



Half-Year Report

for the period
January 1st – June 30th 2018

Table of contents

TABLE OF CONTENTS	2
I. FINANCIAL HIGHLIGHTS	5
1. Consolidated financial highlights	5
2. Financial highlights – separate financial statements of KRUK S.A.	6
II. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE REPORTING PERIOD JANUARY 1ST – JUNE 30TH 2018.....	7
1. Interim condensed consolidated statement of financial position	7
2. Interim condensed consolidated statement of profit or loss	8
3. Interim condensed consolidated statement of comprehensive income.....	9
4. Interim condensed consolidated statement of changes in equity.....	10
5. Interim condensed consolidated statement of cash flows.....	12
1. Organisation of the KRUK Group	13
2. Reporting period	17
3. Statement of compliance	17
4. Significant accounting policies.....	17
5. Accounting estimates and judgements.....	25
6. Financial risk management.....	25
7. Reporting and geographical segments.....	26
8. Seasonality or cyclicity of business	29
9. Type and amounts of changes in estimates adopted in previous financial years with a material effect on the reporting period	29
10. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect	31
11. Financial instruments.....	43
12. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance.....	46
13. Issue, redemption and repayment of non-equity and equity securities	47

14.	Dividends paid (or declared)	47
15.	Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance	48
16.	Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year	48
IV. INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS		50
1.	Interim condensed separate statement of financial position	50
2.	Interim condensed separate statement of profit or loss.....	51
3.	Interim condensed separate statement of comprehensive income	52
4.	Interim condensed separate statement of changes in equity	53
5.	Interim condensed separate statement of cash flows	54
NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS		55
1.	Company details.....	55
2.	Reporting period	55
3.	Statement of compliance	55
4.	Significant accounting policies.....	56
5.	Type and amounts of changes in the estimates published in previous financial years, having a significant impact on the reporting period	59
6.	Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows which are material due to their type, size or effect	60
7.	Fair value	69
8.	Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance.....	70
9.	Issue, redemption and repayment of non-equity and equity securities.....	70
10.	Dividends paid (or declared)	70
11.	Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance	71
12.	Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year	71

VI. DIRECTORS' REPORT.....72

1. Effects of changes in the structure of the Group, including through business combinations, acquisitions or divestments of Group entities, long-term investments, divisions, restructurings or discontinuation of operations...72
2. Management Board's position on the feasibility of meeting previously published forecasts for the financial year 72
3. Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of issue of this half-year report, and changes in their holdings after the issue of the previous report.73
4. Litigation, arbitration or administrative proceedings76
5. Sureties for repayment of bank and non-bank loans and guarantees extended by KRUK S.A. or its subsidiary .79
6. The Group's material achievements or failures in the reporting period, along with the most significant events related to such achievements or failures79
7. Other information relevant to the assessment of the staffing levels, assets, financial condition and financial performance, or changes in any of the foregoing, and information relevant to the assessment of the Company's ability to meet its obligations80
8. Factors with a potential bearing on the Group's results in the next quarter or in a longer term81
9. Representation of the Management Board81

I. Financial highlights

1. Consolidated financial highlights

Financial highlights	PLN '000		EUR '000	
	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
For the period				
Revenue	604,914	547,469	142,687	128,895
Operating profit	266,853	260,180	62,945	61,256
Profit before tax	200,327	222,442	47,253	52,371
Net profit attributable to owners of the Parent	189,238	216,905	44,637	51,068
Net cash from operating activities	55,838	(174,631)	13,171	(41,115)
Purchase of debt portfolios	(407,242)	(505,574)	(96,060)	(119,031)
Cash recoveries	756,900	647,059	178,537	152,342
Net cash from investing activities	(18,696)	(4,806)	(4,410)	(1,132)
Net cash from financing activities	(47,948)	32,186	(11,310)	7,578
Net change in cash	(10,807)	(147,252)	(2,549)	(34,669)
Average number of shares ('000)	18,826	18,744	18,826	18,744
Earnings per share (PLN/EUR)	10.05	11.57	2.37	2.72
Diluted earnings per share (PLN/EUR)	9.81	11.31	2.31	2.66
As at	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2018 unaudited	Dec 31 2017
Total assets	3,848,790	3,560,128	882,426	853,563
Non-current liabilities	1,740,156	1,652,515	398,972	396,201
Current liabilities	462,567	447,091	106,054	107,193
Equity	1,646,067	1,460,522	377,400	350,170
Share capital	18,872	18,808	4,327	4,509
Book value per ordinary share (PLN/EUR)	87.22	77.65	20.00	18.62

The financial highlights have been translated into the euro as follows:

items of or related to the statement of profit or loss and the statement of cash flows have been translated using the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period; the exchange rates thus calculated are:

for the reporting period 4.2395
for the comparative period 4.2474

items of or related to the statement of financial position have been translated using the mid rate quoted by the National Bank of Poland for the end of the reporting period; the exchange rates thus calculated are:

at the end of the reporting period 4.3616
at the end of the comparative period 4.1709

2. Financial highlights – separate financial statements of KRUK S.A.

Financial highlights	PLN '000		EUR '000	
	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
For the period				
Revenue	63,900	64,605	15,073	15,210
Operating loss	(40,135)	(35,168)	(9,467)	(8,280)
Loss before tax	(67,085)	(18,591)	(15,824)	(4,377)
Net loss	(76,121)	(19,565)	(17,955)	(4,606)
Net cash from operating activities	(31,659)	(17,099)	(7,468)	(4,026)
Net cash from investing activities	138,332	(159,009)	32,630	(37,437)
Net cash from financing activities	(112,111)	38,833	(26,445)	9,143
Net change in cash	(5,439)	(137,276)	(1,283)	(32,320)
Average number of shares ('000)	18,872	18,744	18,872	18,744
Earnings per share (PLN/EUR)	(4.04)	(1.04)	(0.95)	(0.25)
Diluted earnings per share (PLN/EUR)	(3.95)	(1.02)	(0.93)	(0.24)
As at	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2018 unaudited	Dec 31 2017
Total assets	3,019,097	3,143,654	692,199	753,711
Non-current liabilities	1,589,464	1,561,827	364,422	374,458
Current liabilities	881,571	867,201	202,121	207,917
Equity	548,063	714,625	125,657	171,336
Share capital	18,872	18,808	4,327	4,509
Book value per ordinary share (PLN/EUR)	29.04	38.00	6.66	9.11

The financial highlights have been translated into the euro as follows:

items of or related to the statement of profit or loss and the statement of cash flows have been translated using the arithmetic mean of mid rates quoted by the National Bank of Poland for the last day of each month in the period; the exchange rates thus calculated are:

for the reporting period 4.2395
for the comparative period 4.2474

items of or related to the statement of financial position have been translated using the mid rate quoted by the National Bank of Poland for the end of the reporting period; the exchange rates thus calculated are:

at the end of the reporting period 4.3616
at the end of the comparative period 4.1709

II. Interim condensed consolidated financial statements for the reporting period

January 1st – June 30th 2018

1. Interim condensed consolidated statement of financial position

As at Jun 30 2018

PLN '000

	Note	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Assets				
Cash and cash equivalents		162,478	173,284	120,132
Trade receivables		17,933	16,623	18,414
Investments	9	3,486,198	3,169,303	2,985,715
Other receivables		37,352	64,244	45,203
Inventories		160	494	289
Property, plant and equipment		28,169	28,669	27,088
Goodwill	10.13	62,010	54,003	62,604
Other intangible assets		36,515	26,830	15,366
Hedge derivatives		-	8,637	5,138
Other assets		17,974	18,042	4,082
Total assets		3,848,790	3,560,128	3,284,031
Equity and liabilities				
Liabilities				
Derivatives	10.10	3,616	1,375	
Trade and other payables		143,718	143,449	121,562
Employee benefit obligations		30,515	28,715	30,872
Income tax payable		8,821	14,401	-
Liabilities under borrowings and other debt instruments	10.9	2,006,858	1,897,223	1,745,966
Deferred tax liability		9,194	14,444	4,943
Total liabilities		2,202,723	2,099,607	1,903,343
Equity				
Share capital		18,872	18,808	18,744
Share premium		298,900	293,581	288,326
Cash flow hedging reserve		(2,231)	5,882	4,162
Exchange differences on translating foreign operations		4,061	(56,619)	(45,074)
Other capital reserves		90,973	86,805	80,683
Retained earnings		1,235,307	1,111,961	1,033,771
Equity attributable to owners of the Parent		1,645,882	1,460,418	1,380,612
Non-controlling interests		185	104	76
Total equity		1,646,067	1,460,522	1,380,688
Total equity and liabilities		3,848,790	3,560,128	3,284,031

2. Interim condensed consolidated statement of profit or loss

For the reporting period January 1st – June 30th

2018

PLN '000

	Note	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Revenue	10.1	604,914	319,584	547,469	283,341
including interest income from debt portfolios calculated using effective interest rate		416,216	211,512	n/a	n/a
including interest income from other financial instruments calculated using effective interest rate		7,676	4,060	n/a	n/a
Other income	10.2	1,546	975	2,587	1,265
Employee benefits expense	10.3	(150,420)	(74,220)	(118,001)	(63,131)
Depreciation and amortisation		(10,126)	(5,081)	(8,166)	(4,175)
Services		(73,176)	(37,240)	(60,623)	(34,471)
Other expenses	10.4	(105,885)	(57,120)	(103,086)	(53,773)
		(339,607)	(173,661)	(289,876)	(155,550)
Operating profit		266,853	146,898	260,180	129,056
Finance income	10.5	92	(109)	966	-
Finance costs	10.6	(66,618)	(35,956)	(38,704)	(23,540)
Net finance costs		(66,525)	(36,065)	(37,738)	(23,540)
Profit before tax		200,327	110,834	222,442	105,516
Income tax	10.7	(11,008)	(12,204)	(5,462)	(4,029)
Net profit for period		189,319	98,629	216,980	101,487
Net profit attributable to:					
Owners of the Parent		189,238	98,570	216,905	101,443
Non-controlling interests		81	60	75	44
Net profit for period		189,319	98,629	216,980	101,487
Earnings per share					
Basic (PLN)	10.11	10.05	5.24	11.57	5.41
Diluted (PLN)	10.11	9.81	5.11	11.31	5.29

3. Interim condensed consolidated statement of comprehensive income

For the reporting period January 1st – June 30th 2018

PLN '000

		Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Net profit for period		189,319	98,629	216,980	101,487
Other comprehensive income					
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations	10.8	60,680	49,182	(44,482)	(619)
Cash flow hedges		(2,231)	(4,656)	4,162	(1,424)
Other comprehensive income for period, net		58,449	44,526	(40,320)	(2,043)
Total comprehensive income for period		247,768	143,155	176,660	99,444
Total comprehensive income attributable to:					
Owners of the Parent		247,687	143,096	176,585	99,400
Non-controlling interests		81	60	75	44
Total comprehensive income for period		247,768	143,155	176,660	99,444
Total earnings per share					
Basic (PLN)		13.16	7.60	9.42	5.30
Diluted (PLN)		12.84	7.42	9.20	5.18

- Payment of dividends	-	-	-	-	-	(37,488)	(37,488)	(13)	(37,501)
- Issue of shares	64	5,255	-	-	-	-	5,319	-	5,319
- Share-based payments	-	-	-	-	10,147	-	10,147	-	10,147
Total contributions from and distributions to owners	64	5,255	-	-	10,147	(37,488)	(22,022)	(13)	(22,035)
Total equity as at Dec 31 2017	18,808	293,581	5,882	(56,619)	86,804	1,111,961	1,460,418	104	1,460,522
Adjustment on transition to IFRS 9	-	-	-	-	-	28,147	28,147	-	28,147
Equity as at Jan 1 2018 following changes in accounting policy	18,808	293,581	5,882	(56,619)	86,804	1,140,108	1,488,565	104	1,488,669
Comprehensive income for period									
Net profit for period	-	-	-	-	-	189,238	189,238	81	189,319
Other comprehensive income	-	-	-	-	-	-	-	-	-
- Exchange differences on translating foreign operations	-	-	-	60,680	-	-	60,680	-	60,680
- Valuation of hedging instruments	-	-	(8,113)	-	-	-	(8,113)	-	(8,113)
Other comprehensive income	-	-	(8,113)	60,680	-	-	52,567	-	52,567
Total comprehensive income for period	-	-	(8,113)	60,680	-	189,238	241,805	81	241,886
- Payment of dividends	-	-	-	-	-	(94,039)	(94,039)	-	(94,039)
- Issue of shares	64	5,319	-	-	-	-	5,383	-	5,383
- Share-based payments	-	-	-	-	4,169	-	4,169	-	4,169
Total contributions from and distributions to owners	64	5,319	-	-	4,169	(94,039)	(84,487)	-	(84,487)
Total equity as at Jun 30 2018	18,872	298,900	(2,231)	4,061	90,973	1,235,307	1,645,883	185	1,646,068

5. Interim condensed consolidated statement of cash flows

For the reporting period January 1st – June 30th 2018

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Cash flows from operating activities				
Net profit for period	189,319	98,629	216,980	101,487
<i>Adjustments</i>				
Depreciation of property, plant and equipment	4,003	201	4,758	1,801
Amortisation of intangible assets	6,123	4,880	3,410	2,376
Change in debt portfolios purchased	(217,637)	(190,544)	(352,878)	(223,098)
Change in other investments	(9,572)	(7,909)	(981)	682
Net finance costs	67,829	45,287	26,589	20,236
(Gain)/loss on sale of property, plant and equipment	(1,102)	(898)	(756)	(413)
Equity-settled share-based payments	4,169	2,096	4,025	2,023
Income tax	11,008	12,204	5,462	4,029
Change in inventories	334	171	196	34
Change in receivables	23,980	33,034	(22,192)	(14,460)
Change in other assets	68	(364)	1,576	696
Change in current liabilities, excluding financial liabilities	1,160	4,462	(51,212)	(20,681)
Income tax paid	(23,845)	(18,805)	(9,609)	(4,113)
Net cash from operating activities	55,838	(19,356)	(174,631)	(129,399)
Cash flows from investing activities				
Interest received	92	(109)	161	(73)
Sale of intangible assets and property, plant and equipment	1,480	637	1,240	1,240
Acquisition of a subsidiary, less cash acquired	(2,957)	(2,957)	-	-
Purchase of intangible assets and property, plant and equipment	(17,311)	(14,772)	(6,208)	(3,727)
Net cash from investing activities	(18,696)	(17,201)	(4,806)	(2,559)
Cash flows from financing activities				
Proceeds from issue of exchange-traded shares	5,319	5,319	-	-
Proceeds from bond issue	-	-	168,391	168,391
Increase in borrowings	607,948	412,845	676,086	410,741
Repayment of borrowings	(500,546)	(283,737)	(648,752)	(390,764)
Payments under finance lease contracts	(2,607)	(302)	(5,404)	(3,845)
Dividends paid	(94,039)	(94,039)	-	-
Redemption of debt securities	(15,000)	(15,000)	(120,000)	(60,000)
Interest paid	(49,024)	(31,329)	(38,135)	(20,706)
Net cash from financing activities	(47,948)	(6,244)	32,186	103,817
Total net cash flows	(10,807)	(42,800)	(147,252)	(28,142)
Cash and cash equivalents at beginning of period	173,284	205,278	267,384	148,274
Cash and cash equivalents at end of period	162,478	162,478	120,132	120,132

Notes to the interim condensed consolidated financial statements

1. Organisation of the KRUK Group

Parent

Name:

KRUK Spółka Akcyjna ("KRUK S.A." or "Parent")

Registered office:

ul. Wołowska 8
51-116 Wrocław, Poland

Registration in the National Court Register:

District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Poznańska 16-17, 53-230 Wrocław, Poland

Date of entry: September 7th 2005

Entry number: KRS 0000240829

Principal business activities of the Parent and subsidiaries

The principal business activities of the Parent and most of its subsidiaries consist primarily in the restructuring and recovery of debts purchased by the Group companies and the provision of outsourced debt collection services to financial institutions and other clients.

