



Interim Condensed Consolidated Financial Statements of the Medicalgorithmics Capital Group

for the third quarter of 2017



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Interim condensed consolidated statement of financial position

	in PLN thousand		in EUR thousand	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Non-current assets	238 491	280 325	55 346	63 365
Intangible assets	206 541	237 383	47 931	53 658
Long-term financial assets	10 136	18 744	2 352	4 237
Current assets	63 072	89 566	14 637	20 245
Short-term receivables	23 712	29 867	5 503	6 751
Long-term liabilities	68 768	81 663	15 959	18 459
Short-term liabilities	24 512	73 282	5 688	16 565
Equity attributable to Shareholders of the Parent Company	169 243	176 970	39 276	40 002
Share capital	361	361	84	82
Minority interests	39 040	37 976	9 060	8 584
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	46,93	49,07	10,89	11,09

Interim condensed consolidated statement of comprehensive income

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Sales revenue	152 844	93 214	35 907	21 336
Profit on sales	31 460	13 444	7 391	3 077
Operating profit	31 857	15 057	7 484	3 446
Profit before tax	27 922	13 370	6 560	3 060
Net profit	24 301	12 003	5 709	2 747
- attributable to Shareholders of the Parent Company	18 193	9 221	4 274	2 111
- attributable to non-controlling interests	6 108	2 782	1 435	637
Net profit attributable to Shareholders of the Parent Company per share (PLN/EUR) – basic	5,04	2,59	1,18	0,59

Interim condensed consolidated statement of cash flows

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Net cash flows from operating activities	16 948	15 940	3 982	3 648
Net cash flows from investing activities	(25 372)	(79 950)	(5 961)	(18 300)
Net cash flows from financial activities	(8 928)	75 328	(2 098)	17 242
Total net cash flows	(17 352)	11 318	(4 077)	2 590

Method of conversion of selected figures into EUR:

- The presented selected items of the statement of financial position were converted using the average exchange rate announced by the National Bank of Poland as at 30 September 2017, i.e. EUR/PLN 4.3091, and as at 31 December 2016, i.e. EUR/PLN 4.4240.
- The presented selected items of the statement of comprehensive income and the statement of cash flows were converted using the exchange rate being the arithmetic mean of average exchange rates set by the National Bank of Poland on the last day of each month of the financial period from 1 January 2017 to 30 September 2017, i.e. EUR/PLN 4.2566, and from 1 January 2016 to 30 September 2016, i.e. EUR/PLN 4.3688.

		30.09.2017	30.06.2017	31.12.2016	30.09.2016
Intangible assets	12	206 541	210 043	237 383	127 075
Tangible fixed assets		18 948	20 764	22 112	15 935
Long-term receivables		-	-	1	2
Financial assets	13	10 136	15 169	18 744	30 680
Deferred income tax assets		2 866	2 856	2 085	1 814
Fixed assets		238 491	248 832	280 325	175 506
Receivables under supplies and services and other	14	23 712	24 787	29 867	24 225
Financial assets	13	9 172	4 236	12 159	4 346
Cash and cash equivalents	15	30 188	19 203	47 540	31 280
Current assets		63 072	48 226	89 566	59 851
TOTAL ASSETS		301 563	297 058	369 891	235 357

		30.09.2017	30.06.2017	31.12.2016	30.09.2016
Share capital		361	361	361	361
Supplementary capital		124 622	124 622	124 622	124 621
Reserve from the valuation of the incentive scheme		5 179	5 179	3 170	2 377
Retained earnings		51 088	42 634	40 108	9 221
Foreign exchange differences		(12 007)	(9 598)	8 709	(2 274)
Equity attributable to Shareholders of the Parent Company		169 243	163 198	176 970	134 306
Non-controlling interests		39 040	36 804	37 976	7 390
Provisions		402	502	414	55
Provision for deferred income tax		3 390	2 995	3 659	604
Liabilities in respect of bonds and other financial liabilities	18	64 423	64 589	76 961	74 804
Other liabilities		160	160	-	-
Accruals and deferred income	17	393	472	629	708
Long-term liabilities		68 768	68 718	81 663	76 171
Credits and loans	16	592	2 582	69	856
Liabilities in respect of bonds and other financial liabilities	18	8 710	7 912	10 511	10 056
Trade and other liabilities	17	13 326	16 266	61 752	4 458
Income tax liabilities		1 127	778	441	332
Accruals and deferred income	17	757	800	509	1 788
Short-term liabilities		24 512	28 338	73 282	17 490
Total liabilities		93 280	97 056	154 945	93 661
TOTAL EQUITY AND LIABILITIES		301 563	297 058	369 891	235 357

		01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Sales revenue	7	50 302	40 392	152 844	93 214
Raw materials and consumables used		(1 482)	(901)	(4 353)	(3 691)
Employee benefits	8	(24 388)	(17 801)	(79 100)	(36 985)
Amortisation and depreciation	9	(2 997)	(777)	(9 636)	(2 016)
Third-party services	10	(6 952)	(10 928)	(24 064)	(34 157)
Other		(583)	(1 294)	(4 231)	(2 921)
Total costs of sales		(36 402)	(31 701)	(121 384)	(79 770)
Profit on sales		13 900	8 691	31 460	13 444
Other operating revenue		289	240	670	1 892
Other operating expenses		(96)	(51)	(273)	(279)
Operating profit		14 093	8 880	31 857	15 057
Finance income		(95)	(1 753)	589	698
Finance costs		(984)	(831)	(4 524)	(2 385)
Net finance costs		(1 079)	(2 584)	(3 935)	(1 687)
Profit before tax		13 014	6 296	27 922	13 370
Income tax	11	(1 749)	(701)	(3 621)	(1 367)
Net profit from continuing operations		11 265	5 595	24 301	12 003
Net profit for the reporting period attributable to Shareholders of the Parent Company		8 454	4 505	18 193	9 221
Net profit for the reporting period attributable to non-controlling interests		2 811	1 090	6 108	2 782
		11 265	5 595	24 301	12 003
Net profit attributable to Shareholders of the Parent Company per share (in PLN)					
- basic		2,34	1,27	5,04	2,59
- diluted		2,34	1,11	5,04	2,28
Other total income					
Currency translation differences		(2 132)	1 310	(18 097)	(2 452)
Exchange differences on loans constituting a part of net investments in subsidiaries		(1 051)	-	(9 460)	-
Deferred tax on valuation of exchange differences on loans		199	-	1 797	-
Other total income		(2 984)	1 310	(25 760)	(2 452)
Total comprehensive income for the reporting		8 281	6 905	(1 459)	9 551
Comprehensive income for the reporting period attributable to Shareholders of the Parent Company		6 045	6 107	(2 523)	6 817
Comprehensive income for the reporting period attributable to non-controlling interests		2 236	798	1 064	2 734
		8 281	6 905	(1 459)	9 551

	Share capital	Supplementary capital	Reserve from the valuation of the.	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2017	361	124 622	3 170	40 108	8 709	176 970	37 976
Comprehensive income for the reporting period							
Net profit of the Parent Company for the current reporting period	-	-	-	18 193	-	18 193	6 108
Other comprehensive income	-	-	-	-	(20 716)	(20 716)	(5 044)
	-	-	-	18 193	(20 716)	(2 523)	1 064
Transactions recognised directly in equity							
Dividend payment	-	-	-	(7 213)	-	(7 213)	-
Valuation of the Incentive Scheme	-	-	2 009	-	-	2 009	-
	-	-	2 009	(7 213)	-	(5 204)	-
Equity as at 30 September 2017	361	124 622	5 179	51 088	(12 007)	169 243	39 040

	Share capital	Supplementary capital	Reserve from the valuation of the.	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2017	361	124 622	3 170	40 108	8 709	176 970	37 976
Comprehensive income for the reporting period							
Net profit of the Parent Company for the current reporting period	-	-	-	9 739	-	9 739	3 297
Other comprehensive income	-	-	-	-	(18 307)	(18 307)	(4 469)
	-	-	-	9 739	(18 307)	(8 568)	(1 172)
Transactions recognised directly in equity							
Dividend payment	-	-	-	(7 213)	-	(7 213)	-
Valuation of the Incentive Scheme	-	-	2 009	-	-	2 009	-
	-	-	2 009	(7 213)	-	(5 204)	-
Equity as at 30 June 2017	361	124 622	5 179	42 634	(9 598)	163 198	36 804

	Share capital	Supplementary capital	Reserve from the valuation of the.	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2016	346	84 917	-	13 925	-	99 188	-
Comprehensive income for the reporting period							
Net profit of the Parent Company for the previous reporting period	-	7 533	-	(7 533)	-	-	-
Net profit of the Parent Company for the current reporting period	-	-	-	40 108	-	40 108	1 896
Other comprehensive income	-	-	-	-	8 709	8 709	357
	-	7 533	-	32 575	8 709	48 817	2 253
Transactions recognised directly in equity							
Minority interest from the acquisition of shares in subsidiaries	-	-	-	-	-	-	16 921
Additional contribution to capital of minority shareholders	-	-	-	-	-	-	18 802
Issue of series F shares in the Parent Company	15	32 172	-	-	-	32 187	-
Dividend payout	-	-	-	(6 392)	-	(6 392)	-
Valuation of the Incentive Scheme	-	-	3 170	-	-	3 170	-
	15	32 172	3 170	(6 392)	-	28 965	35 723
Equity as at 31 December 2016	361	124 622	3 170	40 108	8 709	176 970	37 976

