeting commitments;
- obligation to adjust to new requirements resulting from the insurance act which is being prepared with relation to the implementation of Solvency II, including changes in the methods of measuring selected items and calculating business ratios;
- increased risk of further court verdicts unfavourable for the insurance market, among other things with reference to compensation payable to families of accident victims;
- absence of a precise scope of objective VAT exemptions in the amended Act on VAT relating to e.g. insurance services, medical services;
- changes in the financial intermediation market, stopping the growth in popularity of independent financial advisory services and thus limiting the number of channels for selling the companies' products;
- changes in the current mortality levels, longevity and morbidity (life insurance);

- small flexibility of many product applications operating in PZU Group companies, hampering quick adaptation to changing market requirements.

7.2. Investing activities

The risk factors which could have an impact on the results in the investment segment in the following six months comprise mainly:

- the situation on the capital markets, specifically on the Warsaw Stock Exchange – part of the investment income depends on the trends on those markets;
- fluctuations in the return on Treasury securities depend on the economic position of Poland and European Union countries - a drop in returns on the securities may lead to a drop in returns on investments and the potential need to change the technical rates applied by the PZU Group.

7.3. Pension funds

The risk factors which could have an impact on PTE PZU's results in the second half of 2012 comprise mainly:

- a low rate of increase in remuneration leading to lower dynamics of contributions paid in by members of the pension funds;
- deepening of the financial crisis and its direct negative impact on the value of assets managed by PTE PZU;
- possible changes in the legal regulations relating to OFE, which may have an impact on reducing the company's revenues.

8. Management position on the previously published forecast results

PZU did not publish forecasts of separate or consolidated financial results.

OPERATIONS OF THE PZU GROUP IN THE FIRST HALF OF 2012

9. Operations, key development directions and achievements of the PZU Group

9.1. Rating

PZU and PZU Życie are regularly rated by the rating agencies. The rating granted to PZU and PZU Życie is an evaluation following from an analysis of the financial data, the competitive position, management and corporate strategy. The rating also includes a rating outlook, i.e. the future assessment of the Company's position if specific circumstances arise.

As at the date of this Directors' Report of the PZU Group, both companies had a long-term credit rating and a financial strength rating (awarded by Standard & Poor's Ratings Services on 16 July 2009) at level A with a stable outlook. On 23 July 2012 Standard & Poor's Ratings Services upheld the above rating.

Table 31. PZU and PZU Życie rating

Name	Rating and outlook	Date of update	Previous rating and outlook	Date of previous update
PZU				
Rating of financial strength	A /stable/	23 July 2012	A /stable/	22 July 2011
Rating of creditworthiness	A /stable/	23 July 2012	A /stable/	22 July 2011
PZU ŻYCIE				
Rating of financial strength	A /stable/	23 July 2012	A /stable/	22 July 2011
Rating of creditworthiness	A /stable/	23 July 2012	A /stable/	22 July 2011

9.2. Pursuing the strategy and development projects

The project activities conducted in the past six months were directly related to pursuing the strategy of the PZU Group for 2012-2014. This strategy is largely a continuation of the pursuit of goals set under the strategy for 2009-2011. The aim of the PZU Group is to maintain profitable growth, build a cost-effective organization which addresses clients' needs and maintains a lead position on the Polish insurance market.

The main actions completed in the first half of the year comprise:

- refreshing the PZU brand. In May an advertising campaign was launched and the internal and external markings and logos were replaced;
- selection of the provider who will support the implementation of a new product system in PZU.

Actions under the currently adopted Strategy concentrate on building an organization operating according to client segments. Below we present the actions completed in the first half of the year in individual areas:

In the mass client segment:

- actions started aimed at implementing a new product system in PZU, which (as a product tool) will be able to influence the flexibility of the products and will be a tool for particular distribution channels; in the first half of 2012, a new operating model was developed and the process of selecting the provider was completed;
- further sales campaigns were conducted on the basis of the department that was established in the CRM system.

In the past, the main actions relating to the group client were related to developments in the health insurance sector, including:

- introducing new individual continuation contracts for group life insurance;
- further enhancing and developing the offer for outpatient medical services addressed to institutional clients, including further development of the provider network and enhancing the operation of the processes in the area of health insurance in PZU Pomoc SA;
- launching drug insurance on the market.

In the corporate client segment, work was carried out aimed at enhancing customer service and building an expert opinion which would enable providing the customer with comprehensive help in risk management.

In the customer service model:

- a process for implementing a chain of modern outlets is in progress - well visible, common for the whole PZU Group and sales-focused; By the end of the first half of 2012 the first tranche of the outlets was opened (30);
- the process of standardizing the management structures in the current PZU Group outlets and of front-office employees was continued to enable the comprehensive servicing of life and property insurance clients in all outlets;
- further optimization of loss adjustment continued, where the most important initiatives completed in the first half of the year included:
  - further development of the "E-szkoda" ("e-loss") communication platform:
  - in PZU and PZU Życie currently about 14% of all losses and 30% of all claims respectively are reported through the Internet;
  - further recovery of recourse claim backlogs;
  - further development of the mass printing service;
  - optimization of the process of adjusting selected losses over the telephone, thanks to implementing the simplified loss adjustment process for motor insurance claims;
  - developing mechanisms enabling efficient directing of customers and injured parties to the providers who offer the best terms and conditions for cooperation.

As part of the actions aimed at optimizing the operating model:

- the IT systems were consolidated, supporting the handling of life insurance services;
- second stage on the implementation of a joint ERP class system for PZU and PZU Życie - in the first half of 2012 standardized processes were also implemented in the area of real estate management and a pilot program for some of the processes in insurance accounting;
- implementation work started in connection with the sale of real estate necessary from the perspective of PZU's statutory operations, which will enable a reduction in real estate maintenance costs;
- the Solvency II Project was started, aimed at adapting the PZU Group to the regulatory requirements related to the Solvency II Directive.

Additionally, actions were carried out aimed at transforming the PZU Group into a results-oriented organization:

- the Company Collective Labour Agreement ("ZUZP") was terminated to enable introducing an incentive remuneration system for employees;
- work was completed related to the job description, preparations are in progress to value them;
- work was started on implementing a tool to allot and assess employee goals, necessary to implement the new remuneration system. The developed solution will also support such areas as training processes, recruitment processes, individual development plans or talent management;
- as part of the actions aimed at strengthening PZU's position as the preferred employer, EVP (Employee Value Proposition) was developed – this is a package of image and value features which attract employees that area the most valuable to the employer. These actions also included launching the first new edition of the Practice and Internship Programs.

9.3. Key marketing activities in the first half of 2012

Advertising, media and the Internet,

In the first half of 2012 year, PZU's advertising activities concentrated on conducting the Brand Refresh Day campaign to refresh the PZU brand, which comprised two stages – the image and the product stage. Its purpose was to present the new logo and visual identification, and changes which occurred in the PZU Group. The campaign was part of the actions which were part of the brand refreshing process. In TV spots, PZU used humor and irony to challenge the image of a large bureaucratic firm with complicated procedures. It was presented that PZU as an organization is capable of looking at ourselves with reserve. At the same time it was highlighted that "We are changing for good". The far-reaching image-promoting campaign was based on TV, press, Internet and cinema.

From 4 June to the end of July, the second part of the campaign was in progress – the product part, communicating different customer access channels to the PZU Group and the investment competencies of the PZU Group.

As part of the educational activities, the PZU Group continued two Internet insurance-dedicated services:

- "JakieUbezpieczenie.pl" – an educational site which, in a simple and easily accessible manner, explains the benefits of using insurance products. It is not a sales site, it is exclusively informative;
- "ŻycieNa100procent.pl" – a site including, among other things, saving calculators, questionnaires and product animations, interviews with celebrities, articles encouraging people to make savings, etc.

Sponsoring

Apart from the media campaigns, several sponsor actions were carried out, which had a direct impact on building the PZU Group's positive image. The insurer was the sponsor and patron of various cultural and sports events, both countrywide and locally.

The PZU Group as a Patron of Polish Culture has been supporting major cultural institutions in Poland for years:

- The Royal Castle in Warsaw;
- The Royal Łazienki Museum in Warsaw;
- The National Museum in Kraków;
- The Villa Decius in Kraków.

Sponsoring actions also included:

- sponsoring of the Night of the Museums (including: in the Royal Castle, the Royal Łazienki Museum and the National Museum);
- sponsoring the 19th Bydgoszcz Opera Festival;
- patron of the 50the birthday of Trójka – the 3rd program of the Polish Radio;
- sponsoring the "Droga na Harvard" (Way to Harvard) competition;
- supporting organizations which take care of the safety of Polish citizens – the following emergency services: Mazurskie Wodne Ochotnicze Pogotowie Ratunkowe, Suwalskie Wodne Ochotnicze Pogotowie Ratunkowe, Górskie Ochotnicze Pogotowie Ratunkowe, KKW NSZZ Funkcjonariuszy Straży Granicznej;
- supporting local communities connected with PZU in terms of industry – Polska Izba Pośredników Ubezpieczeniowych i Finansowych, Okręgowa Izba Radców Prawnych w Warszawie, Zrzeszenie Prawników Polskich, Fundacja Instytut Studiów Wschodnich.

Prevention

In the first half of 2012, the PZU Group continued the preventive activities it had been conducting for many years, the main aim of which is to improve the safety of people and property, and encouraging safe behaviours and reducing various types of risk. In the area of prevention, the following actions were conducted during the period:

- cooperation was continued with TOPR and GOPR and Mazurskie OPR and Suwalskie WOPR;
- the preventive program "Policja 2008" was carried out;
- preventive action during the Kia Lotos Race project;
- the preventive program "Bezpieczna Flota" (Safe Fleet) – a training cycle for fleet drivers;
- cooperation with the Association "Misie Ratują Dzieci" (Teddies save children);
- the prevention program "Zdrowa Gmina" (Healthy Municipality), the aim of which is early detection of cancer;
- the Auto Mobility Centrum program – the project is aimed at 'drivers with various handicaps' sector;
- Mali Ratownicy (Small Rescuers) program – a cycle of first aid training for children;
- co-organization of the nationwide and regional competitions Olimpiady Specjalne (Olympics for the Handicapped).