These interim condensed consolidated financial statements for the reporting period January 1st – June 30th 2018 include the financial statements of the Parent and its subsidiaries (jointly the "Group").

KRUK S.A. is the Parent of the Group.

As at June 30th 2018, the Management Board of the Parent consisted of:

Piotr Krupa	President of the Management Board
Agnieszka Kulon	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

In H1 2018 and by the issue date of this interim report, the composition of the Management Board of KRUK S.A. did not change.

In H1 2018 and by the issue date of this interim report, the composition of the Supervisory Board of KRUK S.A. did not change and was as follows:

Piotr Stępnia	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Robert Koński	Member of the Supervisory Board
Józef Wancer	Member of the Supervisory Board.

KRUK Group

As at the issue date of this report, the Group comprised KRUK S.A. of Wrocław and 24 subsidiaries:

- Kancelaria Prawna Raven P. Krupa sp. k. – provides comprehensive support in debt collection litigation and enforcement proceedings exclusively for the KRUK Group and its partners;
- ERIF Biuro Informacji Gospodarczej S.A. – a credit reference agency serving as a platform for collection, processing and provision of information on natural persons and businesses, both delinquent debtors and timely payers;
- KRUK România s.r.l. – its principal business activities consist in credit management services and collection of debt portfolios purchased by the Group;
- Secapital S.a.r.l. – a special-purpose securitisation vehicle whose principal business consists in investing in debt and debt-backed assets;
- Prokura NS FIZ securitisation fund – a securitisation and investment vehicle employing professional risk assessment and credit management methodologies.
- Secapital Polska Sp. z o.o. – a securitised debt servicer;
- ERIF Business Solutions Sp. z o.o. – its principal business activities consist in the provision of financial and agency services, and support for small and medium-sized enterprises;
- NOVUM FINANCE Sp. z o.o. – a lending institution within the meaning of the Consumer Credit Act;
- KRUK Česká a Slovenská republika s.r.o. – its principal business activities consist in credit management services and collection of debt portfolios purchased by the Group.
- KRUK Towarzystwo Funduszy Inwestycyjnych S.A. – a fund management company;
- InvestCapital Ltd. – an investment company whose business purpose is to invest in equity assets, including shares in KRUK Group companies;
- RoCapital IFN S.A. – an operating company, whose principal business activities consist in purchasing and servicing mortgage-backed debt portfolios;
- KRUK Deutschland GmbH – its principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Germany and other European countries, as well as debt trading;
- KRUK Italia S.r.l. – its business consists in credit management services and collection of debt portfolios purchased by the KRUK Group in Italy and other European countries;
- ItaCapital S.r.l. – its business consists in investing in debt or debt-backed assets;
- KRUK Espana S.L. – its business consists in credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading;
- ProsperoCapital S.a.r.l. – a special-purpose securitisation vehicle investing in debt or debt-backed assets;
- Presco Investments S.a.r.l. – a special-purpose securitisation vehicle investing in debt or debt-backed assets;
- Presco Investments I NS FIZ fund – a securitisation and investment vehicle employing professional risk assessment and credit management methodologies.

- Elleffe Capital S.r.l. – its business consists in investing in debt or debt-backed assets;
- Corbul Capital S.r.l – a provider of detective services in Romania; a company related through the manager;
- BIZON I NS FIZ fund – a securitisation and investment vehicle employing professional risk assessment and credit management methodologies;
- Zielona Perła Sp. z o.o. – its principal business activity consists in buying and selling of own real estate and renting and operating of own or leased real estate;
- Agecredit S.r.l. – a credit management company operating in Italy.

All the subsidiaries listed above are included in these condensed consolidated financial statements prepared as at June 30th 2018 and for the period January 1st – June 30th 2018.



The Company operates 11 offices across Poland, in Poznań, Warsaw, Kraków, Katowice, Bydgoszcz, Łódź, Elbląg, Szczecin, Stalowa Wola, Szczawno-Zdrój, and Piła.

The ownership interests held by the Parent in the subsidiaries as at the date of this report were as follows:

PLN '000	Country	Shareholding (%)	
		Jun 30 2018	Dec 31 2017
SeCapital S.à r.l. *	Luxembourg	100%	100%
ERIF Business Solutions Sp. z o.o.	Poland	100%	100%
SeCapital Polska Sp. z o.o.	Poland	100%	100%
ERIF Biuro Informacji Gospodarczej S.A.	Poland	100%	100%
Novum Finance Sp. z o.o.	Poland	100%	100%
KRUK Romania S.r.l	Romania	100%	100%
Kancelaria Prawna RAVEN P.Krupa Spółka komandytowa	Poland	98%	98%
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	100%	100%
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	100%	100%
Prokura NS FIZ*	Poland	100%	100%
ProsperoCapital Sp. z.o.o. (in liquidation)	Poland	-	100%
InvestCapital Ltd *	Malta	100%	100%
RoCapital IFN S.A. *	Romania	100%	100%
Kruk Deutschland GmbH	Germany	100%	100%
KRUK Italia S.r.l	Italy	100%	100%
ItaCapital S.r.l	Italy	100%	100%
KRUK Espana S.L.	Spain	100%	100%
ProsperoCapital S.a.r.l. **	Luxembourg	100%	100%
Presco Investments S.a.r.l.	Luxembourg	100%	100%
P.R.E.S.C.O INVESTMENT I NS FIZ*	Poland	100%	100%
Credit Base International S.r.l	Italy	-	100%
Elleffe Capital S.r.l.*	Italy	100%	100%
Espanol Soluciones de Gestion S.L.	Spain	-	100%
BISON NS FIZ*	Poland	100%	-
Corbul S.r.l***	Romania	-	-
Zielona Perta Sp. z.o.o	Poland	100%	-
Agecredit S.r.l.	Italy	51%	-

* Subsidiaries in which the Company indirectly holds 100% of the share capital.

** ProsperoCapital S.a.r.l is a party to a joint arrangement.

*** The Parent controls the company through a personal link.

2. Reporting period

The reporting period is the period from January 1st to June 30th 2018 and the comparative period is the period from January 1st to June 30th 2017. The interim condensed consolidated statement of financial position was drawn up as at June 30th 2018 and the comparative data is presented as at June 30th 2017 and December 31st 2017. The interim condensed consolidated statement of changes in equity was drawn up for the period from January 1st to June 30th 2018 and the comparative periods are the periods from January 1st to June 30th 2017 and from January 1st to December 31st 2017.

The financial data presented on a quarterly basis for the periods from April 1st to June 30th 2018 and from April 1st to June 30th 2017 was not subject to a separate review or audit by an auditor.

3. Statement of compliance

These interim condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34 *Interim Financial Reporting* as endorsed by the European Union.

In the opinion of the Management Board, there are no circumstances which could pose a significant threat to the Group companies continuing as going concerns. Therefore, these interim condensed consolidated financial statements have been prepared under the assumption that the companies will continue as going concerns in the foreseeable future, that is for 12 months from the reporting date.

These financial statements do not contain all the information required to prepare full-year financial statements and should therefore be read in conjunction with the Group's consolidated financial statements prepared as at and for the year ended December 31st 2017.

These interim condensed financial statements were approved by the Management Board (the "Management Board") of the Parent on September 7th 2018.

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

4. Significant accounting policies

The accounting policies applied to prepare these condensed interim financial statements are consistent with those applied to prepare the most recent full-year consolidated financial statements as at and for the year ended December 31st 2017, except for the change related to the application of IFRS 9 *Financial Instruments* which superseded IAS 39 *Financial Instruments: Recognition and Measurement*.

These financial statements comply with the requirements of all the International Accounting Standards, International Financial Reporting Standards and related interpretations endorsed by the European Union, which have been issued and are effective for annual periods beginning on or after January 1st 2018.

At the beginning of 2018, the Group implemented IFRS 9, as a result of which purchased debt portfolios measured at fair value under IAS 39 were classified as instruments measured at amortised cost.

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on purchase date at acquisition price plus transaction costs.

The effective interest rate, equal to the internal rate of return, used for discounting estimated cash recoveries is calculated based on initial projections of cash recoveries that take into account the initial value (acquisition price plus transaction costs), and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate discussed above, and is recognised in profit. The Group presents its statement of financial position in order of liquidity. For all items of assets and liabilities, the Group discloses in the notes the amount to be received or paid within twelve months after the reporting date (short-term) and in more than twelve months from the reporting date (long-term).

The Group adopted the new IFRS 9 standard as of its effective date, i.e. January 1st 2018. The effect of application of the classification, measurement and impairment principles determined in accordance with the requirements of the new Standard is recognised by the Group as an adjustment to the opening balance as at January 1st 2018, without adjusting the comparative periods.

(a) Classification and measurement

IFRS 9 requires that, after initial recognition, a debt financial asset should be measured at amortised cost or at fair value based on the entity's business model of financial asset management and on the asset's contractual cash flow characteristics. The Group assessed that the debt portfolios purchased prior to January 1st 2014 and measured at fair value will be measured at amortised cost as of January 1st 2018, as the business model test confirmed the validity of this method. The impact of this change on the value of investments and profit or loss brought forward is positive and amounts to PLN 29,582 thousand.

(b) Impairment

IFRS 9 requires recognising the effect of expected credit losses on all financial assets measured at amortised cost, that is on purchased debt portfolios, loans advanced and trade receivables. Debt portfolios which are measured at amortised cost are adjusted for the effect of future expected credit losses. As the Group purchases materially impaired debt portfolios, the effect of the impairment is already included in the purchase price. The impact of higher impairment losses on trade and other receivables, which reflect the additional expected future impairment of these assets in accordance with the new Standard, amounted to PLN 1,435 thousand.

(c) Hedge accounting

The Group has assessed that the hedging contracts it entered into in the past still qualify for hedge accounting under IFRS 9 and have no effect on profits for past years.

The Group has not identified any other items whose classification or measurement would change as a result of the adoption of IFRS 9.

The impact of amended IFRS 9 on individual items of the statement of financial position is presented below:

As at December 31st 2017

PLN '000

	Methodology according to IAS 39	Methodology according to IFRS 9	Jan 1 2018 – restated	Impact of IFRS 9	Dec 31 2017
Assets					
Cash and cash equivalents			173,284	-	173,284
Trade receivables	Loans and receivables	Amortised cost	16,041	(582)	16,623
Investments	Investments at fair value/Loans and receivables	Amortised cost	3,198,885	29,582	3,169,303
Other receivables	Loans and receivables	Amortised cost	63,391	(853)	64,244
Inventories			494	-	494
Property, plant and equipment			28,669	-	28,669
Other intangible assets			26,830	-	26,830
Goodwill			54,003	-	54,003
Hedge derivatives			8,637	-	8,637
Other assets			18,042	-	18,042
Total assets			3,588,275	28,147	3,560,128
Equity and liabilities					
Liabilities					
Hedge derivatives			1,375	-	1,375
Trade and other payables			143,449	-	143,449
Employee benefit obligations			28,715	-	28,715
Income tax payable			14,401	-	14,401
Liabilities under borrowings and other debt instruments			1,897,223	-	1,897,223
Deferred tax liability			14,444	-	14,444
Provisions			-	-	-
Total liabilities			2,099,607	-	2,099,607
Equity					
Share capital			18,808	-	18,808
Share premium			293,581	-	293,581
Cash flow hedging reserve			5,882	-	5,882
Exchange differences on translating foreign operations			(56,619)	-	(56,619)
Other capital reserves			86,805	-	86,805
Retained earnings			1,140,108	28,147	1,111,961
Equity attributable to owners of the Parent			1,488,565	28,147	1,460,418
Non-controlling interests			102	-	102
Total equity			1,488,667	28,147	1,460,520
Total equity and liabilities			3,588,275	28,147	3,560,128

Amendments to current standards and interpretations

The following amendments to International Financial Reporting Standards and their interpretations, endorsed by the European Union (the “EU IFRS”) apply to reporting periods beginning on or after January 1st 2018:

Standards and Interpretations	Type of expected change in accounting policies	Possible effect on the financial statements
<p>IFRS 16 <i>Leases</i></p> <p>(effective for annual periods beginning on or after January 1st 2019; early application is permitted if the entity also applies IFRS 15)</p>	<p>IFRS 16 supersedes IAS 17 <i>Leases</i> and related interpretations. For lessees, the new Standard eliminates the existing distinction between finance and operating leases and discloses most leases in the statement of financial position.</p> <p>Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position. Rights of use are amortised, and interest is charged on the lease liability. This will increase initial lease costs, even where lease parties have agreed on fixed annual payments.</p> <p>The new standard provides for a number of exemptions with limited applicability, including:</p> <ul style="list-style-type: none"> • leases with a lease term of 12 months or less and containing no purchase options, and • leases where the underlying asset has a low value. <p>Lessors will continue to classify leases as either operating or finance and thus recognise most leases without any changes.</p>	<p>The entity expects that upon initial application the Standard will have a material effect on the financial statements as it will require recognition in the statement of financial position of assets and liabilities arising from operating leases in which the entity is a lessee.</p>

Standards and interpretations that have been published but have not yet been adopted

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements
<p>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates</i>)</p> <p>(The European Commission has decided to indefinitely postpone endorsement of these amendments)</p>	<p>The amendments clarify that in the case of a transaction with an associate or joint venture, the extent to which the gain or loss related to the transaction should be recognised depends on whether the assets sold or contributed to an associate or joint venture constituted a business:</p> <ul style="list-style-type: none"> the gain or loss is recognised in full where the contributed assets meet the definition of a business (irrespective of whether such business has the form of a subsidiary or not). the partial gain or loss is recognised when the transaction involves assets that do not constitute a business, even if those assets were part of a subsidiary. 	<p>The entity does not expect the amendments to have a material effect on its financial statements as it has no associates or joint ventures.</p>
<p>IFRS 17 <i>Insurance Contracts</i> (effective for annual periods beginning on or after or after January 1st 2021; prospectively applicable; early application is permitted)</p> <p>The Standard has not yet been endorsed by the EU.</p>	<p>IFRS 17, which replaces the transitional IFRS 4 <i>Insurance Contracts</i> standard introduced in 2004. IFRS 4 allowed entities to continue the recognition of insurance contracts in accordance with the local accounting policies based on national standards, which resulted in the application of many different solutions.</p> <p>IFRS 17 solves the comparability problem created by IFRS 4 by requiring consistent recognition of all insurance contracts, to the benefit of both investors and insurers. Contractual obligations will be recognised at present value rather than historical cost.</p>	<p>The Group does not expect the Standard to have a material effect on its financial statements as the entity is not involved in any insurance business.</p>