	Share capital	Supplementary capital	Reserve from the valuation of the.	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2016	346	84 917	-	13 925	-	99 188	-
Comprehensive income for the reporting period							
Distribution of profit for the previous reporting period	-	7 533	-	(7 533)	-	-	-
Net profit of the Parent Company for the current reporting period	-	-	-	9 221	-	9 221	2 782
Consolidating adjustments due to exchange rate differences on valuation	-	-	-	-	(2 274)	(2 274)	69
	-	7 533	-	1 688	(2 274)	6 947	2 851
Transactions recognised directly in equity							
Minority interest from the acquisition of shares in subsidiaries	-	-	-	-	-	-	4 539
Payment towards the issue of series F shares in the Parent Company	15	32 171	-	-	-	32 186	-
Dividend payment	-	-	-	(6 392)	-	(6 392)	-
Valuation of the Incentive Scheme	-	-	2 377	-	-	2 377	-
	15	32 171	2 377	(6 392)	-	28 171	4 539
Equity as at 30 September 2016	361	124 621	2 377	9 221	(2 274)	134 306	7 390

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Cash flows from operating activities		
Net profit from continuing operations	24 301	12 003
Depreciation and impairment write-downs on tangible fixed assets	4 255	719
Amortisation of intangible assets	5 381	1 297
Income tax	1 824	1 367
Change in inventories	-	(1 401)
Change in trade and other receivables	(4 430)	(1 368)
Change in accruals, prepayments and deferred income	13	3 241
Change in trade and other liabilities	(15 673)	(719)
Change of financial liabilities	150	-
Change in provisions	(12)	-
Valuation of the Incentive Scheme	2 009	2 377
(Gain)/loss on the sale of investments	-	36
Net finance (income)/costs	(2)	(154)
Tax paid	(3 262)	(1 740)
Foreign exchange differences	(477)	-
Interest	2 834	-
Other	37	282
	16 948	15 940
Cash flows from investing activities		
Proceeds from sale of investments	11 797	15 348
Interest received	-	154
Acquisition of subsidiaries	-	(97 065)
Cash acquired as a result of acquisition of shares in Medi-Lynx	-	5 409
Acquisition of intangible assets	(34 745)	(2 463)
Purchase of property, plant and equipment	(2 384)	(1 333)
Acquisition of other investments	(40)	-
	(25 372)	(79 950)
Cash flows from financing activities		
Proceeds from credits taken out	523	-
Proceeds from the issue of debt securities	-	50 000
Proceeds from the issue of shares	-	32 186
Dividend payment	-	(6 392)
Discount of bonds	-	(466)
Interest paid on bonds	(1 371)	-
Repayment of financial liabilities	(8 080)	-
	(8 928)	75 328
Total net cash flows	(17 352)	11 318
Cash and cash equivalents at beginning of period	47 540	19 962
Closing balance of cash	30 188	31 280

1. General information

Unless the context indicates otherwise, the terms appearing in the text, such as “the Company”, “Medicalgorithmics S.A.”, “Medicalgorithmics”, “the Parent Company”, or other terms of similar meaning and their variations, refer to the company Medicalgorithmics S.A.; while “the Group”, “the Capital Group”, “Medicalgorithmics Capital Group” or other terms of similar meaning and their variations refer to the Capital Group, which includes Medicalgorithmics S.A. and consolidated entities. The term “Report” refers to this consolidated report for the third quarter of 2017. The term “Consolidated financial statements” means the interim condensed consolidated financial statements of the Medicalgorithmics Capital Group prepared as at 30 September 2017, covering the period from 1 January 2017 to 30 September 2017 and containing relevant comparative figures as at 30 June 2017 and 31 December 2016, as well as figures for the corresponding comparative period of 2016.

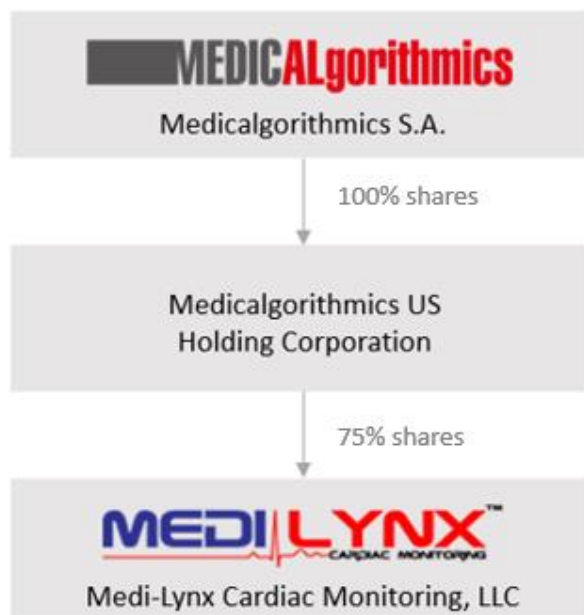
2. Information about the Capital Group

The Medicalgorithmics Capital Group is composed of Medicalgorithmics S.A. and its subsidiaries.

The Parent Company holds:

- 100% of shares in the share capital of Medicalgorithmics US Holding Corporation (“MDG HoldCo”), representing 100% of votes at the Shareholders’ Meeting;
- 75% of shares in Medi-Lynx Cardiac Monitoring, LLC (“Medi-Lynx”) with its registered office in Plano, Texas, USA, through MDG HoldCo.

In the period covered by this report, there were no changes in the organisation of the Capital Group. As at 30 September 2017, the composition of the Medicalgorithmics Capital Group and its organizational and capital relations were as follows:



Business

Medicalgorithmics S.A. is a Polish company operating in the segment of innovative medical devices. It is a provider of cardiac diagnostic solutions, particularly in the field of ECG analysis. The major source of the Group’s revenue are sales of diagnostic services provided based on the PocketECG system.

PocketECG is the world’s most technologically advanced system for remote monitoring of heart disorders. Among the available devices for monitoring heart work, the PocketECG system stands out by, among others, the longest time of home arrhythmia monitoring, remote online access to complete monitoring records and full statistical analysis of cardiac arrhythmias, which is not offered by competitive devices.

In particular, the system serves to diagnose and detect the following arrhythmias: asymptotic, rare and irregular arrhythmias, and atrial fibrillation leading to stroke.

In addition to cardiac telemetric, the PocketECG system is used in the cardiac safety industry, i.e. in clinical trials of drugs for cardiovascular safety. Moreover, the Company collaborates closely with cardiovascular diagnostic and monitoring centres which provide cardiovascular diagnostic services based on the PocketECG system.

PocketECG is the only technology in the world that has got CE mark and has been approved by the Food and Drug Administration (FDA) as a concept that combines all other commercially available arrhythmia diagnostics in one piece.

The Capital Group's core business are as follows:

- provision of information technology and biotechnology services;
- provision of ECG monitoring services;
- scientific research and development;
- manufacture of electro-medical equipment, including PocketECG devices.

The Group provides services in several countries around the world – in North and South America, Europe and Australia. The United States is the largest market.

Key competitive advantages of the Group:

- ground-breaking technology for mobile cardiovascular telemetry;
- effective business model based on subscription revenue;
- a team of world-class professionals in the areas of IT systems, programming, medical devices, digital signal processing and project management.

3. Information about the Parent Company

Medicalgorithmics S.A. is a joint-stock company registered in Poland. The Parent Company was established on the basis of a notarial deed registered in Repertory A No 1327/2005 of 23 June 2005. In 2011, the Company's shares made their debut on the NewConnect market, an alternative system of trading outside a regulated market operated by the Warsaw Stock Exchange. Since 3 February 2014 the shares of Medicalgorithmics S.A. have been listed on the regulated market of the Warsaw Stock Exchange.

The Parent Company is entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, under KRS number 0000372848.

The Parent Company was assigned a Statistical ID No (REGON) 140186973 and a Tax ID No (NIP) 5213361457.

The Parent Company has its registered office in Warsaw at Al. Jerozolimskie 81, 02-001 Warsaw.

As at the balance sheet date and as at the date of preparation and publication of these consolidated financial statements, the Management Board and Supervisory Board of the Parent Company were composed of the following persons:

Management Board

Marek Dziubiński – President of the Management Board

Tomasz Mularczyk – Vice-President of the Management Board, Chief Technology Officer (until 6 September 2017)

Maksymilian Sztandera – Member of the Management Board, Chief Financial Officer (since 7 September 2017)

Supervisory Board

Marek Tatar – Chairperson of the Supervisory Board

Marcin Hoffmann – Member of the Supervisory Board

Jan Kunkowski – Member of the Supervisory Board

Piotr Żółkiewicz – Member of the Supervisory Board

Artur Małek – Member of the Supervisory Board

On 6 September 2017, the Vice-president of the Management Board and Chief Technology Officer, Mr. Tomasz Mularczyk, tendered his resignation from the Management Board. On 7 September 2017, the Company's Supervisory Board adopted a resolution on appointing a new Member of the Company's Management Board, Mr. Maksymilian Sztandera who has been the Company's Chief Financial Officer since August 2015.

During the third quarter of 2017 and in the period between the balance sheet date and the date of publication of these interim condensed consolidated financial statements for the third quarter of 2017, there were no changes in the composition of the Parent Company's Supervisory Board.