9.4. PZU's operations in the first half of 2012

9.4.1. Sales

PZU offers a wide range of property and personal insurance products, specifically motor, personal, agricultural and general liability insurance. PZU's offer contains over 200 insurance products. Motor insurance is the most important group of products offered by PZU, both in terms of the number of binding insurance contracts and the share of written premium in the total gross written premium of PZU.

In the first half of 2012, PZU's activities concentrated mainly on improving returns on the corporate insurance portfolio and actions promoting sales and organizing the offer of insurance for mass clients.

Products – mass client

- In the first half of 2012 PZU adapted its operations to the changes resulting from amendments to the Act on mandatory insurance, UFG (Insurance Guarantee Fund) and PBUK (Polish Motor Insurance Authority), and some other acts (Journal of Laws No. 205 of 2011, item 1210).
- At the same time, systematic verification of all new motor insurance clients began in respect of the compliance of the representations as to the course of the Bonus-Malus insurance to date with data collected in the Information Centre of the Insurance Guarantee Fund.

- Changes were made to motor insurance tariffs for individual clients and SMEs to adapt them to market conditions, and specifically to fluctuating costs of claims.
- Changes were made to the comprehensive package for SME clients – PZU Doradca (PZU Advisor). The changes were aimed at adapting the insurance tariffs to the risk incurred and specifically the risk of flooding.
- Due to the high loss ratio in the mandatory subsidized insurance of agricultural cultivation, in the spring season of 2012, changes were made to the offer for such insurance aimed at improving profitability (among other things, tariffs for selected risks were increased).
- In accordance with the amendments to the legislation (package of health acts) a new offer of mandatory and voluntary insurance for healthcare facilities was prepared. In connection with the mandatory insurance on behalf of patients with reference to medical events coming into force, the niche product - insurance of unfavourable implications of planned operations - was eliminated from PZU's offer.

Products – corporate client

A selective sales strategy was continued in the area of property insurance for corporate clients, applying prudence to the underwriting policy by:

- limiting insurance sales in respect of entities from industries with a high loss ratio;
- improving the efficiency of the selection process, classification and risk assessment;
- wider application of additional clauses and other technical insurance restrictions changing the scope of insurance;
- improving the qualifications of employees responsible for sales and underwriting through a risk assessment training system.

Moreover, new casualty insurance on behalf of patients in respect of medical events was added to the offer (hospital NNW as of 1 January 2012 was mandatory insurance; however, the Ministry of Finance changed the legislation, exempting healthcare facilities from mandatory insurance cover) and modified liability cover for medical entities (an increase in guaranteed sums).

Products – financial insurance

- In the area of financial insurance, in June 2012 the Management Board of PZU took the decision to limit sales of guarantees for completing construction contracts due to the poor financial condition of the sector.
- In the area of bank loan insurance, thanks to the cooperation with PKO BP on an exclusive basis, in the first half of 2012 written premium increased compared with the same period of the prior year.
- In the area of cash receivables insurance, PZU resumed sales of products from this line in the first half of 2012.

Products – bank insurance

- In the first half of 2012 the Group concentrated on developing an offer and acquiring new contracts in the area of banking protective insurance, specifically with reference to insurance relating to mortgages and payment cards.
- Cooperation was continued with former business partners – lead banks on the Polish market – such as PKO BP SA, ING Bank Śląski SA, Bank Millennium SA, BGŻ SA.

Sales network

The organization of PZU's sales network is aimed at guaranteeing the maintenance of high sales effectiveness while simultaneously ensuring high quality services. This is achieved through the two-dimensional organization of sales.

- division by distribution channels;
- client segmentation.

As at 30 June 2012, PZU offered products in the following distribution channels:

- exclusive agents – PZU's own agent network:
  - office agents (330; sales-supporting agents in PZU's own outlets);
  - agents operating locally exclusively on a mobile basis (5,960) [17];
- Group Agencies (17; pilot program – agents managing stationary outlets);
- multiagencies – agents cooperating with several insurance companies (2,461)[18];
- insurance brokers (ca. 800);
- bancassurance – sales via banks and other partners for whom insurance sales are an auxiliary activity;
- direct – telephone and Internet sales;
- PZU employees – sales in own outlets.

9.4.2. Claims adjustment

The following were introduced in the process of loss adjustment:

- new property, liability and corporate clients loss adjustment procedures were implemented;
- simplified motor loss adjustment teams were launched to optimize the claims payment process (without the need to inspect the car, adjusting the loss based on a cost assessment);
- the process of on-going recourse handling and recovering recourse backlogs was launched by implementing a functionality for recognizing potential recourses in the loss handling system;
- a module for directing losses to the Repair Network was launched (clients are directed to the cooperating repair shops).

9.5. PZU Życie's operations in the first half of 2012

9.5.1. Sales

Group Insurance Products

- The re-pricing was performed in group insurance, and, in effect, the following changes have been implemented as of the beginning of 2012:
  - new tariffication levels which will enable an increase in the price flexibility of the price offers and systemizing the amount of discounts and variability of commissions;
  - three new types of continuation guarantees different in terms of the amount of premium for the right to continue insurance in the group phase and differentiating the amount of the premium in the continuation phase.
- Due to the gradual replacing of the group type P life insurance with group type P Plus employee insurance, the former was discontinued.

[17] Including dealers cooperating with PZU based on exclusivity contracts (177)
[18] Including dealers cooperating with PZU based on multiagency contracts (987)

- In connection with the ruling of the European Court of Justice, which as of 21 December 2012 does not allow the differentiation of insurance premiums due to the gender of the insured, appropriate changes are planned to the insurance terms and conditions in the second half of 2012.
- The Company also emphasized the need to develop the PZU Club "Pomoc w Życiu" (help in life), which as at the end of June 2012 had 2.1 million members. At the same time, PZU Życie is continuing work on expanding its offer for Club members.
- In connection with the mandatory application of the requirements following from the Act on Public Procurement (Journal of Laws 113 of 2010, item 759, as amended) to submit orders for insurance services, the number of public employers who have decided to apply tender procedures before underwriting group insurance has visibly increased.

Products – individual insurance

- In connection with the legal regulations introducing additional options for saving funds for retirement with financial relief coming into force as of 1 January 2012, PZU Życie launched a new product - the individual pension insurance account "Indywidualne Konto Zabezpieczenia Emerytalnego" ("IKZE"). An undisputable merit of IKZE is the possibility of acquiring current tax relief by deducting the amounts paid to IKZE in a given year from the tax base.
- In the first half of 2012, sales of the "Plan na Życie" insurance were still very popular. This was due to combining the protection and investment elements which enable adapting it to the Client's needs at each stage of life.
- In connection with the continued interest in structured products observed on the market, PZU Życie is constantly developing the "Świat Zysków" offer, which is an alternative or supplement to other investment products. In the first half of 2012, six further subscriptions to the product with differentiated investment strategies were carried out. In 2012, in accordance with earlier plans, the number of subscriptions was increased (in the second half of 2012, further subscriptions are planned) and their duration was shortened.

Products – bank insurance

- In the first half of 2012, in cooperation with Bank Handlowy w Warszawie, several subscriptions of structured products were carried out in the autocall version (with the option of early termination before maturity if specific terms and conditions relating to the base instruments/indices are met).
- In January 2012, another edition of sales of endowment insurance "Solidna Stopa" (Robust Rate) began via PKO BP SA outlets.
- Sales of unit-linked insurance – "Wielowalutowy Program Inwestycyjny" (multi-currency investment program) continued; the program was implemented jointly with Bank Millennium as at the end of 2011.
- In respect of protective insurance, cooperation with the current business partners was continued, among others, with PKO BP SA, Bank Millennium SA, ING Bank Śląski SA, BGŻ SA.
- Talks were also held with potential partners with reference to supplementing the mortgage loan offer with life insurance for the borrowers.

Products – health insurance

In the first half of 2012 in the area of health insurance:

- the cooperation model with PZU Pomoc SA as the provider of labour medicine services and the entity coordinating the network of medical subcontractors in the fee for service model was continued, this included increasing the number of medical facilities servicing health insurance clients to 709 (further development of the facility network is planned);
- the first drug insurance on the Polish market was launched enabling clients to significantly reduce the cost of the drug.

Sales network

PZU Życie engages in sales of insurance both via its proprietary network and an agency network. Additionally, distribution channels which are modern and popular on the Polish market are used such as the banking channel or direct mailing. The key distribution channels are as follows:

- Corporate sales – employees of PZU Życie, whose key task is to sell and maintain the group insurance portfolio;
- Agency sales – a network of ca. 2.3 thousand exclusive agents and 172 Sales Team Managers, whose actions are aimed at selling group and individual insurance and maintaining and servicing the individual insurance portfolio;
- A network of proprietary outlets – a network of joint PZU SA and PZU Życie outlets, which apart from service functions also serve selling functions, specifically in individual insurance (including individually continued cover);
- Direct sales – a distribution channel used to acquire individually continued insurance clients (including selling additional riders);
- The banking channel – a network of banks in cooperation with which the Company distributes a wide range of investment and protective products.

