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Kruk S.A.

Separate financial statements for the financial year ended December 31st 2011

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

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Kruk S.A.

Separate 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*	12,144	8,511	7,108
Intangible assets	*14*	6,385	4,796	3,220
Investments in subsidiaries	*15*	483,235	133,008	52,420
Deferred tax assets	*17*	1,671	3,007	2,601
Total non-current assets		503,435	149,322	65,349
Current assets				
Inventories	*18*	393	377	622
Current investments	*16*	106,566	24,454	41,364
Trade receivables from related entities	*19*	21,485	23,153	25,834
Trade receivables from other entities	*19*	5,799	6,600	6,546
Current tax receivable	*19*	-	-	532
Other receivables	*19*	558	1,512	1,569
Prepayments and accrued income		1,460	1,654	640
Cash and cash equivalents	*20*	10,023	8,509	9,829
Total current assets		146,284	66,259	86,936
Total assets		649,719	215,581	152,285
Equity and liabilities				
Equity				
Share capital	*21*	16,900	15,309	15,771
Share premium		45,107	5,308	9,795
Other capital reserves		43,365	2,967	2,218
Retained earnings		2,606	42,089	37,815
Total equity		107,978	65,673	65,599
Total equity		107,978	65,673	65,599
Non-current liabilities				
Non-current liabilities under loans and borrowings, and other financial liabilities	*23*	339,272	77,860	13,420
Total non-current liabilities		339 272	77,860	13,420
Current liabilities				
Current liabilities under loans and borrowings, and other financial liabilities	*23*	137,371	44,048	49,119
Trade and other payables	*26*	50,373	14,824	13,506
Current tax payable		660	1,715	1,723
Employee benefits payable	*24*	14,065	11,461	8,918
Total current liabilities		202,469	72,048	73,266
Total liabilities		541,741	149,908	86,686
Total equity and liabilities		649,719	215,581	152,285

Separate 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*	82,221	65,287
Other operating income	*8*	1,721	1,799
Cost of goods for resale and materials sold		(432)	(256)
Salaries and wages and other employee benefits	*10*	(53,478)	(44,022)
Depreciation and amortisation		(4,476)	(3,185)
Contracted services		(27,971)	(22,147)
Other operating expenses	*9*	(16,796)	(15,189)
		(103,153)	(84 799)
Operating profit		(19,211)	(17,713)
Finance income	*11*	52,055	31,528
Finance expenses	*11*	(30,331)	(9,947)
Net finance income		21,724	21,581
Pre-tax profit		2,513	3,868
Income tax	*12*	(1,996)	406
Net profit for the period		517	4,274
Total comprehensive income for the period		517	4,274
Earnings per share			
Basic (PLN)	*22*	0.03	0.28
Diluted (PLN)	*22*	0.03	0.28

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Separate statement of changes in equity

For financial year ended December 31st 2011

PLN '000

	Note	Share capital	Share premium	Other capital reserves	Retained earnings	**Total equity**
Equity as at Jan 1 2010 approved		15,771	9,795	2,218	39,530	67,314
Adjustments due to errors from previous years	*21*	-	-	-	(1,715)	(1,715)
Adjusted equity as at Jan 1 2010		15,771	9,795	2,218	37,815	65,599
Comprehensive income for the period						
Net profit for the period		-	-	-	4,274	4,274
Total comprehensive income for the period		-	-	-	4,274	4,274
Contributions from and distributions to owners						
- Share-based payments		-	-	257	-	257
- Issue of shares (unregistered)		-	-	492	-	492
- Retirement of treasury shares		(462)	(4,487)	-	-	(4,949)
Contributions from and distributions to owners		(462)	(4,487)	749	-	(4,200)
Adjusted total equity as at Dec 31 2010		15,309	5,308	2,967	42,089	65,673
Equity as at Jan 1 2011		15,309	5,308	2,967	42,089	65,673
Comprehensive income for the period						
Net profit for the period		-	-	-	517	517
Total comprehensive income for the period		-	-	-	517	517
Contributions from and distributions to owners						
- Share-based payments	*21*	-	-	890	-	890
- Issue of treasury shares	*21*	1,591	39,799	(492)	-	40,898
- 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
Total equity as at Dec 31 2011		16,900	45,107	43,365	2,606	107,978