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements
<p>IFRIC 23 <i>Uncertainty over Income Tax Treatments</i></p> <p>(effective for annual periods beginning on or after January 1st 2019; early application is permitted)</p> <p>The interpretation has not yet been endorsed by the EU.</p>	<p>IFRIC 23 provides guidance on income tax treatment where the applied treatment has not yet been accepted by the relevant tax authorities and is intended to enhance clarity. From the IFRIC 23 perspective, the key issue is assessing the probability of a tax treatment being accepted by the relevant tax authorities. If it is concluded that it is probable that a particular uncertain tax treatment will be accepted by the relevant tax authorities, the tax should be recognised in the financial statements consistently with the relevant income tax filings without reflecting the uncertainty over current and deferred tax treatment. Otherwise, taxable profit (tax loss), tax bases and unused tax losses should be recognised using the most likely amount method or the expected value method (sum of probability-weighted possible solutions), depending on which provides better predictions of the resolution of the uncertainty. An entity must assume that tax authorities will examine the uncertain tax treatment and will have full knowledge of all relevant information when doing so.</p>	<p>The entity does not expect the Interpretation to have a material effect on its financial statements.</p>
<p>Amendments to IFRS 9 <i>Financial Instruments</i></p> <p>(effective for annual periods beginning on or after January 1st 2019; early application is permitted)</p>	<p>These amendments allow repayable financial assets with negative compensation representing contractual cash flows that are solely payments of principal and interest on the principal amount outstanding to be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss as long as such financial assets meet the remaining requirements applicable under IFRS 9.</p>	<p>The entity does not expect the amendments to have a material effect on its financial statements on initial application as it has no repayable financial assets.</p>

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements
The amendments have not yet been endorsed by the EU.		
<p>Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i></p> <p>(effective for annual periods beginning on or after January 1st 2019)</p> <p>The amendments have not yet been endorsed by the EU.</p>	<p>The amendments clarify that entities apply IFRS 9 <i>Financial Instruments</i> to investments in subsidiaries and joint ventures, which are not accounted for using the equity method.</p>	<p>The entity does not expect the amendments to have a material effect on its financial statements on initial application.</p>
<p>Annual Improvements to IFRS Standards 2015–2017 Cycle</p> <p>(effective for annual periods beginning on or after January 1st 2019)</p> <p>The amendments have not yet been endorsed by the EU.</p>	<p>The Annual Improvements to IFRS Standards 2015–2017 Cycle contain four amendments. The key amendments:</p> <ul style="list-style-type: none"> • clarify that the entity elects to remeasure an investment in a joint venture when it obtains control of the joint venture in accordance with IFRS 3 <i>Business Combinations</i>; • clarify that an entity does not remeasure an investment in a joint venture when it obtains joint control of a joint venture in accordance with IFRS 11 <i>Joint Arrangements</i>; • clarify that an entity should always recognise the tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where 	<p>These amendments are not expected to have a material on the entity's financial statements.</p>

Standards and Interpretations not yet endorsed by the EU	Type of expected change in accounting policies	Possible effect on the financial statements
	<p>the transaction or event that gave rise to the recognition of the dividend was recognised; and</p> <ul style="list-style-type: none"> clarify that an entity should derecognise from borrowed funds without a specific purpose those funds specifically borrowed to finance the acquisition of a qualifying asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale have been completed; funds borrowed specifically to fund the acquisition of a qualifying asset are not funds borrowed to fund the acquisition of a qualifying asset after the qualifying asset is ready for its intended use or sale. 	
<p>Amendments to IAS 19 <i>Employee Benefits (Plan Amendment, Curtailment or Settlement)</i></p> <p>(effective for annual periods beginning on or after January 1st 2019)</p> <p>The amendments have not yet been endorsed by the EU.</p>	<p>The amendments to IAS 19 explain how entities recognise expenses when there is a change in a defined benefit plan.</p> <p>The changes require the entity to use current assumptions in the event of a plan amendment, curtailment or settlement in order to determine the current service cost and net interest for the remaining reporting period from the plan amendment date.</p>	<p>These amendments are not expected to have a material on the entity's financial statements.</p>

5. Accounting estimates and judgements

In order to prepare interim consolidated financial statements, the Management Board is required to make judgements, estimates and assumptions which affect the application of adopted accounting policies and the reported amounts of assets, liabilities, revenue and expenses, whose actual values may differ from estimates. The material assumptions underlying the estimates made by the Group and the applied accounting policies are presented in the most recent consolidated full-year financial statements prepared as at and for the financial year ended December 31st 2017.

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 revised.

6. Financial risk management

The principles of financial risk management are presented in the most recent consolidated full-year financial statements prepared as at and for the financial year ended December 31st 2017. In the period from January 1st to June 30th 2018, there were no significant changes in the approach to financial risk management.

7. Reporting and geographical segments

Reporting segments

Below, the Group presents its principal reporting segments. The division into segments presented below is based on the criterion of materiality of revenue in the consolidated statement of profit or loss. The President of the Management Board of the Parent reviews internal management reports relating to each business segment at least quarterly. The Group's reporting segments conduct the following activities:

- debt purchase: collection of purchased debt,
- credit management: fee-based collection of debt on client's behalf;
- other: financial intermediation, lending, provision of business information.

The performance of each reporting segment is discussed below. The key performance metric for each reporting segment is gross profit*, which is disclosed in the management's internal reports reviewed by the President of the Management Board of the Parent. A segment's gross profit is used to measure the segment's performance, as the management believes the gross profit to be the most appropriate metric for the assessment of the segment's results against other entities operating in the industry.

The Group's operating activities concentrate in a few geographical areas: Poland, Romania, the Czech Republic, Slovakia, Germany, Spain and Italy.

The Group's operations are divided into four main geographical segments:

- Poland,
- Romania,
- Italy,
- Other foreign markets.

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

Revenue from credit management and revenue from other products represent external revenue.

(*) Gross profit = operating income – operating expenses

Reporting segments

For the reporting period January 1st – June 30th 2018

	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	304,253	233,548	39,210	27,903	604,914
Purchased debt portfolios	278,747	228,523	35,194	17,799	560,263
Collection services	12,667	4,894	4,016	10,105	31,682
Other products	12,839	130	-	-	12,969
Direct and indirect costs					(249,710)
Purchased debt portfolios	-	-	-	-	(219,695)
Collection services	-	-	-	-	(24,775)
Other products	-	-	-	-	(5,240)
Gross profit					358,205
Purchased debt portfolios	-	-	-	-	343,568
Collection services	-	-	-	-	6,907
Other products	-	-	-	-	7,730
Administrative expenses	-	-	-	-	(78,609)
Depreciation and amortisation	-	-	-	-	(10,126)
Other income	-	-	-	-	1,986
Other expenses (unallocated)	-	-	-	-	(4,600)
Finance income/costs	-	-	-	-	(66,525)
Profit before tax	-	-	-	-	200,330
Income tax	-	-	-	-	(11,008)
Net profit	-	-	-	-	189,319
Value of purchased debt portfolios as at Jun 30 2018	1,652,396	905,845	594,860	270,947	3,424,048

For the reporting period January 1st – June 30th 2017

	Poland	Romania	Italy	Other foreign markets	TOTAL
Revenue	272,970	202,199	33,114	39,186	547,469
Purchased debt portfolios	248,048	198,036	31,250	27,703	505,037
Collection services	13,048	4,143	1,864	11,483	30,539
Other products	11,874	20	-	-	11,893
Direct and indirect costs					(209,842)
Purchased debt portfolios	-	-	-	-	(184,858)
Collection services	-	-	-	-	(20,780)
Other products	-	-	-	-	(4,204)
Gross profit					337,627
Purchased debt portfolios	-	-	-	-	320,179
Collection services	-	-	-	-	9,759
Other products	-	-	-	-	7,689
Administrative expenses	-	-	-	-	(67,302)
Depreciation and amortisation	-	-	-	-	(8,166)
Other income	-	-	-	-	2,587
Other expenses (unallocated)	-	-	-	-	(4,566)
Finance income/costs	-	-	-	-	(37,738)
Profit before tax	-	-	-	-	222,442
Income tax	-	-	-	-	(5,462)
Net profit	-	-	-	-	216,980
Value of purchased debt portfolios as at Jun 30 2017	1,291,385	831,895	562,924	261,278	2,947,482

8. Seasonality or cyclicity of business

The Group's operations are not subject to seasonal or cyclical fluctuations.

9. Type and amounts of changes in estimates adopted in previous financial years with a material effect on the reporting period

Investments

In the reporting period, the Group incurred expenditure on the purchase of debt portfolios in the amount of PLN 407,242 thousand (H1 2017 - PLN 505,574 thousand), while the value of payments received from debtors amounted to PLN 756,900 thousand (H1 2017 - PLN 647,211 thousand). Changes in the estimated value of debt portfolios are described in Note 10 to the interim condensed consolidated financial statements.

PLN '000

	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
INVESTMENTS			
Financial assets at fair value through profit or loss	-	518,963	544,723
Financial assets measured at amortised cost	3,424,048	2,601,599	2,402,759
Investment property	27,706	23,869	8,776
Loans advanced to other entities	34,444	24,872	29,457
	<u>3,486,198</u>	<u>3,169,303</u>	<u>2,985,715</u>

PLN '000

	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Value of purchased debt portfolios			
Unsecured portfolios	2,679,412	2,412,081	2,338,654
Secured portfolios	744,636	708,481	608,828
	<u>3,424,048</u>	<u>3,120,562</u>	<u>2,947,482</u>

PLN '000

Value of purchased debt portfolios as at Jan 1 2017	2,640,946
Purchase of debt portfolios	976,509
Purchase price adjustment for discount	(634)
Cash recoveries	(1,368,911)
Value of foreclosed property	(17,805)
Increase/(decrease) in liabilities to debtors due to overpayments	435
Valuation of loyalty scheme	5,795
Revenue from debt purchase (interest and revaluation)	971,743
Currency translation differences on debt portfolios	(87,516)
Value of purchased debt portfolios as at Dec 31 2017	3,120,562
Value of purchased debt portfolios as at Dec 31 2017	3,120,562
Impact of changes in accounting policies following application of IFRS 9	29,582
Value of purchased debt portfolios as at Jan 1 2018	3,150,144
Purchase of debt portfolios	407,242
Cash recoveries	(756,900)
Value of foreclosed property	(9,166)
Increase/(decrease) in liabilities to debtors due to overpayments	693
Valuation of loyalty scheme	3,389
Payments from the original creditor	(5,452)
Revenue from debt purchase (interest and revaluation)	560,263
Currency translation differences on debt portfolios	73,835
Value of purchased debt portfolios as at Jun 30 2018	3,424,048
Value of purchased debt portfolios as at Jan 1 2017	2,640,946
Purchase of debt portfolios	505,574
Cash recoveries	(647,059)
Increase/(decrease) in liabilities to debtors due to overpayments	349
Value of foreclosed property	(1,889)
Valuation of loyalty scheme	3,111
Revenue from debt purchase (interest and revaluation)	505,037
Currency translation differences on debt portfolios	(58,587)
Value of purchased debt portfolios as at Jan 1 2017	2,947,482

As at June 30th 2018, the value of the KRUK Group's investment in the joint operation discussed above, disclosed in the statement of financial position, was PLN 129,953 thousand, while revenue shown in the statement of profit or loss was PLN 24,649 thousand.

10. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are material due to their type, size or effect

10.1. Revenue

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Revenue from debt purchase	560,263	295,835	505,037	262,411
Revenue from fee-based credit management services	31,682	17,219	30,539	14,697
Revenue from other products	12,969	6,529	11,893	6,234
	604,914	319,584	547,469	283,341

Revenue from debt purchase

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Interest income	416,216	211,512	442,631	231,355
Income from actual recoveries	66,045	34,215	n/a	n/a
Revaluation of debt portfolios	70,374	47,484	53,841	25,124
Foreclosure of property	7,098	2,903	3,432	1,151
Profit/(loss) on sale of debts	983	1	4,725	4,590
Profit/(loss) on sale of property	(453)	(280)	408	191
	560,263	295,835	505,037	262,411

(*) In 2017 position interest income was adjusted for actual recoveries.

Revaluation of debt portfolios

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Revision of recovery forecast	68,042	46,098	58,819	25,528
Change due to change in discount rate	-	-	11	358
Foreign exchange gains/(losses)	2,332	1,387	(4,989)	9,124
	70,374	47,484	53,841	35,010

If necessary, as at the end of each quarter the Group updates the following parameters which are used to estimate future cash flows from debt portfolios measured at amortised cost:

- risk premium,
- period for which cash flows are estimated,
- the value of expected future cash flows estimated using the current data and debt collection tools.

10.2. Other income

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Return of compensation for damage caused by motor vehicles	381	179	387	210
Gain on sale of property, plant and equipment	1,102	898	756	409
Re-billed costs of services and court fees	-	-	780	780
Other	63	(102)	664	(134)
	<u>1,546</u>	<u>975</u>	<u>2,587</u>	<u>1,265</u>

10.3. Employee benefits expense

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Salaries and wages	(115,983)	(57,439)	(95,136)	(50,618)
Old-age and disability pension contributions	(20,964)	(10,405)	(10,949)	(5,173)
Other social security contributions	(8,563)	(3,819)	(7,299)	(4,940)
Contribution to the State Fund for the Disabled	(740)	(460)	(592)	(376)
Equity-settled cost of stock option plan	(4,169)	(2,096)	(4,025)	(2,024)
	<u>(150,420)</u>	<u>(74,220)</u>	<u>(118,001)</u>	<u>(63,131)</u>

10.4. Other expenses

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Court fees	(71,016)	(38,195)	(62,295)	(34,609)
Taxes and charges	(14,999)	(7,654)	(17,790)	(9,358)
Raw materials and energy used	(5,775)	(2,722)	(6,781)	(3,995)
Advertising	(4,320)	(3,174)	(4,711)	(3,143)
Business trips	(2,837)	(1,475)	(3,709)	(2,216)
Other	(1,212)	(178)	(3,525)	1,837
Staff training	(1,940)	(1,111)	(2,257)	(1,236)
Motor insurance	(939)	(458)	(945)	(485)
Losses from damage caused by motor vehicles	(421)	(197)	(449)	(225)
Entertainment expenses	(2,013)	(1,735)	(362)	(198)
Property insurance	(414)	(219)	(262)	(145)
	<u>(105,885)</u>	<u>(57,120)</u>	<u>(103,086)</u>	<u>(53,773)</u>

10.5. Finance income

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Interest income on bank deposits	92	(109)	161	(54)
Net foreign exchange gains	-	-	805	805
	92	(109)	966	751

10.6. Finance costs

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Interest expense on financial liabilities measured at amortised cost	(48,578)	(26,844)	(38,704)	(19,158)
Net foreign exchange gains	(18,039)	(9,112)	-	20,351
	(66,618)	(35,956)	(38,704)	1,193

10.7. Income tax

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Jan 1-Jun 30 2017 unaudited
Current income tax	12,696	6,412	5,098	2,871
Current income tax payable	12,696	6,412	5,098	2,871
Deferred income tax	(1,688)	5,791	364	1,157
Associated with origination and reversal of temporary differences	(1,688)	5,791	364	1,157
Tax expense disclosed in the statement of profit or loss / in profit/(loss)	11,008	12,204	5,462	4,029

PLN '000

	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
Gross profit/(loss) before tax	200,327	222,442
Tax calculated at the Parent's rate (19%)	38,062	42,264
Effect of application of other tax rates abroad	5,913	(2,930)
Effect of non-deductible expenses	(32,967)	(33,872)
Income tax recognised in the income statement	11,008	5,462

The effective tax rate differs from the applicable tax rate as the consolidated data includes data of companies whose profits are subject to taxation at the owner's level at the time of their realisation.

Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent changes and amendments, with a resulting lack of appropriate points of reference, conflicting interpretations, and scarcity of established precedents to follow. 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 and other areas of activity (e.g. customs or foreign exchange control) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of a final decision by a tax inspection authority.

The Group believes that it has paid all due taxes, fines and default interest in a timely manner and in appropriate amounts. In respect of all uncertain tax items, where the current legislation and communication with tax authorities do not provide sufficient guidance, the Group analysed the existing tax laws and regulations and their interpretations, and applied them correctly.

The period for which tax settlements may be subject to tax audit is five years in Poland and the Czech Republic and seven years in Romania and Slovakia. As a result, the amounts disclosed in the financial statements may be changed at a later date after they are finally determined by tax authorities.

On July 15th 2016, amendments were made to the Tax Law reflecting the provisions of the General Anti-Abuse Rule (GAAR). The purpose of GAAR is to prevent the establishment and use of artificial schemes set up to avoid payment of taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit which in the given circumstances is contrary to the object and purpose of tax laws. According to GAAR, such measures do not lead to the achievement of a tax benefit if the scheme used was artificial. Any (i) unjustified dividing of transactions, (ii) engaging of intermediaries in spite of a lack of economic or business rationale for doing so, (iii) presence of elements that mutually cancel or set off each other, and (iv) any other measures having a similar effect, may be treated as an indication that an artificial scheme subject to the provisions of GAAR has been established. The new regulations require considerably more judgement in assessing the tax effects of transactions.

GAAR applies to transactions made after its effective date as well as to transactions executed before the effective date of GAAR but in respect of which benefits were or continue to be derived after that date. The implementation of GAAR will allow Polish tax inspection authorities to challenge schemes and arrangements made by corporate taxpayers, such as restructuring or reorganisation of corporate groups.

10.8. Exchange differences on translating foreign operations in the statement of comprehensive income

PLN '000	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Jan 1-Jun 30 2017 unaudited
Exchange differences on translating foreign operations	60,680	49,182	(44,482)	(36,754)
Attributable to:				
Owners of the Parent	60,680	49,182	(44,482)	(36,754)
Finance income/(Finance cost) recognised in other comprehensive income	60,680	49,182	(44,482)	(36,754)

10.9. Borrowings, finance lease liabilities and other financial liabilities

PLN '000	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Non-current liabilities			
Secured borrowings	485,217	354,962	205,949
Liabilities under debt securities (unsecured)	1,240,170	1,276,772	1,377,575
Finance lease liabilities	1,959	4,962	7,019
	1,727,346	1,636,696	1,590,543
Current liabilities			
Short-term portion of secured borrowings	117,801	134,918	79,300
Liabilities under debt securities (unsecured)	154,690	121,491	33,854
Short-term portion of finance lease liabilities	7,021	4,117	4,781
Liabilities under dividend	-	-	37,488
	279,512	260,527	155,423

<i>PLN '000</i>	Currency	Nominal interest rate	Maturity year	Dec 31 2017 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Borrowings secured with the Group's assets	PLN/EUR	1 M WIBOR + margin of 1.0–2.0 pp 1 M EURIBOR + margin of 2.2–2.4 pp	2024	603,018	489,880	285,249
Liabilities under debt securities (unsecured)	PLN/EUR	3M WIBOR + margin of 2.5–4.5 pp	2022	1,394,860	1,398,263	1,411,429
Finance lease liabilities	PLN/EUR	3M WIBOR or 1M EURIBOR + margin of 0.68–4.0 pp	2020	8,980	9,079	11,800
				<u>2,006,857</u>	<u>1,897,223</u>	<u>1,708,478</u>

10.10. Hedge derivatives

It has been concluded that effective implementation of the KRUK Group's growth strategy requires, among other elements, a proper interest rate risk and currency risk management policy.

The interest rate risk management policy covers the following:

- the Group's objectives in terms of interest rate risk;
- interest rate risk monitoring methods;
- the Group's permitted exposure to interest rate risk;
- procedures in case of exceeding permitted exposure to interest rate risk;
- interest rate risk management rules of the KRUK Group;
- The Company applies two types of hedging strategies.

In 2017, the Group executed hedging derivative transactions as described below.

In 2017, the Group concluded two foreign currency interest rate swaps (CIRS), under which the Group pays a coupon based on a fixed EUR interest rate and receives a coupon based on a variable PLN interest rate. The contracts hedge both currency risk and interest rate risk as they effectively change the debt contracted in the złoty with euro-denominated liabilities:

First contract: The Group pays at a fixed rate of 3.06%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months (interest period).

Second contract: The Group pays at a fixed rate of 2.97%, while the counterparty pays at a variable rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period).

The contracts provide a hedge against volatility in cash flows generated by liabilities denominated in PLN due to changes in reference interest rates and by assets denominated in a convertible currency due to interest rate fluctuations.

The Group expects cash flows to be generated and to have an effect on its performance in the period until 2021. In 2018, due to the ineffectiveness of the hedging relationship, the valuation was written off to the statement of profit or loss.

In addition, in 2017 the Group concluded two interest rate swaps (IRS) under which it pays a coupon based on a fixed PLN interest rate and receives a coupon based on a variable PLN interest rate. The contracts provide a hedge against interest rate risk.

First contract: The Group pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period).

Second contract: The Group pays at a fixed rate of 2.5%, while the counterparty pays at a variable rate equal to 3M WIBOR. Interest payments are made every three months (interest period).

Their purpose was to provide a hedge against volatility in cash flows generated by liabilities in PLN due to changes in reference interest rates.

The Group expects cash flows to be generated and to have an effect on its performance in the period until 2022.

Instrument type:	Carrying amount/fair value of derivative instruments hedging cash flows associated with interest rate and/or foreign exchange rate			
	Jun 30 2018		Dec 31 2017	
	Assets	Liabilities	Assets	Liabilities
CIRS	-	-	8,637	-
IRS	-	2,231	-	1,375
TOTAL	-	2,231	8,637	1,375

Instrument type:

Nominal value as at Jun 30 2018

	Below 6 months	6–12 months	1–2 years	1–2 years	over 5 years
CIRS					
floating payment PLN purchase	-	-	-	-	-
fixed payment EUR sale (original currency)	-	-	-	-	-
IRS					
fixed payment PLN sale	-	-	-	200,000	-
floating payment PLN	-	-	-	200,000	-

Instrument type:

Nominal value as at Dec 31 2017

	Below 6 months	6–12 months	1–2 years	1–2 years	over 5 years
CIRS					
floating payment PLN purchase	-	-	-	190,000	-
fixed payment EUR sale (original currency)	-	-	-	43,418	-
IRS					
fixed payment PLN sale	-	-	-	200,000	-
floating payment PLN	-	-	-	200,000	-

Other comprehensive income from cash flow hedges

	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
Other comprehensive income at beginning of period, before tax	5,882	-
Gains/(losses) recognised in other comprehensive income during period	(75)	6,470
Amount reclassified from other comprehensive income to profit or loss during period	8,038	1,332
- interest income	944	1,332
- reclassification of measurement of a hedging instrument to the statement of profit or	8,469	-
-ineffective portion of cash flow hedges recognised in profit or loss	(1,375)	-
Accumulated other comprehensive income at end of period, before tax	(2,156)	5,138
Tax effect	-	(976)
Accumulated other comprehensive income at end of period, net of tax	(2,231)	4,162
Effect on other comprehensive income during period, net of tax	(8,113)	4,162

10.11. Earnings per share

Basic earnings per share

'000

	Jan 1-Jun 30 2018 unaudited	Jan 1-Dec 31 2017	Jan 1-Jun 30 2017 unaudited
Number of ordinary shares as at Jan 1	18,808	18,744	18,744
Effect of cancellation and issue of shares	18	4	-
Weighted average number of ordinary shares	18,826	18,748	18,744
PLN			
Earnings per share (basic)	10.05	15.74	11.57

Diluted earnings per share

'000

	Jan 1-Jun 30 2018 unaudited	Jan 1-Dec 31 2017	Jan 1-Jun 30 2017 unaudited
Weighted average number of ordinary shares	18,826	18,748	18,744
Effect of share option issue	465	527	442
Weighted average number of ordinary shares (diluted)	19,291	19,275	19,186
PLN			
Earnings per share (diluted)	9.81	15.31	11.31

10.12. Current and non-current items of the statement of financial position

As at Jun 30 2018

PLN '000

	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Non-current assets			
Property, plant and equipment	28,169	28,669	27,088
Other intangible assets	36,515	26,830	15,366
Goodwill	62,010	54,003	62,604
Hedge derivatives	-	8,637	5,138
Total non-current assets	126,694	118,138	110,196
Current assets			
Inventories	160	494	289
Investments	3,486,198	3,169,303	2,985,715
Trade receivables	17,933	16,623	18,414
Other receivables	37,352	64,244	45,203
Other assets	17,974	18,042	4,082
Cash and cash equivalents	162,478	173,284	120,132
Total current assets	3,722,095	3,441,990	3,173,835
Total assets	3,848,790	3,560,128	3,284,031
Equity and liabilities			
Equity			
Share capital	18,872	18,808	18,744
Share premium	298,900	293,581	288,326
Cash flow hedging reserve	(2,231)	5,882	4,162
Exchange differences on translating foreign operations	4,061	(56,619)	(45,074)
Other capital reserves	90,973	86,805	80,683
Retained earnings	1,235,307	1,111,961	1,033,771
Equity attributable to owners of the Parent	1,645,882	1,460,418	1,380,612
Non-controlling interests	185	104	76
Total equity	1,646,067	1,460,522	1,380,688
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments	1,727,346	1,636,696	1,590,543
Deferred tax liability	9,194	14,444	4,943
Derivatives	3,616	1,375	-
Total non-current liabilities	1,740,156	1,652,515	1,595,486
Current liabilities			
Current liabilities under borrowings and other debt instruments	279,512	260,527	155,423
Trade and other payables	143,718	143,449	121,562
Income tax payable	8,821	14,401	-
Employee benefit obligations	30,515	28,715	30,872
Total current liabilities	462,567	447,091	307,857
Total liabilities	2,202,723	2,099,606	1,903,343
Total equity and liabilities	3,848,790	3,560,128	3,284,031

10.13. Goodwill

PLN '000

	Kancelaria Prawna RAVEN	KRUK Italia S.r.l	KRUK España S.L.	AgeCredit S.r.l	ERIF BIG S.A.	Total
Gross value						
Gross value as at Jan 1 2017	299	5,002	47,977	-	725	54,003
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Gross value as at Dec 31 2017	299	5,002	47,977	-	725	54,003
Gross value as at Jan 1 2018	299	5,002	47,977	-	725	54,003
Increase	-	-	-	8,007	-	8,007
Decrease	-	-	-	-	-	-
Gross value as at Jun 30 2018	299	5,002	47,977	8,007	725	62,010
Net value						
As at January 1st 2017	299	5,002	47,977	-	725	54,003
As at December 31st 2017	299	5,002	47,977	-	725	54,003
As at January 1st 2018	299	5,002	47,977	-	725	54,003
As at Jun 30 2018	299	5,002	47,977	8,007	725	62,010

On April 16th 2018, the KRUK Group, acting through its holding company KRUK S.A., signed an agreement to purchase 51% of shares from an individual owning AgeCredit S.r.l., a service company with many years of experience on the Italian market in debt collection services.

As of March 23rd 2018, the other two shareholders (individuals) submitted a non-revocable request to the company to have their shares redeemed and cancelled for consideration.

The economic substance of the transaction is an acquisition of a company. The transfer of control to the KRUK Group took place on signing the agreement. The KRUK Group acquired a controlling interest (51%) and obtained an assurance that the remaining two shareholders holding 49% of the shares will withdraw from the company. On September 3rd 2018, the KRUK Group acquired the remaining 49% of shares, thus becoming the sole owner of AgeCredit S.r.l.

Following the acquisition of the service provider, the Group has become a major player on the credit management market in Italy, and has also gained significant support and necessary expertise to manage debt portfolios purchased on the Italian market. Acquisition of both companies was accounted for in accordance with IFRS 3. Following the accounting for the transaction, there are no non-controlling interests in the acquiree.

The Group has 12 months from the acquisition date to finally account for the acquisition cost.

A preliminary accounting for the acquisition of AgeCredit S.r.l is as follows:

PLN '000

ASSETS	AgeCredit data as at Apr 16 2018 (based on the value disclosed in the financial statements)	Fair value adjustment	Provisional data as at acquisition date – Apr 16 2018
Cash and cash equivalents	2,235	-	2,235
Trade receivables	2,126	-	2,126
Investments	19	-15	4
Property, plant and equipment	343	-182	161
Other intangible assets	119	-	119
TOTAL ASSETS	4,842	-197	4,645

LIABILITIES	AgeCredit data as at Apr 16 2018 (based on the value disclosed in the financial statements)	Fair value adjustment	Provisional data as at acquisition date – Apr 16 2018
Trade and other payables	1,685	5,303	6,988
Employee benefit obligations	2,005	-	2,005
Liabilities under borrowings and other debt instruments	-	-	-
Provisions	-	-	-
TOTAL LIABILITIES	3,690	5,303	8,993

The acquired assets and liabilities were measured at fair value. Final accounting for the acquisition resulted in the recognition of intangible assets of PLN 8,881 thousand, which reduced the initially recognised goodwill of PLN 16,888 thousand. Data of the acquiree was presented as at the acquisition date.

11. Financial instruments

Fair value

The fair value and book value of financial assets and financial liabilities are presented below:

		Jun 30 2018 unaudited		Dec 31 2017	
PLN '000					
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value					
Financial instruments at fair value through profit or loss	9	-	-	518,963	518,963
Hedge derivatives	10.10	(3,616)	(3,616)	7,262	7,262
		(3,616)	(3,616)	526,225	526,225
Financial assets and liabilities not measured at fair value					
Financial assets measured at amortised cost	9	3,424,048	3,126,469	2,601,599	2,460,200
Loans and receivables	9	34,444	34,444	105,739	105,739
Secured bank borrowings	10.9	(603,018)	(603,018)	(489,880)	(489,880)
Unsecured bonds in issue	10.9	(1,394,860)	(1,396,194)	(1,398,263)	(1,374,306)
Finance lease liabilities	10.9	(8,980)	(8,980)	(9,079)	(9,079)
Trade and other payables		(143,718)	(143,718)	(143,449)	(143,449)
		1,307,916	1,009,003	666,666	549,225

Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value

The table below presents financial instruments recognised in the statement of financial position 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 for given 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).

In 2018, no transfers were made between the levels.

Hierarchy of financial instruments – Level 2

PLN '000

	Level 2	
	Carrying amount	Fair value
As at Dec 31 2017		
Hedge derivatives	7,262	7,262
As at Jun 30 2018		
Hedge derivatives	(3,616)	(3,616)

It has been concluded that effective implementation of KRUK S.A.'s growth strategy requires, among other elements, a proper interest rate risk management policy.

The fair value of CIRS and IRS transactions is determined on the basis of future cash flows related to executed transactions, calculated on the basis of the difference between the forecast 3M WIBOR and 3M WIBOR as at the transaction date. To determine the fair value, the Group uses a 3M WIBOR forecast provided by an external company.

Hierarchy of financial instruments – Level 3

PLN '000

	Level 3	
	Carrying amount	Fair value
As at Dec 31 2017		
Financial assets at fair value through profit or loss	518,963	518,963
Financial assets measured at amortised cost	2,601,599	2,460,200
As at Jun 30 2018		
Financial assets measured at amortised cost	3,424,048	3,126,469

The fair value of purchased debt portfolios 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.

