The Kruk Group

Consolidated financial statements for the financial year ended 31 December 2011

Prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union

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Consolidated statement of financial position

As at Dec 31 2011
PLN '000

	Note	31.12.2011	31.12.2010	31.12.2009
Assets				
Non-current assets				
Property, plant and equipment	*13*	14,326	9,577	8,226
Other intangible assets	*14*	6,651	4,937	3,342
Goodwill	*15*	1,024	1,024	1,024
Trade and other receivables		-	-	29
Deferred tax assets	*17*	1,837	3,301	2,722
Total non-current assets		23 838	18,839	15,343
Current assets				
Inventories	*18*	537	458	729
Current investments	*16*	721,928	264,487	155,435
Trade receivables	*19*	12,804	10,568	9,529
Income tax receivable	*19*	-	2	532
Other receivables	*19*	3,354	697	1,887
Prepayments and accrued income		1,800	1,726	680
Cash and cash equivalents	*20*	36,205	20,776	23,795
Total current assets		776 628	298,714	192,587
Total assets		800 466	317,553	207,930
Equity and liabilities				
Equity	*21*			
Share capital		16,900	15,309	15,771
Share premium account		45,107	5,308	9,795
Exchange differences on translation of foreign operations		330	385	248
Other capital reserves		43,365	2,967	2,218
Retained earnings		132,493	106,288	70,210
Equity attributable to owners of the parent		238 195	130,257	98,242
Non-controlling interests		188	42	79
Total equity		238 383	130,299	98,321
Non-current liabilities				
Non-current liabilities under loans and borrowings, and other financial liabilities	*23*	339,497	77,996	13,566
Trade and other payables	*26*	-	-	8,000
Total non-current liabilities		339 497	77,996	21,566
Current liabilities				
Current liabilities under loans and borrowings, and other financial liabilities	*23*	137,503	44,144	49,211
Trade and other payables	*26*	66,947	49,180	26,592
Current tax payable		660	1,715	1,738
Employee benefits payable	*24*	17,212	14,045	10,470
Current provisions	*25*	264	174	32
Total current liabilities		222 586	109,258	88,043
Total liabilities		562,083	187,254	109,609
Total equity and liabilities		800,466	317,553	207,930

Consolidated statement of comprehensive income

For financial year ended December 31st 2011
PLN '000

	Note	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Revenue	*7*	274,031	164,281
Other operating income	*8*	1,367	870
Salaries and wages and other employee benefits	*10*	(70,519)	(56,723)
Depreciation and amortisation		(5,427)	(3,937)
Contracted services		(46,838)	(31,226)
Other operating expenses	*9*	(56,619)	(30,629)
		(179,403)	(122 515)
Operating profit		95,995	42,636
Finance income	*11*	2,934	2,200
Finance expenses	*11*	(30,383)	(9,231)
Net finance expenses		(27,449)	(7,031)
Pre-tax profit		68,546	35,605
Income tax	*12*	(2,154)	514
Net profit for the period		66,392	36,119
Other comprehensive income			
Exchange differences on translation of foreign operations		(55)	137
Other comprehensive net income for the period		(55)	137
Total comprehensive income for the period		66,337	36,256
Net profit attributable to:			
Owners of the parent		66,205	36 078
Non-controlling interests		187	41
Net profit for the period		66,392	36,119
Total comprehensive income attributable to:			
Owners of the parent		66,150	36 215
Non-controlling interests		187	41
Total comprehensive income for the period		66,337	36,256
Earnings/(loss) per share			
Basic (PLN)	*22*	4.03	2.34
Diluted (PLN)	*22*	4.03	2.34

Consolidated statement of changes in equity

For financial year ended December 31st 2011 *(PLN '000)*

	Note	Share capital	Share premium account	Exchange differences on translation of foreign operations	Other capital reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Equity as at Jan 1 2010		15,771	9,795	248	2,218	71,925	99,957	79	100,036
Adjustments due to errors from previous years		-	-	-	-	(1,715)	(1,715)	-	(1,715)
Adjusted equity as at Jan 1 2010		15,771	9,795	248	2,218	70,210	98,242	79	98,321
Comprehensive income for the period									
Net profit for the period		-	-	-	-	36,078	36,078	41	36,119
Other comprehensive income									
- Exchange differences on translation of foreign operations		-	-	137	-	-	137	-	137
Total comprehensive income for the period		-	-	137	-	36,078	36,215	41	36,256
Contributions from and distributions to owners									
- Retirement of treasury shares		(462)	(4,487)	-	-	-	(4,949)	-	(4,949)
- Share-based payments		-	-	-	257	-	257	-	257
- Issue of shares (unregistered)		-	-	-	492	-	492	1	493
- Payment of dividend		-	-	-	-	-	-	(79)	(79)
Contributions from and distributions to owners		(462)	(4,487)	-	749	-	(4,200)	(78)	(4,278)
Adjusted total equity as at Dec 31 2010		15,309	5,308	385	2,967	106,288	130,257	42	130,299
Equity as at Jan 1 2011		15,309	5,308	385	2,967	106,288	130,257	42	130,299
Comprehensive income for the period									
Net profit for the period		-	-	-	-	66,205	66,205	187	66,392
Other comprehensive income									
- Exchange differences on translation of foreign operations		-	-	(55)	-	-	(55)	-	(55)
Total comprehensive income for the period		-	-	(55)	-	66,205	66,150	187	66,337
Contributions from and distributions to owners									
- Payment of dividend		-	-	-	-	-	-	(41)	(41)
- Issue of treasury shares	*21*	1,591	39,799	-	(492)	-	40,898	-	40,898
- Share-based payments	*21*	-	-	-	890	-	890	-	890
- Designation of capital reserve	*21*	-	-	-	40,000	(40,000)	-	-	-
Contributions from and distributions to owners		1,591	39,799	-	40,398	(40,000)	41,788	(41)	41,747
Total equity as at Dec 31 2011		16,900	45,107	330	43,365	132,493	238,195	188	238,383

The notes on pages 8 to 58 are an integral part of these condensed interim consolidated financial statements

Consolidated statement of cash flows

For financial year ended December 31st 2011

PLN '000	***Note***	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Cash flows from operating activities			
Net profit for period		66,392	36,119
Adjustments			
Depreciation of property, plant and equipment	*13*	3,640	2,657
Amortisation of intangible assets	*14*	1,787	1,280
Net finance expenses		25,386	7,585
(Gain)/ loss on sale of property, plant and equipment		(129)	(3)
Equity-settled share-based payment transactions		890	257
Income tax		2,128	(515)
Change in financial assets at fair value through profit or loss	*16*	(455,458)	(112,793)
Change in inventories		(79)	271
Change in receivables		(4,621)	710
Change in prepayments and accrued income		(74)	(1,046)
Change in current trade and other payables		17,768	14,588
Change in employee benefits payable		3,167	3,551
Change in provisions		90	142
Income tax paid		(1,717)	507
Net cash flows from operating activities		(340,830)	(46,689)
Cash flows from investing activities			
Interest received		2,705	1,235
Loans advanced		(6,350)	(2,396)
Sale of intangible assets and property, plant and equipment		271	133
Purchase of intangible assets and property, plant and equipment		(8,182)	(5,842)
Repayment of loans advanced		4,603	644
Net cash flows from investing activities		(6 954)	(6,226)
Cash flows from financing activities			
Net proceeds from share issue		40,898	485
Proceeds from bond issue		291,000	111,482
Increase in loans and borrowings		192,579	15,607
Repayment of loans and borrowings		(100,691)	(33,823)
Payments under finance lease agreements		(3,199)	(3,475)
Equity attributable to minority interests		(41)	(37)
Redemption of notes		(30,000)	(33,897)
Retirement of treasury shares		-	(114)
Interest paid		(27,332)	(6,331)
Net cash flows from financing activities		363 213	49,896
Total net cash flows		15 429	(3,019)
Cash and cash equivalents at beginning of period		20 776	23,795
Cash at end of period	*20*	36 205	20,776

Due to the limited amount of information on revenue from debt purchase and spending on purchase of debt portfolios, this consolidated statement of cash flows should be read together with the information contained in Note 16 to the condensed interim consolidated financial statements.

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The notes on pages 8 to 58 are an integral part of these condensed interim consolidated financial statements

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1. Parent

Name:
Kruk Spółka Akcyjna ("Kruk S.A." or "Parent")

Registered office:
ul. Legnicka 56
54-204 Wrocław, Poland

Registration in the National Court Register
District Court for Wrocław-Fabryczna in Wrocław, VI Commercial Division of the National Court Register, ul. Grabiszyńska 269, 53-235 Wrocław, Poland
Date of entry: September 7th 2005
Entry number: KRS 0000240829

Description of business of the Parent and Subsidiaries
The core business of the Parent and its Subsidiaries consists in debt collection, including fee-based debt collection for clients (credit management services) and collection of debt purchased for their own account (purchase of debt portfolios).

The Parent also provides loans to private individuals.

Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A., a subsidiary credit agency (until June 28th 2010 operating as European Register of Financial Information BIG S.A.; "ERIF"), provides credit information on private individuals and entities it stores and manages.

The consolidated financial statements for the reporting period ended December 31st 2011 include the financial statements of the Parent and its Subsidiaries (jointly the "Group").

The Parent is Kruk S.A. A list of Subsidiaries is presented in Note 30.

2. Preparation of consolidated financial statements

a) Statement of compliance

These consolidated financial statements of the KRUK Group have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (the "EU-IFRS").

These consolidated financial statements were approved by the Management Board of the Parent (the "Management Board") on March 14th 2012.

b) Basis of valuation

These consolidated financial statements have been prepared for the reporting January 1st - December 31st 2011. Comparative data is presented as at December 31st 2010 and for the period January 1st - December 31st 2010.

These consolidated financial statements have been prepared based on the historical cost approach, except with respect to the following significant items of the statement of financial position:

- financial instruments valued at fair value through profit or loss

The methods of measuring fair value are presented in Note 4.

c) Functional currency and presentation currency

The data contained in these consolidated financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand. The Polish złoty is the functional currency of the Parent.

d) Accounting estimates and judgements

In order to prepare financial statements in accordance with the EU-IFRS, the Management Board is required to rely on judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Any changes in accounting estimates are introduced prospectively, starting from the reporting period in which the estimate is changed.

For information on judgements concerning the application of accounting policies, which most significantly affect the values presented in the financial statements, see the following notes:

- Note 16 Other investments
- Note 27 Financial instruments

For information on any judgements and estimates which are related to material risk and may require significant corrections in the financial statements for the following year, see the following notes:

- Note 16 Other investments
- Note 27 Financial instruments

e) Correction of errors of past years

In 2011, the Group corrected errors in the calculation of the Parent's income tax for the years 2007–2009. The correction was introduced retrospectively, affecting the value of retained earnings as at January 1st 2010. A detailed description of the reasons for the correction and of its impact on the Group's results for previous years is presented in Note 21.

3. Significant accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in the consolidated financial statements.

a) Basis of consolidation

(i) Business combinations

Business combinations, including combination of closed-end investment funds, are accounted for with the acquisition method as at the acquisition date, which is the date on which the Group assumes control over the acquired entity.

Control is defined as the ability to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In its assessment of whether control is exercised, the Group takes into account the voting rights which may be exercised as at the assessment date. The date of business combination is the day on which the acquirer takes control of the acquiree. The date of business combination is determined and the fact of assuming control of the acquiree by the acquirer are acknowledged by way of a judgement.

The Group recognises goodwill as fair value of the payment made, including the recognised value of non-controlling interest in the acquiree, less net value of the identifiable assets acquired and liabilities assumed as at the date of acquisition at fair value.