9.5.2. Benefit claims adjustment

In the first half of 2012 under the benefit claims adjustment process, processes were being consistently optimized, including, among others:

- launching a pilot program for benefit sales in cooperation with the Group Network Section;
- launching the process for automating simple life benefit claims adjustment to reduce the costs of adjusting benefit claims and improve the efficiency of the surrenders process;
- increasing the effectiveness of the process for transferring outward letters in the course of claims adjustment – to reduce mailing costs;
- integrating the policy and insured registration system with the system for handling benefits to enable clients to monitor the claims status.

9.6. PZU PTE's operations in the first half of 2012

In connection with the ban on acquisition activities on behalf of open pension funds introduced as of 1 January 2012, PTE PZU only conducts Internet informational and advertising activities relating to the offered product. Actions were also undertaken to increase the efficiency of the process of concluding OFE PZU membership agreements by post.

Additionally, acting in the interests of OFE PZU members, the Management Board of PTE PZU decided to change the bank which acts as Depositary, to ING Bank Śląski SA, which on 18 November 2011 obtained a PFSA permit. The first day of ING Bank Śląski SA performing the function was 14 January 2012. The change – while maintaining the former standard of services and security of the funds entrusted by members of OFE PZU - will enable limiting significantly the amount of fees paid on behalf of the Depositary in respect of keeping OFE PZU assets in trust.

PTE PZU is one of the first entities allowed by PFSA (as of 22 November 2011) to conduct activities in respect of establishing and managing a Voluntary Pension Fund. The new product offered by PTE PZU under the 3rd pension insurance pillar enables those who make payments to IKZE to use personal income tax relief up to the amount of the annual limit specified by the regulator. Nevertheless, IKZE is a product which is poorly recognizable by clients.

In the first half of 2012 the Company concentrated mainly on undertaking informational and educational actions relating to the new product, standardizing the rules for operating IKZE, determining the scope and supervising the systems used by the Transfer Agent to service accounts.

10. Planned key development directions

In accordance with the Strategy adopted for the years 2012-2014, in the foreseeable future, the operating model of the PZU Group will be transformed from an organization operating according to product lines to an organization operating according to the client segment. These transformations will enable the Group to better understand the needs of its clients and to appropriately react to these needs. In consecutive years, further operating optimization of the PZU Group is planned.

Pro-client orientation and high operating effectiveness will allow the Group to maintain its lead position – the PZU Group will remain the largest and most profitable insurance firm in Central and Eastern Europe.

The pursuit of the established goals will be possible thanks to continuing the actions begun in the Strategy for the years 2009-2012 and actions planned under the Strategy for the years 2012-2014.

In the mass client segment, the actions of the PZU Group will continue to focus on:

- maintaining the market share in the motor insurance and property insurance segment and introducing advanced principles of price-setting and reacting to market changes;
- developing savings and investment products, specifically long-term savings products;
- further development in the area of mass sales, among other things by developing basic distribution channels.

In the group client segment, actions will focus on:

- maintaining the profitable lead position in life insurance;
- further creating the health insurance market for the purpose of increasing the scale of business in the area;
- actively upselling products related to health and drug insurance to group clients;
- strengthening direct relations with the insured thanks to PZU Club's offer "Pomoc w Życiu" (help in life).

In the corporate client segment, the PZU Group will continue activities aimed at:

- transforming PZU into a business partner with a strong expert position that is not only an entity selling insurance but also a client advisor;
- maintaining the market position in motor insurance and increasing its market share in non-motor insurance.

In the operating model, PZU Group's actions will focus on:

- continuing actions related to introducing a new product system in PZU which will allow operating effectiveness to be increased;
- implementing a new customer service model which assumes an integrated contact channel structure, compliant with customer expectations, and specifically continuing to build a network of modern sales and service outlets;
- further optimization of loss and benefit claims adjustment.

Additionally actions will be continued aimed at:

- transforming the PZU Group into a results-oriented organization;
- in the event of appropriate offers arising, increasing the scale of operations of the PZU Group through international expansion on Central and Eastern European markets;
- further implementation of changes to the investment policy, covering a change in the structure of investments aimed at increasing profitability while simultaneously reducing fluctuations of results on investment activities.

11. Risk management

The risk management system implemented by the PZU Group is focused on risk control and maintaining the appropriate level of capitalization. Through the identification, analysis, measurement, monitoring and reporting of the operational risk, the PZU Group is able to fulfil its obligations to its clients and business partners and to comply with the requirements resulting from the law and external regulations.

In the PZU Group, risk management is based on the following key principles:

- Assuming controlled risk: the financial strength and sustainable value increase are integral parts of the PZU Group's business strategy. To achieve these goals, the PZU Group conducts its activities in accordance with a clearly defined risk policy and the established risk mitigation measures.
- Clearly defined responsibilities: The PZU Group follows the principle of delegation of tasks, competences and responsibilities. Delegated employees are responsible for the risk they assume, and their incentives are aligned with the business objectives of the PZU Group.
- Adapting to changes in the business environment: the ability to respond to changes in the business environment (resulting from both external and internal conditions of the PZU Group) are an integral part of the risk control processes in the PZU Group.

11.1. Risk sensitivity

Table 32: Sensitivity of financial assets portfolio

PLN million

Sensitivity of financial assets portfolio	Risk factor change	30 June 2012		30 June 2011	
		Impact on the net result	Impact on equity	Impact on the net result	Impact on equity
Interest rate risk	decrease 100 bp	182	359	177	345
	increase 100 bp	(168)	(338)	(172)	(331)
Foreign exchange risk	increase 20%	152	152	175	175
	decrease 20%	(152)	(152)	(175)	(175)
Equity instrument prices risk	increase 20%	187	227	328	433
	decrease 20%	(187)	(227)	(328)	(433)

The table above summarizes the results of the sensitivity analysis of the PZU Group's financial assets portfolio for financial assets where the risk is borne by the insurer with regard to changes in interest rates, foreign exchange rates and equity instrument prices.

The increase in sensitivity to interest rate risk as at the end of June 2012 compared with the end of June 2011 was mainly due to the increased duration of the portfolio of bonds held for trading and available for sale.

Financial assets exposed to foreign exchange risk include deposit transactions and debt securities which secure the expenses incurred in respect of technical reserves denominated in foreign currencies and exposures to equity instruments listed on stock exchanges other than the Warsaw Stock Exchange, exposures to derivatives denominated in foreign currencies and financial assets of consolidated insurance companies in Lithuania and Ukraine. The decrease in sensitivity to foreign exchange risk as at the end of June 2012 compared with the end of June 2011 was mainly due to the utilization of derivatives to hedge against foreign exchange risk.

The decrease in sensitivity of the financial assets portfolio to changes in the valuation of listed equity instruments as at the end of June 2012 compared with the end of June 2011 was due to the lower exposure to equity instruments exposed to price risk.

11.2. Stress tests

In connection with the obligation imposed on insurance companies by the Polish Financial Supervision Authority (PFSA), PZU and PZU Życie performed stress tests of the financial data reported as at 31 December 2011, in accordance with the PFSA's guidelines, and submitted their results by 31 July 2012. The stress tests showed that the PZU Group has sufficient capital to safely continue its operations after strong turbulences in the business environment.

12. Selected other PZU Group companies – directions of development and results of operations

12.1. PZU Lietuva

In the first half of 2012, PZU Lietuva ranked third on the Lithuanian market of property and personal insurance. The Company recorded a significant increase in written premium[19] (21.4%) compared with the comparable period of the prior year and overtook its main competitor, Ergo Lietuva. For comparison, the market grew by 3.8%. The market share of PZU Lietuva increased from 11.5% (the first half of 2011) to 13.5% (the first half of 2012). This is mainly due to the expansion of corporate sales (the brokers' channel).

Plans to open branches of PZU Lietuva in Latvia and Estonia.

In accordance with its strategy, on 10 August 2012, PZU Lietuva submitted an application to the Lithuanian supervisor to open branches in other Baltic markets: the entry in the Latvian market is planned for the 4th quarter of 2012, and to Estonia – the 2nd quarter of 2013. The offer of the branches will include the full range of corporate products (property insurance, general civil liability insurance, financial guarantees, motor insurance etc.). PZU intends to take advantage of its relations with the international companies it insures. In the first years, it is assumed that the offer will be addressed to the corporate client segment and SMEs, based on the own sales network and cooperation with the brokers.

In terms of individual customers, at the beginning PZU Lietuva intends to use an alternative sales network (banks, tourist agencies). The development of an own sales network for individual insurance in Latvia and Estonia is planned provided that both branches make positive financial results.

Capital expenditure will be covered by funds of PZU Lietuva. It is estimated that in the first years of the investment, PZU Lietuva may require additional capital in the form of contributions to capital) of ca. EUR 7 million (LTL 24 million) due to requirements relating to minimum capital and the coverage of the solvency margin.

Additional contributions from shareholders of PZU Lietuva

On 11 April 2012 the Management Board of PZU passed a resolution on covering part of the losses from prior periods of PZU Lietuva by contributing a non-repayable contribution of LTL 7,000 thousand to ensure that PZU Lietuva meets the regulatory requirement of minimum equity (the Lithuanian law requires a company's equity to be at least equal to half the share capital).

As at the end of 2011 this requirement was not met due to PZU Lietuva incurring a net loss for 2011 of LTL 6,854 thousand. On 27 April 2012 the Ordinary General Shareholders' Meeting of PZU Lietuva passed a

[19] Data in local currency (LTL)

resolution on contributing an additional LTL 7,000 thousand. After being contributed by PZU on 10 May 2012, PZU Lietuva met the regulatory requirements specified above.

12.2. PZU Ukraine

In the first quarter of 2012, PZU Ukraine recorded a growth in premium at the level of 104% and maintained its 11th position on the traditional property and personal insurance market in the Ukraine.

PZU Ukraine continues its policy of focusing firstly on profitability, with a lower focus on increasing its market share.