4. Basis for preparation of the consolidated financial statements

4.1. Declaration of compliance

The interim condensed consolidated financial statements of the Capital Group and the interim condensed separate financial statements of Medicalgorithmics S.A. were prepared in conformity with Interim Accounting Standard 34 "Interim financial reporting" ("IAS 34") and with the relevant accounting standards applicable to interim financial reporting as endorsed by the European Union, published and effective at the time of preparation of these financial statements. The interim condensed financial statements do not include all the information and disclosures required for annual financial statements. These should be read in conjunction with the consolidated financial statements of the Capital Group and the separate financial statements of the Company for the year ended 31 December 2016, as well as the Directors' Report on activities of the Capital Group and the Directors' Report on activities of the Company in 2016.

The financial statements were prepared based on the assumption that the Group entities will continue as going concerns in the foreseeable future, i.e. in particular for a period of at least 12 months from the balance sheet date.

The amendments to the International Financial Reporting Standards which came into force as of 1 January 2017 did not have any material impact on these financial statements.

4.2. Presentation and functional currency

The figures contained in the consolidated financial statements are presented in Polish zlotys ("PLN"), rounded to the nearest thousand without decimal places. The Polish zloty is the functional currency of Medicalgorithmics S.A. The functional currency of subsidiaries, Medi-Lynx and MDG HoldCo, is the US dollar ("USD").

a. Conversion of financial statements of subsidiaries whose functional currency is different than PLN

As at the balance sheet date, assets and liabilities of subsidiaries whose functional currency is different than PLN are translated into the Group's presentation currency (PLN) using the exchange rate effective as at the balance sheet date, and their statements of comprehensive income are translated using the weighted average exchange rate for the respective financial period. Equity is translated using the average exchange rate announced by the National Bank of Poland as at the date on which control was acquired by the Parent Company. In the case of a new issue of additional shares, they are converted using the average exchange rate announced for the particular currency by the National Bank of Poland for the date on which the capital increase was entered in the register. Any exchange differences arising from such conversion are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of an entity, the deferred exchange rate differences accumulated in equity and related to a given entity are taken to profit or loss.

b. Conversion of items denominated in currencies other than the functional currency

Transactions denominated in currencies other than the functional currency of the company in question are converted into its functional currency at the foreign exchange rate prevailing on the transaction date. As at the balance sheet date, monetary assets and liabilities denominated in currencies other than the functional currency of the company in question are converted into its functional currency using the average exchange rate for the respective currency set by the Central Bank of the country in which the company has its registered office, as effective at the end of the reporting period. Foreign exchange differences resulting from the conversion are recognized under finance income (costs) or, in cases specified in the accounting principles (policy), capitalized in the value of assets. Non-monetary assets and liabilities recognized at historical cost and denominated in a currency other than the functional currency are stated at the historical exchange rate effective on the transaction date. Non-monetary assets and liabilities measured at fair value and denominated in a currency other than the functional currency are translated using the exchange rate effective on the date of the fair value measurement. Gains or losses resulting from the translation of non-monetary assets and liabilities recognized at fair value are recognized in accordance with the recognition of the gain or loss on the change in fair value (that is, in other comprehensive income or in profit or loss, respectively, depending on where the change in fair value is recognized).

4.3. Judgments and estimates made

The financial statements of the Parent Company and all its subsidiaries were included in the consolidated financial statements using the full method. The preparation of financial statements in accordance with the EU IFRSs requires the Management Board to make judgements, estimates and assumptions that affect the application of the adopted accounting principles and the presented amounts of assets, liabilities, revenue and expenses whose actual values may differ from the estimates.

The estimates and assumptions associated with them are verified on an ongoing basis.

A revision of accounting estimates is recognized in the period in which the estimate was revised or in current and future periods if the revision affects both the current and future periods.

In particular, significant areas of uncertainty with respect to the estimates made and judgements made in applying the accounting principles that had the most significant impact on the figures disclosed in the financial statements relate, in particular, to:

- intangible assets (estimates concerning forecasts used in impairment tests and estimates of amortization rates for intangible assets);
- property, plant and equipment (estimates of depreciation rates applied);
- fair value and impairment in relation to financial assets, including shares in subsidiaries;
- trade receivables and other financial assets, including loans granted (at each balance sheet date the Capital Group assesses whether there is any objective evidence that a component of receivables or group of receivables is impaired; if the recoverable amount of an asset is less than its carrying amount, the Capital Group recognizes an impairment write-down to the present value of planned cash flows);
- sales revenue generated by Medi-Lynx (revenue estimates based on historical cash inflows for the provided services);
- provisions for liabilities and trade liabilities;
- inventories (the Management Board assesses whether there is any indication that inventories may be impaired; the determination of impairment requires estimating the net realizable values);

- deferred tax assets (in terms of recoverability of assets and potential impairment write-downs);
- deferred tax provisions.

4.4. Adjustment of error

The prepared interim condensed consolidated financial statements do not contain any adjustment of a fundamental error from the previous periods.

4.5. Changes in accounting principles

When preparing these interim condensed consolidated financial statements, the Group did not change any significant accounting principles previously applied. The accounting principles applied are described in the published consolidated financial statements of the Medicalgorithmics Capital Group for 2016.

4.6. Authority approving the financial statements for publication

The Management Board of the Parent Company is the authority approving the financial statements for publication.

4.7. Consolidation principles

The principles of consolidation adopted for the preparation of these financial statements have not changed from those applied and described in detail in the explanatory notes to the consolidated financial statements for 2016.

4.8. Comparative figures

Given the significant changes in the composition of the Capital Group which took place on 30 March 2016 (acquisition of shares in Medi-Lynx), the Management Board of the Parent Company decided to commence the preparation of the consolidated financial statements. Therefore, Medi-Lynx's results for the period from the date of acquisition of the shares to the balance sheet date were consolidated in the interim condensed consolidated financial statements for the third quarter of 2016.

5. Segment reporting

The core business of the Capital Group comprises:

- provision of information technology and biotechnology services;
- provision of ECG monitoring services;
- scientific research and development;
- manufacture of electro-medical equipment.

The Capital Group operates mainly outside the territory of Poland, especially in the USA. The operations are classified within a single segment, which includes both sales of diagnostic and IT services, and devices that are products related to the services offered.

The Capital Group identifies its operating segments in accordance with IFRS 8 "Operating segments".

In accordance with IFRS 8, operating segments should be identified based on internal reports on those elements of the Capital Group that are regularly reviewed by the decision makers who make decisions about resources to be allocated to the segment and assess its performance. On this basis, the Capital Group identifies only one operating segment, comprising the provision of systemic and algorithmic solutions for cardiovascular diagnostics, in particular for ECG analysis. This segment comprises sales of services in the field in question and the supply of cardiovascular diagnostic devices that enable these tasks to be accomplished.

As there is only one operating segment, the Capital Group does not present separate financial data for this segment. Accordingly, all of its assets and liabilities as well as revenue and expenses are allocated to this segment. At the Capital Group level, the Management Board does not review the results of operations by any other types of activities and does not have separate financial data.

6. Significant events affecting the financial performance of the Capital Group

The factor that significantly influenced the data for the period ended 30 September 2017 was the termination of disputes with AMI Monitoring, Inc. and its subsidiary Spectocor, LLC ("AMI/Spectocor") and signing of a settlement on 28 December 2016 under which the Capital Group acquired the right to take over clients and employees of AMI/Spectocor. For detailed information on the settlement, see Note 28 of the consolidated financial statements of the Medicalgorithmics Capital Group for 2016. The acquisition of AMI's clients, which took place gradually starting from the first quarter of 2017, translated into a significant increase in revenue, especially in the second quarter of 2017. This acquisition also led to significantly higher operating expenses of the Group. Due to the need to train and prepare new employees to handle the increased volume of clients, the Group has incurred higher remuneration costs since the beginning of 2017.

Completion of US court proceedings and the conclusion of the settlement also resulted in a significant decrease in the cost of third-party services. In 2016, the costs of consultancy services related to court proceedings conducted at that time were charged to these costs. In the current period, third-party services include consultancy services related to negotiation and settlement with the US Department of Justice (“DOJ”), described in Note 31 to these financial statements.

Consolidation of the results of a subsidiary, Medi-Lynx, is another important factor affecting the comparability of figures in relation to the corresponding period of 2016. Due to the fact that the acquisition of shares in Medi-Lynx took place on 30 March 2016, the comparative figures for 9 months of 2016 include the subsidiary's results for the second quarter and third quarter of 2016 only.

7. Sales revenue structure

	01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
By type				
Revenue from sales of services	50 125	40 350	152 386	90 282
Revenue from sales of devices	177	42	458	2 932
Total revenue	50 302	40 392	152 844	93 214
	01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
By territory				
Domestic sales	139	48	203	186
Export sales	50 163	40 344	152 641	93 028
Total revenue	50 302	40 392	152 844	93 214

8. Employee benefits

	01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Remuneration	(22 457)	(16 203)	(71 247)	(32 311)
Bonuses	(1 622)	(512)	(4 866)	(1 536)
Incentive scheme	-	(793)	(2 009)	(2 377)
Social security and other employee benefits	(309)	(293)	(978)	(761)
	(24 388)	(17 801)	(79 100)	(36 985)

Details of the incentive scheme are described in section 18.6 of the consolidated financial statements of the Medicalgorithmics Capital Group for 2016.