The payment made includes fair value of the transferred assets, liabilities incurred by the Group towards the previous owners of the acquired entity, and shares issued by the Group. The payment made also includes fair value of a partial conditional payment, as well as fair value of the acquirer's replacement share-based payment awards, as replacement is obligatory at business combinations. If, on account of a business combination, previous liabilities between the Group and the acquiree expire, the value of payment is decreased by the lower of the following amounts: the contractual price for the expiration of liability or the value of the out-of-market component, and recognised as other costs.

Conditional liabilities of the acquiree are accounted for in a business combination only where such liability is currently payable, results from past events, and its fair value may be estimated in a reliable manner.

The Group valuates all non-controlling interest in proportion to the interest in identifiable net assets of the acquiree.

Any transaction costs incurred in relation to a business combination, such as legal fees, costs of due diligence and other professional services, are recognised as costs for the period in which they are incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Parent, including investment funds. Financial statements of Subsidiaries are consolidated from the date of assuming control over Subsidiaries to the date on which such control ceases to exist. The accounting policies applied by Subsidiaries are uniform with the policies applied by the Group.

(iii) Consolidation adjustments

Balances of settlements between the Group's entities, transactions concluded within the Group and any resulting unrealised gains or losses, as well as revenues and costs of the Group are eliminated at consolidation. Unrealised losses are eliminated from the consolidated financial statements according to the same rule as unrealised gains, however, only if no impairment indications exist.

b) Foreign currencies

(i) Foreign currency transactions

Transactions denominated in foreign currencies as at the transaction date are recognised in the functional currencies of the Group's entities, at bid or ask rates quoted as at the transaction date by the bank whose services a given entity uses.

Cash items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant mid exchange rate quoted by the National Bank of Poland for that date. Exchange differences on valuation of assets and financial liabilities as at the end of the reporting period are the differences between the value at amortised cost in the functional currency as at the beginning of the reporting period, adjusted for the interest accrued and payments made during the reporting period, and the value at amortised cost in the foreign currency, translated at the relevant mid exchange rate quoted by the National Bank of Poland for the end of the reporting period.

Non-monetary items of foreign currency assets and liabilities valued at historical cost are translated at the relevant mid exchange rate quoted by the National Bank of Poland for the transaction date.

Non-monetary items of foreign currency assets and liabilities valued at fair value are translated at the relevant mid exchange rate quoted by the National Bank of Poland for the date of fair value measurement.

Currency-translation differences are recognised in profit or loss for the given period. Non-monetary items measured at historical cost in a foreign currency are translated at the relevant exchange rate at the date of the transaction

(ii) Translation of foreign operations

Assets and liabilities of foreign entities, including goodwill and consolidation adjustments to the fair value as at the acquisition date, are translated at the mid exchange rate quoted by the National Bank of Poland at the end of the reporting period.

Any currency-translation differences are recognised as other comprehensive income. In the event of disposal of a foreign entity, in whole or in part, relevant amounts recognised in equity are charged to profit or loss for the period.

Any exchange differences on monetary items in the form of receivables from or liabilities towards a foreign entity which are not planned or probable to be settled in foreseeable future, are a part of net investment in the entity operating abroad, and recognised in other income total and presented in the equity as exchange differences on translation.

c) Financial instruments

(i) Financial instruments other than derivative instruments

Loans, receivables and bank deposits are recognised at the date of origination. All other financial assets (including assets measured at fair value through profit or loss) are recognised at the transaction date, on which the Group becomes a party to a mutual liability pertaining to a given financial instrument.

The Group ceases to disclose a financial asset upon the expiry of the Group's contractual rights to cash flows from that asset or upon the transfer of those rights in a transaction transferring substantially all material risks and benefits relating to the ownership of the asset. Each interest in the transferred financial asset which is created or remains to be owned by the Group is disclosed as a separate asset or liability.

Financial assets and liabilities are set off against each other and disclosed in net amount in the statement of financial position exclusively if the Group holds a legally valid title to set off specified financial assets and liabilities or if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

The Group holds the following financial instruments other than financial derivatives: financial assets at fair value through profit or loss, financial assets held to maturity, loans and receivables.

Financial assets at fair value through profit or loss

Financial assets are classified as an investment measured at fair value through profit or loss if they are held for sale or were designated as measured at fair value through profit or loss at their initial recognition. Financial assets are designated as measured at fair value through profit or loss if the Group actively manages such investments and adopts decisions concerning their purchase or sale based on their fair value. At initial recognition, transaction cost relating to an investment is recognised as profit or loss of the period at the time it is incurred. All profits or losses relating to such investments are recognised as profit or loss of the period.

Purchased debt portfolios

Purchase debt portfolios comprise mass overdue consumer debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under claim assignment agreements. Prices paid by the Group for such debt portfolios are significantly lower than the nominal value of the debt. The Group recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Group manages the portfolios and the Group's results of operations are assessed based on their fair value.
Purchased debt portfolios are initially recognised at acquisition cost. Costs and expenses relating to debt purchase transactions are recognised in profit or loss of the period.

The Group measures purchased debt portfolios at least four times in a given annual reporting period, not later than as at the end of each calendar quarter. The value of a purchased debt portfolio is determined, as at the measurement date, on the basis of a reliably estimated fair value calculated using an estimation model relying on discounted cash flows. A debt portfolio contains a large number of debt items. Each purchased debt portfolio is divided into sub-portfolios with similar parameters (type, nominal value, delinquency period), and separate cash flows are estimated for each sub-portfolio.

Discount rates applied to expected cash flows reflect the credit risk relating to a given portfolio. At initial recognition, the discount rate is the internal rate of return reflecting purchase price and estimated inflow determined as at the portfolio purchase date. As at each measurement date, the Group verifies the adopted discount rates to ensure that they reflect the then current risk-free rate and risk premium relating to credit risk of a given portfolio.

Estimated cash flows from debt portfolios are divided into the principal amount and interest determined using the discount rate. Recovered principal is recognised as reduction of carrying amount of the debt portfolios, while the interest received is recognised as revenue earned in a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate are disclosed as revenue earned in a given period. These amounts are disclosed as operating income, because the collection of purchased debt portfolios is conducted with resources whose use is disclosed under operating expenses.

The Group discloses purchased debt portfolios as current investments as they contain practically only overdue debt.

Loans and receivables

Loans and receivables are financial assets with determined or determinable payments, but not listed on any active market. Such assets are initially recognised at fair value plus directly attributable transaction cost. Subsequently, loans and receivables are measured at amortised cost with the use of the effective interest rate method, less impairment losses, if any.

The Group also discloses cash and cash equivalents, as well as trade receivables under loans and receivables.

Cash and cash equivalents comprise cash at hand and cash at banks on call deposit accounts with initial maturities of up to three months. Balance of cash and cash equivalents disclosed in the consolidated statement of cash flows comprises the above-specified cash and cash equivalents, less unpaid overdraft facilities, which form an integral component of the Group's cash management system.

Financial liabilities other than derivative instruments

Financial liabilities are recognised as at the date of transaction under which the Group becomes a party to an agreement obliging it to the delivery of a financial instrument.

The Group recognises a financial liability when the liability has been repaid, written off or is time barred.

Financial assets and liabilities are set off against each other and disclosed at net amounts in the statement of financial position only if the Group holds a legally valid title to set off specified financial assets and liabilities or if it intends to settle a given transaction for the net value of the financial assets and liabilities being set off, or if it intends to simultaneously realise set-off financial assets and settle set-off financial liabilities.

The Group classifies financial liabilities other than derivative instruments as other financial liabilities. Such liabilities are initially recognised at fair value plus directly attributable transaction cost. Following initial recognition, such liabilities are measured at amortised cost with the use of the effective interest rate.

The Group holds the following financial liabilities: loans, borrowings, liabilities under debt securities, trade and other payables.

(ii) Equity

Ordinary shares

Ordinary shares are recognised under equity. Costs directly attributable to the issue of ordinary shares and stock options, adjusted by the effect of taxes, reduce equity.

d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are recognised at cost, less depreciation charges and impairment losses.

Acquisition cost comprises the price for which a given asset was purchased and costs directly related to the purchase and adaptation of the asset for use, including the cost of transport, loading, unloading and storage, as well as direct remuneration (in the event of an item of property, plant and equipment produced internally). Rebates, discounts and other similar concessions and returns reduce the asset acquisition cost. Production cost of property, plant and equipment or tangible assets under construction comprises all the expenses incurred by a company to construct, install, adapt or improve such asset until the day on which the asset was placed in service (or, where the asset has not been placed in service, until the reporting date). Production cost also comprises preliminary estimation of the cost of dismantling and removing items of property, plant and equipment, as well as of restoring them to their initial condition, if such estimation is required. Purchased software, necessary for the proper operation of related equipment, is capitalised as a part of this equipment.

Borrowing costs related to the acquisition or production of certain assets increase their acquisition or production cost.

If a specific item of property, plant and equipment consists of separate and material components with different economic useful lives, such components are treated as separate assets.

Gain or loss on disposal of an item of property, plant and equipment is estimated as a difference between the disposal proceeds, and is recognised in current period’s profit or loss under other operating income and expenses. If the disposal is related to previously re-measured assets, an appropriate amount from the revaluation reserve is transferred to retained earnings.

(ii) Subsequent expenditure

The Group companies capitalise future expenditure on replacement of an item of property, plant and equipment, if such expenditure may be reliably estimated and if the Group is likely to derive economic benefits from such replacement. Present value of the removed items of property, plant and equipment is derecognised. Expenditure related to the maintenance of items of property, plant and equipment is recognised as current period's profit or loss at the time it is incurred.

(iii) Depreciation

The value of depreciation charges is determined based on acquisition or production cost of a certain asset, less its residual value.

Depreciation cost is recognised in current period's profit or loss, using the straight-line method with respect of the useful economic lives of the certain item of property, plant and equipment. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way. Assets used under lease agreements or other similar agreements are depreciated over the shorter of their estimated useful life or the lease term, unless the Group is certain that it obtains ownership before the end of the lease. Land is not depreciated.

The Group has adopted the following length of useful lives for particular categories of property, plant and equipment:

Buildings (investments in third-party facilities)	15	years
Plant and equipment	3–10	years
Vehicles	5	years

The reliability of applied useful economic lives, depreciation methods and residual values of property, plant and equipment is reviewed at the end of each reporting period and adjusted in justified cases.

e) Intangible assets

(i) Goodwill

Goodwill arises on acquisition of subsidiaries. Goodwill valuation methods at the time of its initial recognition are described in Note 3(a)(i).

Measurement after the initial recognition

Following the initial recognition, goodwill is recognised at acquisition cost, less cumulative impairment losses.

Goodwill is not amortised. As at the end of each reporting period, goodwill is tested for impairment.

(ii) Other intangible assets

Other acquired intangible assets with finite useful economic lives are recognised based on their acquisition cost, less amortisation charges and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases future economic benefits to be generated by the asset. Other expenditure, including internally generated trademarks, goodwill and brand is recognised in the current period's profit or loss at the moment in which it is incurred.

(iv) Amortisation

The value of amortisation charges is determined based on acquisition or production cost of a certain asset, less residual value.
Amortisation cost is recognised in the current period's profit or loss on the straight-line basis with respect of the estimated useful life of a certain intangible asset, other than goodwill, from the moment it is put into service. This method reflects the manner of achieving future economic benefits related to the use of a certain asset in the best possible way.

The Group has adopted the following length of useful lives for particular categories of intangible assets:

Patents and trademarks	5 years
Software	5 years
Research and development work	2–5 years

The reliability of applied useful economic lives, amortisation methods and residual values of intangible assets is reviewed at the end of each reporting period and adjusted in justified cases.

f) Property, plant and equipment used under lease agreements

Lease agreements under which the Group assumes substantially all the risks and benefits resulting from the ownership of the property, plant and equipment are classified as finance lease agreements. Assets acquired under finance lease agreements are initially recognised at the lower of their fair value or present value of the minimum lease payments, less any depreciation charges and impairment losses.

