

## **Letter from the CEO in the Management Board Report on the Activity of Powszechny Zakład Ubezpieczeń Spółka Akcyjna and the PZU SA Capital Group in 2010**

Dear PZU investors,

It is my honor to convey to you the Management Board Report on the Activity of Powszechny Zakład Ubezpieczeń SA and the PZU SA Capital Group for 2010.

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

In 2010 Poland's macroeconomic standing was characterized by economic growth and a recovery in domestic demand and individual consumption. On the other hand, we witnessed volatility in the Polish zloty exchange rate and a lack of recovery in investments among private companies. These events exerted a moderately positive impact on insurance sales in Poland. In 2010 gross written premium increased in both life and non-life business.

In this year of uncertainty the PZU Group wrote insurance premiums of PLN 14,544 million. Net earnings were PLN 2,439 million. Catastrophic events made a significant contribution to these results: heavy snow fall and enormous flooding.

Undoubtedly, the most important event for PZU SA in 2010 was the listing of the Company's shares. The largest floatation in recent years on the Warsaw Stock Exchange and the largest IPO in recent years in Europe turned the attention of public opinion to us. However, these events could not impede the necessary restructuring processes associated with implementing PZU's strategy in 2009 –

2011. A strategy that focuses on profitable growth and building a cost-effective organization, while satisfying customer needs. In 2010 we also restructured the corporate motor insurance portfolio as previously announced.

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

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

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

On behalf of the Management Boards of the PZU Group companies I would like to thank the following parties for the most recent year of 2010.

Our customers for choosing PZU as their partner to ensure their security. I would like to thank our shareholders and Supervisory Board for their cooperation in the Company's crucial areas and moments. I would also like to thank our employees and agents for their efforts to build the firm's value and for their support in implementing the changes taking place in PZU.

Respectfully,

Andrzej Klesyk  
CEO of PZU SA