9. Amortization and depreciation

Due to the fact that the Group classifies the PocketECG devices as fixed assets, the value of the equipment used by Medi-Lynx to provide diagnostic services is depreciated over a period of 3 years. In the period from 1 January 2017 to 30 September 2017, the total cost resulting from the above amounted to PLN 2,920 thousand. At the beginning of 2017, the Group started to amortize the value of the Medi-Lynx's client base (recognized as a result of the final settlement of the purchase price of shares in Medi-Lynx) and the AMI/Spectocor's client base (acquired following the settlement with AMI/Spectocor of 28 December 2016). The client bases will be amortized over a period of 20 years, and the cost of amortization in the period from 1 January 2017 to 30 September 2017 amounted to PLN 4,512 thousand.

10. Third-party services

	01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Lease and rental	(1 077)	(884)	(3 294)	(2 256)
Telecommunication and Internet services	(1 237)	(1 007)	(4 541)	(1 801)
Accounting services	(679)	(286)	(1 246)	(517)
Advisory services	(493)	(7 263)	(4 370)	(26 641)
Transport and courier services	(1 725)	(647)	(4 933)	(1 445)
Leases	(39)	(31)	(100)	(92)
Maintenance services	(529)	(175)	(1 514)	(352)
Marketing services	-	-	(1 322)	-
Other third-party services	(1 173)	(635)	(2 744)	(1 053)
	(6 952)	(10 928)	(24 064)	(34 157)

11. Effective tax rate

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Profit before tax	27 922	13 370
Tax at the tax rate applicable in Poland	(5 305)	2 540
Non-tax-deductible costs	(156)	-
Difference between the tax rate in Poland (19%) and USA (34%) and tax attributable to the minority shareholder	(1 148)	901
Amortisation of goodwill for tax purposes	1 557	(1 804)
Other tax-deductible costs (i.a. Settlement with DOJ)	1 044	-
Other	387	(272)
Tax reported in the statement of comprehensive income	(3 621)	1 367

12. Intangible assets

	Goodwill	Client bases	Completed R&D costs	Development works in progress	Other	Total
Gross value of intangible assets						
Gross value as at 1 January 2017	92 890	132 179	5 937	9 723	1 791	242 520
Increases	-	-	-	2 590	142	2 732
Foreign exchange differences	(11 640)	(16 680)	-	-	(108)	(28 428)
Gross value as at 30 September 2017	81 250	115 499	5 937	12 313	1 825	216 824
Accumulated amortisation and impairment write-downs						
Accumulated amortisation and impairment write-downs as at 1 January 2017	-	-	4 311	-	826	5 137
Amortisation	-	4 331	603	-	262	5 196
Foreign exchange differences	-	-	-	-	(50)	(50)
Accumulated amortisation and impairment write-downs as at 30 September 2017	-	4 331	4 914	-	1 038	10 283
Net value						
As at 1 January 2017	92 890	132 179	1 626	9 723	965	237 383
As at 30 September 2017	81 250	111 168	1 023	12 313	787	206 541

	Goodwill	Client bases	Completed R&D costs	Development works in progress	Other	Total
Gross value of intangible assets						
Gross value as at 1 January 2017	92 890	132 179	5 937	9 723	1 791	242 520
Increases	-	-	-	1 614	97	1 711
Foreign exchange differences	(10 441)	(14 963)	-	-	(95)	(25 499)
Gross value as at 30 June 2017	82 449	117 216	5 937	11 337	1 793	218 732
Accumulated amortisation and impairment write-downs						
Accumulated amortisation and impairment write-downs as at 1 January 2017	-	-	4 311	-	826	5 137
Amortisation	-	2 930	489	-	178	3 597
Foreign exchange differences	-	-	-	-	(45)	(45)
Accumulated amortisation and impairment write-downs as at 30 June 2017	-	2 930	4 800	-	959	8 689
Net value						
As at 1 January 2017	92 890	132 179	1 626	9 723	965	237 383
As at 30 June 2017	82 449	114 286	1 137	11 337	834	210 043

	Goodwill	Client bases	Completed R&D costs	Development works in progress	Other	Total
Gross value of intangible assets						
Gross value as at 1 January 2016	-	-	5 937	7 380	641	13 958
Increases	92 890	132 179	-	2 343	1 150	228 562 *
Gross value as at 31 December 2016	92 890	132 179	5 937	9 723	1 791	242 520
Accumulated amortisation and impairment write-downs						
Accumulated amortisation and impairment write-downs as at 1 January 2016	-	-	2 945	-	241	3 186
Amortisation	-	-	1 366	-	585	1 951 *
Accumulated amortisation and impairment write-downs as at 31 December 2016	-	-	4 311	-	826	5 137
Net value						
As at 1 January 2016	-	-	2 992	7 380	400	10 772
As at 31 December 2016	92 890	132 179	1 626	9 723	965	237 383 *

* the increases in the gross value, accumulated amortization and net value relate to, among others, intangible assets acquired as a result of the acquisition of shares in Medi-Lynx.

	Goodwill	Client bases	Completed R&D costs	Development works in progress	Other	Total
Gross value of intangible assets						
Gross value as at 1 January 2016	-	-	5 937	7 380	641	13 958
Increases	115 044	-	-	1 791	1 017	117 852
Gross value as at 30 September 2016	115 044	-	5 937	9 171	1 658	131 810
Accumulated amortisation and impairment write-downs						
Accumulated amortisation and impairment write-downs as at 1 January 2016	-	-	2 945	-	241	3 186
Acquisition of a subsidiary	-	-	-	-	-	-
Amortisation	-	-	1 056	-	493	1 549
Accumulated amortisation and impairment write-downs as at 30 September 2016	-	-	4 001	-	734	4 735
Net value						
As at 1 January 2016	-	-	2 992	7 380	400	10 772
As at 30 September 2016	115 044	-	1 936	9 171	924	127 075

Goodwill

Company	Acquisition date	Acquired share of net assets	Acquisition price (USD '000)	Fair value of acquired net assets (USD '000)	Goodwill (USD '000)
Medi-Lynx Cardiac Monitoring, LLC	30.03.2016	75%	34 210	11 984	22 226

On 30 March 2016, Medicalgorithmics S.A. acquired 75% of shares in Medi-Lynx with its registered office in Plano, Texas, USA, through its subsidiary, MGD HoldCo. The acquisition of the subsidiary resulted in the creation of a positive goodwill in the consolidated financial statements of the Medicalgorithmics Capital Group. A goodwill is the excess of the consideration paid over the fair value of the acquired identifiable net assets of the subsidiary. The final settlement of the financial effects of the acquisition of shares in Medi-Lynx is presented in the financial statements for 2016. The goodwill determined as at 31 December 2016 amounted to USD 22,226 thousand.

Goodwill is tested for impairment on an annual basis (or more frequently if there are any indications of impairment). Impairment losses are recognized as an expense in the period and are not reversed in the subsequent period.

Goodwill is amortized for tax purposes at the level of the subsidiary, MDG HoldCo (included in the interim condensed consolidated financial statements). Goodwill recognized on acquisition results mainly from the service business model adopted by Medi-Lynx, based primarily on human capital and relations with medical units. These main components enable the provision of top quality medical services in a very prospective US market.

In particular, the following measurable benefits from the acquisition are expected:

- an increase in turnover on the US market;
- improved utilization of PocketECG devices;
- increased efficiency of product distribution channels.

Client bases

a. Medi-Lynx's client base (net amount at the balance sheet date: USD 12,158 thousand)

Following the acquisition of shares in Medi-Lynx, a client base was identified in the process of allocating the purchase price. The client base contains data on:

- clients;
- types of services provided to them (examinations carried out);
- major payers – insurers covering the costs of the examinations performed.

The client base was valued using the comparative method (second level of the fair value hierarchy). The Medi-Lynx's client base was valued based on a transaction in which similar client bases were purchased from two unrelated entities, AMI Monitoring, Inc. and from Spectacor, LLC. This transaction was carried out by the Capital Group in December 2016.

b. AMI client base (net amount at the balance sheet date USD 18,283 thousand)

In December 2016, the Capital Group acquired a client base from two companies, AMI and Spectocor. This base contains a similar structure, divided into the same major payers and the same types of examinations as the identified Medi-Lynx's client base. The purchase price of the AMI/Spectocor's base amounted to USD 18,995 thousand.

The Group tests its customer bases for impairment on an annual basis and amortizes their value over a period of 20 years from the date of acquisition.

Costs of completed development works

As at the balance sheet date, expenditure on development works was capitalized by the Capital Group as intangible assets. The object of the development works is:

- PocketECG – PocketECG III system is currently the most technologically advanced solution offered by the Company. The basic technological advantage of the solution is the integration of the device, which previously consisted of two separate components, into a specially developed recorder of a smartphone type based on the Android operating system. Moreover, the functionality of the device has been extended. Medicalgorithmics was awarded financial support for the implementation work in the project, concerning the development of earlier versions of the system within the framework of the programmed of the Foundation for Polish Science – Innovator.

The net value of the project: PLN 1,024 thousand

The project will be amortized until 31 December 2019.

The above development works were carried out in part with co-financing from the European Union funds, whose non-amortized value as at 30 September 2017 amounted to PLN 708 thousand (31 December 2016: PLN 1,138 thousand).

According to the rules adopted in the Capital Group, the value of subsidies received is recoded under deferred income and recognized over time in accordance with the period of amortization of the development expenditure incurred.

Development works in progress

The Group conducts a number of development works to improve the existing products and services, and also develops new solutions. At present, the key development projects for the Group are:

- PocketECG CRS – device and system for cardiac rehabilitation;
- PocketECG 12Ch – device and system for remote, instant ECG description (12-channel ECG).