Lease agreements which are not finance lease agreements are treated as operating lease and not recognised in the statement of financial position.

g) Inventories

Inventories are measured at acquisition cost not higher than net realisable price. The value of inventories is determined using the FIFO ("first in, first out") method. The acquisition cost comprises the purchase price increased by costs directly related to the purchase.

Net realisable price is the selling price estimate made in the course of business, less estimated cost to complete and estimated cost necessary to close the sale.

h) Impairment losses on assets

(i) Financial assets other than derivative instruments

At the end of each reporting period, financial assets other than measured at fair value through profit and loss are tested for impairment based on objective criteria. A particular financial asset is deemed to be impaired if, after its initial recognition, any objective criteria indicating the occurrence of an event causing impairment, which might have a reliably estimated negative impact on projected cash flows related to that asset, have been met.

Such objective criteria of impairment of financial assets include default or delay in payment by a debtor; debt restructuring approved by the Group for economic or legal reasons resulting from the debtor's poor financial condition, which the Group would not otherwise have approved of; circumstances indicating that the debtor or issuer is likely to go bankrupt; disappearance of an active market for a particular financial asset.

The Group tests for impairment each individual asset of receivables or financial instruments held to maturity.

In impairment testing, the Group uses historical trends to assess the probability of default, the payment dates and the losses incurred, adjusted by the Management Board's estimates indicating whether the current economic and credit conditions show any signs of future significant differences between the actual losses to be incurred and the projections based on the review of historical trends.

Impairment of a financial asset measured at amortised cost is estimated as the difference between its carrying amount and the present value of projected cash flows discounted at the original effective interest rate. Any losses are recognised in profit or loss for the period and reduce the current value of financial assets; the Group continues to charge interest on impaired assets. If any subsequent circumstances indicate that the criteria for impairment losses have ceased to be met, reversal of impairment losses is recognised in profit or loss for the current period.

(ii) Non-financial assets

Carrying amount of non-financial assets other than inventories and deferred tax assets is tested for impairment as at the end of each reporting period. If any criteria of impairment are met, the Group estimates the recoverable amount of particular assets. The recoverable amount of goodwill, intangible assets with infinite lives and intangible assets which are not yet fit for use is estimated at the same time each year.

The recoverable amount of assets or cash-generating units is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, projected cash flows are discounted using a pre-tax rate which reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped up to the smallest distinguishable units which generate cash largely independently from other assets or units of assets ("cash-generating units").

The Group tests goodwill for impairment by grouping cash-generating units so that the organizational level, being no higher than the isolated segment of operations, at which the impairment testing is made reflects the lowest organizational level at which the Group monitors goodwill for its own purposes.

For impairment testing, goodwill acquired in business combinations is allocated to the cash-generating units for which synergies are expected as a result of a business combination.

The Group's corporate (joint) assets do not generate separate cash inflows. If any criteria of impairment of corporate assets are met, the recoverable amount is assessed for the cash-generating units to which those assets belong.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit is higher than its recoverable amount. Impairment losses are recognised in profit or loss for the period. Impairment of a cash-generating unit is first recognised as impairment on goodwill allocated to that unit (group of units), and subsequently as impairment of carrying amount of other assets of that unit (group of units) on pro-rata basis.

Goodwill impairment losses are irreversible. Impairment losses on other assets, recognised in previous periods, are reviewed for reduction or reversal at the end of each reporting period. Impairment losses are reversible if the estimates applied to the assessment of the recoverable amount have changed. An impairment loss is reversible only up to the initial value of an asset, less depreciation charges that would have been made if the impairment loss had not been recognised.

i) Employee benefits

(i) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to make further payments. Contributions payable to a defined contribution plan are recognised as cost of employee benefits and charged to profit or loss in the period when the employee rendered the related service. A prepayment is recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund. Contributions to a defined contribution plan that fall due within more than twelve months after the period in which the employee rendered the related service are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group recognises liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payments (management stock option plan)

The fair value of rights granted to employees to acquire the Parent's shares at a specific price (options) is recognised as an expense with a corresponding increase in equity. The fair value of the plan is initially measured as at the grant date. Fair value of the options is recognised in the Group's profit or loss over the period during which employees become unconditionally entitled to acquire the shares. The value of the plan is reviewed as at the end of each reporting period and as at the option vesting date, by changing the number of options that are expected by the Group to be unconditionally vested. Any changes in the fair value of the plan are disclosed as an adjustment to values previously posted in the current period. The fair value of individual rights remains unchanged, unless material modifications are made to the terms and conditions of the share-based scheme, for instance, with respect to the exercise price, the number of rights granted and the vesting conditions. In such a case, the fair value of an individual right may only increase.

j) Provisions

Provisions are recognised when the Group has a present legal or constructive liability resulting from past events, which can be reliably estimated and which is likely to cause an outflow of economic benefits when discharged. The amount of provision is determined by discounting the projected future cash flows at an interest rate before tax that reflects current market estimates of the time value of money and the risks associated with the liability. The unwinding of the discount is recognised as a finance cost.

k) Revenue

(i) Revenue from debt collection services

Revenue from debt collection services includes revenue from the sale of debt collection services (fee-based credit management) and revenue from purchase debt portfolios.

Revenue from fee-based credit management services

Revenue from fee-based credit management services comprises commission fees due for the collection of debts. Such revenue is recognised on an accrual basis, in the period in which the service was provided, based on the collected amounts.

Revenue from debt purchase

Estimated inflows from debt portfolios are divided into principal recoveries and interest determined using the discount rate. Recovered principal is recognised as reduction of the present value of the debt portfolios, while the interest received is recognised as revenue earned in a given period. Moreover, changes in fair value resulting from changes in estimated future cash flows for a given debt portfolio and changes in the adopted discount rate are disclosed as revenue earned in a given period. For a detailed description of the accounting policies relating to purchased debt portfolios, see Note 3(c)(i).

As of January 1st 2011, revaluation of purchased debt portfolios is defined as a change in their fair value caused by interest rate fluctuations and/or change of estimates concerning future cash flows.

In previous reporting periods, differences between the actual payments and the forecast payments assumed for the purpose of measuring the fair value of debt portfolios were also presented as components of revaluation of purchased debt portfolios. Starting from January 1st 2011, any differences between the actual and forecast payments have been recognised in “interest income adjusted by actual payments“.

This clarification of the definition does not result in any changes to results for the previous years or in any presentation changes in the Group's consolidated statement of comprehensive income. All the specified items were and continue to be presented as components of revenue from debt purchase.

(ii) Sales of goods for resale and materials

Revenue from sales of goods for resale and materials is disclosed in the amount equal to the fair value of the payment received, net of refunds, discounts and rebates.

l) Lease payments

Payments made under operating leases are recognised in profit or loss of the period, on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss of the period as an integral part of the total lease expense over the lease term.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the outstanding balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease, when the lease adjustment is confirmed.

m) Finance income and expenses

Finance income includes interest income on the funds invested by the Group (net of income on purchased debt, see (k)(i)), dividend receivable and reversal of impairment losses on financial assets. Interest income is presented in profit or loss of the period on the accrual basis using the effective interest rate method. Dividend is accounted for in profit or loss of the period as at the date when the Group becomes entitled to receive the dividend.

Finance expenses include interest on debt financing, unwinding of the discount on provisions, and impairment losses on financial assets. Borrowing costs that are not directly attributable to acquisition, construction or production of particular assets are recognised in profit or loss of the period using the effective interest rate method. Foreign exchange gains and losses are posted in net amounts.

n) Income tax

Income tax comprises current and deferred tax. Current and deferred tax is recognised in profit or loss of the period except to the extent that it relates to a business combination or items recognised directly in equity, or in other comprehensive income.

When determining amounts of current and deferred tax, the Company takes into account the impact of uncertainty concerning potential additional tax liabilities. The Company believes that the reported tax liabilities are correct for all the tax years in respect of which inspections may be carried out by tax authorities. This judgement is based on an assessment of a number of factors, including interpretations of the tax laws and previous years' experience. However, facts and circumstances which may materialize in the future, may have an effect on an assessment of correctness of the existing and past tax liabilities.

Current tax is the expected income tax payable or receivable in respect of taxable income for the year, determined using tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years' income.

Deferred tax is recognised in respect of temporary differences between the amounts of assets and liabilities as disclosed in the statement of financial position and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither profit or loss of the period, nor taxable income,
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be disposed of in the foreseeable future,
- initial recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied when temporary differences reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax liabilities and assets, and if they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

A deferred tax asset is recognised in respect of carry-forward tax losses, tax credits and deductible temporary differences in the amount of the probable taxable income which would enable these differences and losses to be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

o) Earnings per share

The Group presents basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period, adjusted for the number of own shares held by the Group. Diluted earnings per share are calculated by dividing the adjusted profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares adjusted for the number of own shares and the dilutive effect of any potential shares.

p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses relating to transactions with other components of the Group. Operating results of each segment are reviewed regularly by the Group's chief operating decision maker that makes decisions about resources to be allocated to the segment and assess its performance. Furthermore, discrete financial information is available for each segment.

Operating results of each segment which are reported to the Parent's operating decision maker include items which may be assigned directly to the segment and items which maybe assigned indirectly, based on reasonable grounds. Unassigned items relate mainly to common (corporate) assets (assets relating primarily to the management board of the entity), costs of the entity's head office and corporate income tax assets and liabilities.

q) New standards and interpretations not applied in these financial statements

Some new standards, changes to standards and interpretations which apply to the annual reporting periods beginning after January 1st 2011 have not been applied in the preparation of these financial statements. None of them should have a material effect on the consolidated financial statements of the Group, except for *IFRS 9 Financial Instruments* which will apply to the financial statements of the Group for 2015 and could affect the classification and measurement of financial assets. The Group does not plan to apply the standard earlier, and the effect of its application has not been estimated.

4. Determination of fair value

In many cases, the accounting and disclosure policies adopted by the Group require that the fair value of both financial and non-financial assets and liabilities be determined. Fair values are determined and disclosed using the methods presented below. In justified cases, further information concerning the assumptions used for the calculation of fair values have been presented in respective notes specific to the relevant assets or liabilities.

(i) Property, plant and equipment

Fair value of property, plant and equipment acquired as a result of a business combination is based on the market value of such property, plant and equipment. The market value of real property is the estimated amount for which, as at the valuation date of the real property, it could be exchanged between knowledgeable and willing
parties in an arm’s length transaction executed after appropriate marketing activities have been conducted. Fair value of other items of property, plant and equipment is determined using the market approach and cost methods which are based on market quoted prices for similar assets, if available, and, in justified cases, on replacement costs.

(ii) Intangible assets

Fair value of patents and trademarks acquired as a result of a business combination is determined based on estimated discounted payments of royalties that were not incurred as a result of the acquisition of the ownership title to the patent or trade mark. Fair value of customer relationships acquired as a result of business combinations is determined using the multi-period excess of earnings method under which the value of an asset is measured, net of any reliably determined return on all other assets participating in the creation of related cash flows.

Fair value of other intangible assets is based on the discounted cash flows expected from the use or any disposal of such assets.

(iii) Inventories

Fair value of inventories acquired as a result of a business combination is determined based on the estimated selling price in the ordinary course of business, net of estimated cost of preparing the inventories for sale and executing the sale and a reasonable profit margin based on the expenditures incurred to prepare the inventories for sale and execute the sale.