Separate cash flow statement

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		517	4,274
Adjustments			
Depreciation of property, plant and equipment	*13*	2,750	1,979
Amortisation of intangible assets	*14*	1,725	1,205
Net finance income		(23,508)	(21,904)
(Gain)/ loss on sale of property, plant and equipment		247	5
Equity-settled share-based payment transactions		890	257
Income tax		2,001	(406)
Change in financial assets at fair value through profit or loss	*16*	(72,226)	17,787
Change in inventories		(16)	246
Change in receivables		4,185	4,350
Change in prepayments and accrued income		193	(1,013)
Change in current trade and other payables		67,177	3,972
Change in employee benefits payable		2,603	2,544
Income tax paid		(1,716)	531
Net cash flows from operating activities		(15,178)	13,827
Cash flows from investing activities			
Interest received		1,868	1,488
Loans advanced		(41,586)	(7,392)
Sale of intangible assets and property, plant and equipment		-	133
Dividend received		27,916	20,500
Disposal of financial assets		31,000	-
Purchase of intangible assets and property, plant and equipment		(6,503)	(5,078)
Acquisition of financial assets		(375,783)	(75,629)
Repayment of loans advanced		16,290	844
Net cash flows from investing activities		(346,798)	(65,134)
Cash flows from financing activities			
Net proceeds from share issue		40,899	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)	(33,824)
Redemption of notes		(30,000)	(33,897)
Payments under finance lease agreements		(2,967)	(3,422)
Retirement of shares		-	(114)
Interest paid		(27,330)	(6,330)
Net cash flows from financing activities		363,490	49,987
Total net cash flows		1,514	(1,320)
Cash and cash equivalents at beginning of period		8,509	9,289
Cash at end of period	*20*	10,023	8,509

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

Notes to the separate financial statements

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1. Company details

Company name
Kruk Spółka Akcyjna ("Kruk S.A." or "the Company")

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

Business profile
The Company's core business consists in debt collection, including fee-based debt collection for clients (credit management services) and collection of debt purchased for its own account (purchase of debt portfolios).

The Company also offers loans to private individuals.

The Company is the parent of the KRUK Group ("the Group") and in addition to these separate financial statements it prepares consolidated financial statements containing the data of the Company and its subsidiaries, approved on the same day as these separate financial statements.

2. Basis of preparation

a) Statement of compliance

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

These financial statements were approved by the Company's Management Board ("the Management Board") on March 14th 2012.

b) Basis of valuation

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

These 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 financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand. The Polish złoty is the functional currency of the Company.

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 Company corrected errors in the calculation of 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 Company's results for previous years has been 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 financial statements.

a) Foreign currencies

(i) Foreign currency transactions

Transactions denominated in foreign currencies are recognised as at the transaction date in the functional currency, using bid or ask rates quoted as at the transaction date by the bank whose services the Company 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 in foreign currencies, measured at historical cost, are translated at the exchange rate effective on the transaction date.

b) 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 Company becomes a party to a mutual liability pertaining to a given financial instrument.

The Company ceases to disclose a financial asset upon the expiry of its 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 Company is disclosed as a separate asset or liability.

Financial assets and liabilities are set off against each other and disclosed at net amounts in the statement of financial position only if the Company 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 Company holds the following financial instruments other than derivative financial assets: financial assets at fair value through profit or loss and 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 assets at fair value through profit or loss if the Company actively manages such investments and makes 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

Purchased debt portfolios comprise mass overdue consumer debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Company under claim assignment agreements. Prices paid by the Company for such debt portfolios are significantly lower than the nominal value of the debt. The Company recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss because it manages the portfolios and its results of operations regarding the portfolios are assessed on the basis of their fair value.

Purchased debt portfolios are initially recognised at acquisition price. Costs and expenses relating to debt purchase transactions are recognised in profit or loss of the period.

The Company 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 items with varying parameters (type, nominal value, delinquency period). Each purchased debt portfolio is divided into sub-portfolios with similar parameters, 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 Company 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 inflows from debt portfolios are divided into principal recoveries 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 Company 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.

Under loans and receivables the Company also discloses cash and cash equivalents as well as trade 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 statement of cash flows comprises the above-specified cash and cash equivalents, less unpaid overdraft facilities, which form an integral component of the Company's cash management system.

Financial liabilities other than derivative instruments

Financial liabilities are recognised as at the date of the transaction in which the Company becomes a party to an agreement obliging it deliver a financial instrument.

The Company derecognises 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 Company 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 Company 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 the initial recognition, such liabilities are measured at amortised cost with the use of the effective interest rate.

The Company holds the following financial liabilities: loans, liabilities under debt securities, and 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.

c) 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 Company capitalises future expenditure on replacement of an item of property, plant and equipment if such expenditure may be reliably estimated and if the Company 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 estimated useful economic lives of items 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 or other similar agreements are depreciated over the shorter of their estimated useful life or the lease term, unless the Company is certain that it will obtain ownership before the end of the lease. Land is not depreciated.

The Company has adopted the following 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.

d) Intangible assets

(i) Recognition and measurement

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

(ii) 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.

(iii) Depreciation

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 given intangible asset, other than goodwill, from the moment it is placed in service. This method reflects the manner of achieving future economic benefits related to the use of a given asset in the best possible way.

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

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.

e) Property, plant and equipment used under lease agreements

Lease agreements under which the Company 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.

f) 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.

g) 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 Company for economic or legal reasons resulting from the debtor's poor financial condition, which the Company 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 Company tests for impairment each individual asset of receivables or financial instruments held to maturity.

In impairment testing, the Company uses historical trends to assess the probability of default, payment dates and losses, adjusted by the Management Board's estimates indicating whether current economic and credit conditions signal any future significant differences between actual losses and losses projected 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. Losses are recognised in profit or loss for the period and reduce the present value of financial assets. The Company 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 Company 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").