The projects are financed from own funds.

In the opinion of the Management Board of the Parent Company, development works in progress, recognized as a component of intangible assets, will be completed and will produce the expected economic effects. Key costs capitalized as development works in progress include the costs of salaries of the R&D staff.

13. Financial assets

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Investment certificates	19 108	19 205	30 903	35 026
Other investments	200	200	-	-
Financial assets	19 308	19 405	30 903	35 026
of which long-term portion	10 136	15 169	18 744	30 680
of which short-term portion	9 172	4 236	12 159	4 346

Investment certificates

As at 30 September 2017, the Capital Group holds 192,699 investment certificates of the fund Bezpiecznych Obligacji Fundusz Inwestycyjny Zamknięty (the "Fund") managed by Copernicus Capital TFI S.A. (the "Investment Fund Company"). As at 30 September 2017, the value of a single investment certificate was determined at PLN 99.16. The fair value of a single certificate is measured by the Investment Fund Company. The Fund invests primarily in debt securities quoted on the Catalyst market (level 1 of the fair value hierarchy). Investment certificates are measured at fair value through profit or loss.

On 5 April 2017, 125,000 certificates with the total value of PLN 11.8 million were redeemed. On 26 July 2017, the Capital Group requested the redemption of another 42,500 certificates. The certificates were redeemed on 4 October 2017 and their total value (PLN 4.2 million) was recognized in short-term financial assets as at 30 September 2017. Certificates with the total value of PLN 5 million, planned to be submitted for redemption by the Group in the first half of 2018, were also presented under short-term assets.

14. Trade and other receivables

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Receivables under supplies and services	18 050	17 291	15 619	20 723
Receivables from minority shareholders	-	-	11 677	-
Budgetary receivables	1 798	2 381	918	1 243
Other receivables	282	298	272	292
Prepayments and deferred expenses	3 582	4 817	1 382	1 969
	23 712	24 787	29 868	24 227
Long-term	-	-	1	2
Short-term	23 712	24 787	29 867	24 225

The fair value of receivables approximates their book value. Nearly 100% of receivables are denominated in foreign currencies, mainly in USD. The aging structure of trade receivables as at the end of the reporting period is as follows:

	Gross value	Revaluation write-down	Net value
Non-matured	13 645	-	13 645
Overdue from 0 to 30 days	2 021	-	2 021
Overdue from 31 to 60 days	1 267	-	1 267
Overdue of more than 61 days	1 117	-	1 117
	18 050	-	18 050

Receivables recognized by the Group in the US in relation to insurers who reimburse service fees are estimated based on the Group's actual cash inflow. Historical analyses of payments for services enabled the estimation that the average payment period for services provided is up to 9 months. After this period, all outstanding receivables are subject to a revaluation write-down.

15. Cash and cash equivalents

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Cash	9	10	13	-
Cash in bank	30 179	19 193	17 890	12 205
Short-term deposits	-	-	29 637	19 075
	30 188	19 203	47 540	31 280

16. Credits and loans

In February 2017, in order to improve its current liquidity, the Parent Company obtained additional financing in the form of an overdraft facility with a limit of up to PLN 8 million, reduced to PLN 5 million during the year.

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Short-term portion of credit card debt	592	1 189	69	856
Short-term portion of debt in respect of bank credits	-	1 393	-	-
	592	2 582	69	856

17. Trade and other liabilities

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Liabilities for supplies and services	2 119	2 787	14 651	4 154
Liabilities arising from acquisition of the client base	-	-	39 976	-
Payroll liabilities	3 491	5 919	1 144	-
Budgetary liabilities	348	291	1 228	304
Dividends payable	7 213	7 213	-	-
Other liabilities	155	56	4 753	-
	13 326	16 266	61 752	4 458
Income tax liabilities	1 127	778	441	332
	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Subsidies	708	786	1 138	1 362
Other	442	486	-	1 134
	1 150	1 272	1 138	2 496
of which long-term	393	472	629	708
of which short-term	757	800	509	1 788

18. Liabilities in respect of bonds and other financial liabilities

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Liabilities arising from bonds	50 911	50 166	50 073	50 695
Liabilities arising from acquisition of shares in Medi-Lynx	22 222	22 335	37 399	34 165
Financial liabilities	73 133	72 501	87 472	84 860
of which long-term	64 423	64 589	76 961	74 804
of which short-term	8 710	7 912	10 511	10 056

Issue and redemption of bonds

In the second quarter of 2016, the Company issued 50,000 long-term bonds with a nominal value of PLN 1 thousand each. The term of the bonds is 3 years. Their redemption date is 21 April 2019. The bonds bear interest at a variable rate. The interest rate is set at the base level of WIBOR for six-month PLN deposits (WIBOR 6M) plus a variable interest margin depending on the Company's financial debt ratio. The purpose of the issue was to finance an investment in a subsidiary, Medi-Lynx Cardiac Monitoring, LLC (redemption of short-term A0 series bonds). The remaining portion of proceeds from the issue was used to finance the Company's working capital. Interest on bonds is due on a semi-annual basis.

Liabilities arising from acquisition of shares in Medi-Lynx

Other financial liabilities also include a promissory note payable to the seller of Medi-Lynx's shares, i.e. Medi-Lynx Monitoring, Inc., in the amount of PLN 5,970 thousand, on account of the acquisition of shares. Payments are spread over three equal instalments amounting to USD 1,990 thousand, payable on 30 March 2018, 30 March 2019 and 30 March 2020. Liabilities bear interest at a fixed interest rate. In the first quarter of 2017, based on an agreement with a minority shareholder in connection with the settlement of the acquisition of the AMI/Spectacor's client base, the liability was reduced by USD 1,044 thousand. On 11 April 2017, a part of the liability and interest accrued as at that date, in the total amount of USD 2,015 thousand, was repaid. Financial liabilities are measured at amortized cost using the effective interest rate method.

The amount presented in short-term financial liabilities corresponds to interest on bonds accrued as at the balance sheet date, which were paid in October 2017, and the portion of the liability arising from the acquisition of Medi-Lynx, payable of 30 March 2018.

19. Basic and diluted earnings per share

	01.01.2017- 30.09.2017	01.01.2016- 31.12.2016	01.01.2016- 30.09.2016
Profit for the reporting period attributable to shareholders of the Parent Company (in PLN '000)	18 193	40 108	9 221
Weighted average number of ordinary shares (in thousands of shares)	3 607	3 607	3 557
Effect of dilution of the potential number of ordinary shares (in thousands of shares)	_*	_*	487
Basic profit per share in PLN (net profit / weighted average number of shares)	5,04	11,12	2,59
Diluted profit per share in PLN (net profit / weighted average number of diluted shares)	5,04	11,12	2,28

* The subscription warrants issued have no dilutive effect because the average market value of ordinary shares in a particular period did not exceed the exercise price of warrants (the warrants are not "in the money").

20. Shareholding structure of the Parent Company as at the balance sheet day

The table below presents the shareholders holding, directly or indirectly, at least 5% of the total number of votes at the Company's General Meeting as at the date of publication (submission) of the report, with specification of the number of shares held, their percentage share in the share capital, the number of votes and their percentage share in the total number of votes at the General Meeting and an indication of changes in the ownership structure of shares from the date of submission of the previous interim report to the date of publication of the current report.

Shareholder	Number of shares (item) as at 22 November 2017	% of share capital	Number of votes	% share in the overall number of votes	Change in the period from 31 August 2017 to 22 November 2017
Aegon OFE	193 863	5,38%	193 863	5,38%	+193 863
Marek Dziubiński (CEO)	400 000	11,09%	400 000	11,09%	unchanged
New Europe Ventures LLC	276 061	7,65%	276 061	7,65%	unchanged
NN OFE	451 000	12,51%	451 000	12,51%	unchanged
TFI PZU	189 045	5,24%	189 045	5,24%	unchanged
Free float	2 096 557	58,13%	2 096 557	58,13%	+63 469
TOTAL NUMBER OF SHARES	3 606 526				

On September 7, 2017, the Company received a notification from Aegon Powszechne Towarzystwo Emerytalne SA ("Aegon PTE") that, until 1 September 2017, it had taken over the management of Nordea Otwarty Fundusz Emerytalny ("Nordea OFE"), resulting in the total share of funds managed by the company, ie Aegon OFE and Nordea OFE, exceeded 5% of the total number of votes at the general meeting of the Company. According to the notification, following the acquisition of the Nordea OFE, as at September 1, 2017, Aegon Powszechne Towarzystwo Emerytalne S.A. managed fund of total of 193,863 shares of the Company, which constituted 5.38% of its share capital.

In the period from 1 January 2017 to 30 September 2017, the Parent Company did not acquire any treasury shares and does not hold any treasury shares.

21. Information concerning seasonality or cyclicity of the Medicalgorithmics Capital Group operations

Both operations of the Parent Company and subsidiaries of the Medicalgorithmics Capital Group are not subject to seasonality or cyclicity. At the same time, it should be borne in mind that the number of medical examinations ordered by physicians in the United States (which affects the number of examinations performed and thus the Medi-Lynx subsidiary's revenue) may fluctuate during the year. The volume of examinations ordered is lower in holiday periods and around popular holidays (Christmas, Independence Day, Thanksgiving). The data analyzed show that the number of examinations performed in June, July, November and December deviates from a few to over a dozen percent in comparison with monthly averages, while in the best months of spring and autumn the analogous deviations in plus are observed.