In terms of sales, at the beginning of 2012, a new division of the sales structure was introduced. Six geographical regions were established (the Eastern region, the Central region, the Kiev region, the Western region, the Southern region and the South-Western region) to which the existing sales centres will be reporting. The change is intended to simplify the management of the sales network and to increase responsibility for field results.

12.3. TFI PZU (investment fund management company)

In the first half of 2012, the key activities included:

- activation of a remote distribution channel – an online platform and the IVR system for placing orders;
- obtaining a very good score in the assessment of an independent analyst, Analizy Online, for PZU Gotówkowy (cash fund) and PZU Papierów Dłużnych Polonez (debt securities fund) (4th place in the ranking)
- award of the "Złoty Portfel" award of the stock exchange newspaper *Gazeta Giełdy PARKIET* for the manager of PZU Papierów Dłużnych POLONEZ for very good investment results in 2011;
- launching of a closed-ended fund – PZU FIZ Nieruchomości 3 (real estate);
- a change in the name of the sub-fund PZU Bezpiecznego Inwestowania (secure investment) to PZU SEJF+ (and the planned change in the investment policy of this sub-fund as of 30 July 2012);
- starting work on the launch of a closed-ended investment fund – PZU FIZ Medyczny (medical) and a successful first issue in the CDM Pekao SA network;
- attracting more employee pension funds (for employees of Volkswagen Polska Sp. z. o.o. and Zakłady Azotowe Tarnów)

As at the end of June 2012, the net assets of the investment funds managed by TFI PZU amounted to PLN 6,953,784 thousand (an increase of 29.5% compared with December 2011). As at the end of the first half of 2012, the share of TFI PZU in the investment fund market was 5.4% (compared with 4.7% as at the end of 2011).

12.4. PZU AM (asset management company)

As planned, in the first half of 2012 PZU AM provided services solely to PZU Group companies, i.e. PZU, PZU Życie, TFI PZU and MPTE PZU SA.

In the first half of 2012, PZU AM started managing a new investment portfolio of PZU FIZ Sektora Nieruchomości 3.

12.5. PZU Pomoc SA

Major projects in the first half of 2012 included:

- optimization of Klub PZU Pomoc w Życiu servicing processes;
- implementation of the serving of Program Lekowy VIP;
- in the area of the PZU POMOC ON-LINE bidding platform – starting cooperation with new vendors:

  Towarzystwo Ubezpieczeń i Reasekuracji "Warta" S. A.;

  Sopockie Towarzystwo Ubezpieczeń Ergo Hestia SA;

  Aviva Sp. z o.o.
- signing contracts with ca. 100 medical centres;
- admission for medical care of nearly 45 thousand clients under health insurance held.

12.6. PZU CO

In the first half of 2012, PZU CO executed a number of projects planned for this period which include, *inter alia*, the following:

- launching the handling and distribution of the Individual Pension Account product for PTE PZU and handling for PZU Życie;
- increasing the number of insured in the PZU CO portfolio (as the insurer);
- starting selling group property products to the customers holding group insurance of PZU Życie.

ADDITIONAL INFORMATION

13. Information on shareholders of PZU

13.1. PZU's shareholders holding at least 5% of the total voting rights at the GSM

As at the date of this of this Report of the acitivities of the PZU Group the structure of the shareholding of PZU, taking into account shareholders holding at least 5% of the total voting rights at the General Shareholders' Meeting of PZU, is a as follows:

Table 33

No.	Shareholder	Number of shares and voting rights held	Interest in the share capital and percentage of voting rights at the GSM
1	State Treasury	30,385,253	35.19%
2	Other shareholders	55,967,047	64.81%
Total		**86 352 300**	**100,00%**

13.2. Changes in the ownership structure of significant packages of the Issuer's shares

In the period from 1 January 2012 to the date of this Directors' Report of the PZU Group, there was a significant change in the ownership structure of significant packages of shares in PZU. The change involved a decrease in the shares held by ING Otwarty Fundusz Emerytalny managed by ING Powszechne Towarzystwo Emerytalne S.A. As a result of selling shares in transactions settled on 24 July 2012, ING Otwarty Fundusz emerytalny decreased its shareholding in PZU to below 5% of the voting rights at the Company's GSM. Before the disposal of shares, ING Otwarty Fundusz Emerytalny held 4,323,801 shares in PZU which represented 5.01% of the Company's share capital and the same percentage of total voting rights. After the change, ING Otwarty Fundusz Emerytalny hold 4,266,518 of the Company's shares which represents 4.94% of the Company's share capital and the same percentage of total voting rights.

14. Shares or rights to shares held by members of the managing and supervisory bodies of PZU as at the date of submission of the half-yearly report

Table 34: Shares or rights to shares held by members of the managing and supervisory bodies of PZU

No.	Body/Full name	Number of shares held as at 15 May 2012	Number of shares held as at 29 August 2012	Change in the intervening period
	Management Board			
1	Andrzej Klesyk	0	0	X
2	Witold Jaworski	0	0	X
3	Przemysław Dąbrowski	0	0	X
4	Bogusław Skuza	500	500	X
5	Ryszard Trepczyński	0	0	X
6	Tomasz Tarkowski	80	80	X

No.	Body/Full name	Number of shares held as at 15 May 2012	Number of shares held as at 29 August 2012	Change in the intervening period
	Group Directors			
1	Rafał Grodzicki	0	0	X
2	Dariusz Krzewina	0	0	X
3	Przemysław Henschke	0	0	X
4	Sławomir Niemierka	0	0	X
	Supervisory Board			
1	Marzena Piszczek (SB Member to 30.05.2012)	0	n/a	
2	Waldemar Maj	30	30	X
3	Zbigniew Ćwiąkalski	0	0	X
4	Krzysztof Dresler (SB Member to 30.05.2012)	0	n/a	X
5	Dariusz Filar	0	0	X
6	Dariusz Daniluk	0	0	X
7	Zbigniew Derdziuk	0	0	X
8	Włodzimierz Kiciński (SB Member from 30.05.2012)	n/a	30	
9	Alojzy Nowak (SB Member from 30.05.2012)	n/a	0	
10	Maciej Piotrowski (SB Member from 30.05.2012)	n/a	0	
11	Tomasz Zganiacz (SB Member from 30.05.2012)	n/a	0	
Total		**610**	**640**	

n/a - these people were not members of the Supervisory Board of PZU as at a given date

As at the date of the PZU Group Directors' report, the persons managing and supervising PZU held no shares or interests in the other PZU Group companies.

15. Other information

15.1. Changes in the composition of the PZU's managing and supervisory bodies

15.1.1. The Management Board of PZU

As at 30 June 2012, the Management Board of the PZU comprised:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Witold Jaworski - Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board;
- Bogusław Skuza – Member of the Management Board.

During the period from 1 January to the date of this PZU Group Directors' Report there were no changes in the composition of the Management Board of PZU.

15.1.2. The Supervisory Board of PZU

As at 31 December 2011, the composition of the Supervisory Board of PZU was as follows:

- Marzena Piszczek - Chairperson of the Supervisory Board;
- Zbigniew Ćwiąkalski – Deputy Chairperson of the Supervisory Board;
- Krzysztof Dresler – Secretary of the Supervisory Board;
- Waldemar Maj – Member of the Supervisory Board;
- Dariusz Filar - Member of the Supervisory Board;
- Zbigniew Derdziuk - Member of the Supervisory Board;
- Dariusz Daniluk - Member of the Supervisory Board.

On 30 May 2012, Mr Krzysztof Dresler resigned as Member of the Supervisory Board of PZU.

At the same time, on 30 May 2012, the Ordinary General Shareholders' Meeting of PZU ("GSM PZU") determined that the number of members of the Supervisory Board of PZU would be 9. Moreover, on the same day the GSM PZU changed the composition of the Supervisory Board by dismissing, as of 30 May 2012, Ms Marzena Piszczek as Chairperson of the Supervisory Board of PZU and appointed the following people to the Supervisory Board as of 30 May 2012:

- Włodzimierz Kiciński;
- Alojzy Nowak;
- Maciej Piotrowski;
- Tomasz Zganiacz.

As at 30 June 2012 and as at the date of this PZU Group Directors' Report, the composition of the Supervisory Board of PZU was as follows:

- Waldemar Maj – Chairman of the Supervisory Board;
- Zbigniew Ćwiąkalski – Deputy Chairman of the Supervisory Board;
- Tomasz Zganiacz – Secretary of the Supervisory Board;
- Zbigniew Derdziuk – Member of the Supervisory Board;
- Dariusz Daniluk - Member of the Supervisory Board;
- Dariusz Filar - Member of the Supervisory Board;
- Włodzimierz Kiciński - Member of the Supervisory Board;
- Alojzy Nowak - Member of the Supervisory Board;
- Maciej Piotrowski - Member of the Supervisory Board.

15.1.3. PZU Group Directors

On 7 February 2012, Przemysław Henschke was appointed PZU Group Director, Head of the Technology Function.

On 16 March 2012, with effect as of 19 March 2012, Sławomir Niemierka was appointed PZU Group Director in charge of the security and risk area.

Taking into account the above changes, as at 30 June 2012, the following people were Directors of the PZU Group:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

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

15.2. Issues, redemption and repayments of debt and equity securities

In the first half of 2012, PZU did not execute any issues, redemption or repayment of debt or equity securities.