(iv) Trade and other receivables

Fair value of trade and other receivables is estimated as the present value of future cash flows discounted using a market interest rate as at the reporting date. Receivables with short maturities are not discounted because their carrying amount is approximately equal to their fair value. Fair value is estimated only for the purpose of disclosure.

(v) Financial instruments at fair value through profit or loss

Fair value of debt portfolios purchased is calculated based on the expected future cash flows related to the debt portfolios, discounted with a rate reflecting the credit risk associated with each portfolio. The rate used for discounting is calculated as an internal rate of return on an investment as at the date of acquisition of a portfolio and is verified so that it includes the present risk free rate and the present risk premium associated with the credit risk for each portfolio.

(vi) Financial liabilities other than derivative instruments

Fair value estimated for the purpose of disclosure is calculated based on the present value of future cash flows from repayment of principal and payment of interest, discounted using the market interest rate effective as at the end of the reporting period. For finance lease liabilities, the market interest rate is determined with reference to similar lease agreements. Liabilities with short maturities and liabilities for which interest rates are adjusted for changes in base rates on an on-going basis are not discounted because their carrying amount is approximately equal to their fair value.

(vii) Share-based payments (management stock option plan)

Valuation of the plan has been performed using the Black-Scholes model. This model has been chosen as it is widely used for option valuation and is also relatively simple. The stock option plan does not contain any elements which would call for application of any more sophisticated models. The selected model takes into account all the key factors affecting the cost recognised by the Group, including:

- the expected exchange rate applicable on exercise of an option (based on historical exchange rates and their changes),
- the option vesting period,
- the time and conditions of exercise of an option,
- the risk-free rate.

For the purpose of valuation of the plan, it has been assumed that all the conditions for granting options will be met and that all the eligible persons will accept the options they have been granted and then will exercise them, that is purchase the shares corresponding to such options on the first day following the vesting period.

5. Financial risk management

Introduction

The Group is exposed to the following risks related to the use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information on the Group's exposure to each type of the above risks, the Group's objectives, policies and procedures for measuring and managing the risks, and the Group's management of capital. Note 27 to the consolidated financial statements presents respective quantitative disclosures.

Key policies of risk management

The Management Board is responsible for establishing risk management procedures and for overseeing their application.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Group's activities. The Group, through appropriate training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is chiefly associated with receivables for the services provided by the Group and from purchased debt portfolios.

Trade and other receivables

The Management Board has established a credit policy whereby each client is evaluated for its creditworthiness before any payment dates and other contractual terms and conditions are offered to the client. The evaluation includes external ratings of the client, when available, and in some cases bank references. Each client is assigned a transaction limit which represents the maximum transaction amount for which no approval from the Management Board is required.

The Group regularly monitors whether payments are made when due, and if any delays are found, the following actions are taken:
- notices are sent to clients
- e-mails are sent to clients
- telephone calls are made to clients.

Over 60% of clients have conducted business with the Group for at least three years. In only few cases losses were incurred by the Group as a result of non-payment. Trade and other receivables mainly represent fees receivable in respect of debt collected for clients.

The Group's exposure to credit risk mainly results from individual characteristics of each client. The Management Board believes that the Group's credit risk is low as the Group's counterparties are mainly financial institutions and reputable companies. The Group's largest client generates 2.6% of the Group's total revenue (4.2% in 2010). Receivables from the Group's largest client represented 12.32% of total trade receivables, VAT inclusive, as at December 31st 2011 (9.6% as at December 31st 2010). Therefore, there is no significant concentration of credit risk at the Group.

The Group recognises impairment losses which represent its estimates of incurred losses on trade and other receivables. Impairment losses comprise specific losses related to individually significant exposures.

Purchased debt portfolios

Purchased debt portfolios include overdue debts which prior to the purchase by the Group were often subject to collection by the seller of the portfolio or by a third party acting on the seller's behalf. Therefore, credit risk related to the purchased debt portfolios is relatively high, although the Group has the experience and advanced analytical tools necessary to estimate such risk.

As at the date of purchase of a debt portfolio, the Group evaluates he portfolio's credit risk which is subsequently reflected in the price offered for the portfolio.

As the purchased debt portfolios are measured at fair value, the credit risk is reflected in the portfolios' valuations as at the end of each reporting period.

As at each valuation date, the Group estimates the credit risk based on past inflows from a given portfolio as well as other portfolios featuring similar characteristics. The following parameters are taken into account in the credit risk assessment:

- Debt
  - outstanding amount
  - principal
  - principal to debt ratio
  - amount of credit granted / total amount of invoices
  - type of product

  - debt past due (DPD)
  - contract's term
  - time elapsed from contract execution
  - collateral (existence, type, amount).

- Debtor:
  - credit amount repaid so far / amount of invoices repaid so far
  - time elapsed from the last payment made by the debtor
  - region
  - debtor's legal form
  - debtor's death or bankruptcy
  - debtor's employment.

- Debt processing by the previous creditor:
  - availability of the debtor's correct contact data
  - in-house collection – by the previous creditor's own resources
  - outsourced collection – debt management by third parties
  - issuance of a bank enforced collection order
  - court collection
  - bailiff collection.

Changes of the credit risk assessment have an effect on the expected amount of future cash flows which are used as a basis of valuation of the purchased debt portfolios.

The Group minimises the risk by performing a thorough valuation of each portfolio before it is purchased, taking into account the likelihood of recovery of invested capital and the estimated costs of the collection process. Debt portfolios are purchased at official auctions, and prices offered by the Group in most of such auctions do not differ significantly from prices offered by the Group's competitors. A similar valuation of a debt portfolio by several specialist companies at the same time reduces the risk of an incorrect valuation.
The market value of a portfolio and its maximum purchase price are determined based on a complex statistical and economic analysis. Initially, portfolios are divided into sub-portfolios based on debt amount and type of security. This is done to select debts which can be valued using statistical methods. Remaining sub-portfolios are valued on a case-by-case basis in a due diligence process.
Proceeds are estimated based on a statistical model developed on the basis of available and precisely selected reference data matching the valuation data. The reference data is derived from a database containing information on portfolios previously purchased and collected by the Group.

Once the evaluation of effectiveness and debt collection tools is completed, all parameters and comparative data for the reference portfolio, collection process, efficiency curve and risk are gathered. Also at this stage additional parameter reviews are considered, based on expert opinions. A single document (business plan) is then drafted, containing a summary of adopted assumptions and the resultant projection of expected cash flows from a portfolio, and a financial model is structured. The business plan serves to define the maximum purchase price that can be offered. The maximum price is set based on the expected investment yield (mainly the internal rate of return, payback period, and nominal return). The expected return on investment largely depends on the risk inherent in a given project, which in turn depends on quality of the data provided by the client for valuation, reference data matching, number and quality of both macro- and microeconomic expert indicators used to prepare the cash flow forecast.

Moreover, the Group diversifies the risk by purchasing various types of debt, with varying degrees of problems and delinquency periods.
The Group uses the following collection measures:
- notices
- phone calls
- text messages
- partial debt cancellation
- intermediation in securing an alternative source of financing,

- doorstep collection (at home or workplace)
- detective activities
- amicable settlements
- court collection
- enforcement against collateral.

As at December 31st 2011, the Group held cash and cash equivalents of PLN 36,205 thousand (December 31st 2010: PLN 20,776 thousand), representing its maximum exposure to credit risk related to these assets.

Guarantees

As a rule, the Group issues financial guarantees only to its wholly-owned subsidiaries. During the reporting period, the Group did not issue any guarantees to third parties.

Liquidity risk

Liquidity risk is the risk of potential difficulties that the Group may have with meeting its financial liabilities settled through delivery of cash or other financial assets. The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is at all times sufficient to meet liabilities in a timely manner, both in a regular and crisis situation, without exposing the Group to a risk of loss or damage to its reputation.

The Group mitigates the liquidity risk through continuous collection, which ensures constant cash inflows. The Group also monitors and ensures proper performance of its loan agreements. Debt portfolio purchases involve making large one-off payments. To secure necessary funding, the Group relies on external financing in the form of bank loans or notes.

Market risk

Market risk is related to changes in such market factors as exchange rates, interest rates and stock prices, which affect the Group's performance or the value of financial instruments it holds. The objective of market risk management is to maintain and control the Group's exposure to market risk within assumed limits, while seeking to optimise the rate of return.

In the Management Board's opinion, for the Group the market risk relates primarily to exposure to the risk of changes in the PLN/RON exchange rate, given the Group's considerable investments in debt portfolios denominated in RON. Other market risks to which the Group is exposed follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. As at December 31st 2011, assets denominated in foreign currencies accounted for 29.9% of total assets, while liabilities denominated in foreign currencies represented 1.9% of total liabilities (December 31st 2010: 31.6% and 11.6% respectively).

The Group does not use financial instruments to hedge interest rate risks or exchange rate risks, because cash payments in foreign currencies are reinvested in the purchase of debt portfolios.

Capital management

The Management Board's capital management policy is designed to secure a solid capital base necessary to maintain the trust of investors, lenders and other market participants, and to ensure future business growth. The Management Board monitors the return on equity, defined by the Group as the ratio of operating profit/(loss) to equity, excluding non-controlling interests.

The Management Board seeks to strike a balance between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base. The Group aims to achieve a high return on equity; in the reporting period from January 1st to December 31st 2011 the rate was 40.3% (2010: 32.3%). To compare, the weighted average rate of interest on interest-bearing debt (excluding liabilities with an assumed interest rate) was 9.1% (2010: 8.2%).

The Group's debt ratio, i.e. the ratio of total liabilities under loans and borrowings, issued notes and liabilities under finance lease agreements to total equity, was 2.0 as at December 31st 2011 (December 31st 2010: 0.9).

In the reporting period from January 1st to December 31st 2011, there were no changes in the Group's approach to capital management.

As required by the Commercial Companies Code, the share capital of the Parent must amount to at least PLN 100 thousand. The Parent is obliged to allocate at least 8% of earnings to reserve funds serving to cover potential future losses. Contributions to the reserve funds are made until the funds reach at least one third of the share capital value.

6. Operating segments

Reporting segments

The Group has two principal reporting segments described below. The President of the Management Board reviews internal management reports relating to each business segment at least quarterly. The Group's reporting segments conduct the following activities:

- Debt purchase: collection of purchased debt;
- Credit management: fee-based collection of debt, on client's behalf.

Performance of each reporting segment is discussed below. The efficiency each segment is assessed based on the segment's operating profit shown in the internal management reports reviewed by the President of the Management Board. In the opinion of the Company's management, segment's operating profit is the most appropriate measure for comparative evaluation of performance against peer organisations operating in the industry. Prices in intercompany transactions are set on an arm's length basis.

Notes to the consolidated financial statements

Reporting segments

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Revenue	**274,031**	**164,281**
Purchased debt portfolios	230,351	118,062
Collection services	40,966	44,063
Other products	2,714	2,156
Direct and indirect costs	**(130,360)**	**(89,537)**
Purchased debt portfolios	(103,123)	(60,825)
Collection services	(23,265)	(25,844)
Other products	(3,972)	(2,867)
Indirect margin	**143,671**	**74,744**
Purchased debt portfolios	127,228	57,237
Collection services	17,701	18,219
Other products	(1,258)	(711)
General and administrative expenses	(40,920)	(28,055)
Depreciation and amortisation	(5,427)	(3,937)
Other operating income	1,367	870
Other operating expenses (unallocated)	(2,696)	(986)
Finance income/expenses	(27,449)	(7,031)
Pre-tax profit	68,546	35,605
Income tax	(2,154)	514
Net profit	66,392	36,119

Geographical segments

The Group conducts operations in two main geographical areas: Poland and Romania. In 2011, the Group also launched operations in:
- the Czech Republic,
- Slovakia.