An impairment loss is recognised when 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.

h) Employee benefits

(i) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Company 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 Company recognises liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay such amounts 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 Company 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 Company'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 Company 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.

i) Provisions

Provisions are recognised when the Company 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.

j) Shares in subsidiaries

Shares in subsidiaries not classified as held for sale are recognised at acquisition cost less any impairment losses.

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(b)(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 Company's 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 Company (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 Company 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.

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 Company 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 Company 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 Company. 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 Company that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses relating to transactions with other components of the Company. Operating results of each segment are reviewed regularly by the Company'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 Company's operating decision maker include items which may be assigned directly to the segment and items which may be 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 financial statements of the Company, except for *IFRS 9 Financial Instruments*, which will apply to the financial statements of the Company for 2015 and could affect the classification and measurement of financial assets. The Company does not plan to apply the standard early, and the effect of its application has not been estimated.

4. Determination of fair value

(i) 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.

(ii) 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.

(iii) 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.

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

Valuation of the plan has been performed using the Black-Scholes model. This model has been chosen due to the fact that it is widely used for valuation of options and 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 main factors affecting the cost recognised by the Company, 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 Company 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 Company's exposure to each type of the above risks, the Company's objectives, policies and procedures for measuring and managing the risks, and the Company's management of capital. Note 27 to these 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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 Company 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 Company and with 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 Company regularly monitors whether payments are made when due, and if any delays are identified, 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 Company for at least three years. Only in few cases losses were incurred by the Company as a result of non-payment. Trade and other receivables mainly represent fees receivable in respect of debt collected for clients.

The Company's exposure to credit risk results mainly from individual characteristics of each client. The Company's largest client (excluding the subsidiaries) accounts for 8.70% of the Company's revenue (2010: 10.98%), and the respective percentages for the Company's related entities are 24.08% and 23.89%. Receivables from the Company's largest client among its non-related entities accounted for 8.9% of total gross trade receivables as at December 31st 2011 (December 31st 2010: 6.5%), and in the case of related entities the percentages were 61.66% and 58.69%, respectively. For this reason there is no significant risk concentration with respect to non-related entities.

The Company 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 Company 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 Company has the experience and advanced analytical tools necessary to estimate such risk.

As at the date of purchase of a debt portfolio, the Company evaluates the 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 Company 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 received 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 Company 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 Company in most of such auctions do not differ significantly from prices offered by the Company'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 Company.

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 Company diversifies the risk by purchasing various types of debt, with varying degrees of problems and delinquency periods.

The Company 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 Company held cash and cash equivalents of PLN 10,023 thousand (2010: PLN 8,509 thousand), representing its maximum exposure to credit risk related to these assets.

Guarantees

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

Liquidity risk

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

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

Market risk

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

In the Management Board's opinion, in the Company's case the market risk relates primarily to exposure to the risk of changes in the PLN/RON exchange rate given considerable investments in debt portfolios denominated in RON. Other market risks to which the Company 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 15.6% of total assets, while liabilities denominated in foreign currencies represented 2.4% of total liabilities (December 31st 2010: 2.9% and 1.7%, respectively).

The Company 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 Company as the ratio of operating profit/(loss) to equity, excluding non-controlling interests.

The Management Board seeks to strike a balance at the Group level between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base. The Company aims to achieve a high return on equity (ratio of the Group's operating result to the Group's equity); in the reporting period from January 1st to December 31st 2011 the rate for the Group was 40.3% (2010: 32.7%). The return on equity is calculated for the entire Group as the Company finances purchases for all subsidiaries. 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 Company's debt ratio, i.e. the ratio of total liabilities under loans and borrowings, issued bonds and liabilities under finance lease agreements to total equity, was 4.4 as at December 31st 2011 (December 31st 2010: 1.9). The significant rise in debt follows from higher spending on debt portfolio purchases; the spending within the Group grew by 273% from the 2010 level.

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

As required by the Commercial Companies Code, the Company's share capital must amount to at least PLN 100 thousand. The Company is obliged to allocate at least 8% of profits 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 Company 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 Company'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.

Reporting segments

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Revenue	**82,221**	**65,287**
Purchased debt portfolios	29,934	13,111
Collection services	51,154	51,273
Other products	1,133	903
Direct and indirect costs	**(62,302)**	**(56,492)**
Purchased debt portfolios	(9,877)	(4,892)
Collection services	(49,169)	(51,108)
Other products	(3,256)	(493)
Indirect margin	**19,919**	**8,795**
Purchased debt portfolios	20,057	8,219
Collection services	1,985	165
Other products	(2,123)	410
General and administrative expenses	(33,073)	(22,806)
Depreciation and amortisation	(4,476)	(3,185)
Other operating income	1,721	1,799
Other operating expenses	(3,302)	(2,315)
Finance income/expenses	21,724	21,581
Pre-tax profit	2,513	3,868
Income tax	(1,996)	406
Net profit	517	4,274