15.3. The price of shares in PZU

PZU's shares were floated on the Warsaw Stock Exchange on 12 May 2010. The Company's shares are listed on the main market of the WSE in the continuous trading system. PZU's shares are included in the composition of the following indices: WIG, WIG20, WIG PL and RESPECT Index

Chart: 1 Development of PZU's share prices in 2011 compared with the WIG20 Index 31.12.2011 = 100%

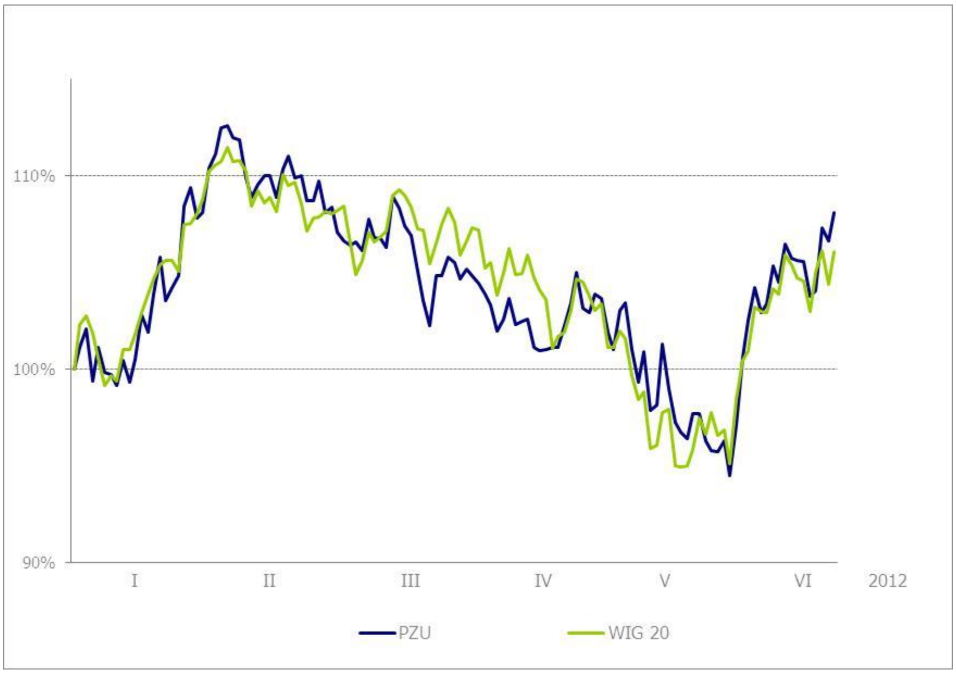


Chart: 2 Trading in PZU's shares (price, volume) in the first half of 2012

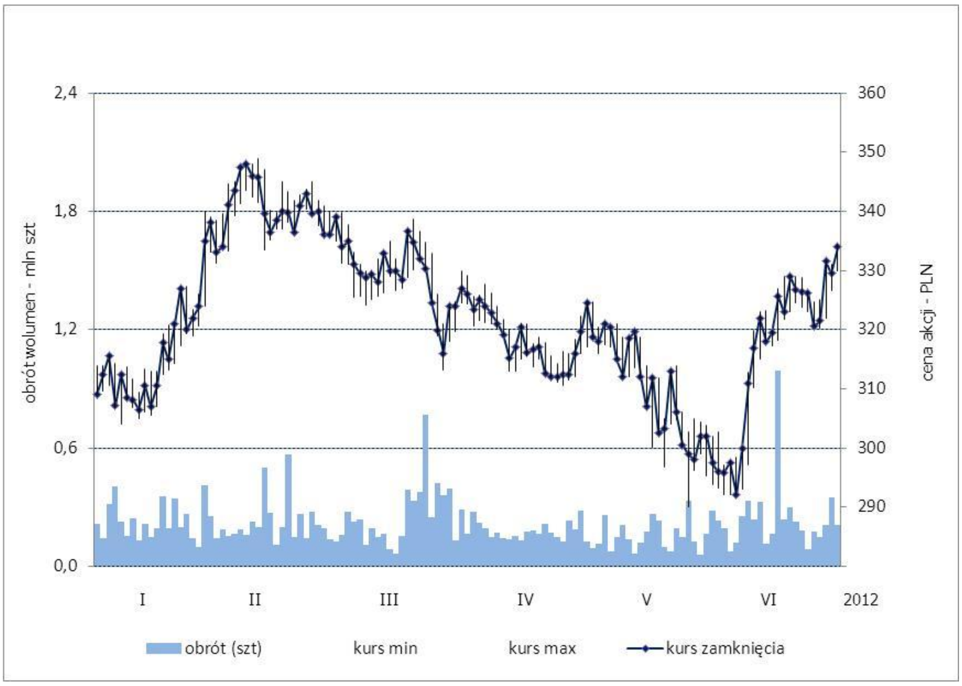


Table 35: Key data on PZU's shares

	measurement unit	1 January - 30 June 2012	1 January - 30 June 2011
Number of shares at end of period	pcs.	86,352,300	86,352,300
Number of shares in trading	pcs.	86,344,698	86,344,698
Closing share price at last year-end quotation	PLN	334.00	375.00
Highest closing stock price during the year	PLN	348.00	396.80
Lowest closing share price during the year	PLN	292.10	337.50
Market value of PZU at end of year	PLN	28,841,668,200	32,382,112,500
Average market price	PLN	321.97	362.93
Average trading volume per session	pcs.	216,310	265,181
(Gross) dividend paid during the year from the prior year profit	PLN per share	22.43	26.00

In the first half of 2012, PZU's share prices were affected by mood swings among the investors driven by a difficult situation in some euro area countries (Greece, Italy and Spain).

The closing price of PZU's shares on the last stock exchange session in the first half of 2012 was PLN 334.00. Compared with the price on the last day of December 2011 of PLN 309.00, this meant an increase of 8.1%. In the same period, WIG20 and WIG indices increased by 6.1% and 8.6%, respectively.

In the first half of 2012, at the end of the stock exchange sessions, PZU's shares recorded decreases 63 times, increases 57 times and remained unchanged 4 times. The highest closing rate (PLN 348.00) was recorded on 6 February, and the lowest (PLN 292.10) on 5 June. In the reporting period, the average market price of PZU's shares amounted to PLN 321.97 and was PLN 40.96 lower than in 2011. In 2012, the average daily volume of trading in PZU's shares amounted to 216,310 and the highest level (993,896) was recorded on 15 June 2012.

PZU is included in the list of 21 domestic and foreign financial institutions which analyze the operations and results of PZU and prepare the valuation and recommendations for the target price of shares. In the first half of 2012, 20 recommendations were issued for PZU's shares. The majority were "buy", "accumulate" and "overweight" recommendations – 13 recommendation in total, with 4 neutral recommendations ("hold" or "neutral") and 3 "underweight" recommendations.

Table 36: Equity market indicators for the PZU Group

Equity market indicators for the PZU Group as at	30 June 2012	30 June 2011
P / BV	2.25	2.65
Market price of shares / book value per share		
BVPS	148.27	141.64
Book value per share		
P / E	16.21	20.86
Price / earnings per share		

EPS (PLN)	20.60	17.98
Net profit/(loss) / number of shares		
DY Dividend yield (%)	6.7%	6.9%
Dividend per share / market price of a share		
DPS (PLN)*	22.43	26.00
Dividend per share		
TSR Total shareholders' return	8.1%	5.5%
(The market price of a share at the end of the period – market price of a share at the start of the period + dividend paid during the period) / market prices of a share at the start of the period		

* In accordance with the resolution of the PZU General Shareholders' Meeting on the payment of dividend, passed on 30 May 2012 as a result of the distribution of the profit for the year ended 31 December 2011, the date for the dividend payment was set for 20 September 2012.

15.4. Dividend

15.4.1. The dividend policy

The Management Board of PZU continues to follow the dividend policy adopted by resolution on 11 May 2011. The dividend policy is as follows:

1. The consolidated net profit/loss of the PZU Group under IFRS will be the basis for determining the dividend paid for a given financial year.
2. The dividend level:
   - cannot be lower than 20% or higher than 100% of the net profit reported in the consolidated financial statements prepared in accordance with IFRS;
   - cannot be higher than non-consolidated net profit of PZU in accordance with Polish accounting standards ("PAS");
   - cannot result in a reduction in PZU's equity below the value representing 250% of the solvency margin;
   - cannot result in the lowering of the PZU Group to below the level corresponding to the AA rating in the Standard & Poor's methodology;
   - should take into account PZU's additional capital needs in the horizon of 12 months from the approval by the Management Board of the consolidated financial statements of the PZU Group for a given year.
3. The equity and solvency margin are calculated in accordance with the prudential standards determined for the Polish insurance market.

The resolution on the dividend policy is effective from the effective date of the articles referred to in Article 311 of the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

15.4.2. Appropriation of the net profit for 2011

On 12 April 2012, the Management Board of PZU adopted a resolution accepting the proposed appropriation of the net profit for 2011, recommending the payment of the dividend of PLN 1,752,952 thousand, i.e. PLN 20.30

per share. On 08 May 2012, the proposition of the Management Board received a positive opinion of the Supervisory Board of PZU, and was submitted for consideration to the GSM PZU.

On 30 May 2012, the Ordinary Shareholders' meeting of PZU adopted Resolution No. 8/2012 on the following appropriation of the profit of PZU for the year ended 31 December 2011 of PLN 2,582,303 thousand:

- PLN 1,936,882 thousand – to be paid out as a dividend to shareholders;
- PLN 635,421 thousand to be transferred to supplementary capital;
- PLN 10,000 thousand – to be transferred to the Company Social Fund.

In accordance with the said Resolution, PLN 1,936,882 thousand was earmarked for the payment of dividend, i.e. PLN 22.43 per share. 30 August 2012 will be the date for determining the list of shareholders entitled to receive dividend for the financial year ended 31 December 2011, and 20 September 2012 will be the date of payment of the dividend.

The Resolution of the GSM PZU on the appropriation of the profit for the year ended 31 December 2011 complies with the recommendation of the PFSA to insurance companies which limits the payment of the dividend to a maximum of 75% of the net profit for 2011. Thus, the remaining 25% of the profit earned will be transferred to supplementary capital.