In the presentation of data by geographical segments, a segment's revenue is based on the geographical location of debt collection offices.

Revenue by geographical segments:

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Revenue	**274,031**	**164,281**
Domestic market	170,010	122,711
Foreign markets	104,020	41,570
Direct and indirect costs	**(130,360)**	**(89,537)**
Country	(106,785)	(76,804)
Foreign markets	(23,575)	(12,734)
Indirect margin	**143,671**	**74,744**
Country	63,225	45,908
Foreign markets	80,445	28,837
General and administrative expenses	(40,920)	(28,055)
Depreciation and amortisation	(5,427)	(3,937)
Other operating income	1,367	870
Other operating expenses (unallocated)	(2,696)	(986)
Finance income/expenses	(27,449)	(7,031)
Pre-tax profit	68,546	35,605
Income tax	(2,154)	514
Net profit	66,392	36,119

7. Revenue

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Revenue from debt purchase	230,351	118,062
Revenue from debt collection services	40,966	44,063
Revenue from other services	2,714	2,156
	274,031	164,281

Revenue from debt purchase includes:

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Interest income adjusted by actual payments	210,603	107,702
Revaluation of debt portfolios	19,748	10,361
	230,351	118,062

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on delinquency periods and on whether there have been any prior collection attempts. The Group's key client accounts for 17.7% of total revenue from fee-based credit management (2010: 15.7%).

Remeasurement of fair value of purchased debt portfolios

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Revision of recovery forecast	21,040	10,270
Change due to change in discount rate	(1,292)	91
	19,748	10,361

Re-measurement of purchased debt portfolios represents changes in fair value of financial assets at fair value through profit or loss which have been designated as such at the time of their initial recognition.

Revenue forecast update is primarily based on the analysis of:
- debtors' behaviour patterns and effectiveness of the collection tools used;
- assessment of debtors' financial standing in the context of macroeconomic developments on particular markets;
- changes in currency exchange rates against PLN (for debt portfolios purchased abroad).

Pursuant to the accounting policies applied by the Group, gains from financial instruments at fair value through profit and loss are presented as revenue from purchased debt portfolios under operating income.

8. Other operating income

PLN '000	*Note*	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Unidentified time-barred payments written off		-	374
Release of a valuation allowance for receivables	*27*	53	105
Return of compensation for automobile caused damage		223	202
Sale of property, plant and equipment		247	101
Re-invoiced costs of services and court fees		619	-
Other		225	88
		1,367	870

9. Other operating expenses

PLN '000	*Note*	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Court fees		(28,350)	(12,402)
Advertising		(8,548)	(5,658)
Raw materials and energy used		(6,385)	(4,394)
Taxes and charges		(8,755)	(4,200)
Revaluation allowances for receivables	*27*	(129)	(457)
Employee trainings		(921)	(639)
Business trips		(1,048)	(598)
Representation and entertainment expenses		(238)	(334)
Car insurance		(377)	(263)
Motor vehicle losses		(219)	(165)
Property insurance		(183)	(106)
Re-invoiced costs of services		(547)	-
Other		(919)	(1,413)
		(56,619)	(30,629)

10. Employee benefits

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Salaries and wages	(57,844)	(47,909)
Other social security contributions	(4,590)	(1,838)
Old-age and disability pension contributions	(6 427)	(6,149)
Contribution to the State Fund for the Disabled	(768)	(570)
Equity-settled share-based payments	(890)	(257)
	(70,519)	(56,723)

11. Finance income and expenses

Recognised as profit or loss for current period

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Interest income on loans and receivables	1,145	296
Interest income on bank deposits	1,532	1,235
Decrease in valuation allowance for loans advanced	236	-
Net foreign exchange gains/(losses)	-	170
Other finance income	21	499
	2,934	2,200
Interest expense on financial liabilities measured at amortised cost	(28,119)	(8,715)
Net foreign exchange gains/(losses)	(2,264)	-
Impairment losses on financial instruments measured at amortised cost	-	(516)
	(30,383)	(9,231)
Net finance expenses recognised in profit or loss	(27,449)	(7,031)

The finance income and expenses shown above include interest income and expenses relating to assets (liabilities) other than those at fair value through profit or loss:

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Total interest income on financial assets	2,677	1,531
Total interest expense on financial liabilities	(28,119)	(8,715)

Recognised under other comprehensive income

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Exchange differences on translation of foreign operations	(55)	137
Attributable to:		
Owners of the parent	(55)	137
Finance income recognised directly in other comprehensive income		
	(55)	137

12. Income tax

Income tax recognised in profit or loss of the period

PLN '000	***Note***	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Income tax (current portion)			
Income tax for the period		690	65
Income tax (deferred portion)			
Origination/ reversal of temporary differences	*17*	1,464	(579)
		2,154	(514)

Reconciliation of effective tax rate

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Net profit for the period	66,392	36,119
Income tax disclosed in the statement of comprehensive income	(2,154)	514
Pre-tax profit for the period (assuming 19% tax rate)	68,914	34,602
Pre-tax loss for the period (assuming 16% tax rate)	(18)	1,003
Pre-tax loss for the period (assuming 20% tax rate)	(350)	-
Tax calculated using the tax rate applicable in Poland (19%)	(13,094)	(6,574)
Tax calculated using the tax rate applicable in Romania (16%)	3	(160)
Tax calculated using the tax rate applicable in the Czech Republic (20%)	70	-
Effect of non-deductible expenses	(8,709)	(2,206)
Effect of tax-exempt income	20,105	8,870
Correction of tax losses from previous years	(178)	777
Change in temporary differences not recognised in deferred tax	(351)	(193)
	(2,154)	514

The effective tax rate differs from the applicable tax rates as the consolidated data includes data of entities whose operations are not subject to income tax (closed-end investment funds and a Luxembourg-based subsidiary).

13. Property, plant and equipment

PLN '000	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value of property, plant and equipment						
Gross value as at Jan 1 2010	1,856	8,259	5,809	1,235	18	17,177
Acquisition	75	2,296	1,638	217	9	4,235
Sale/ liquidation	(90)	(2,389)	(383)	(460)	-	(3,322)
Effect of exchange rate changes	(18)	(35)	(19)	(9)	-	(81)
Gross value as at Dec 31 2010	1,823	8,131	7,045	983	27	18,009

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value as at Jan 1 2011	1,823	8,131	7,045	983	27	18,009
Acquisition	191	3,048	3,777	594	840	8,450
Transfer	-	(13)	-	13	-	-
Sale/ liquidation	(28)	(391)	(1,160)	(53)	-	(1,632)
Effect of exchange rate changes	(46)	(32)	(55)	(32)	-	(81)
Gross value as at Dec 31 2011	1,940	10,743	9,607	1,505	867	24,662

PLN '000

Depreciation and impairment losses	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Depreciation and impairment losses as at Jan 1 2010	(267)	(5,426)	(2,511)	(747)	-	(8,951)
Depreciation and amortisation	(200)	(1,183)	(1,110)	(164)	-	(2,657)
Decrease resulting from sale/ liquidation	16	2,381	337	405	-	3,139
Effect of exchange rate changes	10	15	8	4	-	37
Depreciation and impairment losses as at Dec 31 2010	(441)	(4,213)	(3,276)	(502)	-	(8,432)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Depreciation and impairment losses as at Jan 1 2011	(441)	(4,213)	(3,276)	(502)	-	(8,432)
Depreciation and amortisation	(146)	(1,754)	(1,508)	(232)	-	(3,640)
Transfer	-	11	-	(11)	-	-
Decrease resulting from sale/ liquidation	66	354	1,036	34	-	1,490
Effect of exchange rate changes	44	65	91	46	-	246
Depreciation and impairment losses as at Dec 31 2011	(477)	(5,537)	(3,657)	(665)	-	(10,336)

PLN '000	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Tangible assets under construction**	**Total**
Net value						
As at Jan 1 2010	1,589	2,833	3,298	488	18	8,226
As at Dec 31 2010	1,382	3,918	3,769	481	27	9,577
As at Jan 1 2011	1,382	3,918	3,769	481	27	9,577
As at Dec 31 2011	1,463	5,206	5,950	840	867	14,326

Property, plant and equipment under leases

The Group uses computer hardware and office equipment under finance lease agreements. As at December 31st 2011 and December 31st 2010, net carrying amount of computer hardware and office equipment used under lease agreements was PLN 0 thousand and PLN 577.0 thousand, respectively. In addition, under finance lease agreements the Group uses passenger vehicles and trucks whose carrying amount as at December 31st 2011 and December 31st 2010 was PLN 6,142.0 thousand and PLN 3,478.5 thousand, respectively. These items of property, plant and equipment also serve as security for liabilities under lease agreements (see Note 23).

Tangible assets under construction

In 2011, the Group incurred costs related to the purchase of IT and telecommunication equipment not placed in service as at December 31st. As at December 31st 2011 and December 31st 2010, the value of tangible assets under construction was PLN 867 thousand and PLN 26 thousand, respectively.

14. Other intangible assets

PLN '000

	Computer software, licences, permits	Other	Total
Gross value of intangible assets			
Gross value as at Jan 1 2010	5,319	369	5,688
Produced internally	2,477	-	2,477
Other increase	426	-	426
Decrease	(130)	-	(130)
Effect of exchange rate changes	(10)	-	(10)
Gross value as at Dec 31 2010	8,082	369	8,451
Gross value as at Jan 1 2011	8,082	369	8,451
Produced internally	2,180	-	2,180
Other increase	1,350	-	1,350
Effect of exchange rate changes	29	-	29
Gross value as at Dec 31 2011	11,641	369	12,010

PLN '000

	Computer software, licences, permits	Other	Total
Depreciation and impairment losses			
Depreciation and impairment losses as at Jan 1 2010	(2,157)	(189)	(2,346)
Depreciation and amortisation	(1,233)	(47)	(1,280)
Effect of exchange rate changes	4	-	5
Decrease	100	8	108
Depreciation and impairment losses as at Dec 31 2010	(3,286)	(228)	(3,513)
Depreciation and impairment losses as at Jan 1 2011	(3,286)	(228)	(3,514)
Depreciation and amortisation	(1,740)	(47)	(1,787)
Effect of exchange rate changes	(58)	-	(58)
Effect of exchange rate changes	-	-	-
Depreciation and impairment losses as at Dec 31 2011	(5,084)	(275)	(5,359)

PLN '000

	Computer software, licences, permits	Other	Total
Net value			
As at Jan 1 2010	3,162	180	3,342
As at Dec 31 2010	4,796	141	4,938
As at Jan 1 2011	4,796	141	4,938
As at Dec 31 2011	6,557	94	6,651

15. Goodwill

PLN '000

	RAVEN Law Firm	Rejestr Dłużników ERIF BIG S.A.	Total
Gross			
Gross value as at Jan 1 2010	299	725	1,024
Gross value as at Dec 31 2010	299	725	1,024
Gross value as at Jan 1 2011	299	725	1,024
Gross value as at Dec 31 2011	299	725	1,024
Net value			
As at Jan 1 2010	299	725	1,024
As at Dec 31 2010	299	725	1,024
As at Jan 1 2011	299	725	1,024
As at Dec 31 2011	299	725	1,024

Tests for impairment of cash-generating units which include goodwill

For impairment testing purposes, goodwill was allocated to the Group's operating units, being the smallest units (not larger than the Group's operating segments described in Note 6) for which goodwill is monitored for internal management purposes.

Recoverable value of goodwill associated with the cash-generating units specified above is assessed based on their value in use. Value in use is an estimated present value of future cash flows generated by such units. In the case of RD ERIF BIG S.A., the recoverable value is the value in use of a cash-generating unit, taking into account the effect of the amendments to the Act on Access to Business Information, which became effective in 2010 and helped the Group to significantly expand its customer base and grow income from credit information services.