Geographical segments

The operating activities are conducted in two main geographical areas: Poland and Romania. In 2011, the Company 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	**82,221**	**65,287**
Poland	66,684	65,303
Foreign markets	15,537	(16)
Direct and indirect costs	**(62,302)**	**(56,492)**
Poland	(59,723)	(56,167)
Foreign markets	(2,579)	(325)
Indirect margin	**19,919**	**8,795**
Poland	6,961	9,136
Foreign markets	12,958	(341)
General and administrative expenses	(33,073)	(22,806)
Depreciation and amortisation	(4,476)	(3,185)
Other operating income	1,721	1,799
Other operating expenses	(3,302)	(2,315)
Finance income/expenses	21,724	21,581
Pre-tax profit	2,513	3,868
Income tax	(1,996)	406
Net profit	517	4,274

7. Revenue

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Revenue from debt purchase	29,934	13,111
Revenue from debt collection services	51,154	51,273
Revenue from other services	679	633
Revenue from sales of goods for resale and materials	454	270
	82,221	65,287

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	25,416	14,354
Revaluation of debt portfolios	4,518	(1,243)
	29,934	13,111

Revenue from fee-based credit management includes commission fees ranging from 2% to 4% of collected debts. Commission fee rates depend on such factors as delinquency periods and on whether there have been any prior collection attempts. The Company's main client among non-related entities accounts for 13.85% of revenue from credit management services, and among related entities - for 38.33% (2010: 13.78% and 29.97%, respectively).

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	4,584	(1,288)
Change due to change in discount rate	(66)	45
	4,518	(1,243)

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 Company, 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		-	373
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		1,049	965
Other		149	53
		1,721	1,799

9. Other operating expenses

PLN '000	*Note*	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Court fees		(1,775)	(1,967)
Advertising		(5,293)	(5,460)
Raw materials and energy used		(4,295)	(3,226)
Taxes and charges		(465)	(687)
Re-invoiced costs of services		(1,508)	(1,014)
Revaluation allowances for receivables	*27*	(75)	(381)
Employee trainings		(866)	(593)
Business trips		(898)	(569)
Representation and entertainment expenses		(237)	(334)
Car insurance		(369)	(257)
Motor vehicle losses		(219)	(165)
Property insurance		(81)	(41)
Other		(715)	(495)
		(16,796)	(15,189)

10. Employee benefits

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Salaries and wages	(44,524)	(37,536)
Other social security contributions	(1,877)	(1,294)
Old-age and disability pension contributions	(5 525)	(4,423)
Equity-settled share-based payments	(890)	(257)
Contribution to the State Fund for the Disabled	(662)	(512)
	(53,478)	(44,022)

11. Finance income and expenses

Recognised as profit or loss for current period

PLN '000	*Note*	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Dividend income		49,201	30,089
Interest income on loans and receivables		1,670	570
Interest income on bank deposits		948	869
Other finance income		236	-
		52,055	31,528
Interest expense on financial liabilities measured at amortised cost		(28,309)	(9,052)
Net foreign exchange gains/(losses)		(2,022)	(379)
Impairment losses on financial instruments measured at amortised cost	*27*	-	(516)
		(30,331)	(9,947)
Net finance income recognised in profit or loss		21,724	21,581

The finance income and expenses shown above include interest income and expenses relating to financial 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	2,618	1,439
Total interest expense on financial liabilities	(28,309)	(9,052)

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		660	-
Income tax (deferred portion)			
Origination/ reversal of temporary differences	*17*	1,336	(406)
		1,996	(406)

Reconciliation of effective tax rate

PLN '000	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Net profit for the period	517	4,274
Income tax disclosed in the statement of comprehensive income	(1,996)	406
Pre-tax profit for the period (assuming 19% tax rate)	2,513	3,868
Tax calculated using the tax rate applicable in Poland (19%)	(477)	(735)
Effect of non-deductible expenses	(8,590)	(1,342)
Effect of tax-exempt income	7,600	2,483
Correction of tax losses from previous years	(178)	-
Change in temporary differences not recognised in deferred tax	(351)	-
	(1,996)	406

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	1,446	7,457	5,399	935	17	15,254
Acquisition	11	1,975	1,487	17	9	3,499
Sale/ liquidation	(74)	(2,567)	(383)	(414)	-	(3,438)
Gross value as at Dec 31 2010	1,383	6,865	6,503	538	26	15,315

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Tangible assets under construction	Total
Gross value as at Jan 1 2011	1,383	6,865	6,503	538	26	15,315
Acquisition	98	2,324	3,448	91	598	6,559
Sale/ liquidation	-	(388)	(1,134)	(51)	-	(1,573)
Gross value as at Dec 31 2011	1,481	8,801	8,817	578	624	20,301

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	(53)	(5,112)	(2,353)	(628)	-	(8,146)
Depreciation and amortisation	(38)	(901)	(976)	(64)	-	(1,979)
Decrease resulting from sale/ liquidation	16	2,563	337	405	-	3,321
Depreciation and impairment losses as at Dec 31 2010	(75)	(3,450)	(2,992)	(287)	-	(6,804)

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	(75)	(3,450)	(2,992)	(287)	-	(6,804)
Depreciation and amortisation	(40)	(1,313)	(1,324)	(73)	-	(2,750)
Decrease resulting from sale/ liquidation	-	351	1,014	32	-	1,397
Depreciation and impairment losses as at Dec 31 2011	(115)	(4,412)	(3,302)	(328)	-	(8,157)

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	1,393	2,345	3,046	307	17	7,108
As at Dec 31 2010	1,308	3,415	3,511	251	26	8,511
As at Jan 1 2011	1,308	3,415	3,511	251	26	8,511
As at Dec 31 2011	1,366	4,389	5,515	250	624	12,144

Property, plant and equipment under leases

The Company 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 thousand, respectively. In addition, under finance lease agreements the Company uses passenger vehicles and trucks whose carrying amount as at December 31st 2011 and December 31st 2010 was PLN 5,267 thousand and PLN 3,226 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 Company 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 624 thousand and PLN 26 thousand, respectively.