This is intended to ensure an appropriate capital buffer to enable PZU to maintain a stable position and to ensure better protection of the interests of both the insurers and the insured in the case of a crisis in the euro area.

15.5. Discontinued operations

In the first half of 2012, consolidated companies of the PZU Group did not discontinue any of their operations.

A non-consolidated subsidiary ICH Center SA has discontinued its statutory operations (i.e. handling loss adjustment under the Green Card) since the beginning of 2011, and has been in the course of liquidation since 16 March 2012.

Moreover, the Extraordinary Shareholders' Meeting of Sigma Investments Sp. z o.o. (a company excluded from consolidation) issued a resolution dated 19 July 2012 to start liquidation of the company as of 1 August 2012.

15.6. Material post-balance sheet date events

Starting another stage in the employment restructuring process

This matter has been discussed in item 0

Another stage of transferring investment to investment funds

On 24 July 2012, PZU and PZU Życie subscribed to B series investment certificates of PZU Fundusz Inwestycyjny Zamkniety Akcji by making the following payments:

PZU – a monetary payment of PLN 79,000 thousand and payment in the form of shares classified to the "held for trading" portfolio of PLN 361,712 thousand;

PZU Życie – in the form of shares classified to the "held for trading" portfolio of PLN 591,000 thousand.

On 25 July, TFI PZU allocated investment certificates of PLN 437,500 thousand to PZU and of PLN 585,700 thousand to PZU Życie. The difference between the value of subscription and the issuing price was returned to the accounts of PZU and PZU Życie.

The operation was intended to bring similar effects as the transfer of a portion of debt securities to an investment fund, discussed in item 4.3.

The transaction will not affect the net assets or the net profit of the PZU Group.

15.7. Guarantees and sureties for loans or borrowings, together with those granted to the Issuer's related entities

In the first half of 2012, neither PZU nor its subsidiaries granted any loan guarantees or other guarantees - jointly to a single entity or its subsidiary – when the total value of the existing guarantees exceeded the equivalent of at least 10% of the equity of PZU.

15.8. Pending litigation, arbitration or administrative proceedings

PZU Group companies participate in many disputes before courts or arbitration bodies and in administrative proceedings. Typical claims in court in which the PZU Group companies are involved include disputes relating to the concluded insurance contracts, disputes relating to employment relations and disputes relating to contractual obligations. Typical administrative proceedings in which the PZU Group companies are involved include the proceedings associated with the holding of real estate. These proceedings and disputes are typical and recurring and usually none of the individual cases is of material importance to the PZU Group.

The majority of disputes involving the PZU Group companies relates to two companies: PZU and PZU Życie. In addition, PZU and PZU Życie are parties in the proceedings before the President of the Office of Competition and Consumer Protection.

PZU and PZU Życie take into account disputed claims when setting up technical reserves for reported claims considering the probability of an unfavourable outcome of the dispute and estimating the value of the likely judgment. In the case of disputes relating to disability allowance revaluation in PZU Życie, claims are recorded in other technical reserves at the amount of annual disability allowance in excess of the corresponding amount of the provision included in the actuarial reserve in life insurance.

During the 6 months ended 30 June 2012 and by the date of submitting this interim report, within the PZU Group there was no pending litigation, arbitration or administrative proceedings relating to liabilities or receivables of PZU or its direct or indirect subsidiaries whose individual value would represent at least 10% of the equity of PZU respectively.

As at 30 June 2012, the value of all 34,533 cases pending before the court, competent arbitration bodies or public administration bodies and involving PZU Group entities amounted to PLN 1,903,694 thousand. Within this amount, PLN 1,533,630 thousand relates to liabilities, and PLN 370,064 thousand related to receivables of the PZU Group companies, representing 13.19% and 3.18%, respectively, of PZU's equity according to PAS.

15.8.1. Repealing of the resolution of the GSM PZU on the appropriation of PZU's profit for the financial year 2006

By the Statement of Claims of 30 July 2007 submitted by Manchester Securities Corporation, proceedings were instituted against PZU seeking that Resolution No. 8/2007 of the GSM PZU of 30 June 2007 on the appropriation of PZU's profit for the financial year 2006 be repealed, on the grounds of its being contrary to good practices and intended to be detrimental to the Claimant, a shareholder of PZU.

The said resolution distributed the net profit for 2006 of PLN 3,280,883 thousand as follows:

PLN 3,260,883 thousand was transferred to supplementary capital;

PLN 20,000 thousand was transferred to the company Social Fund.

By decision of 22 January 2010, the Regional Court in Warsaw repealed the said Resolution in its entirety. On 17 February 2010, PZU appealed against the decision of the Regional Court in Warsaw.

By decision of 6 December 2011, the Court of Appeals in Warsaw fully dismissed PZU's appeal against the decision of the Regional Court in Warsaw of 22 January 2010. As of the date of announcing the decision of the Court of Appeals, the decision of the Regional Court of 22 January 2010 repealing the said resolution of the GSM PZU became legally valid.

On 7 December 2011, PZU submitted a motion for a written justification for the decision of the Court of Appeals of 6 December 2011. On 2 April 2012, the decision of the Court, including its justification, was delivered to PZU.

On 29 May 2012, PZU submitted a cassation complaint in which the decision of the Court of Appeals of 6 December 2011 was challenged in its entirety.

In the opinion of PZU, the repealing of the said resolution of the GSM PZU does not give rise to any claims on the part of a shareholder for the payment of dividend by PZU.

Irrespective of the above, in connection with the fact that the decision which repealed the said resolution became legally valid, the agenda for the GSM PZU convened for 30 May 2012 contained an item relating to the adoption of a resolution distributing the net profit of PZU for the financial year 2006.

The Management Board recommended that the GSM PZU appropriate the profit for the financial year 2006 in the same way as in the resolution repealed by the decisions referred to above, because after the resolution had been adopted, PZU paid the dividend for 2009, also from the profits retained on the basis of the said resolution.

On 30 May 2012, the GSM PZU adopted a resolution on the appropriation of the profit for the financial year 2006 in the same way as in the repealed resolution. Manchester Securities Corporation objected against the Resolution of 30 May 2012 and the objection was recorded in the Minutes.

On 20 August 2012, PZU was delivered a copy of the Statement of Claims brought by Manchester Securities Corporation to the Regional Court in Warsaw demanding that the resolution of the GSM PZU of 30 May 2012 on the appropriation of the profit for the financial year 2006 be repealed.

As at the balance sheet date of 30 June 2012, no changes in the presentation of PZU's equity were made to reflect the repealing of the said resolution of the GSM PZU, including the items "Supplementary capital" and "Retained earnings/Accumulated losses", the resources of the company Social Fund were not adjusted and no provisions were recognized to reflect any potential additional claims resulting from the repealing of the said resolution of the GSM PZU.

15.8.2. Proceedings of the Office of Competition and Consumer Protection against PZU

Penalty imposed in 2009 in respect of contract templates

By decision of 30 December 2009, the President of the Office of Competition and Consumer Protection imposed a penalty of PLN 14,792 thousand on PZU for the pursuit of practices which are detrimental to the collective interest of consumers, consisting of:

including in contract templates the terms and conditions entered in the Register of Prohibited Terms and Conditions in Template Contracts;

illegally including in contract templates terms and conditions which infringe Art. 813 para. 1 of the Civil Code, by introducing the premise, not included in the said Article, of unused insurance amount as the condition determining the level of premium returned to consumers by the insurance company in respect of an unused period of insurance protection.

PZU disagrees with both the substance of and the justification for the decision of the Office of Competition and Consumer Protection. On 18 January 2010, PZU appealed against this decision to the Competition and Consumer Protection Court (as a result, the decision has not become valid). By decision of 14 November 2011, the Competition and Consumer Protection Court ("CCPC") dismissed PZU's appeal against the said decision. On 14 December 2011, PZU appealed to the Court of Appeals in Warsaw. By decision of 5 July 2012, the Court of Appeals in Warsaw revoked the decision of CCPC of 14 November 2011 for re-consideration.

Irrespective of the appeal, PZU set up a provision for the said penalty of PLN 14,792 thousand as at both 30 June 2012 and 31 December 2011.

Penalties imposed in 2011

The case relating to reimbursement of the costs of leasing a replacement car

By decision of 18 November 2011, the President of the Office of Competition and Consumer Protection imposed a penalty of PLN 11,287 thousand on PZU for the pursuit of the practice detrimental to the collective interest of consumers referred to in Art. 24 clauses 1 and 2 of the Act on the protection of competition and consumers (Journal of Laws of 2007, item 331, as amended), consisting of limiting the liability of PZU towards customers adjusting claims under insurer's guarantee obligation resulting from a mandatory civil liability insurance contract of an owner of a motor vehicle by:

not recognizing the inability to use a damaged vehicle as a property loss and making the payment of damages for renting a replacement car conditional upon the insured person's providing proof of extraordinary circumstances which made renting a replacement car necessary;

unjustified exclusion when determining the amount of refund for the costs of renting a replacement car in the period of the garage waiting for spare parts;

and demanded that said practices be discontinued.

The Management Board of PZU disagrees with both the decision and its legal and factual justification.

PZU appealed against the said decision on 5 December 2011 (as a result, the decision has not become valid). In its appeal, PZU raised a number of claims.

Irrespective of the appeal, PZU set up a provision for the said penalty of PLN 11,287 thousand as at both 30 June 2012 and 31 December 2011.