The key values adopted for the estimation process reflect the Management Board's expectations regarding the future of the debt collection industry and are based on external sources and in-house research (historical data).

16. Current investments

PLN '000	**31.12.2011**	**31.12.2010**
Current investments		
Financial assets at fair value through profit or loss	718,706	263,228
Debt securities held to maturity	-	-
Loans advanced	3,222	1,259
	721,928	264,487

In 2010, the Group commenced advancing loans to individuals who are not engaged in any business activity. Loans are granted for up to PLN 2.5 thousand and their maturities range from six to nine months. The loans bear interest at an average fixed rate of 20%. The loans are not secured. Additional revenue comprises commission fees, arrangement fees and insurance.

Financial assets at fair value through profit or loss include purchased debt portfolios. Had the Group not decided to classify purchased debt portfolios as financial assets at fair value through profit or loss, they would be classified as loans and receivables. For the rules governing valuation of purchased debt portfolios, see Note 3(c)(i). Purchased debt portfolios are divided into the following main categories:

PLN '000	**31.12.2011**	**31.12.2010**
Purchased debt portfolios		
Bank loans, including:	655,159	226,033
- consumer loans	*653,042*	*222,345*
- car loans	*1,771*	*2,570*
- mortgage loans	*346*	*1,118*
Telecommunication bills	54,502	36,022
Cash loans (other than granted by banks)	381	462
Mixed portfolios	8,664	711
	718,706	263,228

The following assumptions were made in the valuation of debt portfolios:

	31.12.2011	**31.12.2010**
Discount rate		
- risk-free	4.57%	4.06%
- risk premium*	5.08%-194.42%	5.08%-416.34%
Period for which recoveries have been estimated:	Jan 2012 - Dec 2022	Jan 2011 - Dec 2022
Nominal value of expected future recoveries	1,438,654	544,383

** applicable to 99% of debt portfolios value*

Projected schedule of inflows from debt portfolios (nominal value):

PLN '000	**31.12.2011**	**31.12.2010**
Period		
Up to 6 months	203,109	104,108
From 6 to 12 months	210,771	90,673
From 1 to 2 years	364,792	135,439
From 2 to 5 years	494,143	178,971
Over 5 years	165,839	35,192
	1,438,654	544,383

A portion of debt portfolios is secured with mortgages (mortgage loan portfolios) or registered pledges (car loan portfolios). The value of security held by the Group is difficult to assess and varies on a case-by-case basis.

If necessary, as at the end of each quarter the Group updates the following parameters which are used to estimate the future cash flows:
- risk-free rate;
- risk premium;
- period for which cash flows are estimated;
- value of expected future cash flows estimated using the current data and debt collection tools.

For information on the Group's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses for loans advanced and investments held to maturity, see Note 27.

Below are presented changes of net carrying amount of the purchased debt portfolios:

PLN '000	
Purchased debt portfolios as at Jan 1 2010	150,435
Purchase of debt portfolios	193,975
Acquisition price adjustment for discount	(1,305)
Cash recoveries	(197,939)
Revenue from debt purchase (interest and revaluation)	118 062
Purchased debt portfolios as at Dec 31 2010	263,228
Purchased debt portfolios as at Jan 1 2011	263,228
Purchase of debt portfolios	568,879
Acquisition price adjustment for discount	(5,174)
Cash recoveries	(341,122)
Revenue from debt purchase (interest and revaluation)	232 895
Purchased debt portfolios as at Dec 31 2010	718,706

As at December 31st 2011, purchased debt portfolios with carrying amount of PLN 6,809 thousand (December 31st 2010: PLN 18,042 thousand) represented security for bank loans (see Note 23).

17. Deferred tax

Deferred tax assets and liabilities and deferred tax liabilities

Deferred tax assets and liabilities have been recognised in respect of the following items of assets and liabilities:

PLN '000	**Assets**		**Liabilities**		**Net value**	
	31.12.2011	**31.12.2010**	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Property, plant and equipment	-	-	(1,113)	(808)	(1,113)	(808)
Intangible assets	-	-	(907)	(689)	(907)	(689)
Financial assets at fair value through profit or loss	-	467	(144)	-	(144)	467
Trade and other receivables	30	419	(102)	(384)	(72)	35
Employee benefits payable	2,182	1,849	-	-	2,182	1,849
Provisions and liabilities	1,260	947	(61)	-	1,199	947
Other	70	25	(15)	-	55	25
Tax loss carry forwards	637	1,475	-	-	637	1,475
Deferred tax assets/liabilities	4,179	5,182	(2,342)	(1,881)	1,837	3,301
Deferred tax assets offset against liabilities	(2,342)	(1,881)	2,342	1,881	-	-
Deferred tax assets/liabilities disclosed in the statement of financial position	1,837	3,301	-	-	1,837	3,301

Notes to the consolidated financial statements

Change in temporary differences in a period

PLN '000

	As at Dec 31 2010	Change in temporary differences recognised as profit or loss for period	As at Dec 31 2010	As at Jan 1 2011	Change in temporary differences recognised as profit or loss for period	As at Dec 31 2011
Property, plant and equipment	(852)	44	(808)	(808)	(305)	(1,113)
Intangible assets	(507)	(182)	(689)	(689)	(218)	(907)
Financial assets at fair value through profit or loss	838	(371)	467	467	(611)	(144)
Trade and other receivables	578	(543)	35	35	(107)	(72)
Liabilities under loans, borrowings and other debt instruments	48	(48)	-	-	-	-
Employee benefits payable	1,190	659	1,849	1,849	333	2,182
Provisions and liabilities	1,351	(404)	947	947	252	1,199
Other	19	6	25	25	30	55
Tax loss carry forwards	57	1,418	1,475	1,475	(838)	637
	2,722	579	3,301	3,301	(1,464)	1,837

Poland

Tax loss for a given financial year may be utilised over a period of five years, beginning in the year immediately following the year when the loss was incurred. Under the Polish tax laws, up to 50% of a loss may be utilised in each of the years of the five-year period.

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date losses**	**31.12.2011**	**31.12.2010**
Tax loss for 2006	Dec 31 2011	-	749
Tax loss for 2007	Dec 31 2012	517	517
Tax loss for 2008	Dec 31 2013	833	833
Tax loss for 2009	Dec 31 2014	96	96
Tax loss for 2010	Dec 31 2015	3,104	6,835
Tax loss for 2011	Dec 31 2016	119	-
		4,550	9,030
Applicable tax rate		19%	19%
Potential benefit of tax losses		865	1,716

Romania

Until 2009, tax loss could be utilised over a period of five years, beginning in the year immediately following the year when the loss was incurred. In 2009, the period over which tax losses can be utilised was extended to seven years.

Tax losses and periods over which they can be utilised:

PLN '000	**Tax loss expiry date losses**	**31.12.2011**	**31.12.2010**
Tax loss for 2009	Dec 31 2016	-	106
Tax loss for 2011	Dec 31 2017	-	-
		-	106
Applicable tax rate		16%	16%
Potential benefit of tax losses		-	17

Deferred tax assets of PLN 535 thousand (December 31st 2010: PLN 258 thousand) were not included in the calculation of deferred tax as the probability of their use is uncertain.

Under the applicable tax laws, deductible temporary differences do not expire. Deferred tax assets were identified for tax losses incurred by the entities based in Poland, assuming a 19% tax rate, and for tax losses incurred by the entities based in Romania, assuming a 16% tax rate. These are tax rates applicable as at the end of the reporting periods.

18. Inventories

PLN '000	31.12.2011	31.12.2010
Materials	537	442
Prepaid deliveries	-	16
	537	458

In the reporting period ended December 31st 2011, the Group did not recognise any impairment losses on inventories.

19. Trade and other receivables, current tax receivable

PLN '000	31.12.2011	31.12.2010
Trade receivables	12,804	10,568
Tax and duties receivable	1,988	2
Other receivables	1,366	697
	16,158	11,267

For information on the Group's exposure to credit and currency risk as well as impairment losses on receivables, see Note 27.

20. Cash and cash equivalents

PLN '000	31.12.2011	31.12.2010
Cash in hand	20	17
Cash on current accounts	36,185	20,759
	36,205	20,776
Restricted cash	93	167

Restricted cash is represented by cash to be transferred to clients in respect of debts collected under fee-based credit management operations, and the funds of the Company's Social Benefits Fund.

For information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 27.

21. Equity

Share capital

	Ordinary shares	
	01.01.2011 - 31.12.2011	**01.01.2010-31.12.2010**
'000		
Number of shares as at Jan 1	15,309	1,577
Retirement of shares	-	(46)
Issue of shares	1,591	-
Share split	-	13,778
Number of fully-paid shares as at end of period	16,900	15,309
PLN		
Par value per share	1.00	1.00

Pursuant to the resolution of the General Meeting of November 24th 2010, the shares were split through reduction of their par value from PLN 10 to PLN 1 per share and an increase in the number of shares, without changing the share capital.

Parent's shareholder structure as at December 31st 2011

Shareholder	Number of shares	Par value of shares (PLN '000)	Share capital held (%)
Polish Enterprise Fund IV L.P.	4,196,550	4,197	25%
Piotr Krupa	2,655,790	2,656	16%
Generali Otwarty Fundusz Emerytalny	866,101	866	5%
ING Otwarty Fundusz Emerytalny	863,333	863	5%
Other members of the Management Board	429,880	430	3%
Other Shareholders	7,888,686	7,889	47%
	16,900,340	16,900	100%

Issue of treasury shares

Pursuant to the resolution of the General Meeting of December 9th 2010, the share capital was increased by PLN 492 thousand through an issue of 491,520 shares. The share capital increase was registered on February 9th 2011. As at December 31st 2010, the share capital which had been paid up but not registered by the balance-sheet date was presented under other capital reserves.

Pursuant to the same resolution, a decision was made to issue 1,100 thousand shares through an open subscription carried out by way of a public offering, which took place on May 5th 2011.

As at December 31st 2011, the registered share capital was divided into 16,900 thousand ordinary shares (December 31st 2010: 15,309 thousand). The par value per share was PLN 1.

The holders of ordinary shares are entitled to receive approved dividends and to exercise one vote per each share held at the Parent's General Shareholders Meeting.

Other capital reserves

Other capital reserves are created by virtue of relevant resolutions of the Company's General Meeting, which has the power to decide on allocation of such reserves. In addition, capital reserves are also created when benefits are granted to employees under share-based payments.

Share-based payments

The previous share-based payment plan in the form of share appreciation rights was completed and settled in 2010.

In 2011, KRUK S.A. introduced a new share-based payment plan, which provides for the grant of rights to purchase shares at an agreed price (the Option Plan). The total cost of the Option Plan recognised in the income statement for 2011 amounted to PLN 890 thousand. The amount increased the Company's other capital reserves .

The incentive scheme operated by the Company is addressed to the Management Board Members (except for the President of the Management Board) and key management personnel of the Parent and Group companies.

The terms of the Option Plan for 2011-2014 were approved by virtue of resolutions of KRUK S.A.'s Extraordinary General Meeting. Under the plan, eligible persons will be granted the right to purchase Company shares on preferential terms defined in the resolution and the Terms of the Option Plan. The rights will be vested on condition that an eligible person is employed by the Company or its subsidiary or remains in other legal relationship under which they provide services to the Company or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for subscription warrants is made.