14. Intangible assets

PLN '000

	Computer software, licences, permits	Other	Total
Gross value of intangible assets			
Gross value as at Jan 1 2010	5,073	369	5,442
Produced internally	2,470	-	2,470
Other increase	332	-	332
Decrease	(130)	-	(130)
Gross value as at Dec 31 2010	7,745	369	8,114
Gross value as at Jan 1 2011	7,745	369	8,114
Produced internally	2,180	-	2,180
Other increase	1,134	-	1,134
Gross value as at Dec 31 2011	11,059	369	11,428

PLN '000

	Computer software, licences, permits	Other	Total
Depreciation and impairment losses			
Depreciation and impairment losses as at Jan 1 2010	(2,041)	(181)	(2,222)
Depreciation and amortisation	(1,158)	(47)	(1,205)
Decrease	109	-	109
Depreciation and impairment losses as at Dec 31 2010	(3,090)	(228)	(3,318)
Depreciation and impairment losses as at Jan 1 2011	(3,090)	(228)	(3,318)
Depreciation and amortisation	(1,678)	(47)	(1,725)
Depreciation and impairment losses as at Dec 31 2011	(4,768)	(275)	(5,043)

PLN '000

	Computer software, licences, permits	Other	Total
Net value			

As at Jan 1 2010	3,032	188	3,220
As at Dec 31 2010	4,655	141	4,796
As at Jan 1 2011	4,655	141	4,796
As at Dec 31 2011	6,291	94	6,385

15. Investments in subsidiaries

PLN '000	**31.12.2011**	**31.12.2010**
Gross value of shares in subsidiaries	483,335	133,108
Impairment loss on shares	(100)	(100)
Net value of shares in subsidiaries	483,235	133,008

		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 subsidiaries listed above were consolidated in the consolidated financial statements of the KRUK Group 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.

In 2009, the Company recognised an impairment loss of PLN 50 thousand on shares in Secapital Polska Sp. z o.o. and an impairment loss of PLN 50 thousand on shares in Polski Rynek Długów Sp. z o.o.

In 2011, the Company increased the share capital of KRUK International Srl:

- On June 30th 2011 – through a PLN 277 thousand conversion of a loan into shares, and the cancellation of debt under a PLN 667 thousand loan;
- On December 31st 2011 – through the cancellation of debt under a PLN 4,499 thousand loan.

16. Current investments

PLN '000	**31.12.2011**	**31.12.2010**
Current investments		
Financial assets at fair value through profit or loss		
	90,878	18,630
Loans advanced to related entities	12,469	4,589
Loans advanced to other entities	3,219	1,235
	106,566	24,454

In 2010, the Company commenced advancing loans to individuals 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%. Loans bear interest at an average rate of 20%. Additional revenue comprises commission fees, arrangement fees and insurance.

The Company grants its related entities one-year loans with an interest rate equal to WIBOR 3M + 2% margin. The loans are not secured.

Financial assets at fair value through profit or loss (designated as such at the time of initial recognition) include purchased debt portfolios. Had the Company 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(b)(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:	88,046	14,209
- consumer loans	*85,931*	*10,521*
- car loans	*1,770*	*2,570*
- mortgage loans	*345*	*1,118*
Telecommunication bills	2,338	3,765
Cash loans (other than granted by banks)	381	576
Other	113	80
	90,878	18,630

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

Discount rate		
- risk-free	4.58%	4.06%
- risk premium*	15.23%-193.05%	11.51%-363.69%
Period for which the recoveries have been estimated:	Jan 2011 - Dec 2022	Jan 2011 - Dec 2018
Nominal value of expected future recoveries	190,754	33,894

** 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	35,288	9,153
From 6 to 12 months	31,772	6,716
From 1 to 2 years	43,561	8,682
From 2 to 5 years	60,874	8,020
Over 5 years	19,259	1,324
	190,754	33,894

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 Company is difficult to assess and varies on a case-by-case basis.