22. Issue of securities

No securities were issued between 1 January 2017 and 30 September 2017.

23. Number of shares in the Parent Company held by managers and supervisors of the issuer

The table below presents the Company's shares held, directly or indirectly, by members of the Management Board or the Supervisory Board as at the date of publication of the report, with an indication of changes in the number of shares from the date of submission of the previous interim report of the Parent Company. The information contained in the table is based on information received from members of the Management Board and the Supervisory Board in accordance with Article 19(1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

Person	Function held in the Issuer's governing bodies	Number of directly held shares	Number of shares held indirectly ¹	Change in the period from 31 August 2017 to 22 November 2017
Marek Dziubiński	President of the Management Board	400 000	-	Unchanged
Maksymilian Sztandera	Chief Financial Officer	-	-	Unchanged
Piotr Żółkiewicz	Member of the Supervisory Board	7 469	-	Unchanged
Marek Tatar	Chairman of the Supervisory Board	-	-	Unchanged
Jan Kunkowski	Member of the Supervisory Board	100	-	Unchanged
Artur Małek	Member of the Supervisory Board	-	-	Unchanged
Marcin Hoffmann	Member of the Supervisory Board	-	148 122	Unchanged

1) Indirect ownership of shares by a person is understood as the involvement of such a person in the entity holding the shares directly, this involvement is not equivalent to the status of the dominant entity towards the entity holding the shares directly. Detailed information on the relationship between individuals and entities holding shares is presented in the following footnotes to the table.

2) Marcin Hoffmann is the President of the Management Board of BIB Seed Capital S.A. with its registered office in Poznań and holds 40% of shares in this entity that holds 148,122 Shares, which represents 4.11% of the Issuer's share capital and the total number of votes at the Issuer's General Meeting, BIB Seed Capital S.A. is not a subsidiary (within the meaning of the Act on offering) of Marcin Hoffmann.

24. Information on dividends paid or declared

Pursuant to resolution No 16/2017 of the Ordinary Shareholders' Meeting of Medicalgorithmics S.A., on 16 October 2017 the Parent Company paid out a dividend to shareholders in the aggregate amount of PLN 7,213 thousand, i.e. PLN 2.00 per share. The dividend was paid for all 3,607 thousand shares in the Company.

25. Transactions with executives

During the reporting period, the Management Board and the Supervisory Board of the Parent Company received the following remuneration:

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Remuneration of the Management Board Members	5 506	2 029
Remuneration of the Supervisory Board	101	100

The remuneration costs of the Parent Company in the period from 1 January 2017 to 30 September 2017 also include the costs of the incentive scheme described in section 18.6 of the explanatory notes to the consolidated financial statements of the Medicalgorithmics Capital Group for 2016. In the current period, these costs amounted to PLN 2,009 thousand. Valuation of the incentive scheme was reclassified to the incentive scheme valuation reserve.

26. Brief description of significant achievements or failures, together with a description of the most important events related to them

The key factor that influenced the Group's development and data for the period from 1 January 2017 to 30 September 2017 was the termination of disputes with AMI/Spectacor and signing of a settlement on 28 December 2016 under which the Capital Group acquired the right to take over clients and employees of AMI/Spectacor. For detailed information on the settlement, see Note 28 of the consolidated financial statements of the Medicalgorithmics Capital Group for 2016. The acquisition of AMI's clients took place gradually starting from the first quarter of 2017 and translated into a significant increase the scale of operations of the subsidiary, Medi-Lynx. The increase in the number of Medi-Lynx claims for payment from insurers, and

therefore a significant increase in revenue, became evident in the second quarter of 2017. On the other hand, the acquisition of AMI clients also contributed to a significantly higher level of operating expenses of the Group, mainly of remuneration costs, which is directly related to higher costs of providing diagnostic services. Due to the need to train and prepare new employees to handle the increased volume of clients, the Group has incurred higher remuneration costs since the beginning of 2017.

Acquisition of AMI's clients as described above was of key importance for the results achieved in the period from 1 January 2017 to 30 September 2017. When analyzing the results of the Medicalgorithmics Capital Group, it should also be remembered that 2017 is the first year of full consolidation of the results of the subsidiary, Medi-Lynx. Due to the fact that the acquisition of shares in Medi-Lynx took place on 30 March 2016, the comparative figures for the period from 1 January 2016 to 30 September 2016 include the subsidiary's results for the second quarter and third quarter of 2016 only.

Table 1. Key items from the statement of comprehensive income in the period from 1 January 2017 to 30 September 2017 and in the corresponding period of 2016 and the dynamics of changes in the audited period (in PLN '000)

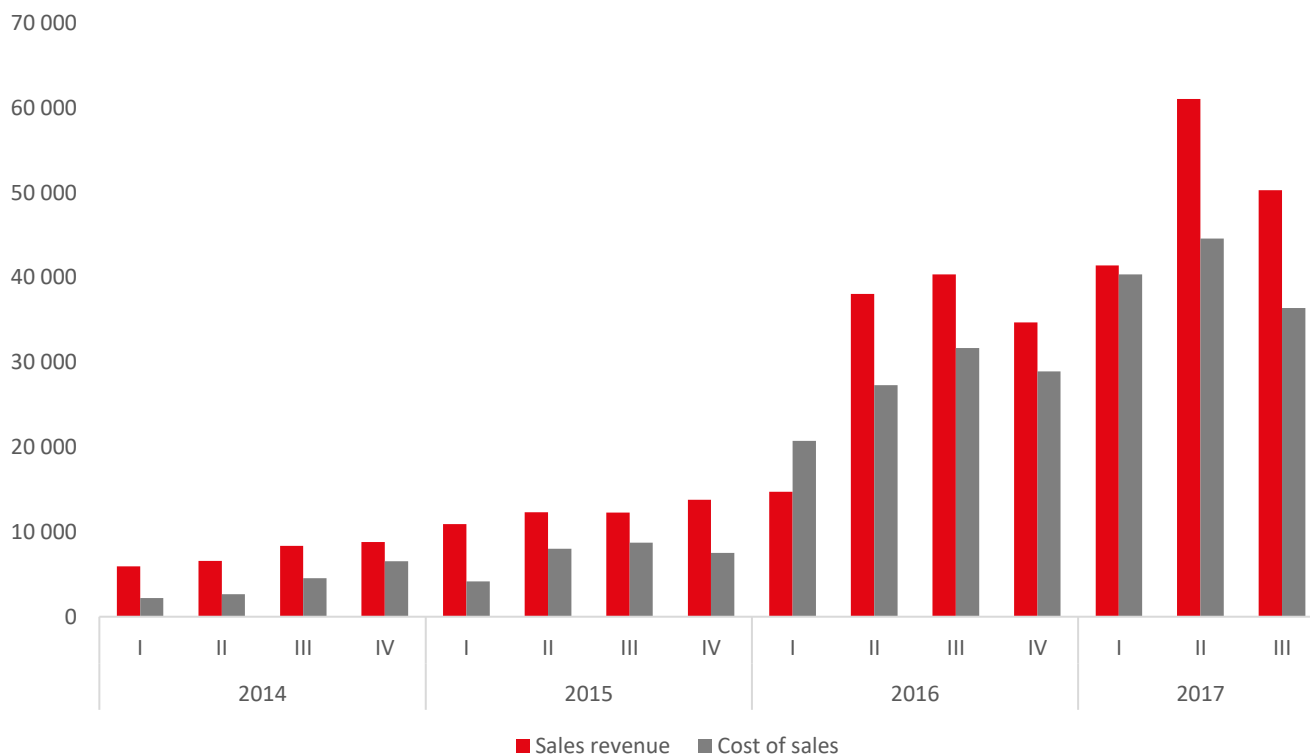
	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016	Difference	Difference in %
Sales revenue	152 844	93 214	59 630	64%
Raw materials and consumables used	(4 353)	(3 691)	(662)	18%
Employee benefits	(79 100)	(36 985)	(42 115)	114%
Amortisation and depreciation	(9 636)	(2 016)	(7 620)	378%
Third-party services	(24 064)	(34 157)	10 093	-30%
Other	(4 231)	(2 921)	(1 310)	45%
Cost of sales	(121 384)	(79 770)	(41 614)	52%
Profit on sales	31 460	13 444	18 016	134%
Operating profit	31 857	15 057	16 800	112%
EBITDA (operating profit/loss + depreciation)	41 493	17 073	24 420	143%
Net financial costs	(3 935)	(1 687)	(2 248)	133%
Profit before tax	27 922	13 370	14 552	109%
Net profit	24 301	12 003	12 298	102%

Sales revenue

In the period ended 30 September 2017, the Capital Group generated revenue of PLN 152,844 thousand, which is an increase by 64% compared to the corresponding period of 2016, and results primarily from the consolidation of Medi-Lynx's financial results for the entire audited period and from the significant increase in the scale of Medi-Lynx's business after the acquisition of AMI's clients. AMI's clients were acquired gradually starting from February 2017 and translated into an increase in the number of payment requests by 63% compared to 9 months of 2016.

In the current period, the Group earned all of its revenue from the sales of PocketECG system. This revenue comprised the revenue from sales of services in the amount of PLN 152,386 thousand (PLN 90,282 thousand in the corresponding period of 2016), representing 99.7% of total revenue (96.9% in 2016), and revenue from sales of devices in the amount of PLN 458 thousand (PLN 2,932 thousand in 2016). The share of sales of devices in total revenue was lower than in 2016 mainly due to the exclusion of sales of devices to Medi-Lynx at the stage of consolidation.