The case relating to selling group accident insurance

By decision of 30 December 2011, the President of the Office of Competition and Consumer Protection imposed a monetary penalty of PLN 56,605 thousand on PZU for the pursuit of a practice limiting competition and infringing a ban set out in Art. 6 clause 1 item 3 of the Act on the protection of competition and consumers, consisting in the conclusion by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") of an agreement which limits competition on the domestic market of group accident insurance for children, youth and personnel of educational facilities. The agreement consisted in dividing the market regionally by referring PZU's clients in the region of the Kujawsko-Pomorskie Province to be serviced by Maximus Broker, in exchange for Maximus Broker's recommending PZU's insurance to such clients. At the same time, the President of the Office of Competition and Consumer Protection prohibited pursuing this practice by PZU.

The Management Board of PZU disagrees with both the determination of the factual situation and the legal arguments presented in the decision. In the opinion of the Management Board of PZU, when issuing the decision, not all evidence was taken into account and the legal qualification was erroneous.

PZU appealed against the said decision on 18 January 2012 (as a result, the decision has not become valid). In its appeal, PZU stated, *inter* alia, the following:

no agreement (except for the brokerage agreement) was concluded by PZU and Maximus Broker;

the President of the Office of Competition and Consumer protection misunderstands the process of concluding insurance agreements through a broker;

the majority of insurance contracts concluded via Maximus Broker were signed with insurers other than PZU;

PZU and Maximus Broker cannot and could not compete in the markets in which they operate.

Irrespective of the appeal, PZU set up a provision for the said penalty of PLN 56,605 thousand as at both 30 June 2012 and 31 December 2011.

15.8.3. Proceedings of the Office of Competition and Consumer Protection against PZU Życie

On 1 June 2005, the President of the Office of Competition and Consumer Protection instituted, at the request of several applicants, antimonopoly proceedings in respect of a suspicion that PZU Życie had abused its dominant position on the market of group employee insurance which may represent an infringement of Art. 8 of the Act on Competition and Consumer Protection and of Art.82 of the Treaty establishing the European Community. As a result of the proceedings, by decision of 25 October 2007, the President of the Competition and Consumer Protection Office imposed a penalty of PLN 50,384 thousand on PZU Życie for obstructing the use of the offers of its competitors.

The Management Board of PZU Życie disagrees with both the determination of the factual situation and the legal arguments presented in the decision. In the opinion of the Management Board of PZU, when issuing the decision, not all evidence was taken into account and the legal qualification was erroneous. As a consequence, an unjustified assumption was made that PZU Życie has a dominant position on the market.

PZU Życie appealed against this decision to the Competition and Consumer Protection Court, raising 38 complaints, relating to both the substance and legal and formal aspects of the decision of the President of the Office of Competition and Consumer Protection. By decision of 31 May 2010, the Court dismissed the appeal of PZU Życie, justifying its decision by the fact that the decision of the President of the Office of Competition and Consumer Protection of 25 October 2007 had not been correctly delivered to PZU Życie and therefore the period for PZU Życie to appeal from the said decision had not started. The decision of the Court was appealed against by both parties. Having considered the complaints of the Plaintiff and the defendant, by decision of 26 October 2010, the court of the second instance revoked the appealed decision.

By judgment of 17 February 2011, the Competition and Consumer Protection Court of the Regional Court in Warsaw partly changed the appealed decision, but at the same time it dismissed the appeal of PZU Życie as regards the amount of the penalty imposed. On 06 May 2011, PZU Życie appealed against this judgment. The trial before the Court of Appeals was set for 21 August 2012 when the Court of Appeals deferred the trial without setting the date for the next trial.

Irrespective of the appeal, PZU Życie set up a provision for the said penalty of PLN 50,384 thousand as at both 30 June 2012 and 31 December 2011.

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

On 9 April 2010, the Arbitration Court delivered a Statement of Claims against PZU Życie in the case brought by CSC Computer Sciences Polska Sp. z o.o. ("CSC") against PZU Życie whereby CSC demands the payment of EUR 8,437 thousand in total in respect of the implementation of the GraphTalk system at PZU Życie. As a results of subsequent changes in the claim, CSC currently demand the payment of PLN 36,923 thousand.

The disputed amount covers CSC's claims in respect of license fees for the completion of implementation work, for computer system maintenance services, repair services, remuneration for computer systems, a penalty and capitalized interest.

On 31 May 2010, in response to the said complaint, PZU Życie applied to the Arbitration Court to determine its temporary lack of competence to consider some of the claims and for the dismissal of the complaint in its entirety. In the opinion of PZU Życie, CSC's claims are either groundless or failed to be proven.

Together with its response to the Statement of Claims, PZU Życie filed a cross-complaint against CSC, demanding the payment of PLN 71,890 thousand representing the return of remuneration collected by CSC based on the agreement concluded, or alternatively representing damages for undue performance of the contractual obligations. In response to the Cross-complaint, on 31 August 2010 CSC applied for dismissing PZU Życie's claim in its entirety, indicating that there were no grounds for taking into account the complaint of PZU Życie.

On 31 January 2012, a trial before the Arbitration Court of the National Chamber of Commerce in Warsaw was held, and on 19 June 2012 the Arbitration Court closed the proceedings. The judgment will not be issued before 13 September 2012.

In addition, on 21 December 2010 PZU Życie submitted to the District Court in Warsaw a motion requesting an attempt to amicably reach a settlement with CSC with respect to the payment of damages of PLN 123,326 thousand for undue performance of the contract, or alternatively returning the remuneration paid to CSC based on the respective contract of PLN 71,890 thousand. At the court meeting on 8 February 2011, an amicable settlement was not reached. The Court discontinued the said proceedings requesting an attempt to amicably reach the settlement. The decision is valid.

15.8.5. Receivables resulting from a mortgage loan agreement with Metro-Projekt Sp. z o.o.

In 1999, PZU Życie granted Metro-Projekt Sp. z o.o. (hereinafter: "Metro-Projekt) a mortgage loan for five years. The loan amounted to the equivalent of USD 25,500 thousand. The loan was secured with a capped mortgage on real property comprising the right to perpetual usufruct of land and a building owned by Metro-Projekt, situated in Warsaw at Al. Jerozolimskie 44.

The loan has not been repaid and in November 2002, Metro-Projekt was declared bankrupt.

On 15 September 2004, the receiver of Universal SA w upadłości (in bankruptcy) (hereinafter: "Universal") brought a claim to the Regional Court in Warsaw for exclusion from the estate in bankruptcy of Metro-Projekt of the real property located at Al. Jerozolimskie 44 in Warsaw, in connection with the entry in section III of the Land and Mortgage Register of a warning of pending litigation between Universal and BI Code SA ("BI Code") for invalidation of the sale of the real property by Universal to BI Code from which Metro-Projekt purchased the real property. In the light of the above, on 21 September 2004, the Regional Court in Warsaw issued a decision suspending the liquidation of the estate of Metro-Projekt until the conclusion of the case relating to the exclusion of the said real property from the estate in bankruptcy.

The case for invalidation of the agreement on the transfer of the right to perpetual usufruct of land and the ownership of the office building located in Warsaw at Al. Jerozolimskie 44 was decided on 7 March 2006 – the Court of Appeals in Warsaw dismissed Universal's claim against BI Code. However, in August 2006, the receiver of the Universal's estate in bankruptcy brought a cassation appeal to the Supreme Court.

After the judgment of the Court of Appeals of 7 March 2006 became valid, Metro-Projekt applied for deleting from section III of the Land and Mortgage Register the warning on pending litigation instituted by Universal against BI Code to invalidate the said sales agreement. The decision to delete the entry referred to above was issued on 3 November 2006.

On 14 March 2007, the Supreme Court revoked the decision of the Court of Appeals and sent the case for re-consideration to the Court of Appeals. On 21 November 2007, the Court of Appeals revoked the decision of the Regional Court and sent the case for re-consideration to the Regional Court.

On 11 September 2009, the Regional Court pronounced the judgment in the case instituted by the receiver of Universal's estate in bankruptcy against the receiver of BI Code's estate in bankruptcy to pronounce the invalidity of the agreement concluded by Universal and BI Code for the sale of the right to perpetual usufruct of land and the ownership of the building. In the judgment, the Court declared the said sales agreement invalid. The receiver of the estate in bankruptcy of BI Code appealed against this judgement. By decision of 29 July 2010, the appeal was dismissed. The receiver of the estate in bankruptcy of BI Code brought a cassation appeal to the Court of Appeals. The Cassation appeal was not accepted for consideration, and therefore the proceedings ended.

In January 2011, the receiver of the estate in bankruptcy of Metro-Projekt applied for resuming the proceedings suspended in 2005 of the case pending before the Regional Court brought by the receiver of the estate in bankruptcy of Universal to exclude the right to perpetual usufruct of land and the separate ownership right to a building located on the respective land from the estate in bankruptcy of Metro-Projekt. On 30 May 2011, the Regional Court dismissed Universal's claim in this case.

The decision was not valid, and on 12 September 2011 the receiver of Universal's estate in bankruptcy appealed against the decision. By decision of 23 February 2012, the Regional Court in Warsaw dismissed the claim of the receiver of Universal's estate in bankruptcy for exclusion from the estate in bankruptcy of Metro-Projekt of the real property located at Al. Jerozolimskie 44 in Warsaw. The trial was ended by a valid judgment.

By motion of 9 May 2012, the receiver of the bankruptcy estate of Metro-Projekt applied to the Bankruptcy Judge for permission to conclude an amicable settlement with the receiver of the estate in bankruptcy of Universal concerning the disputed claims between the two estates in bankruptcy. As a result of the settlement, in exchange for Universal's estate in bankruptcy renouncing any claims, the estate in bankruptcy of Metro-Projekt was to be charged with an additional PLN 5,722 thousand for the benefit of Universal's estate in bankruptcy. By decision of 31 May 2012, the Bankruptcy Judge gave permission to this amicable settlement. The decision is valid.