If necessary, as at the end of each quarter the Company updates the following parameters which are used to estimate 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 Company's exposure to credit, currency and interest rate risks associated with its investments, and on impairment losses on 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	36,416
Purchase of debt portfolios	-
Sale of debt portfolios	(1,845)
Recoveries from debtors	(29,052)
Revenue from debt purchase (interest and revaluation)	13,111
Purchased debt portfolios as at Dec 31 2010	18,630
Purchased debt portfolios as at Jan 1 2011	18,630
Purchase of debt portfolios	89,732
Acquisition price adjustment for discount	(923)
Recoveries from debtors	(47,234)
Revenue from debt purchase (interest and revaluation)	30,673
Purchased debt portfolios as at Dec 31 2011	90,878

Shares in subsidiary Secapitał S.a.r.l., with carrying amount of PLN 151,504 thousand as at December 31st 2011 (December 31st 2010: PLN 54,626 thousand), as well as purchased debt portfolios with carrying amount of PLN 6,809 thousand as at December 31st 2011 (December 31st 2010: PLN 18,042 thousand) serve as security for liabilities under 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	8	419	(102)	(384)	(94)	35
Employee benefits payable	2,103	1,790	-	-	2,103	1,790
Provisions and liabilities	1,309	947	(61)	-	1,248	947
Other	62	25	(15)	-	47	25
Tax loss carry forwards	531	1,240	-	-	531	1,240
Deferred tax assets/liabilities	4,013	4,888	(2,342)	(1,881)	1,671	3,007
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	1,671	3,007	-	-	1,671	3,007

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	215	(180)	35	35	(129)	(94)
Liabilities under loans, borrowings and other debt instruments	41	(41)	-	-	-	-
Employee benefits payable	1,096	694	1,790	1,790	313	2,103
Provisions and liabilities	1,743	(796)	947	947	301	1,248
Other	27	(2)	25	25	22	47
Tax loss carry forwards	-	1,240	1,240	1,240	(709)	531
	2,601	406	3,007	3,007	(1,336)	1,671

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 2010	Dec 31 2015	2,795	6,525
Applicable tax rate		19%	19%
Gross value of deferred tax asset		531	1,240

Under the applicable tax laws, deductible temporary differences do not expire. Deferred tax assets were recognised for tax losses incurred by the Company, assuming a 19% 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	393	362
Prepaid deliveries	-	15
	393	377

In the reporting period ended December 31st 2011, the Company 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 from related entities	12,599	18,001
Other receivables from related entities	8,886	5,152
Trade receivables from related entities	5,799	6,600
Other receivables from non-related entities	558	1,512
	27,842	31,265

For information on the Company'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	17	14
Cash on current accounts	10,006	8,495
	10,023	8,509
Restricted cash	88	161

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 Company'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	1

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.

Company'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%

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.

On May 23rd 2011, a PLN 1,100 thousand increase of the Company's share capital, effected through the public issue of 1,100 thousand Series D shares with a par value of PLN 1 per share, was registered by the National Court Register.

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 (December 31st 2010: PLN 1).

The holders of ordinary shares are entitled to receive approved dividends and to exercise one vote per each share held at the Company's General 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 Company 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 Company decided to change the calculation of tax on such income to ensure compliance with the current interpretative approach of tax authorities. The Company 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):

Equity and liabilities	**31.12.2010** adjusted	**31.12.2010** approved
Equity		
Share capital	15,309	15 309
Share premium	5,308	5 308
Other capital reserves	2,967	2 967
Retained earnings	42,089	43 804
Total equity	65 673	67,388
Non-current liabilities		
Non-current liabilities under loans and borrowings, and other financial liabilities	77,860	77,860
Total non-current liabilities	77,860	77,860
Current liabilities		
Current liabilities under loans and borrowings, and other financial liabilities	44,048	44,048
Trade and other payables	14,824	14,824
Current tax payable	1,715	-
Employee benefits payable	11,461	11,461

Total current liabilities	72,048	70,333
Total equity and liabilities	215,581	215,581

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

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 Company of PLN 517 thousand (2010: PLN 4,274 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 Company

Net profit attributable to holders of ordinary shares

PLN '000

	01.01.2011 - 31.12.2011	**01.01.2010 - 31.12.2010**
Net profit for the period	517	4,274
Net profit attributable to holders of ordinary shares in the Company	517	4,274

Weighted average number of ordinary shares

Basic earnings per share

'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 retirement and issue of own shares		1,106	(375)
Weighted average number of ordinary shares as at Dec 31		16,415	15,396
PLN			
Earnings per share		0.03	0.28

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 Company's liabilities under loans, borrowings and other debt instruments measured at amortised cost. Information on the Company'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	3,931	2,152
	339,272	77,860
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	1,832	2,683
	137,371	44,048

Terms and repayment schedule of loans, borrowings and other debt instruments

PLN '000	**Currency**	**Nominal interest rate**	**Maturity**	**31.12.2011**	**31.12.2010**
Loans and borrowings secured on the Company'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	5,763	4,835
				476,643	121,908

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	2 797	114	2,683
from 1 to 5 years	2 296	144	2,152
	5 093	258	4,835
As at Dec 31 2011			
up to 1 year	1 870	38	1,832
from 1 to 5 years	4 451	520	3,931
	6 321	558	5,763

Security over assets

Security *PLN '000*	**31.12.2011**	**31.12.2010**
Registered pledge on portfolios and assignment of claims financed with the loan, registered pledge on shares in Secapital S.a.r.l.	158,313	72,668
Property, plant and equipment under finance leases	5,267	3,804
	163,580	76,472