The Group did not make any transfers between the fair value levels in 2018.

Assumptions adopted in the valuation of debt portfolios

	Jun 30 2018 unaudited	Transformed data IFRS 9 Jan 1 2018	Dec 31 2017
Discount rate			
- risk-free*			-0.012%-3,54%
- risk premium	8.10% - 147.10%	8.10% - 420.22%	5.32%-321,14%
Period for which recoveries have been estimated	Jul 2018–Dec 2034	Jan 2018–Dec 2033	Jan 2018–Dec 2033
Nominal value of expected future recoveries	6,061,945	5,704,063	5,704,063

* *Varies by market.**Projected schedule of recoveries from debt portfolios (nominal value):*

<i>PLN '000</i>	Jun 30 2018 unaudited	Dec 31 2017
Period		
Less than 12 months	1,468,947	1,309,988
From 1 to 2 years	1,350,437	1,262,448
From 2 to 3 years	1,023,082	982,557
From 3 to 4 years	733,200	691,267
From 4 to 5 years	469,940	450,428
Over 5 years	1,016,339	1,007,376
	6,061,945	5,704,063

Total exposure to credit risk

<i>PLN '000</i>	Jun 30 2018 unaudited	Dec 31 2017
Poland	1,780,744	1,463,326
Romania	949,154	864,575
Italy	627,312	540,291
Czech Republic	113,332	119,043
Other foreign markets	233,419	239,066
	3,703,961	3,226,301

12. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance

The key factor with a bearing on financial performance in the reporting period was investments in debt portfolios made in the reporting and previous periods.

Investments in debt portfolios in H1 2018 totalled PLN 407m. For this amount, the KRUK Group purchased portfolios with a total nominal value of PLN 2,499m.

On April 16th 2018, KRUK S.A. concluded an agreement (the "Agreement") with a shareholder of Agecredit S.r.l. of Cesena, Italy, to acquire a 51% interest in the company. The information on acceptance of the share purchase offer was published by KRUK S.A. in Current Report No. 11/2018 of March 28th 2018. The Agreement provided for the acquisition of 51% of shares in Agecredit, and envisaged that KRUK S.A. would ultimately acquire all of the company's share capital within the next few months. On September 3rd 2018, the KRUK Group acquired 100% of shares in Agecredit S.r.l., which is a credit management company operating in Italy. In 2017, the company generated EUR 3.1m in consolidated revenue (PLN 13m as translated at the mid-exchange rate quoted by the NBP for April 16th 2018).

On April 16th and April 23rd 2018, agreements were concluded between the subsidiary PROKURA NS FIZ and one of Poland's largest banks. By executing the agreements, PROKURA NS FIZ completed the process of purchasing from the Bank a portfolio of unsecured retail debt with a nominal value of approximately PLN 147m and a portfolio of secured corporate debt with a value of approximately PLN 187m.

On April 17th 2018, PROKURA NS FIZ (KRUK S.A.'s subsidiary) and BGŻ BNP Paribas S.A. concluded an agreement (the "Agreement", the "Bank") whereby Prokura NS FIZ purchased from the Bank a portfolio of unsecured retail debts and secured corporate debts with an aggregate nominal value of PLN 384m. The transfer of ownership of the debt covered by the Agreement to the Acquirer took place on the day of execution of the Agreement. The Agreement does not provide for any significant contractual penalties. The other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

As at June 30th 2018, the Group's investments in debt portfolios accounted for 89% of its assets. Equity accounted for 43% of the financing for the Group's operations.

In order to meet investors' expectations, the KRUK Group presents the following financial ratios as at June 30th 2018:

1.12 – Debt Ratio

2.04 – Net Financial Debt / Cash EBITDA Ratio;

where:

Debt Ratio means the ratio of Net Financial Debt to Equity;

Net Financial Debt represents the KRUK Group's Financial Liabilities less the KRUK Group's cash;

Equity means the KRUK Group's equity;

Financial Liabilities means total financial liabilities under:

- Bonds or other similar debt securities; or
- Non-bank borrowings; or
- Bank borrowings (credit facilities); or

- Finance leases; or
- Promissory notes issued by way of security for liabilities of non-KRUK Group entities; or
- Guarantees or sureties provided in respect of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- Accession to debt owed by non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- Assumption of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- Liabilities arising under derivatives contracts;

Cash EBITDA represents profit (/loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.

13. Issue, redemption and repayment of non-equity and equity securities

On December 7th 2017, the Management Board of KRUK S.A. passed a resolution to establish the Fifth Public Bond Issue Programme with a total nominal value of up to PLN 500m, under which the Company may issue public bonds in PLN or EUR. The Bonds will be in book-entry form. In connection with the Programme, KRUK S.A. has prepared a base issue prospectus. The Company has filed the Prospectus and an application for its approval with the Polish Financial Supervision Authority. Individual series of Bonds under the Programme will be issued during the 12 months from the Prospectus approval by the Polish Financial Supervision Authority. Individual Bond issues may differ with respect to their final issue terms and conditions, in particular with respect to the rules of defining interest and the interest rate. Detailed issue terms and conditions of each Bond series will be defined in the Prospectus and in the final issue terms and conditions of individual Bond issues. On April 16th 2018, KRUK S.A. was notified that the Polish Financial Supervision Authority had approved the Prospectus prepared for the purposes of the Programme.

In the first half of 2018, KRUK S.A. did not issue any bonds.

14. Dividends paid (or declared)

On April 18th 2018, the Annual General Meeting of KRUK S.A. passed Resolution No. 5/2018 on the allocation of KRUK S.A.'s 2017 net profit in line with the Management Board's recommendation.

The Annual General Meeting resolved to distribute the Company's entire net profit for 2017, of PLN 29,514,356.00, as dividends to the Company's shareholders. The General Meeting resolved to pay dividends of PLN 5 per share. The dividends will be distributed from the Company's net profit for 2017, of PLN 29,514 thousand, increased by PLN 64,525 thousand transferred from statutory reserve funds created out of retained earnings. Under the Resolution, the dividend record date was set for April 25th 2018, and the dividend payment date – for April 27th 2018. The dividend will be paid on 18,808 thousand KRUK S.A. shares.

15. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance

On July 9th 2018, KRUK S.A. resolved to undertake a review of strategic options for continued growth of the KRUK Group. The purpose is to select the best strategic option for the Company to deliver its long-term objective of growing the Group into a leading player on the European debt management market and making it achieve a significant position in Western Europe and elsewhere through organic growth and acquisitions. At the current stage, various strategic scenarios will be considered by the Management Board, particularly the one to attract an international financial partner, execute a differently structured transaction, or not to do any of the foregoing. In the near future, the Management Board of KRUK S.A. plans to enter into an agreement with a financial adviser who will support it in performing the review. No decisions to select a specific strategic option have yet been made by the Management Board, and it is not certain if and when any such decisions would be made. Any updates on the review process will be publicly communicated by the Management Board in accordance with applicable laws.

On July 31st 2018, a firm agreement was signed between the Company's subsidiary InvestCapital Ltd. of Malta and a member of the Carrefour Group of Spain – Servicios Financieros Carefour, E.F.C., S.A. headquartered in Madrid. The agreement provided for the purchase of a portfolio of unsecured retail debt with a total nominal value of approximately EUR 248m (PLN 1.06bn as translated at the mid-exchange rate quoted by the NBP for July 31st 2018).

On August 24th 2018, KRUK S.A. was notified that its subsidiary PROKURA NS FIZ had won an auction to purchase a portfolio of unsecured retail debt with a nominal value of approximately PLN 274m and a portfolio of unsecured SME debt with a nominal value of approximately PLN 214m from one of Poland's largest banks.

On September 3rd, KRUK S.A. was notified that its subsidiary ItaCapital S.r.l. with headquarter in Milan had won an auction to purchase a portfolio of unsecured retail debt. Nominal value of this portfolio amounts to approximately EUR 302m (PLN 1.3bn as translated at the mid-exchange rate quoted by the NBP for 3rd September 2018).

16. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

Security for future liabilities

Following execution of a revolving facility agreement by PROKURA NS FIZ and KRUK S.A. with mBank S.A. on July 2nd 2015, as amended, in order to secure the repayment of Prokura NS FIZ's liabilities under the agreement:

- On January 18th 2018, PROKURA NS FIZ and mBank S.A. entered into three agreements to create registered pledges over a set of rights (debt portfolios held by PROKURA NS FIZ). On January 19th 2018, applications were filed with the court to enter the pledges in the pledge register. As at June 30th 2018, the Company did not receive the court's decisions to enter the pledges in the pledge register. The registered pledges secure claims up to a maximum amount of PLN 150m. As at June 30th 2018, the total value of portfolios pledged under these agreements is PLN 69,590.13 thousand.

Following the conclusion on July 3rd 2017 of a revolving multi-currency credit facility agreement by KRUK S.A. and InvestCapital LTD with DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A. in order to secure the repayment of InvestCapital LTD's liabilities under the agreement:

- On January 15th 2018, InvestCapital LTD, DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A. concluded an agreement under Spanish law establishing a pledge over a portfolio purchased by InvestCapital LTD on the Spanish market.
- On February 19th 2018, InvestCapital LTD, DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A. concluded a pledge agreement under Spanish law over portfolios purchased by InvestCapital LTD on the Spanish market.
- On April 16th 2018, InvestCapital LTD, DNB Bank ASA, ING Bank Śląski S.A., Bank Zachodni WBK S.A. and mBank S.A. concluded an agreement under Spanish law establishing a pledge over a portfolio purchased by InvestCapital LTD on the Spanish market.

As at June 30th 2018, the value of portfolios pledged under these agreements was PLN 3,875.5 thousand.

In connection with a PLN 180,000.00 thousand share capital cancellation performed on April 11th 2018 in InvestCapital LTD, which became final by July 18th 2018, on April 11th 2018 KRUK S.A. issued a corporate guarantee to InvestCapital Ltd for up to PLN 180,000.00 thousand. The guarantee expired on July 18th 2018. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by July 18th 2018.

In connection with a PLN 30,000 thousand share capital cancellation performed on June 13th 2018 in InvestCapital Ltd., which is to become final by September 21st 2018, on June 13th 2018 KRUK S.A. issued a corporate guarantee to InvestCapital LTD for up to PLN 30,000 thousand. The guarantee will expire on September 21st 2018. The purpose of the guarantee is to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the share capital cancellation by September 23rd 2018.

Piotr Krupa

President of the Management Board

Agnieszka Kulon

Member of the Management Board

Urszula Okarma

Member of the Management Board

Iwona Słomska

Member of the Management Board

Michał Zasepa

Member of the Management Board

Monika Grudzień-Wiśniewska

Person keeping the accounting records

Hanna Stempień

Prepared By

Wrocław, September 7th 2018

IV. Interim condensed separate financial statements

1. Interim condensed separate statement of financial position

As at Jun 30 2018

PLN '000

	Note	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Assets				
Cash and cash equivalents		11,478	16,917	25,660
Trade receivables from related entities		28,959	45,207	24,247
Trade receivables from other entities		3,688	2,881	3,083
Investments	5	166,650	172,297	189,064
Hedge derivatives		-	8,637	5,138
Other receivables		17,471	9,276	15,825
Inventories		36	171	69
Property, plant and equipment		18,213	19,062	20,457
Intangible assets		15,924	15,183	13,616
Deferred tax asset		-	-	-
Investments in subsidiaries	6.7	2,752,807	2,849,889	2,108,921
Other assets		3,871	4,133	2,753
Total assets		3,019,097	3,143,654	2,408,833
Equity and liabilities				
Liabilities				
Derivatives		3,616	1,375	-
Trade and other payables		603,967	593,741	31,043
Employee benefit obligations		18,886	17,673	17,937
Income tax payable		6,530	14,401	-
Liabilities under borrowings and other debt instruments	6.6	1,823,715	1,786,487	1,701,502
Deferred tax liability		14,321	15,351	5,967
Total liabilities		2,471,035	2,429,028	1,756,449
Equity				
Share capital		18,872	18,808	18,744
Share premium		298,900	293,581	288,326
Cash flow hedging reserve		(2,231)	5,882	4,162
Other capital reserves		90,975	86,806	80,684
Retained earnings		141,547	309,548	260,468
Total equity		548,063	714,625	652,384
Total equity and liabilities		3,019,097	3,143,654	2,408,833

2. Interim condensed separate statement of profit or loss

For the reporting period January 1st – June 30th 2018

PLN '000

	Note	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Revenue	6.1	63,900	29,871	64,605	36,699
<i>including interest income calculated using effective interest rate</i>		9,829	4,924	n/a	n/a
Other income		978	389	1,315	676
Employee benefits expense	6.2	(64,340)	(31,320)	(58,927)	(30,742)
Depreciation and amortisation		(6,548)	(3,250)	(5,618)	(2,875)
Services		(17,914)	(9,089)	(18,629)	(10,105)
Other expenses		(16,211)	(9,544)	(17,914)	(10,611)
		(105,013)	(53,202)	(101,088)	(54,333)
Operating loss		(40,135)	(22,942)	(35,168)	(16,958)
Finance income	6.3	41,306	11,159	53,116	30,384
Finance costs	6.4	(68,256)	(42,497)	(36,539)	(17,699)
Net finance income/(costs)		(26,950)	(31,337)	16,577	12,685
Profit/(Loss) before tax		(67,085)	(54,279)	(18,591)	(4,273)
Income tax	6.5	(9,036)	(12,397)	(974)	(1,936)
Net profit/(loss) for the period		(76,121)	(66,676)	(19,565)	(6,209)
Earnings/(loss) per share					
Basic (PLN)		(4.04)	(3.54)	(1.04)	(0.33)
Diluted (PLN)		(3.95)	(3.46)	(1.02)	(0.32)

3. Interim condensed separate statement of comprehensive income

For the reporting period January 1st – June 30th 2018

PLN '000

	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Net profit for period	(76,121)	(66,676)	(19,565)	(6,209)
Other comprehensive income				
Items that may be reclassified to profit or loss				
Cash flow hedges	(2,231)	(7,817)	5,138	(448)
Other comprehensive income for period, net	(2,231)	(7,817)	5,138	(448)
Total comprehensive income for period	(78,352)	(74,493)	(14,427)	(6,657)
Total earnings per share				
Basic (PLN)	(4.16)	(3.96)	(0.77)	(0.36)
Diluted (PLN)	(4.06)	(3.86)	(0.75)	(0.35)