Due to the fact that the receiver of Universal's estate in bankruptcy declared, in the form of a notarial deed, that he renounced any claims against Metro-Projekt, the receiver of Metor-Projekt's estate in bankruptcy paid the said amount to the estate in bankruptcy of Universal on 05 July 2012.

In the opinion of the Management Board of PZU, the mortgage registered for the benefit of PZU Życie exists, and PZU Życie is entitled to seek satisfaction for its claims from any owner.

15.9. Transactions with related parties

In the first half of 2011, PZU and its subsidiaries did not conclude any transaction or transactions with related parties which would be material, individually or jointly, and concluded on terms other than an arms' length basis.

15.10. Seasonality or cyclicality of operations

The operations of the PZU Group is not of a seasonal or cyclical nature to an extent which justifies the application of paragraph 21 of IAS 34.

15.11. Combination of commercial companies

In the first half of 2012, there were no transactions involving the combination of PZU and other companies.

15.12. Termination of collective labour agreements and changes to employment contracts

On 28 February 2012, the Management Boards of PZU and PZU Życie terminated the Collective Labour Agreements (CLA) which have been in force in these companies since 2003 and 2006, respectively, mainly due to the need to implement a new remuneration system, more motivating and better adjusted to the market. The proposed rules provide for, *inter alia*, the introduction from the 4th quarter of 2012 of new rules for bonuses: a monthly bonus of up to 25% of the monthly basic salary will be replaced by a quarterly bonus of up to 30% of the quarterly basic salary (depending directly on the degree of achievement of the targets) and abolition of other employee benefits exceeding those resulting from the Labour Code.

The negotiation of the new payroll regulations with trade unions were conducted between 28 February and 26 April and were finished when the trade unions issued a negative opinion on the proposed remuneration system. Due to the possibility of the termination of employment contracts as a result of employees' rejecting the new remuneration rules, PZU and PZU Życie announced their intention to conduct group redundancies. Negotiations in this respect with trade unions were conducted until 27 April 2012 and did not result in signing an agreement. Consequently, on 7 May 2012, the Management Boards of PZU and PZU Życie determined the terms and conditions of group redundancies in the form of a regulation and specified the remuneration terms which will be proposed to employees until the determination of the new remuneration system in agreement with trade unions.

The process of changing the employment contract of all employees of PZU and PZU Życie started on 9 May 2012 and ended on 6 July 2012. The process involved individual meetings with employees at which their superiors and HR representatives proposed to each employee that they conclude an agreement amending their employment contracts and containing the new remuneration rules. If an employee did not accept the amended terms of employment by mutual agreement, the employer delivered a termination notice amending the employment contract – this related to ca. 200 people which represented less than 2% of the employees. The exact number of employees who accepted the terms of the termination notice will be known at the beginning of September 2012.

Changes in the principles of remuneration did not considerably affect the amount of salaries and wages and employee benefits incurred in the 6-month period ended 30 June 2012. Changes in the principles of remuneration were not reflected in the amount of the provision for employee benefits, which amounted to PLN 259,848 thousand as at the balance sheet date because the company is still analyzing the possibilities of using the provision for employee benefits accrued by the date of terminating Collective Labour Agreements. The works are planned to be completed by the end of 2012.

15.13. Employment restructuring in PZU and PZU Życie

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

In the first half of the current year, people terminated their employment with PZU and PZU Życie as a result of employment termination agreements or termination notices, or as a result of the employee refusal to accept amended terms of employment or remuneration, irrespective of the employer's intention.

As part of the group redundancy process conducted in the 2nd quarter of 2012 in connection with the termination of the CLA, organizational changes in the mass sales division of PZU were implemented. They consisted in implementing a new management model and switching from the existing "multi-channel" management to "single-channel" management, as well as creating separate positions dedicated to each sales channel. As a result of adjusting the employment to the new structure, ca. 60 people (less than 5% of the employees of the sales area) did not accept the proposed terms of employment.

Persons dismissed or those who did not accept the proposed changes in their terms of employment at all stages of the restructuring (i.e. in 2010-2012) were offered more favourable terms of termination that those specified by the law in similar circumstances (the Act of 13 March 2003 on specific rules for terminating employment for non-employee related reasons, Journal of Laws No. 90 of 2003, item 844, as amended, "the Act on specific rules for terminating employment"). The level of severance pay under various restructuring processes was different, but it always depended on the remuneration levels of the employees and their years in service with the PZU Group.

On 10 July 2012, the Management Boards of PZU and PZU Życie decided to continue the employment restructuring process in PZU and PZU Życie and requested the trade unions operating in these companies to join them in developing agreements on group redundancies, in accordance with the Act on specific rules for terminating employment, and submitted information on the initiation of the group redundancy procedure to the relevant Poviat Employment Office.

On 24 July 2012, PZU and PZU Życie and the trade unions operating in these companies concluded an agreement on the terms of employment restructuring. The final shape of the document was prepared based on the experience gained and solutions developed during similar negotiations in prior years. The agreement contains information on the number of people covered with the restructuring, the selection criteria for dismissals, the financial package, the principles for protection of selected employee groups and the timetable.

It is planned that this stage of the employment restructuring in PZU and PZU Życie will be conducted between 13 August and 11 October 2012. It will cover up to 955 people in both companies (it is planned that 376 employees will be made redundant and 579 will be offered amended terms of employment based on mutual agreement or a termination notice amending the terms of employment).

The current stage of employment restructuring is the consequence of completing many projects consisting of simplifying procedures, automating and optimizing processes and centralizing certain functions. The restructuring will affect mostly the areas of operations, finance and loss adjustment and benefits.

Similarly to the prior stages of the restructuring, persons dismissed or those who do not accept the proposed amended terms of employment will be offered termination terms more favourable than those provided for by the law in similar circumstances. The financial package will depend on the years of service of a given employee with the PZU Group and the level of his/her remuneration.

The total costs of the restructuring recognized against the related provision in the period from 1 January to 30 June 2012 amounted to PLN 37,364 thousand (PLN 58,169 thousand in the entire 2011, PLN 17,728 thousand from 1 January to 30 June 2011).

As at 30 June 2012, the provision for restructuring costs amounted to PLN 69,587 thousand (as at 31 March 2012: PLN 88,738 thousand; as at 31 December 2011: PLN 112,956 thousand; as at 30 June 2011: PLN 56,555 thousand). The change in the said provision in the period from 1 January to 30 June 2012 amounted to PLN 43,369 thousand (PLN 37,703 thousand in the whole of 2011).

15.14. Selection of the registered audit company

On 8 May 2012, the Supervisory Board of PZU selected Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, Al. Jana Pawła II 19, entered by the National Chamber of Registered Auditors on the list of registered audit companies with the number 73, to performed the audit of the annual financial statements of PZU and the annual consolidated financial statements of the PZU Group, and the review of interim separate financial statements of PZU and interim consolidated financial statements of the PZU Group.

The Supervisory Board selected Deloitte Audyt Sp. z o.o. to audit the financial statements of the PZU Group for two subsequent financial years, i.e. 2012 and 2013.

15.15. Amendments to the Statute of PZU

On 30 May 2012, the ordinary General Shareholders Meeting of PZU adopted a resolution on amendments to the Statute of PZU and accepted all the amendments proposed.

The amendments to the Statute of PZU related to the following issues:

- in connection with the amendments to the legislation relating to acquisition activities on behalf of OFE (open-ended pension fund) conducted by PZU, i.e. the repealing, as of 1 January 2012, of the regulations governing the functioning of the social security system which previously enabled insurance companies to conduct acquisition activities on behalf of open-ended pension funds, it was necessary to delete the provisions of § 5, clause 2 item 1 of the Statute of PZU.
- in connection with the public offering of PZU's shares and their introduction to trading on the Warsaw Stock Exchange, the shares were dematerialized and became bearer shares. At present the share capital comprises registered shares and bearer shares. Consequently, it has become necessary to amend the provisions of §6 clause 1 of the PZU's Statute to reflect the factual situation.
- at the same time, editorial changes were implemented to harmonize terminology, consisting of replacing the term "by circulation" with "in writing" throughout the entire text of PZU's Statute. The amendments are intended to align the text with the provisions of the Commercial Companies Code.

On 28 June 2012, the Supervisory Board of PZU adopted Resolution No. URN/40/2012 setting out the consolidated text of PZU's Statute.

On 18 July of the current year, the District Court in Warsaw, the 12th Business Department of the National Court Register, registered the said amendments to PZU's Statute.

REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU

16. The truth and fairness of the financial statements presented

To the best knowledge of the Management Board of PZU, the consolidated financial statements of the PZU Group and the comparative data have been prepared in accordance with the applicable accounting policies and that they give a true, fair and clear view of the PZU Group's financial and economic position and the results of its operations, and the Management Report on the Activities of the PZU Group gives a true view of the Group's development, achievements, and position, including a description of the basic risks and threats.

17. Selection of the registered audit company

The Management Board of PZU declares that the registered audit company, Deloitte Audyt Sp. z o.o., which reviewed the consolidated financial statements of the PZU Group was appointed in accordance with the legal regulations and the said company and the registered auditors who performed the review fulfilled the conditions for issuing an unbiased and independent opinion on the audited consolidated financial statements, in accordance with the applicable regulations and professional standards.

Date	**Name**	**Position/Role**	
28 August 2012	Andrzej Klesyk	Chairman of the Management Board of PZU	.... (signature)
28 August 2012	Przemysław Dąbrowski	Member of the Management Board of PZU	.... (signature)
28 August 2012	Witold Jaworski	Member of the Management Board of PZU	.... (signature)
28 August 2012	Bogusław Skuza	Member of the Management Board of PZU	.... (signature)
28 August 2012	Tomasz Tarkowski	Member of the Management Board of PZU	.... (signature)
28 August 2012	Ryszard Trepczyński	Member of the Management Board of PZU	.... (signature)