24. Employee benefits payable

PLN '000	**31.12.2011**	**31.12.2010**
Salaries and wages payable	2,411	2,220
Social benefits payable	2,238	2,066
Personal income tax	596	585
Accrued holidays	1,175	900
Accrued salaries and wages (bonuses)	7,645	5,634
Special accounts	-	56
	14,065	11,461

Changes in accrued employee benefits

Change in accrued holidays	
Value as at Jan 1 2010	756
Increase	895
Use	(751)
Value as at Dec 31 2010	900
Value as at Jan 1 2011	900
Increase	1,420
Use	(1,145)
Value as at Dec 31 2011	1,175

Change in accrued salaries and wages (bonuses)	
Value as at Jan 1 2010	4,085
Increase	6,419
Use	(4,870)
Value as at Dec 31 2010	5,634
Value as at Jan 1 2011	5,634
Increase	10,783
Use	(7,670)
Release	(1,102)
Value as at Dec 31 2011	7,645

25. Current provisions

Retirement severance pays

The Company 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 Polish Labour Code. Based on the Management Board's estimates, the amount of a potential provision would be insignificant.

Tax risk

Tax laws relating to value added tax, corporate and personal income tax, and social security contributions are subject to frequent amendments. Therefore, often 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 Poland is higher than in countries with more developed tax regimes.

26. Trade and other payables

Current liabilities *PLN '000*	31.12.2011	31.12.2010
Trade payables to related entities	34,065	9,791
Trade payables to other entities	12,193	3,148
Deferred income	2	295
Taxes, customs duties, insurance and other benefits payable	597	12
Accruals and deferred income	1,128	634
Other liabilities	2,388	944
	50,373	14,824

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*	90,878	18,630
Loans	*16*	15,688	5,824
Receivables	*19*	27,842	31,265
Cash and cash equivalents	*20*	10,023	8,509
		144,431	64,228

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	65,783	63,284
Romania	72,267	944
Czech Republic	6,381	-
	144,431	64,228

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	26,717	-	27,597	-
Past-due, 0-30 days	396	-	2,135	-
Past-due, 31-90 days	545	-	65	-
Past-due, 91-180 days	172	-	419	-
Past-due, 181-365 days	191	179	319	74
Past-due, over one year	1,688	1,688	2,575	1,771
	29,709	1,867	33,110	1,845

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	1,845	1,897
Impairment loss recognised in the reporting period	75	381
Release of impairment loss	-	(105)
Use of impairment loss	(53)	(328)
Impairment loss as at Dec 31	1,867	1,845

The Company recognises impairment losses on receivables past due by more than 180 days based on historical payment data. In addition, the Company recognises impairment losses on all receivables from companies which are subject to bankruptcy or liquidation proceedings, as well as for receivables in litigation.

The Company does not recognise impairment losses on trade receivables 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 Company did not recognise any general impairment losses on receivables.

Below are presented changes in impairment losses on loans advanced to non-related entities:

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

The gross value of loans advanced to individuals amounted to PLN 3,499 thousand as at December 31st 2011 (December 31st 2010: PLN 1,751 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.

In 2011, the Company cancelled loans granted in previous years to its subsidiary Kruk International Srl (PLN 5,166 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

In 2011, the Company granted loans of PLN 12,248 thousand to its subsidiary KRUK International Sro.

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	4,835	5,093	1,838	961	1,078	1,216
Trade and other payables	14,824	14,824	14,824	-	-	-
	136,732	153,064	28,921	40,025	53,845	30,273

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	5,763	6,321	1,269	1,111	1,279	2,662
Trade and other payables	50,373	50,373	50,373	-	-	-
	527,016	601,183	123,531	83,481	234,510	159,661

The cash flows under the agreement were determined based on interest rates effective as at December 31st 2010 and December 31st 2011, respectively.

The Company 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 Company was PLN 41,308 thousand (2010: PLN 19,310 thousand). The unused limit is available until 2014.

Currency risk

Exposure to currency risk

Details of the Company'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	4,650	34	-	140	5	418
Cash	54	3	2,417	1	-	18	8	152
Financial assets at fair value through profit or loss	2,839	-	75,369	3,542	-	-	-	920
Loans advanced	8,743	-	312	3,414	-	-	-	4,589
Trade payables	(5,848)	-	(9,399)	(105)	(7)	(4,909)	(3)	5
Exposure to currency risk	5,970	8	73,349	6,886	(7)	(4,751)	10	6,084

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	**01.01.2010 - 31.12.2010**	**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)	-	(597)
RON (10% appreciation of PLN)	-	(7,335)
CZK (10% appreciation of PLN)	-	(689)
Dec 31 2010		
EUR (10% appreciation of PLN)	-	475
RON (10% appreciation of PLN)	-	(608)

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	31,061	32,500
Financial liabilities	(64,438)	(28,000)
	(33,377)	4,500
Variable-rate financial instruments		
Financial liabilities	(476,643)	(121,908)
Financial assets	12,469	4,565
	(464,174)	(117,343)