In quarterly terms, the revenue generated in the third quarter of 2017 decreased by PLN 10,794 thousand (18%) compared to the revenue generated in the second quarter of 2017. The lower level of revenue is directly related to the decrease in the number of examinations carried out by Medi-Lynx during the seasonal holiday months. In addition, hurricanes and floods that hit south-eastern states at the turn of August and September also had a significant impact on the lower number of examinations. Another factor which affected the level of revenue in the third quarter of 2017 was the USD exchange rate used to consolidate the results which was lower than in the second quarter. This translated into a decrease in revenue by approx. PLN 2,291 thousand.

Chart 1. The Group's revenue from sales and cost of sales in particular quarters of 2014–2017 (PLN '000)


Operating expenses

In the period ended 30 September 2017, analogous to the changes observed in revenue levels, operating expenses also increased significantly in relation to the corresponding period of 2016 as a result of the consolidation of Medi-Lynx's results for the entire period and the increase in the scale of Medi-Lynx's operations after the acquisition of AMI's clients. The largest item among operating expenses are employee benefits costs, accounting for 65% of the Group's total operating expenses. The high share of costs of employee benefits in the cost structure results from the nature of the Group's operations, whose main resource is the people. Both at the level of the Parent Company, where the majority of employees are IT specialists and production engineers, and at the level of the subsidiary, where, among others, ECG technicians and sales and customer service specialists are employed, the operations are based on human capital. It is also of great importance that, as a result of the AMI/Spectocor settlement mentioned hereinabove, since the beginning of 2017 the Group has already paid remuneration for part of staff previously employed by AMI, who were employed by Medi-Lynx immediately after the settlement was signed, in order to train and prepare them to handle the expected growing volume of medical examinations.

In the current reporting period, there is also an increase in depreciation and amortization costs, which now account for nearly 8% of total operating expenses. The increase results mainly from the start of amortization of the Medi-Lynx's client base and AMI's client base, as discussed in Note 12 above. According to the Management Board's estimates, the client bases will bring economic benefits and will be amortized over a period of 20 years. The total cost of amortization of both databases in the period ended 30 September 2017 amounted to PLN 4,512 thousand. In addition, due to the fact that the Group classifies the PocketECG devices as fixed assets, the manufacturing cost of PocketECG sold to Medi-Lynx is not charged on a one-off basis to costs of raw materials and consumables used, but it is amortized over a period of 3 years, corresponding to the expected life cycle of the devices. In the period ended 30 September 2017, the total cost resulting from the above amounted to PLN 2,920 thousand.

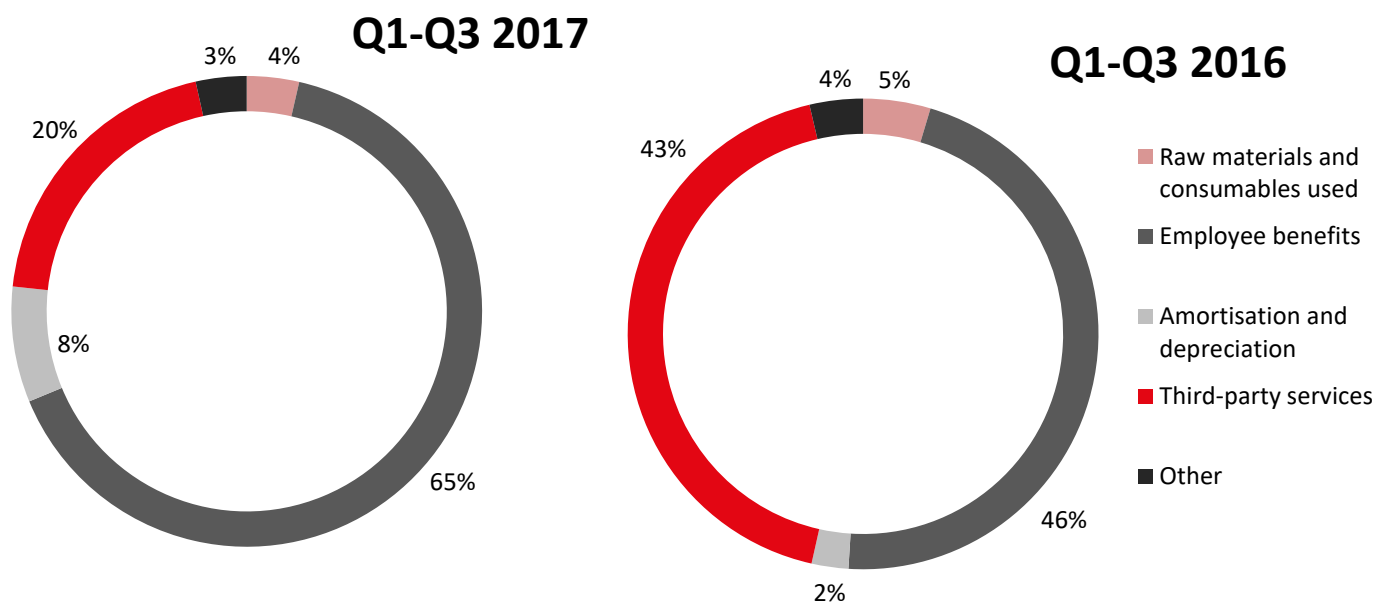
A significant decrease in comparison to the corresponding period was observed for costs of third-party services. In 2016, these costs comprised costs of advisory services which were of a one-off nature and concerned the disputes with AMI/Spectocor conducted in that period, and the acquisition of shares in Medi-Lynx. Following the settlement signed, these costs do not occur as of 2017. In the current year, third-party services comprise the costs of a large-scale marketing campaign in the US market commenced in the second quarter, as well as advisory services related to the negotiation and settlement with the US Department of Justice ("DOJ"), more broadly discussed in Note 31 to this report. In addition, due to a much higher volume of

examinations, the Group also incurs higher costs of their provision, such as data transmission costs, costs of transport and courier services and costs of maintenance services.

In quarterly terms, operating expenses decreased by over 18% (PLN 8,210 thousand) compared to the second quarter of 2017. The decrease in the cost of employee benefits by 14% (PLN 3,995 thousand) is particularly noticeable, resulting from lower remuneration costs, lower cost of valuation of the incentive scheme and a decrease in the USD exchange rate. In the second quarter of 2017, remuneration costs were temporarily inflated in connection with the process of taking over AMI's clients and the necessity to pay relocation bonuses and remuneration for overtime work needed to handle an increased volume of examinations. Another factor which contributed to lower costs of employee benefits in the third quarter of 2017 was the actuarial revaluation of the incentive scheme as at 30 September 2017 which was commissioned due to changes in the Management Board described in Note 3. In accordance with the valuation provided, the value of the scheme corresponded to the value already recognized in the books as at 30 June 2017, therefore no additional costs were recognized in the third quarter. Changes in the average USD exchange rate also contributed to the decrease in the costs of employee benefits. Since a significant portion of salaries is incurred in the US dollar, the USD depreciation translated into a decrease in the costs of employee benefits by PLN 1,069 thousand.

The decrease in the cost of third-party services by 27% (PLN 2,530 thousand) in quarterly terms is mainly attributable the decrease in expenditure on advisory services – by PLN 1,459 thousand, and in expenditure on marketing services – by PLN 980 thousand. In the second quarter, costs of advisory services included costs of legal services related to negotiations with DOJ. In connection with the conclusion of negotiations and signing a settlement, these costs did not occur in the third quarter. On the other hand, the higher level of marketing costs resulted from the intensive marketing campaign carried out in the second quarter on the American market.

Chart 2. Structure of operating expenses in the period from 1 January 2017 to 30 September 2017 and in the corresponding period of 2016



Profit and profitability

Net profit generated in the period from 1 January 2017 to 30 September 2017 amounted to PLN 24,301 thousand, and the profit attributable to shareholders of the Parent Company – to PLN 18,193 thousand. At the pre-tax level, the profit is reduced by net costs of financing activities in the amount of PLN 3,935 thousand. These costs resulted primarily from interest accrued on the Group's financial liabilities and foreign exchange losses. The sales margin was 21% and EBITDA margin stood at 27%.

In quarterly terms, despite a much lower level of revenue, the net profit attributable to the Shareholders of the Parent Company is nearly 9% higher than in the previous quarter. Apart from lower operating expenses, this result was affected by a much lower income tax. The low effective tax rate in the current quarter results mainly from the fact that the amount resulting from the settlement agreement with DOJ, described in more detail in Note 31 to this report, was included in the current period as tax deductible expenses.

Asset and financial position

As at 30 September 2017, total assets amounted to PLN 301,563 thousand which represents a decrease by PLN 68,328 thousand (18%) compared to the balance as at 31 December 2016. The decrease in the balance sheet total resulted primarily from the final clearing of settlements related to the acquisition of AMI's client base which took place in the first quarter of 2017 and translated into a decrease in the balance sheet total by approx. PLN 40 million. In addition, the decrease in the balance sheet total is also attributable to the repayment of the first instalment of the liability resulting from the acquisition of shares in Medi-Lynx, in the amount of PLN 8.1 million. Another important factor is the decrease in the exchange rate at which components of the subsidiaries' assets, equity and liabilities are translated. The USD exchange rate fell by nearly 13% as compared to 31 December 2016, which led to exchange rate differences on translation of PLN 18,097 and foreign exchange differences on loans of PLN 9,460 thousand. Both these items are presented under other comprehensive income in the statement of comprehensive income.