For the purposes of the Option Plan, the General Meeting approved a conditional share capital increase of up to PLN 845,016.00, through an issue of up to 845,016 Series E ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series E shares to holders of subscription warrants that will be issued under the Option Plan. In order to implement the Option Plan, the Company may also reacquire previously issued shares (without carrying out a new issue) and offer them to holders of subscription warrants on the same terms as in the case of the Series E shares. The holders of subscription warrants will be entitled to exercise the rights to subscribe for Series E shares attached to the subscription warrants, at the issue price being equivalent to the issue price of the Company shares in the IPO (PLN 39.70 per share), not earlier than six months after the acquisition of the subscription warrants and not later than on June 30th 2016.

The subscription warrants are to be issued in four tranches, one in each subsequent year of the reference period, i.e. 2011-2014. By December 31st 2011, no subscription warrants had been issued.

The Supervisory Board is authorised to offer subscription warrants to eligible persons for a given financial year, provided that two financial ratios, EPS and EBITDA or ROE, reach the levels specified below:

- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EPS increases by at least 17.5%;
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EBITDA increases by at least 17.5%;
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, ROE equals at least 20%;

If the warrants are not offered in a given year due to failure to satisfy the above criteria, the warrants for the financial year may be allotted in a tranche for another financial year.

By virtue of a resolution of October 10th 2011, an Extraordinary General Meeting set aside PLN 40,000 thousand from retained earnings and allocated it to capital reserves. Capital reserves have been created in order to reacquire own shares for the purposes of the Option Plan.

Retained earnings – correction of previous year's errors

The PLN 1,715 thousand adjustment to the previous years' results relates to the corporate income tax for 2007-2009, adjusted in 2011. The income tax adjustment related to the manner of calculation of the tax base for income from collection of purchased debts. Due to inconclusive interpretations, until 2010 the Parent calculated corporate income tax in a manner benefiting the tax payer. As tax authorities finally reached a uniform position, unfavourable for tax payers, as well as in connection with high spending on debt portfolios in 2011 and, consequently, higher tax risk related to previous years, the Parent decided to change the calculation of tax on such income to ensure compliance with the current interpretative approach of tax authorities. The Parent corrected its tax returns for 2008–2009 and paid additional tax in 2011.

The table below presents changes between the approved and corrected separate statement of financial position as at December 31st 2010 (only the corrected items are presented):

	31.12.2010	**31.12.2010**
Equity and liabilities	adjusted	approved
Equity		
Share capital	15,309	15,309
Share premium account	5,308	5,308
Exchange differences on translation of foreign operations	385	385
Other capital reserves	2,967	2,967
Retained earnings	106,288	108,003
Equity attributable to owners of the parent	130,257	131,972
Non-current liabilities		
Non-current liabilities under loans and borrowings, and other financial liabilities	77,996	77,996
Total non-current liabilities	77,996	77,996
Current liabilities		
Current liabilities under loans and borrowings, and other financial liabilities	44,144	44,144
Trade and other payables	49,180	49,180
Current tax payable	1,715	-
Employee benefits payable	14,045	14,045
Current provisions	174	174
Liabilities related to non-current assets held for sale		
Total current liabilities	109,258	107,543
Total liabilities	187,254	185,539
Total equity and liabilities	317,553	317,553

The adjustment affected neither the 2010 net result, nor earnings per share for 2010.

Exchange differences on translating subsidiaries

Exchange differences on translating subsidiaries include exchange differences on translating foreign operations.

22. Earnings per share

Basic earnings per share

As at December 31st 2011, basic earnings per share were calculated based on net profit attributable to owners of the Parent of PLN 66,205 thousand (2010: PLN 36,078 thousand) and the weighted average number of shares in the periods covered by the financial statements of 16,415 thousand (2010: 15,396 thousand). The amounts were determined as follows:

Net profit attributable to owners of the Parent

Net profit attributable to owners of the Parent

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Net profit for the period	66,392	36,119
Non-controlling interests	(187)	(41)
Net profit attributable to owners of the Parent	66,205	36,078

Weighted average number of ordinary shares

'000	***Note***	**01.01.2011 - 31.12.2011**	**01.01.2010-31.12.2010**
Number of ordinary shares as at Jan 1	*21*	15,309	15,771
Effect of share retirement and share issue		1,106	(375)
Weighted average number of ordinary shares as at Dec 31		16,415	15,396
PLN			
Earnings per share		4.03	2.34

Diluted earnings per share

In the period from January 1st 2011 to December 31 2011 and in the comparative period, diluted earnings per share were equal to basic earnings per share.

23. Liabilities under loans, borrowings and other debt instruments

The Note contains information on the Group's liabilities under loans, borrowings and other debt instruments measured at amortised cost. Information on the Group's exposure to currency and interest rate risks is presented in Note 27.

PLN '000	**31.12.2011**	**31.12.2010**
Non-current liabilities		
Secured loans and borrowings	70,453	10,029
Liabilities under debt securities (unsecured)	264,888	65,679
Finance lease liabilities	4,156	2,288
	339,497	77,996
Current liabilities		
Current portion of secured loans and borrowings	41,442	10,110
Liabilities under debt securities (unsecured)	94,097	31,255
Current portion of finance lease liabilities	1,964	2,779
	137,503	44,144

Repayment terms and schedule for loans and borrowings

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**31.12.2011**	**31.12.2010**
Loans and borrowings secured on the Group's assets	PLN	1M WIBOR + margin of 2.5-4.25 pp	2013	111,895	20,139
Liabilities under debt securities (unsecured)	PLN	6M WIBOR + 7 pp; 3M WIBOR + 2.5-7 pp	2015	358,985	96,934
Finance lease liabilities	PLN EUR	3M WIBOR or 1M EURIBOR + 1.43-4.13 pp	2015	6,120	5,067
				477,000	122,140

Bank loans are secured with a registered pledge over purchased debt portfolios with carrying amount of PLN 6,809 thousand as at December 31st 2011 (December 31st 2010: PLN 18,042 thousand), and with a registered pledge over shares in Secapital S.a.r.l. of Luxembourg in the amount of PLN 151,504 thousand as at December 31st 2011 (December 31st 2010: PLN 54,626 thousand).

Repayment schedule for finance lease liabilities

PLN '000

	Future minimum lease payments	Interest	Present value of future minimum lease payments
As at Dec 31 2010			
up to 1 year	2,983	116	2,867
from 1 to 5 years	2,344	144	2,200
	5,327	260	5,067
As at Dec 31 2011			
up to 1 year	2,005	41	1,964
from 1 to 5 years	4,706	550	4,156
	6,711	591	6,120

Security over assets

Security *PLN '000*	31.12.2011	31.12.2010
Registered pledge over purchased portfolios and assignment of claims financed with the loan, registered pledge over shares in Secapital S.a.r.l.	158,313	72,668
Property, plant and equipment under finance leases	6,142	4,055
	164,455	76,723

24. Employee benefits payable

PLN '000	31.12.2011	31.12.2010
Salaries and wages payable	3,943	3,046
Liabilities to the Social Security Institution	2,711	2,325
Personal income tax	709	662
Accrued holidays	1,394	1,015
Accrued salaries and wages (bonuses)	8,399	6,898
Special accounts	56	99
	17,212	14,045

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2010	888
Increase	1,010
Use	(883)
Value as at Dec 31 2010	1,015
Value as at Jan 1 2011	1,015
Increase	1,669
Use	(1,290)
Value as at Dec 31 2011	1,394

Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2010	4,400
Increase	7,862
Use	(5,364)
Value as at Dec 31 2010	6,898
Value as at Jan 1 2011	6,898
Increase	12,438
Use	(9,281)
Release	(1,656)
Value as at Dec 31 2011	8,399

25. Other current provisions

PLN '000	**Other provisions**
Value as at Jan 1 2010	32
Creation	174
Use	(32)
Value as at Dec 31 2010	174
Value as at Jan 1 2011	174
Creation	90
Value as at Dec 31 2011	264

Retirement severance pays

The Group does not recognise provisions for retirement severance pays due to the young age of its employees and absence of the employees' rights to severance pays in excess of severance pays guaranteed by the labour law. Based on the Management Board's estimates, the amount of a potential provision would be insignificant.

Tax risk

The countries in which the Group operates (in particular, Poland and Romania) frequently amend the tax laws relating to value added tax, corporate and personal income tax, and social security contributions. Therefore, on many occasions no reference can be made to established regulations or legal precedents. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretation of tax regulations, both between individual public authorities and between public authorities and enterprises. Tax settlements as well as other settlements (including those related to customs duties or foreign currencies) may be inspected by authorities which are competent to impose significant penalties. Any additional liabilities resulting from such inspections need to be paid with interest. As a result, the tax risk in those countries is higher than in countries with more developed tax regimes.

26. Trade and other payables

PLN '000	**31.12.2011**	**31.12.2010**
Trade payables to other entities	54,834	44,703
Deferred income	209	295
Tax and duties payable	5,455	1,198
Accruals and deferred income	3,035	1,173
Other liabilities	3,414	1,811
	66,947	49,180

For information on exposure to currency risk and liquidity risk associated with liabilities, see Note 27.

27. Financial instruments

Credit risk

Exposure to credit risk

Carrying amount of financial assets reflects the maximum exposure to credit risk. Below is presented the maximum exposure to credit risk as at the end of the reporting periods:

PLN '000	***Note***	**31.12.2011**	**31.12.2010**
Financial instruments at fair value through profit or loss	*16*	718,706	263,228
Loans	*16*	3,222	-
Receivables	*19*	16,158	12,526
Cash and cash equivalents	*20*	36,205	20,776
		774,291	296,530

Below is presented the maximum exposure to credit risk by geographical segment as at the end of the reporting periods:

PLN '000	**31.12.2011**	**31.12.2010**
Poland	525,562	195,764
Romania	210,559	100,766
Czech Republic	38,170	-
	774,291	296,530

Impairment losses

The maturity structure of trade and other receivables as at the end of the reporting periods is presented below:

PLN '000	**Gross value 31.12.2011**	**Impairment loss 31.12.2011**	**Gross value 31.12.2010**	**Impairment loss 31.12.2010**
Not past-due	12,735	-	7,740	-
Past-due, 0-30 days	510	-	1,946	-
Past-due, 31-90 days	650	-	889	-
Past-due, 91-180 days	275	-	403	-
Past-due, 181-365 days	303	303	256	97
Past-due, over one year	1,735	1,735	1,995	1,865
	16,208	2,038	13,229	1,962

Changes of impairment losses on receivables are presented below:

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Impairment loss as at Jan 1	1,962	1,863
Impairment loss recognised in the reporting period	129	457
Release of impairment loss	(53)	(105)
Use of impairment loss	-	(253)
Impairment loss as at Dec 31	2,038	1,962

The Group recognises impairment losses on receivables past due by more than 180 days based on historical payment data. In addition, the Group recognises impairment losses on receivables from all companies which are subject to bankruptcy or liquidation proceedings, as well as for receivables in litigation.
The Group does not recognise impairment losses on trade receivables and debt securities held to maturity as long as there is a high probability that they will be repaid. When a receivable or an investment is deemed unrecoverable, a relevant amount is charged to expenses.

In 2010-2011, the Group did not recognise any general impairment losses for receivables.

Below are presented changes in impairment losses on loans advanced:

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010- 31.12.2010**
Impairment loss as at Jan 1	516	-
Impairment loss recognised in the reporting period	-	516
Release of impairment loss	(236)	-
Impairment loss as at Dec 31	280	516

As at December 31st 2011, the gross value of loans advanced to individuals was PLN 3,499 thousand (PLN 1,751 thousand as at December 31st 2010). The Company recognised general impairment losses on loans amounting to PLN 280 thousand as at December 31st 2011 (2010: PLN 516 thousand). The amount of impairment losses is determined for the entire portfolio based on estimated recoverability of advanced loans, which is established principally on the basis of the overdue periods of loans.