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

The Company does not hold any fixed-interest financial assets or liabilities measured at fair value through profit or loss, nor does it use derivative transactions (IRSs) as fair value hedges. 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	(4,642)	4,642	-	-
Dec 31 2010				
Variable-rate financial instruments	(1,173)	1,173	-	-

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	Dec 31 2011		Dec 31 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments at fair value through profit or loss	90,878	90,878	18,630	18,630
Loans and receivables	43,530	43,530	37,089	37,089
Cash and cash equivalents	10,023	10,023	8,509	8,509
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	(5,763)	(5,763)	(4,835)	(4,835)
Trade and other payables	(64,438)	(64,438)	(28,000)	(28,000)
Overdraft facilities			0	0
	(396,650)	(396,650)	(85,680)	(85,680)

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	15.23%-193.05%	15.56%-367.74%
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	90,878
As at Dec 31 2010	
Financial assets at fair value through profit or loss	18,630

28. Operating lease

Operating lease agreements with the Company 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	3,051	2,839
from 1 to 5 years	10,132	5,007
	13,183	7,846

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 273 thousand.
- Agreement for the use of property with an area of 1,550 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 660 thousand.
- Agreement for the use of property with an area of 1,608 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 250 thousand.

29. Related-party transactions

Remuneration of the management personnel

Below is presented information on the remuneration payable to the members of the Company'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 related-party transactions

As at December 31st 2011, the management personnel of the Company and their next of kin held 18% of the total voting rights at the Company (December 31st 2009: 19%).

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

Transactions with subsidiaries as at and for the period ended Dec 31 2011

Balance of liabilities, receivables and loans

PLN '000	**Liabilities**	**Receivables**	**Loans advanced**	**Interest accrued on loans advanced**
Secapital S.a.r.l	31,379	164	-	-
ERIF Business Solutions Sp. z o.o.	-	3	-	-
Polski Rynek Długów Sp. z o.o.	-	174	-	-
Secapital Polska Sp. z o.o.	-	3	-	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	404	3 473	-	-
Kruk International Srl	1,035	6,096	-	323
Rejestr Dłużników ERIF BIG S.A.	82	65	-	-
NFIZ PROKURA	1,165	10,917	-	-
NFIZ PROKULUS	-	6	-	-
KRUK International Sro	-	583	11,934	212
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	1	-	-
	34,065	21,485	11,934	535

Revenue from mutual transactions

PLN '000	Revenue from sales of goods for resale and services	Revenue from sales of debt collection services	Interest and dividends
Secapital S.a.r.l	-	1,088	40,000
ERIF Business Solutions Sp. z o.o.	24	-	-
Polski Rynek Długów Sp. z o.o.	16	-	-
Secapital Polska Sp. z o.o.	20	-	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	878	-	9,201
Kruk International Srl	354	-	234
Rejestr Dłużników ERIF BIG S.A.	358	-	-
NFIZ PROKURA	-	20,015	-
NFIZ PROKULUS	-	34	-
KRUK International Sro	345	-	212
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	8	-	-
	2,003	21,137	49,647

Costs of mutual transactions

PLN '000	Purchase of debt collection services
ERIF Business Solutions Sp. z o.o.	287
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	3,100
Kruk International Srl	2,684
Rejestr Dłużników ERIF BIG S.A.	604
KRUK International Sro	23
	6,698

Transactions with subsidiaries as at Dec 31 2010

Balance of liabilities, receivables and loans as at the balance-sheet date

PLN '000	**Liabilities**	**Receivables**	**Loans advanced**	**Interest accrued on loans advanced**
Secapital S.a.r.l.	7,225	-	-	-
ERIF Business Solutions Sp. z o.o.	39	1	-	-
Polski Rynek Długów Sp. z o.o.	-	155	-	-
Secapital Polska Sp. z o.o.	3	4	-	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	314	4 735	-	-
Kruk International Srl	-	1,793	4,565	11
Rejestr Dłużników ERIF BIG S.A.	92	7	-	-
NFIZ PROKURA	2,118	16,450	-	-
NFIZ PROKULUS	-	8	-	-
	9,791	23,153	4,565	11

Revenue from mutual transactions

PLN '000	**Revenue from sales of debt collection services**	**Revenue from sales of goods for resale and services**	**Interest and dividends**
Secapital S.a.r.l	1,050	-	28,074
ERIF Business Solutions Sp. z o.o.	-	16	-
Polski Rynek Długów Sp. z o.o.	-	10	-
Secapital Polska Sp. z o.o.	-	32	-
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	-	895	2,016
Kruk International Srl	-	326	262
Rejestr Dłużników ERIF BIG S.A.	-	122	11
NFIZ PROKURA	15,427	-	-
NFIZ PROKULUS	61	-	-
	16,477	1,401	30,363

Costs of mutual transactions

PLN '000	**Purchase of debt collection services**
ERIF Business Solutions Sp. z o.o.	431
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	2,499
Kruk International Srl	326
Rejestr Dłużników ERIF BIG S.A.	960
	4,216

30. Events subsequent to the balance-sheet date

On March 7th 2012, the Company 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 Company a revolving loan of up to PLN 80,000 thousand for purposes including the financing of debt purchases by the Company 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