4. Interim condensed separate statement of changes in equity

For the reporting period January 1st – June 30th 2018

PLN '000

	Note	Note	Share capital	Share premium	Cash flow hedging reserve	Other capital reserves	Retained earnings	Total equity
Equity as at Jan 1 2017			18,744	288,326	-	76,659	317,522	701,251
Net profit/(loss) for the period			-	-	-	-	(19,565)	(19,565)
Valuation of hedging instruments			-	-	4,162	-	4,162	4,162
Total other comprehensive income					4,162		(15,403)	(15,403)
Total comprehensive income for period			-	-	4,162	-	(15,403)	(15,403)
Contributions from and distributions to owners								
- Payment of dividends							(37,488)	(37,488)
- Share-based payments			-	-	-	4,025	-	4,025
- Issue of shares			-	-				-
Total contributions from and distributions to owners			-	-	-	4,025	(37,488)	(33,463)
Total equity as at Jun 30 2017			18,744	288,326	4,162	80,684	264,631	652,385
Equity as at Jan 1 2017			18,744	288,326	-	76,659	317,522	701,251
Comprehensive income for period								
Net profit/(loss) for the period			-	-	-	-	29,514	29,514
Valuation of hedging instruments			-	-	5,882	-	-	5,882
Total comprehensive income for period			-	-	5,882	-	29,514	35,396
Contributions from and distributions to owners			-	-	-	-	-	-
- Payment of dividends							(37,488)	(37,488)
- Share-based payments			-	-	-	10,147	-	10,147
- Issue of shares			64	5,255	-	-	-	5,319
Total contributions from and distributions to owners			64	5,255	-	10,147	-	(22,022)
Total equity as at Dec 31 2017			18,808	293,581	5,882	86,806	309,548	714,625
Adjustment on transition to IFRS 9			-	-	-	-	2,160	2,160
Equity as at Jan 1 2018 following changes in accounting policy			18,808	293,581	5,882	86,806	311,708	716,785
Comprehensive income for period								
Net profit/(loss) for the period			-	-	-	-	(76,121)	(76,121)
- Valuation of hedging instruments					(8,113)		-	(8,113)
Total comprehensive income for period			-	-	(8,113)	-	(76,121)	(84,234)
Contributions from and distributions to owners								
- Payment of dividends			-	-	-		(94,040)	(94,040)
- Share-based payments			64	5,319	-	4,169	-	9,552
Total contributions from and distributions to owners			64	5,319	-	4,169	(94,040)	(84,488)
Total equity as at Jun 30 2018			18,872	298,900	(2,231)	90,975	141,547	548,063

5. Interim condensed separate statement of cash flows

For the reporting period January 1st – June 30th 2018

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1 2017 - Jun 30 2017 unaudited	Apr 1 2017 - Jun 30 2017 unaudited
Cash flows from operating activities				
Net profit/(loss) for the period	(76,121)	(66,676)	(19,565)	(6,209)
<i>Adjustments</i>				
Depreciation of property, plant and equipment	4,025	1,969	3,483	1,795
Amortisation of intangible assets	2,526	1,284	2,135	1,101
Net finance (income)/costs	25,613	34,699	(12,873)	(8,926)
(Gain)/loss on sale of property, plant and equipment	(408)	(226)	(702)	(410)
Equity-settled share-based payments	4,170	2,097	4,025	2,024
Income tax	9,036	12,397	973	1,935
Change in debt portfolios purchased	(3,632)	565	2,307	(1,624)
Change in inventories	135	160	119	29
Change in receivables	14,503	3,039	14,781	(3,701)
Change in other assets	262	(11)	1,649	705
Change in current liabilities	4,955	5,645	(8,112)	(1,106)
Change in employee benefit obligations	1,213	(1,886)	(1,805)	(2,317)
Income tax paid	(17,936)	(16,717)	(3,514)	0
Net cash from operating activities	(31,659)	(23,663)	(17,099)	(16,704)
Cash flows from investing activities				
Interest received	39	25	132	20
Loans advanced	(21,454)	(9,022)	(48,888)	(34,505)
Sale of intangible assets and property, plant and equipment	1,237	678	1,187	873
Dividends received	36,398	9,500	35,128	20,623
Proceeds from disposal of financial assets	213,959	206,459	151,062	110,985
Purchase of intangible assets and property, plant and equipment	(5,189)	(2,857)	(2,759)	(911)
Acquisition of financial assets	(115,022)	(98,182)	(321,028)	(190,783)
Repayment of loans advanced	28,364	13,677	26,158	16,102
Net cash from investing activities	138,332	120,278	(159,009)	(77,597)
Cash flows from financing activities				
Net proceeds from issue of shares	5,319	5,319	-	-
Proceeds from issue of debt securities	-	-	168,391	168,391
Increase in borrowings	373,746	260,043	613,599	366,853
Repayment of borrowings	(340,516)	(238,079)	(582,929)	(348,175)
Payments under finance lease contracts	(2,606)	(826)	(3,265)	(1,955)
Dividends paid	(94,040)	(94,040)	-	-
Redemption of debt securities	(15,000)	(15,000)	(120,000)	(60,000)
Interest paid	(39,015)	(22,524)	(36,963)	(20,596)
Net cash from financing activities	(112,111)	(105,106)	38,833	104,518
Total net cash flows	(5,439)	(8,491)	(137,276)	10,216
Cash and cash equivalents at beginning of period	16,917	19,969	162,936	15,444
Cash and cash equivalents at end of period	11,478	11,478	25,660	25,660

Notes to the interim condensed separate financial statements

1. Company details

Name

KRUK Spółka Akcyjna ("KRUK S.A." or "the Company")

Registered office

ul. Wołowska 8
51-116 Wrocław, Poland

Registration in the National Court Register:

District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, ul. Grabiszyńska 269, 53-235 Wrocław, Poland

Date of entry: September 7th 2005

Entry number: KRS 0000240829

Principal business activity

The Company is primarily engaged in the restructuring and recovery of debts purchased by the companies of the KRUK Group (the "Group") and the provision of credit management services to financial institutions and other clients.

2. Reporting period

The reporting period is the period from January 1st to June 30th 2018 and the comparative period is the period from January 1st to June 30th 2017. The interim condensed separate statement of financial position was prepared as at June 30th 2017 and the comparative data is presented as at June 30th 2017 and December 31st 2017. The interim condensed separate statement of changes in equity was prepared for the period from January 1st to June 30th 2018, whereas the comparative periods are the periods from January 1st to June 30th 2017 and from January 1st to December 31st 2017.

3. Statement of compliance

These interim condensed separate financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as endorsed by the European Union.

These financial statements do not contain all the information required to prepare full-year financial statements and therefore they should be read in conjunction with the interim condensed consolidated financial statements of the Group for the period from 1 January to June 30th 2016, the separate financial statements of Kruk S.A. and the consolidated financial statements of the Group prepared as at and for the financial year ended December 31st 2017.

These interim condensed separate financial statements were authorised for issue by the Company's Management Board (the "Management Board") on September 7th 2018.

The data contained in these interim condensed separate financial statements is presented in the Polish złoty (PLN), rounded to the nearest thousand.

In the opinion of the Management Board, there are no facts or circumstances which could pose a significant threat to the Company continuing as a going concern. Therefore, these interim condensed separate financial statements have been prepared under the assumption that the Company will continue as a going concern in the foreseeable future.

4. Significant accounting policies

The accounting policies applied to prepare these condensed interim financial statements are consistent with those applied to prepare the most recent full-year separate financial statements as at and for the year ended December 31st 2017, except for the change related to the application of IFRS 9 Financial Instruments which superseded IAS 39 Financial Instruments: *Recognition and Measurement*.

The Company adopted the new IFRS 9 as of its effective date, i.e. January 1st 2018.

The Company presents its statement of financial position in order of liquidity. For all items of assets and liabilities, the Company discloses in the notes the amount to be received or paid within twelve months after the reporting date (short-term) and in more than twelve months after the reporting date (long-term).

Amendments to effective standards and interpretations are discussed in the interim condensed consolidated financial statements.

Accounting estimates and judgements

In order to prepare interim separate financial statements, the Management Board is required to make judgements, estimates and assumptions which affect the application of adopted accounting policies and the reported amounts of assets, liabilities, revenue and expenses, whose actual values may differ from estimates. The material assumptions adopted by the Company when making the estimates and the accounting policies are presented in the most recent full-year separate financial statements prepared as at and for the year ended December 31st 2017.

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 revised. The effect of changes in the estimates of forecast recoveries from debt portfolios is presented in Note 6.

The Group adopted the new IFRS 9 as of its effective date. The effect of application of the classification, measurement and impairment principles determined in accordance with the requirements of the new Standard is recognised by the Company as an adjustment to the opening balance as at January 1st 2018, without adjusting the comparative periods.

(a) Classification and measurement

IFRS 9 requires that, after initial recognition, a debt financial asset should be measured at amortised cost or at fair value based on the entity's business model of financial asset management and on the asset's contractual cash flow characteristics.

At the beginning of 2018, the Company implemented IFRS 9, as a result of which purchased debt portfolios measured at fair value in accordance with IAS 39 were classified as instruments measured at amortised cost. The impact of this change on the value of investments and profit or loss brought forward is positive and amounts to PLN 2,122 thousand.

(b) Impairment

IFRS 9 requires recognising the effect of expected credit losses on all financial assets measured at amortised cost, that is on purchased debt portfolios, loans advanced and trade receivables.

Debt portfolios which are measured at amortised cost are adjusted for the effect of future expected credit losses. As the Company purchases materially impaired debt portfolios, the effect of the impairment is already included in the purchase price.

The impact of higher impairment losses on trade and other receivables, which reflect the additional expected future impairment of these assets in accordance with the new Standard, amounted to PLN 388 thousand.

(c) Hedge accounting

The Company has assessed that the hedging contracts it entered into in the past still qualify for hedge accounting under IFRS 9 and have no effect on profits for past years.

The Company has not identified any other items whose classification or measurement would change as a result of the adoption of IFRS 9.

The impact of amended IFRS 9 on individual items of the statement of financial position is presented below:

As at December 31st 2017

PLN '000

	Methodology according to IAS 39	Methodology according to IFRS 9	01.01. 2018	Impact of IFRS 9	Dec 31 2017
Assets					
Cash and cash equivalents			16,917	-	16,917
Trade receivables from related entities	Loans and receivables	Amortised cost	44,819	(388)	45,207
Trade receivables from other entities	Loans and receivables	Amortised cost	2,881	-	2,881
Investments	Investments at fair value/Loans and receivables	Amortised cost	174,419	2,122	172,297
Other receivables	Loans and receivables	Amortised cost	9,276	-	9,276
Inventories			171	-	171
Property, plant and equipment			19,062	-	19,062
Intangible assets			15,183	-	15,183
Investments in subsidiaries			2,849,889	-	2,849,889
Hedge derivatives			8,636	-	8,636
Other assets			4,133	-	4,133
Total assets			3,145,388	1,734	3,143,654
Equity and liabilities					
Liabilities					
Hedge derivatives			1,375	-	1,375
Trade and other payables			593,741	-	593,741
Employee benefit obligations			17,673	-	17,673
Income tax payable			14,401	-	14,401
Liabilities under borrowings and other debt instruments			1,786,487	-	1,786,487
Deferred tax liability			15,351	-	15,351
Total liabilities			2,429,028	-	2,429,028
Equity					
Share capital			18,808	-	18,808
Share premium			293,581	-	293,581
Cash flow hedging reserve			5,882	-	5,882
Other capital reserves			86,806	-	86,806
Retained earnings			311,282	1,734	309,548
Total equity			716,359	1,734	714,625
Total equity and liabilities			3,145,388	1,734	3,143,654

Other information

These interim condensed separate financial statements should be read in conjunction with the interim condensed consolidated financial statements of the KRUK Group prepared as at June 30th 2018 and for the period January 1st – June 30th 2018.

5. Type and amounts of changes in the estimates published in previous financial years, having a significant impact on the reporting period

INVESTMENTS

In the reporting period, the Company did not incur any expenses for the purchase of debt portfolios, while the value of payments received from debtors amounted to PLN 22,908 thousand (H1 2017 - PLN 27,825 thousand). Changes in the estimated value of debt portfolios are described in Note 10 to the interim condensed consolidated financial statements. Full data on purchased debt portfolios is presented in the consolidated financial statements.

PLN '000

	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
INVESTMENTS			
Financial assets at fair value through profit or loss	-	33,334	37,607
Financial assets measured at amortised cost	39,980	1,140	1,378
Investment property	21,751	23,239	8,776
Loans advanced to related entities	104,919	114,584	141,303
Loans advanced to other entities	-	-	-
	<u>166,650</u>	<u>172,297</u>	<u>189,064</u>

PLN '000

Value of purchased debt portfolios as at Jan 1 2017	43,288
Cash recoveries	(53,288)
Revenue from debt purchase (interest and revaluation)	45,054
Value of property	(579)
Value of purchased debt portfolios as at Dec 31 2017	<u>34,474</u>
Value of purchased debt portfolios as at Jan 1 2017	43,288
Cash recoveries	(27,825)
Revenue from debt purchase (interest and revaluation)	23,522
Value of purchased debt portfolios as at Jan 1 2017	<u>38,985</u>
Value of purchased debt portfolios as at Dec 31 2017	<u>34,474</u>
Impact of changes in accounting policies following application of IFRS 9	<u>2,249</u>
Value of purchased debt portfolios as at Jan 1 2018	36,723
Cash recoveries	(22,908)
Revenue from debt purchase (interest and revaluation)	25,803
Value of purchased debt portfolios as at Jun 30 2018	<u>39,618</u>

6. Type and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows which are material due to their type, size or effect

6.1. Revenue

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1 2017 - Jun 30 2017 unaudited	Apr 1 2017 - Jun 30 2017 unaudited
Revenue from debt purchase	25,803	11,448	23,522	15,193
Income from property	-2,771	-1,614	28	9
Revenue from credit management	33,258	12,488	34,748	15,355
Revenue from other services	7,610	7,549	6,307	6,133
	63,900	29,871	64,605	36,702

Revenue from debt purchase

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
Interest income adjusted for actual recoveries	13,585		16,922
Revaluation of debt portfolios	12,219		6,600
	25,803		23,522

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
Revision of forecast	11,065		8,127
Change due to change in discount rate	-		(1)
Foreign exchange gains	1,154		(1,526)
	12,219		6,600

6.2. Employee benefits expense

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1 2017 - Jun 30 2017 unaudited
Salaries and wages	(49,521)	(24,350)	(45,235)	(21,628)
Other social security contributions	(3,932)	(1,510)	(2,768)	(3,710)
Old-age and disability pension contributions (defined contribution plans)	(6,150)	(3,077)	(6,458)	(3,155)
Equity-settled share-based payments	(4,169)	(2,096)	(4,025)	(2,023)
Contribution to the State Fund for the Disabled	(568)	(287)	(441)	(225)
	(64,340)	(31,320)	(58,927)	(30,742)

6.3. Finance income

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1 2017 - Jun 30 2017 unaudited
Dividend income	38,386	9,500	36,101	20,101
Interest income on loans advanced	2,881	1,635	2,636	1,410
Interest income on bank deposits	39	25	132	19
Remeasurement of investments	-	-	10,347	10,347
Net foreign exchange gains	-	-	3,900	(1,314)
	41,306	11,159	53,116	30,564

6.4. Finance costs

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Interest expense on financial liabilities measured at amortised cost	(45,838)	(24,443)	(36,539)	(17,860)
Net foreign exchange gains	(13,619)	(9,265)	-	-
Remeasurement of investments	(8,799)	(8,799)	-	-
	(68,256)	(42,497)	(36,539)	(17,860)

6.5. Income tax

PLN '000

	Jan 1-Jun 30 2018 unaudited	Apr 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited	Apr 1-Jun 30 2017 unaudited
Current income tax	8,685	4,736	-	-
Current income tax payable	8,685	4,736	-	-
Deferred income tax	351	7,661	973	1,935
Associated with origination and reversal of temporary differences	351	7,661	973	1,935
Tax expense disclosed in the statement of profit or loss / in profit/(loss)	9,036	12,397	973	1,935