Liquidity risk

Below are presented the contractual terms of financial liabilities:

As at Dec 31 2010
PLN '000

	Present value	**Contractual cash flows**	**Less than 6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Financial liabilities other than derivative instruments						
Secured loans	20,139	22,793	5,989	5,426	2,943	8,435
Unsecured issued notes	96,934	110,354	6,270	33,638	49,824	20,622
Finance lease liabilities	5,067	5,327	1,895	1,000	1,199	1,233
Trade and other payables	50,895	49,679	39,844	8,090	1,745	-
	173,035	188,153	53,998	48,154	55,711	30,290

As at Dec 31 2011
PLN '000

	Present value	**Contractual cash flows**	**Less than 6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Financial liabilities other than derivative instruments						
Secured loans	111,895	125,953	25,423	23,423	77,107	-
Unsecured issued notes	358,985	418,536	46,466	58,947	156,124	156,999
Finance lease liabilities	6,120	6,711	1,337	1,178	1,468	2,728
Trade and other payables	66,947	68,948	57,112	9,090	2,746	-
	543,947	620,148	130,338	92,638	237,445	159,727

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2010 and December 31st 2011, respectively.
The Group does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

As at December 31st 2011, the unused revolving credit facility limit available to the Group was PLN 41,308 thousand (2010: PLN 19,310 thousand).

Currency risk

Exposure to currency risk

Details of the Group's exposure to currency risk as at the end of the reporting period are presented below:

PLN '000	**31.12.2011**					**31.12.2010**		
	EUR	**USD**	**RON**	**CZK**	**HUF**	**EUR**	**USD**	**RON**
Trade receivables	182	5	-	-	-	54	1	-
Cash	54	3	6,990	1	-	22	8	1,792
Financial assets at fair value through profit or loss	2,839	-	203,852	26,105	-	-	-	98,321
Trade and other payables	-	-	(9,399)	(105)	(7)	-	-	(31,954)
Liabilities under loans and borrowings, and other financial liabilities.	(5,763)	-	-	-	-	(4,909)	-	-
Exposure to currency risk	(2,688)	8	201,443	26,001	(7)	(4,833)	9	68,159

The following exchange rates of the key foreign currencies were adopted during the preparation of these financial statements:

PLN	**Average exchange rates**		**End of reporting period (spot rate)**	
	01.01.2011 - 31.12.2011	**ok.**	**31.12.2011**	**31.12.2010**
EUR 1	4.1401	4.0044	4.4168	3.9603
USD 1	2.9679	3.0402	3.4174	2.9641
RON 1	0.9773	0.9502	1.0226	0.9238
CZK 1	0.1682	-	0.1711	-
HUF 1	1.4759	-	1.4196	-

Sensitivity analysis

As at December 31st 2011, appreciation of the Polish złoty against EUR, CZK and RON would have resulted in an increase (decrease) of equity and pre-tax profit by the amounts shown below. The analysis is based on the assumption that other variables, in particular interest rates, remain unchanged.

PLN '000	**Equity excluding profit or loss for current period**	**Profit or loss for current period**
Dec 31 2011		
EUR (10% appreciation of PLN)	-	269
RON (10% appreciation of PLN)	-	(20,144)
CZK (10% appreciation of PLN)		(2,600)
Dec 31 2010		
EUR (10% appreciation of PLN)	-	483
RON (10% appreciation of PLN)	-	(6,816)

Interest rate risk

The structure of interest-bearing financial instruments as at the balance-sheet date is presented below:

PLN '000	**Carrying amount**	
	31.12.2011	**31.12.2010**
Fixed-rate financial instruments		
Financial assets	19,380	12,526
Financial liabilities	(84,159)	(63,225)
	(64,779)	(50,699)
Variable-rate financial instruments		
Financial liabilities	(477,000)	(122,140)

Sensitivity analysis of fair value of fixed-interest-rate financial instruments.

The Group does not hold any fixed-interest-rate financial instruments measured at fair value through profit and loss, nor does it execute transactions with derivatives (IRSs) serving as security for fair value. Therefore, a change of an interest rate would have no effect on current period's profit or loss.

Sensitivity analysis of cash flows from variable-interest-rate financial instruments

A change of an interest rate by 100 basis points would increase (decrease) equity and pre-tax profit by the amounts shown below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

PLN '000	Profit or loss for current period		Equity excluding profit or loss for current period	
	up by 100 bps	down by 100 bps	up by 100 bps	down by 100 bps
Dec 31 2011				
Variable-rate financial instruments	(4,770)	4,770	-	-
Dec 31 2010				
Variable-rate financial instruments	(1,221)	1,221	-	-

Fair values

Comparison between fair values and carrying amounts

The table below presents a comparison between fair values of financial assets and liabilities and values presented in the statement of financial position:

PLN '000	*Note*	31.12.2011		31.12.2010	
		Book value	Fair value	Book value	Fair value
Financial instruments at fair value through profit or loss		718,706	718,706	263,228	263,228
Loans and receivables		19,380	19,380	12,526	12,526
Cash and cash equivalents		36,205	36,205	20,776	20,776
Secured bank loans		(111,895)	(111,895)	(20,139)	(20,139)
Unsecured issued notes		(358,985)	(358,985)	(96,934)	(96,934)
Finance lease liabilities		(6,120)	(6,120)	(5,067)	(5,067)
Trade and other payables		(66,947)	(66,947)	(49,180)	(49,180)
Employee benefits payable		(17,212)	(17,212)	(14,045)	(14,045)
		213,132	213,132	111,165	111,165

For information on the rules applied to the determination of fair value, see Note 4.

Interest rates used for the assessment of fair value

	31.12.2011	31.12.2010
Financial assets at fair value through profit or loss	9.65% - 198.99%	9.13%-420.40%
Loans and borrowings	8.22%-9.02%	6.26%-7.91%
Unsecured issued notes	7.39%-12%	8.95%-11.16%
Finance lease liabilities	1.43%-4.13%	0.83%-4.13%

Hierarchy of financial instruments measured at fair value

The table below presents financial instruments at fair value according to the valuation method applied. Depending on the level of valuation, the following inputs were used in the valuation models.

- Level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities,

- Level 2: inputs forgiven assets and liabilities, other than quoted prices from Level 1, observable directly (e.g. as prices) or indirectly (e.g. as provisions derivative),
- Level 3: inputs that are not based on observable market prices (unobservable inputs).

PLN '000	**Level 3**
As at Dec 31 2011	
Financial assets at fair value through profit or loss	718,706
As at Dec 31 2010	
Financial assets at fair value through profit or loss	263,228

28. Operating lease

Operating lease agreements with the Group as a lessee

Below are detailed minimum lease payments under irrevocable operating lease agreements:

PLN '000	**31.12.2011**	**31.12.2010**
up to 1 year	3,695	2,927
from 1 to 5 years	11,341	5,007
	15,036	7,934

Material operating lease agreements include:

- Agreement for the use of property with an area of 2,845 square metres located at ul. Legnicka 56 in Wrocław, Poland, executed with Legnicka Business House Sp. z o.o. on October 13th 2006. The agreement, executed for a term of ten years, is terminable after the initial period of five years. The annual cost of use is approximately EUR 314 thousand.
- Agreement for the use of property with an area of 1,044 square metres located at ul. Szczawieńska 2 in Szczawno-Zdrój, Poland, executed with Dolnośląska Agencja Rozwoju Regionalnego S.A. of Wałbrzych on August 13th 2009. The agreement, executed fora term of ten years, is terminable after the initial period of five years. The annual cost of use is approximately PLN 509 thousand.
- Agreement for the use of property with an area of 665 square metres located in Targoviste, Romania, executed with ARTA S.C.M. of Targoviste, Romania, on August 15th 2008. The agreement was executed for a specified term and is valid until August 15th 2018. The annual cost of use is EUR 27,930.
- Agreement executed with S.C. SEMA PARC S.A. of Bucharest on March 13th 2009. The annual cost of use of the 280 square metre property is approximately EUR 26,880.
- Agreement for the use of property with an area of 1,696 square metres, located at ul. Wołowska 4, Wrocław, executed with DEVCO Sp. z o.o. on December 10th 2010. The agreement was executed for a term of three years with no early termination option. The annual cost of use is approximately EUR 264 thousand

29. Related-party transactions

Remuneration of the management personnel

Below is presented information on the remuneration payable to the members of the Parent's key management personnel:

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Base pay/ managerial contract	2,478	2,251
Provisions for employee bonuses for current year	2,951	2,135
Bonuses paid for current year	251	483
Other - medical benefits and other	15	31
Share-based payments	890	257
	6,585	5,157

Other transactions with the management personnel

As at December 31st 2011, the management personnel of the Parent and their next of kin held 18% of the total voting rights at the Parent (December 31st 2009: 19%).
Certain members of the management personnel and their next of kin hold positions in other entities (outside of the Group), enabling them to control or significantly influence the financial and operating policies of such entities.

Some of such entities executed business transactions with the Group in the reporting period. The terms and conditions of such transactions did not differ from terms and conditions of similar transactions carried out or which may be carried out on an arm's length basis with non-related parties.

Other related-party transactions

In 2010-2011, the Group did not execute any transactions with Polish Enterprise Fund IV L.P.

30. Composition of the Group

Subsidiaries

		Share capital held (%)		Gross value of shares	
PLN '000	**Country**	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Secapital S.a.r.l	Luxembourg	100%	100%	469,567	125,066
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%	100	100
Secapital Polska Sp. z o.o.	Poland	100%	98%	50	50
Rejestr Dłużników Europejski Rejestr Informacji Finansowej Biuro Informacji Gospodarczej S.A.	Poland	100%	100%	1,564	1,564
Polski Rynek Długów Sp. z o.o.	Poland	100%	100%	50	50
KRUK International Srl	Romania	100%	100%	11,421	5,978
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	98%	98%	300	300
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	-	250	-
KRUK International Sro	Czech Republic	100%	-	33	
Prokura NS FIZ*	Poland	100%	100%	-	-
Prokulus NS FIZ*	Poland	100%	100%	-	-
				483,335	**133,108**

All the subsidiaries listed above were consolidated in the consolidated financial statements prepared as at December 31st 2011 and for the period from January 1st to December 31st 2011.

On January 17th 2011, the Company established KRUK Towarzystwo Funduszy Inwestycyjnych S.A. This entity was entered in the National Court Register on May 16th 2011.

On April 13th 2011, the Company acquired 100% of shares in the Czech company Reberifa S.r.o., whose share capital amounts to CZK 200 thousand. The purchase price of the shares was PLN 32.5 thousand, and net value of the acquired assets stood at PLN 32.3 thousand. The company's name was changed to KRUK International S.r.o.

On October 26th 2011, KRUK Corporate Sp. z o.o. changed its name to ERIF Business Solutions Sp. z o.o. The change was entered in the National Court Register on November 29th 2011.

On February 6th 2012, Polski Rynek Długów Sp. z o.o. changed its name to NOVUM Finance Sp. z o.o. The change was entered in the National Court Register on February 15th 2012.

31. Events subsequent to the balance-sheet date

On March 7th 2012, the Parent signed an annex to the loan agreement concluded on April 8th 2011 with Bank Zachodni WBK S.A. Under the agreement, Bank Zachodni WBK S.A. granted to the Parent a revolving loan of up to PLN 80,000 thousand for purposes including the financing of debt purchases by the Parent and its Subsidiaries.

Piotr Krupa *President of the Management Board*	Rafał Janiak *Member of the Management Board*	Agnieszka Kułton *Member of the Management Board*
Urszula Okarma *Member of the Management Board*	Iwona Słomska *Member of the Management Board*	Michał Zasępa *Member of the Management Board*

Katarzyna Raczkiewicz
Person responsible for maintaining
the *accounting records*

Wrocław, March 14th 2012