PLN '000

	Jan 1-Jun 30 2018 unaudited	Jan 1-Jun 30 2017 unaudited
Gross profit/(loss) before tax	(67,085)	(28,938)
Tax at statutory Polish tax rate of 19% (comparative period: 19%)	(12,746)	(5,498)
Fixed non-deductible expenses	21,782	6,471
Fixed non-taxable income	-	-
Tax at effective tax rate of 19% (2014: 19%)	9,036	973

6.6. Borrowings and finance lease liabilities

PLN '000

	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Non-current liabilities			
Secured bank borrowings and unsecured non-bank borrowings	329,563	263,828	161,087
Liabilities under debt securities (unsecured)	1,240,170	1,276,772	1,377,575
Finance lease liabilities	1,794	4,500	5,986
	<u>1,571,527</u>	<u>1,545,101</u>	<u>1,544,648</u>
Current liabilities			
Short-term portion of secured bank borrowings and unsecured non-bank borrowings	90,861	115,571	79,910
Liabilities under debt securities (unsecured)	154,690	121,491	33,854
Short-term portion of finance lease liabilities	6,637	4,324	5,602
Liabilities under dividend	-	-	37,488
	<u>252,188</u>	<u>241,386</u>	<u>156,854</u>

PLN '000	Currency	Nominal interest rate	Maturity year	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Borrowings secured over the Group's assets	EUR/PLN	1M WIBOR + margin of 1.0-3.0 pp; 1M EURIBOR + margin of 2.2-2.4 pp	2024	420,424	379,399	240,997
Liabilities under debt securities (unsecured)	PLN	3M WIBOR + margin of 2.9-4.6 pp	2022	1,394,860	1,398,263	1,411,429
Finance lease liabilities	EUR/PLN	3M WIBOR or 1M EURIBOR + margin of 1.64-4 pp	2020	8,431	8,824	11,588
				<u>1,823,715</u>	<u>1,786,487</u>	<u>1,664,014</u>

6.7. Investments in subsidiaries

PLN '000	Country	Gross value of investment 30.06.2018	Impairment loss	Gross value of investment Dec 31 2017	Impairment loss
SeCapital S.à r.l.	Luxembourg	174,101	-	174,101	-
ERIF Business Solutions Sp. z o.o.	Poland	1,402	(1,302)	1,402	(1,302)
SeCapital Polska Sp. z o.o.	Poland	50	(50)	50	(50)
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Poland	3,104	-	3,104	-
Novum Finance Sp. z o.o.	Poland	2,100	-	2,100	-
KRUK Romania S.r.l	Romania	79,732	-	79,732	-
Kancelaria Prawna RAVEN Krupa & Stańko Spółka komandytowa	Poland	300	-	300	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	18,500	-	18,500	-
KRUK Česká a Slovenská republika s.r.o.	Czech Republic	86,697	(86,697)	86,697	(86,697)
ProsperoCapital Sp. z o.o. (in liquidation)	Poland	-	-	6	(20)
InvestCapital Malta Ltd *	Malta	1,418,865	-	1,612,096	-
RoCapital IFN S.A.*	Romania	13,888	(4,979)	13,888	(4,979)
Kruk Deustschland Gmbh	Germany	65,327	(55,892)	64,877	(55,892)
KRUK Italia S.r.l	Italy	72,123	(48,843)	52,452	(48,843)
ItaCapital S.r.l	Italy	1,326	-	1,114	-
KRUK Espana S.L.	Spain	84,627	(38,990)	73,304	(38,975)
ProsperoCapital S.à r.l.	Luxembourg	538	-	538	-
PRESCO Investments S.a.r.l	Luxembourg	198,294	-	198,294	-
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Poland	13,991	-	18,295	-
PROKURA NS FIZ	Poland	735,796	-	685,796	-
Zielona Perła Sp. z o.o	Poland	6,302	-	-	-
AgeCredit S.r.l	Italy	12,496	-	-	-
		2,989,559	(236,753)	3,086,648	(236,758)

On April 16th 2018, KRUK S.A. concluded an agreement with a shareholder in Agecredit S.r.l. of Cesena, Italy, to acquire a 51% interest in the company. The Agreement provided for the acquisition of 51% of shares in Agecredit. On September 3rd 2018, the Kruk Group acquired 100% of the company's share capital. Agecredit is a credit management company operating in Italy. In 2017, the company generated EUR 3.1m in consolidated revenue.

In the first half of 2018, KRUK S.A. cancelled shares in its subsidiary InvestCapital Ltd. for the amount of PLN 193,231 thousand.

6.8. Current and non-current items of the statement of financial position**As at Jun 30 2017**

PLN '000

	Jun 30 2018 unaudited	Dec 31 2017	Jun 30 2017 unaudited
Assets			
Non-current assets			
Property, plant and equipment	18,213	19,062	20,457
Intangible assets	15,924	15,183	13,616
Investments in subsidiaries	2,752,807	2,849,889	2,108,921
Hedge derivatives	-	8,637	5,138
Total non-current assets	2,786,944	2,892,771	2,148,132
Current assets			
Inventories	36	171	69
Investments	166,650	172,297	189,064
Trade receivables from related entities	28,959	45,207	24,247
Trade receivables from other entities	3,688	2,881	3,083
Other receivables	17,471	9,276	15,825
Other assets	3,871	4,133	2,753
Cash and cash equivalents	11,478	16,917	25,660
Total current assets	232,153	250,883	260,701
Total assets	3,019,097	3,143,654	2,408,833
Equity and liabilities			
Equity			
Share capital	18,872	18,808	18,744
Treasury shares			
Share premium	298,900	293,581	288,326
Cash flow hedging reserve	(2,231)	5,882	4,162
Exchange differences on translating foreign operations	-	-	-
Other capital reserves	90,975	86,806	80,684
Retained earnings	141,547	309,548	260,468
Total equity	548,063	714,625	652,384
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments	1,571,527	1,545,101	1,544,648
Deferred tax liability	14,321	15,351	5,967
Hedge derivatives	3,616	1,375	-
Total non-current liabilities	1,589,464	1,561,827	1,550,615
Current liabilities			
Non-current liabilities under borrowings and other debt instruments	252,188	241,386	156,854
Trade and other payables	603,967	593,741	31,043
Income tax payable	6,530	14,401	-
Employee benefit obligations	18,886	17,673	17,937
Total current liabilities	881,571	867,201	205,834
Total liabilities	2,471,035	2,429,028	1,756,449
Total equity and liabilities	3,019,097	3,143,654	2,408,833

6.9. Related-party transactions concluded by the Parent

Transactions with subsidiaries as at and for the period ended June 30th 2018

Balance of liabilities, receivables and loans as at the reporting date

PLN '000	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced
SeCapital S.à. r.l.	541,377	1,511	-	-
ERIF Business Solutions Sp. z o.o.	-	146	1,333	24
Novum Finance Sp. z o.o.	-	197	19,142	
SeCapital Polska Sp. z o.o.	-	1	97	
Kancelaria Prawna RAVEN P.Krupa Sp. k.	898	8,366	-	
KRUK Romania S.r.l.	507	5,286	77,413	
Rejestr Dłużników ERIF BIG S.A.	49	277	-	
NSFIZ PROKURA	7,019	6,907	-	
KRUK Česká a Slovenská republika s.r.o.	30	6,635	28,204	
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	5,517	-	
InvestCapital Malta Ltd.	-	-	-	
KRUK Deutschland GmbH	-	214	-	
KRUK Deutschland (Branch)	-	30	-	
Rocapital IFN S.A.	-	-	4,646	
KRUK Italia S.r.l.	-	154	-	
ItaCapital S.r.l.	-	65	-	
KRUK Espana S.L.	-	114	-	
Presco Investments S.a.r.l.	13,280	-	-	
P.R.E.S.C.O INVESTMENT I NS FIZ	1,821	131	-	
ProsperoCapital S.à r.l.	-	0	-	
BISON		6,160	-	
	564,981	41,711	130,835	24

Revenue from mutual transactions

PLN '000

	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	205	26,898
ERIF Business Solutions Sp. z o.o.	49	-	23
Novum Finance Sp. z o.o.	856	-	691
SeCapital Polska Sp. z o.o.	5	-	2
Kancelaria Prawna RAVEN P.Krupa Sp. k.	1,932	-	1,988
KRUK Romania S.r.l	1,043	-	1,758
Rejestr Dłużników ERIF BIG S.A.	466	-	-
NSFIZ PROKURA	-	-	-
KRUK Česká a Slovenská republika s.r.o.	583	-	388
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	24,368	-
InvestCapital Malta Ltd.	804	-	-
KRUK Deutschland GmbH	470	-	-
KRUK Deutschland (Branch)	100	-	-
Rocapital IFN S.A.	-	-	18
KRUK Italia S.r.l	469	-	-
ItaCapital S.r.l	196	-	-
KRUK Espana S.L.	420	-	-
Presco Investments S.a.r.l.	-	3,448	9,500
P.R.E.S.C.O INVESTMENT I NS FIZ	-	-	-
ProsperoCapital S.à r.l.	-	-	-
Corbul	5	-	-
AgeCredit	-	-	-
	7,399	28,021	41,266

Costs of mutual transactions

PLN '000

	Purchase of services
Kancelaria Prawna RAVEN P.Krupa Sp. k.	478
KRUK Romania S.r.l	3,114
Rejestr Dłużników ERIF BIG S.A.	119
KRUK Česká a Slovenská republika s.r.o.	198
	3,909

Transactions with subsidiaries as at and for the period ended June 30th 2017

Balance of liabilities, receivables and loans as at the reporting date

PLN '000	Liabilities	Receivables	Loans advanced	Interest accrued on loans advanced
SeCapital S.à. r.l	3,634	874	-	-
ERIF Business Solutions Sp. z o.o.	-	32	-	-
Novum Finance Sp. z o.o.	-	115	18,536	-
SeCapital Polska Sp. z o.o.	-	1	77	3
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,401	1,836	-	-
KRUK Romania S.r.l	679	679	105,945	1,041
Rejestr Dłużników ERIF BIG S.A.	73	279	-	-
NSFIZ PROKURA	2,504	14,826	-	-
KRUK Česká a Slovenská republika s.r.o.	332	3,276	-	-
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	3,731	-	-
InvestCapital Malta Ltd.	-	143	-	1,077
KRUK Deutschland GmbH	-	135	-	-
KRUK Deutschland (Branch)	-	40	-	-
Rocapital IFN S.A.	15	-	285	3
KRUK Italia S.r.l	-	93	-	-
ItaCapital S.r.l	-	163	-	-
KRUK Espana S.L.	-	92	-	-
Presco Investments S.a.r.l.	2,020	-	-	-
P.R.E.S.C.O INVESTMENT I NS FIZ	-	309	-	-
ProsperoCapital S.à r.l.	-	-	-	-
ProsperoCapital Sp. z o.o. (in liquidation)	-	-	-	-
Credit Base International S.r.l.	-	212	1,683	6
Espand Soluciones de Gestion S.L.	-	264	-	-
	10,658	27,098	126,526	2,130

Revenue from mutual transactions

PLN '000

	Revenue from sale of materials and services	Revenue from credit management services	Interest and dividends
SeCapital S.à. r.l	-	276	-
ERIF Business Solutions Sp. z o.o.	36	-	13
Novum Finance Sp. z o.o.	294	-	-
SeCapital Polska Sp. z o.o.	5	-	1
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	1,065	-	3,674
KRUK Romania S.r.l	887	-	1,891
Rejestr Dłużników ERIF BIG S.A.	422	-	-
NSFIZ PROKURA	33	-	-
KRUK Česká a Slovenská republika s.r.o.	281	-	605
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	-	22,338	-
InvestCapital Malta Ltd.	679	-	32,428
KRUK Deutschland GmbH	453	-	-
KRUK Deutschland (Branch)	109	-	-
Rocapital IFN S.A.	-	-	-
ProsperoCapital Sp.z.o.o. (in liquidation)	4	-	1
KRUK Italia S.r.l	227	-	-
ItaCapital S.r.l	196	-	-
KRUK Espana S.L.	288	-	-
Presco Investments S.a.r.l.	-	6,549	-
P.R.E.S.C.O INVESTMENT I NS FIZ	18	-	-
ProsperoCapital S.à r.l.	-	-	-
Credit Base International S.r.l.	-	-	86
	4,996	29,163	38,699

Costs of mutual transactions

PLN '000

	Purchase of services
Kancelaria Prawna RAVEN Krupa & Stańko sp. k.	871
KRUK Romania S.r.l	4,175
Rejestr Dłużników ERIF BIG S.A.	135
KRUK Česká a Slovenská republika s.r.o.	219
	5,399

7. Fair value

PLN '000

		Jun 30 2018 unaudited		Dec 31 2017	
	Note No.	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities measured at fair value					
Financial instruments at fair value through profit or loss	5	-	-	33,334	33,334
Hedge derivatives		(3,616)	(3,616)	7,261	7,261
		(3,616)	(3,616)	40,595	40,595
Financial assets and liabilities not measured at fair value					
Financial assets measured at amortised cost	5	39,980	37,463	1,140	1,018
Investment property	5	21,751	21,751	23,239	23,239
Loans and receivables	5	155,037	155,037	114,584	114,584
Secured bank borrowings	6.6	(420,424)	(420,424)	(379,399)	(379,399)
Unsecured issued bonds	6.6	(1,394,860)	(1,396,164)	(1,398,263)	(1,374,306)
Finance lease liabilities	6.6	(8,431)	(8,431)	(8,825)	(8,825)
Trade and other payables		(603,967)	(603,967)	(593,741)	(593,741)
		(2,210,914)	(2,214,765)	(2,241,265)	(2,217,430)

Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value

The table below presents financial instruments recognised in the statement of financial position 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 for given 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).

In 2018, no transfers were made between the levels.

The fair value of purchased debt portfolios 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.

The Company did not make any transfers between the fair value levels in 2018.

Hierarchy of financial instruments – Level 3

<i>PLN '000</i>			
	Jun 30 2018	-	Level 3
Financial assets measured at amortised cost			39,980
TOTAL			39,980
<i>PLN '000</i>			
	Dec 31 2017	-	Level 3
Financial instruments at fair value through profit or loss			33,334
Financial assets measured at amortised cost			1,018
TOTAL			34,352

The assumptions adopted for the measurement of debt portfolios are presented in Note 11 to the consolidated financial statements.

8. Factors and events, in particular of non-recurring nature, with a material bearing on the Group's financial performance

As at June 30th 2018, the Company's investments in debt portfolios accounted for 1.3% of its assets. Equity accounted for 29% of the financing for the Group's operations.

9. Issue, redemption and repayment of non-equity and equity securities

For information on issue, redemption and repayment of non-equity and equity securities, see Note 13 to the condensed interim consolidated financial statements.

10. Dividends paid (or declared)

For information on dividends paid (or declared), see Note 14 to the interim condensed consolidated financial statements.

11. Events subsequent to the reporting date not disclosed in these financial statements but potentially having a material bearing on the Group's future performance

On July 9th 2018, KRUK S.A. resolved to undertake a review of strategic options for continued growth of the KRUK Group. The purpose is to select the best strategic option for the Company to deliver its long-term objective of growing the Group into a leading player on the European debt management market and making it achieve a significant position in Western Europe and elsewhere through organic growth and acquisitions. At the current stage, various strategic scenarios will be considered by the Management Board, particularly the one to attract an international financial partner, execute a differently structured transaction, or not to do any of the foregoing. In the near future, the Management Board of KRUK S.A. plans to enter into an agreement with a financial adviser who will support it in performing the review. No decisions to select a specific strategic option have yet been made by the Management Board, and it is not certain if and when any such decisions would be made. Any updates on the review process will be publicly communicated by the Management Board in accordance with applicable laws.

12. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

For information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year, see Note 16 to the interim condensed consolidated financial statements.

Piotr Krupa

President of the Management Board

Agnieszka Kulon

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, September 7th 2018

VI. Directors' Report

1. Effects of changes in the structure of the Group, including through business combinations, acquisitions or divestments of Group entities, long-term investments, divisions, restructurings or discontinuation of operations

On April 16th 2018, KRUK S.A. concluded an agreement with a shareholder in Agecredit S.r.l. of Cesena, Italy, to acquire a 51% interest in the company. The Agreement provided for the acquisition of 51% of shares in Agecredit and envisaged that KRUK S.A. would ultimately acquire all of the company's share capital within the next few months. On September 3rd 2018, the KRUK Group acquired 100% of shares in Agecredit S.r.l., which is a credit management company operating in Italy. In 2017, the company generated EUR 3.1m in consolidated revenue.

2. Management Board's position on the feasibility of meeting previously published forecasts for the financial year

The Management Board of KRUK S.A. did not publish any forecasts concerning the performance of KRUK S.A. or its Group.

Shareholders holding, directly or indirectly, 5% or more of total voting rights at the General Meeting of the Company as at the report issue date, and changes in major holdings of Company shares since the issue of the previous report.

As at the date of issue of the previous report, i.e. April 26th 2018

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
NN PTE***	2,000,000	10.63	2,000,000	10.63
Piotr Krupa	1,963,407	10.44	1,963,407	10.44
Aviva OFE**	1,319,000	7.01	1,319,000	7.01

(*) Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on April 18th 2018.

As at the date of issue of this interim report

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
NN PTE***	2,000,000	10.63	2,000,000	10.63
Piotr Krupa	1,963,407	10.44	1,963,407	10.44
Aviva OFE**	1,319,000	7.01	1,319,000	7.01

(*) Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on April 18th 2018.

Information on changes in the structure of major holdings

In the period since the publication of the previous interim report there have been no changes in the structure of major holdings.

3. Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of issue of this half-year report, and changes in their holdings after the issue of the previous report

Name and surname	Position	Number of shares held
Piotr Krupa	CEO and President of the Management Board	1,963,407
Agnieszka Kulon	Member of the Management Board	45,000
Urszula Okarma	Member of the Management Board	107,001
Iwona Słomska	Member of the Management Board	40,000
Michał Zasępa	Member of the Management Board	35,441
Tomasz Bieske	Member of the Supervisory Board	1,222

On May 23rd 2018, the Company received a notification from Iwona Słomska and Michał Zasępa, given under Article 19 of the MAR, to the effect that on May 16th 2018 each of them acquired 3,250 shares in KRUK S.A. at the average price of PLN 83.52 per share, outside a trading venue, in connection with the exercise of stock options under a management stock option scheme.

To the best of the Company's knowledge, the other Supervisory Board members, except for Tomasz Bieske, did not hold any Company shares or rights to Company shares in the period from the issue of the previous quarterly report (the consolidated report for Q1 2018), i.e. from April 26th 2018 to the date of issue of this report.

Incentive scheme at KRUK S.A.

Incentive scheme for 2015–2019

The management stock option plan for 2015–2019 was approved by way of Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the 2015–2019 Plan).

The 2015–2019 Plan is the second management stock option plan operated by the KRUK Group.

Details of the previous 2011–2014 management stock option plan can be found in the Directors' Report on the operations of the KRUK Group in 2015.

The 2015–2019 Plan is addressed to the key management personnel of the Parent and the other Group companies. Under the Plan, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution.

For the purposes of the 2015–2019 Plan, the General Meeting approved a conditional increase of the Parent's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The right to subscribe for Series F shares may be exercised by eligible persons no later than on December 31st 2021.

Management stock options will be issued in five tranches, one for each year of the reference period, i.e. for the financial years 2015–2019.

Management stock options for a given financial year will be offered to eligible persons on condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases, on an average annual basis, by 13% or more relative to the base year.

By way of its resolution of September 8th 2014, the Supervisory Board defined and approved the Rules for the Management Stock Option Plan for 2015–2019.

Tranche 1

On June 9th 2016, the Supervisory Board passed a resolution confirming that the condition set forth in the Management Stock Option Plan for offering management stock options under Tranche 1 for 2015 had been met. As a result, 86,435 management stock options were delivered on July 1st 2016 to eligible persons who were not Management Board members. On October 27th 2016, 20,000 management stock options were delivered to eligible persons who were Management Board members.

Tranche 2

By way of the resolution which took effect on June 5th 2017, the Supervisory Board declared that the condition set forth in the Management Stock Option Plan for offering management stock options under

Tranche 2 for 2016 had been met. As a result, 91,467 management stock options were delivered on July 7th 2017 to eligible persons who were not Management Board members.

On August 22nd 2017, 50,480 management stock options were delivered to eligible persons who were Management Board members.

The Management Board members hold no rights to KRUK S.A. shares other than those attached to the subscription warrants presented below.

Number of subscription warrants held by Management Board members as at June 30th 2018

Name	Position	Number of warrants held for 2015	Number of warrants held for 2016
Piotr Krupa	CEO and President of the Management Board	7,000	10,820
gnieszka Kułton	Member of the Management Board	3,250	9,915
Urszula Okarma	Member of the Management Board	3,250	9,915
Iwona Słomska	Member of the Management Board	0	9,915
Michał Zasępa	Member of the Management Board	0	9,915

4. Litigation, arbitration or administrative proceedings

Proceedings with the largest value of claims, not exceeding 10% of KRUK S.A.'s equity

Liabilities – 5 largest cases

<i>Subject matter of proceedings: brief description of claim</i>	<i>VALUE OF CLAIM [PLN]</i>	<i>Date instigated</i>	<i>Plaintiff</i>	<i>Defendant</i>	<i>Kruk S.A.'s position</i>
claim for cancellation of an enforcement order	4,263,518.00	Jul 18 2017	Metron-Service sp. z o.o., Metron Fabryka Zintegrowanych Systemów Opomiarowania i Rozliczeń sp. z o.o.	PROKURA NSFIZ	The decision of the Court of First Instance was in our favour, the claimant filed an appeal on June 21st 2018, the date of the hearing in the court of appeal has not yet been set.
Claim to determine consistency of entries in the Land and Mortgage Register with the actual legal status	PLN 3,150,000.00	Jun 10 2016	EURO INVESTMENT GROUP sp. z o.o.	PROKURA NSFIZ	In the first instance, the claim was dismissed and there is no information about the appeal or its validity.
Declaration of two credit facility agreements and one assignment agreement as being null and void	PLN 3,225,000.00	May 13 2014	GRH NIECKOWO sp. z o.o.	PROKURA NSFIZ	The court dismissed the claimant's appeal, on July 17th 2017 we received an enforcement title, the case was referred to the enforcement authorities
Petition against enforcement	1,586,526.97	Mar 27 2018	TUGUI VASILE	INVESTCAPITAL LTD.	The case is expected to be lost due to statute of limitations
Claim to determine consistency of entries in the Land and Mortgage Register with the actual legal status	PLN 1,192,725.00	May 12 2015	Emilia Dobrzyńska Andrzej Dobrzyński	PROKURA NSFIZ	The proceedings were discontinued after the claim was withdrawn

<i>Subject matter of proceedings: brief description of claim</i>	<i>VALUE OF CLAIM [PLN]</i>	<i>Date instigated</i>	<i>Plaintiff</i>	<i>Defendant</i>	<i>Kruk S.A.'s position</i>
b) claims group – 5 largest cases					
bankruptcy proceedings	48,246,337.41	Apr 23 2008	INVESTCAP ITAL LTD.	LABARO GRUPO INMOBILIARIO, S.A.	30% chance of payment in the long term (over 9 years)
bankruptcy proceedings	PLN 40,926,455.02	Apr 11 2012	Kruk Romania	Alco Plus s.r.l.	ongoing auctions, chances for recovery
bankruptcy proceedings	PLN 31,525,232.79	Feb 26 2015	PROKURA NSFIZ	ZAKŁADY PRZETWÓRSTWA TWORZYW EKO-PET Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	Proceedings are pending. The company was sold in February 2017; in 2017, the Fund received PLN 1,505 thousand following performance of a plan of distribution of the proceeds from the sale of real property. In addition, we have taken steps to participate in the plan of distribution of the remaining proceeds from the sale of the company, i.e. proceeds from the sale of movables. After the plan of distribution is filed, we will consider lodging a claim.

bankruptcy proceedings	56,283,321.91	Jul 29 2002	BISON NSFIZ	STOCZNIA SZCZECIŃSKA PORTA HOLDING S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	The case has been pending since 2002; the claim for payment of several hundred thousand PLN (involving former members of the Management Board) remains to be resolved; the trial has lasted for 11 years; the next hearing is scheduled for April 2018. The final distribution plan prepared by the receiver provides for the distribution of funds to Group 4 creditors, including the Fund, which will satisfy approximately 1% of the acknowledged claims.
bankruptcy proceedings	53,202,824.71	Dec 12 2005	Arena N.p.l. One	Villani Giovanna	settlement agreement for the repayment of EUR 380,000; The client has paid EUR 300,000; we are waiting for the remaining part to be repaid.

The cases presented above are cases with the largest value of claims from among all court proceedings in which the Group is involved on a mass scale as part of its debt collection business.

Given the nature of the Group's business, placing assets under court proceedings is a typical step in the debt recovery process, provided for in the Group's operating procedures, and the related risk is taken into account in the fair value measurement of the debts.

(*) The value of the claim is based on the nominal value of debts, purchased by the Group for a considerably lower value.

Total number of court cases as at June 30th 2018

	<i>Total number of cases</i>	<i>Total amount (PLN)</i>
Total number of court proceedings (including bankruptcy proceedings) instigated by the Group companies and total value of the Group's claims	153,699	5,679,582,789
Total number of enforcement proceedings instigated by the Group and total value of claims	1,396,142	20,212,251,513
Total number of court proceedings instigated against Group companies and total value of claims (proceedings concerning the Company's or its subsidiary's liabilities)	10,734	2,056,105,190

5. Sureties for repayment of bank and non-bank loans and guarantees extended by KRUK S.A. or its subsidiary

In the reporting period, neither KRUK S.A. nor any of the Group companies issued any sureties or guarantees for repayment of loans to other business entities.

6. The Group's material achievements or failures in the reporting period, along with the most significant events related to such achievements or failures

As regards its operating activities, the KRUK Group reported the following achievements:

- Revenue increased by 10%, from PLN 547.5m in H1 2017 to PLN 604.9m in H1 2018. The increase results from significant investments in debt portfolios in the previous quarters.
- EBITDA (APM) rose from PLN 268.3m to PLN 277.0m year on year, with H1 2018 EBITDA margin (APM) standing at 46%
- Operating profit rose from PLN 260.2m in H1 2017 to PLN 266.9m in H1 2018, with H1 2018 gross profit margin (APM) standing at 44%.
- Net profit fell from PLN 217.0m in H1 2017 to PLN 189.2m in H1 2018, due to a high base in the first half of 2017 caused by one-off events. H1 2018 net profit margin (APM) fell from 40% to 31% year on year.
- Diluted earnings per share attributable to owners of the parent declined from PLN 11.31 in H1 2017 to PLN 9.80 in H1 2018.
- Total assets grew from PLN 3,284.0m at the end of H1 2017 to PLN 3,848.8m at the end of H1 2018.
- Net interest-bearing debt (APM) amounted to PLN 1,844.4m at the end of H1 2018, compared with PLN 1,588.4m at the end of H1 2017. The increase results from the high level of investments in the recent quarters, partly financed with external capital.

In the area of marketing activities, the KRUK Group recorded the following achievements:

- In Q2 2018, the KRUK Group continued its marketing and PR activities to enhance its image among both business partners and customers. The Group also engaged in educational activities to raise public financial awareness.
- KRUK continued the campaign launched in the first quarter of the year. At the beginning of March, a multichannel on-line campaign was launched and is to continue until August this year. It is based on product spots broadcast on the radio and television. Its aim is to encourage Poles to face their debt regardless of the stage of their particular debt cases.
- KRUK was a partner in the "Finansomania" Financial Knowledge Competition organised by the Faculty of Economics of the Poznań University of Economics. The aim of the competition is to disseminate knowledge on broadly defined finance. The final gala of the competition took place on April 11th 2018 in Poznań.
- In Romania, the KRUK Group has partnered with non-governmental organisations, delivering corporate social responsibility projects. KRUK takes an effort to assist people who are socially disadvantaged and to help young people adapt to economic conditions. The KRUK Group employees

conducted educational classes on financial management in ten Romanian high schools in Bucharest, Pitesti, Ploști, Constanța and Jassy.

- The KRUK Group also cooperates with United Way Romania Foundation as part of a programme aimed at supporting young people in their further education or enabling them to start their adult lives if they are no longer covered by the child protection system.
- In Romania, the KRUK Group conducted a spring social media education campaign in Q2 2018, focusing on budget management and the ways to get out of debt. It was supported by Romania's popular bloggers.
- In Italy, the KRUK Group organised press conferences for financial journalists, on May 16th in Milan and May 17th in Cesena. The main subject of these meetings was the acquisition of AgeCredit S.r.l. by the KRUK Group.
- In Q2 2018, ERIF Biuro Informacji Gospodarczej S.A., a member of the KRUK Group, ran an on-line campaign addressed to Polish consumers on the World Consumer Rights Day. The goal was to make consumers aware of their rights through information materials. Participants were also given an opportunity to verify the creditworthiness of a given entrepreneur, in particular travel agencies, on the infoKonsument.pl website.

7. Other information relevant to the assessment of the staffing levels, assets, financial condition and financial performance, or changes in any of the foregoing, and information relevant to the assessment of the Company's ability to meet its obligations

In the Company's opinion, there is no information – other than the information disclosed above – relevant for the assessment of the staffing levels, assets, financial condition and financial performance of KRUK S.A. or the KRUK Group, or for the assessment of the Company's or the Group's ability to meet their liabilities.

KRUK Group's FTEs as at June 30th 2017

2,877

**KRUK Group's FTEs as at June 30th
2018**

3,088

FTEs - number of concluded employment contracts and civil-law contracts, reflected in the cost of salaries and wages

8. Factors with a potential bearing on the Group's results in the next quarter or in a longer term

KRUK S.A. has identified factors with a potential bearing on its performance in the next quarter or in a longer term. These are:

- changes in the macroeconomic environment,
- changes in interest rates,
- changes in the supply of debt portfolios,
- changes in the level of competition,
- changes in law and tax regulations,
- changes in access to financing sources,
- changes in foreign exchange rates.

9. Representation of the Management Board

These interim condensed financial statements and comparative data have been prepared in accordance with the applicable accounting standards and give a true and fair view of the financial position, assets and financial performance of the KRUK Group and of the Company, as well as of the Group's development, achievements and situation including a description of key risks and threats.

The entity qualified to audit financial statements which reviewed these interim condensed financial statements was selected in compliance with applicable laws and regulations and met the conditions for issuing an objective and independent review report in accordance with applicable laws and professional standards.

Piotr Krupa

President of the Management Board

Agnieszka Kulon

Member of the Management Board

Urszula Okarma

Member of the Management Board

Iwona Słomska

Member of the Management Board

Michał Zasepa

Member of the Management Board

Wrocław, September 7th 2018