27. Factors and events, especially atypical ones, having a material effect on the condensed financial statements

In the current period, there were no factors or events that had a significant effect on the condensed financial statements other than those described in Section 26 above.

28. The Management Board's position regarding the possibility of achieving forecasts

The Capital Group did not publish any financial forecasts for the period covered by this report or future periods.

29. Information on sureties for credits or loans and on guarantees granted by the Issuer or Issuer's subsidiary

The Company endorses an interest-bearing promissory note issued by a subsidiary, MDG HoldCo with its registered office in the US to Medi-Lynx Monitoring, Inc. as a payment for the purchase of shares in Medi-Lynx. This promissory note matures over four consecutive years from the date of the acquisition of shares, i.e. over the period from 2017 to 2020. As at 30 September 2017, the outstanding amount of the note is USD 5,970 thousand.

30. Information on factors which, in the Issuer's opinion, will affect its performance during at least the next quarter

According to the Management Board, the current financial standing and development prospects of the Capital Group do not pose any significant threat to its future operation. However, there are factors, both internal and external, that will directly or indirectly affect the financial performance in the next quarter. The most important of them include:

- possible revision of medical examinations refund fees and payments for the procedure received from private insurers by the subsidiary, Medi-Lynx;
- changes to the medical services market in the United States, where the Group earns the vast majority of its revenue;
- increasing sales to partners with whom the Parent Company has concluded agreements which will contribute to more diversified and higher revenue;
- development of the cardiac diagnostic sector in countries where the Group's products are present and the level of refunds for services provided by PocketECG devices;
- fluctuations in exchange rates of currencies of the countries where the Group operates.

31. Information about significant legal proceedings

In the period covered by these financial statements, there were no proceedings pending before a court, arbitration body or public administration authority concerning the Company's liabilities or receivables, the value of which would constitute at least, individually or jointly, 10% of the Company's equity.

On 26 June 2017, a negotiated settlement was concluded by and between the United States of America acting through the US Department of Justice ("DOJ") and Medi-Lynx together with the Company (jointly "ML/MDG"). The settlement deals with alleged misconduct of the provisions of the federal False Claims Act filed by DOJ against ML/MDG. DOJ claimed that in the period from 1 January 2014 to 30 September 2016 ML/MDG designed the Medi-Lynx online registration process in a way that was supposed to target clients, i.e. doctors, to choose the telemetry that provided the highest refund for Medi-Lynx patients covered by the Medicare programmed, regardless of the will to choose one of the cheaper cardiac monitoring services.

Under the settlement, ML/MDG agreed to pay US USD 2,887 thousand plus interest of 2.375% pa from 6 May 2017 to 23 June 2017. The settlement does not constitute granting of ML/MDG's claims not admitting by the USA that the charges are unfounded. The settlement aims at avoiding costly, multi-month proceedings between the Parties, in which such matters would have to be resolved by a court.

The amount of USD 2,887 thousand resulting from the settlement has been recognized in the annual consolidated financial statements for 2016, and therefore does not affect the financial performance of the Medicalgorithmics Capital Group in the current reporting period. For more information on the settlement, see current report No 19/2017 of 26 June 2017.

32. Events after the balance sheet date

There were no events after the balance sheet date other than those disclosed in these financial statements that should be disclosed or included in these financial statements.

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Intangible assets	13 842	12 989	11 874	11 580
Tangible fixed assets	901	879	893	871
Long-term receivables	-	-	1	2
Financial Assets	34 75 046	80 313	69 386	76 852
Shares in subsidiaries	35 94 771	94 771	86 720	54 169
Deferred income tax assets	2 865	2 580	1 774	1 816
Fixed assets	187 425	191 532	170 648	145 290
Inventories	8 668	9 325	9 710	10 519
Receivables under supplies and services and other	36 7 750	12 161	33 548	6 949
Financial Assets	34 15 545	10 643	12 159	4 346
Cash and cash equivalents	4 399	565	31 779	19 421
Current assets	36 362	32 694	87 196	41 235
TOTAL ASSETS	223 787	224 226	257 844	186 525

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Share capital	361	361	361	361
Supplementary capital	159 042	159 042	124 621	124 621
Reserve from the valuation of the incentive scheme	5 179	5 179	3 170	2 377
Retained earnings	(2 291)	(3 668)	41 634	3 537
Equity	162 291	160 914	169 786	130 896
Provisions	402	502	414	55
Provision for deferred income tax	1 228	1 386	1 562	577
Liabilities arising from bonds	38 49 888	49 838	49 738	49 688
Other liabilities	39 160	160	-	-
Accruals and deferred income	39 393	472	629	708
Long-term liabilities	52 071	52 358	52 343	51 028
Credits and loans	13	1 410	9	6
Liabilities arising from bonds	38 1 023	328	335	1 007
Liabilities for supplies and services and other	39 8 022	8 855	34 505	2 695
Income tax liabilities	-	-	357	239
Accruals and deferred income	39 367	361	509	654
Short-term liabilities	9 425	10 954	35 715	4 601
Total liabilities	61 496	63 312	88 058	55 629
TOTAL EQUITY AND LIABILITIES	223 787	224 226	257 844	186 525

	01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Sales revenue	9 108	12 655	32 317	39 558
Raw materials and consumables used	(770)	(160)	(4 319)	(2 002)
Employee benefits	(3 636)	(3 329)	(13 052)	(9 033)
Amortisation and depreciation	(250)	(461)	(1 011)	(1 440)
Third-party services	(1 483)	(4 273)	(5 167)	(23 164)
Other	(279)	(148)	(1 575)	(706)
Total costs of sales	(6 418)	(8 371)	(25 124)	(36 345)
Profit on sales	2 690	4 284	7 193	3 213
Other operating revenue	289	240	670	1 891
Other operating expenses	(94)	(28)	(267)	(683)
Operating profit	2 885	4 496	7 596	4 421
Finance income	686	(1 194)	2 889	1 785
Finance costs	(1 821)	(457)	(13 175)	(1 672)
Net finance income/(costs)	(1 135)	(1 651)	(10 286)	113
Profit/(loss) before tax	1 750	2 845	(2 690)	4 534
Income tax	(373)	(557)	399	(997)
Net profit/(loss) from continuing operations	1 377	2 288	(2 291)	3 537
Other net comprehensive income for the reporting period	-	-	-	-
Total comprehensive income for the reporting period	1 377	2 288	(2 291)	3 537
Basic profit/(loss) per share in PLN	0,38	0,64	(0,64)	0,99
Diluted profit/(loss) per share in PLN	0,38	0,57	(0,64)	0,88

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2017	361	124 621	3 170	41 634	169 786
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	34 421	-	(34 421)	-
Net loss for the current reporting period	-	-	-	(2 291)	(2 291)
	-	34 421	-	(36 712)	(2 291)
Transactions recognised directly in equity					
Dividend payment	-	-	-	(7 213)	(7 213)
Valuation of the Incentive Scheme	-	-	2 009	-	2 009
	-	-	2 009	(7 213)	(5 204)
Equity as at 30 September 2017	361	159 042	5 179	(2 291)	162 291

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2017	361	124 621	3 170	41 634	169 786
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	34 421	-	(34 421)	-
Net loss for the current reporting period	-	-	-	(3 668)	(3 668)
	-	34 421	-	(38 089)	(3 668)
Transactions recognised directly in equity					
Dividend payment	-	-	-	(7 213)	(7 213)
Valuation of the Incentive Scheme	-	-	2 009	-	2 009
	-	-	2 009	(7 213)	(5 204)
Equity as at 30 June 2017	361	159 042	5 179	(3 668)	160 914

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2016	346	84 917	-	13 925	99 188
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	7 533	-	(7 533)	-
Net profit for the current reporting period	-	-	-	41 634	41 634
	-	7 533	-	34 101	41 634
Transactions recognised directly in equity					
Issue of F series shares	15	32 171	-	-	32 186
Dividend payment	-	-	-	(6 392)	(6 392)
Valuation of the Incentive Scheme	-	-	3 170	-	3 170
	15	32 171	3 170	(6 392)	28 964
Kapitał własny na 31.12.2016	361	124 621	3 170	41 634	169 786

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2016	346	84 917	-	13 925	99 188
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	7 533	-	(7 533)	-
Net profit for the reporting period	-	-	-	3 537	3 537
	-	7 533	-	(3 996)	3 537
Transactions recognised directly in equity					
Payment towards the issue of series F shares	15	32 171	-	-	32 186
Dividend payment	-	-	-	(6 392)	(6 392)
Valuation of the Incentive Scheme	-	-	2 377	-	2 377
	15	32 171	2 377	(6 392)	28 171
Equity as at 30 September 2016	361	124 621	2 377	3 537	130 896

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Cash flows from operating activities		
Net profit/(loss) for the reporting period	(2 291)	3 537
Depreciation and impairment write-downs on tangible fixed assets	247	206
Amortisation of intangible assets	764	1 234
Income tax	(399)	997
Change in inventories	1 042	(1 401)
Change in trade and other receivables	885	284
Change in accruals, prepayments and deferred income	(2 059)	2 660
Change in financial assets	313	(2 420)
Change of financial liabilities	-	695
Change in trade and other liabilities	(5 223)	2 099
Change in provisions	(12)	-
Net finance (income)/costs	(2)	(154)
Valuation of the Incentive Scheme	2 009	2 377
Tax paid	(3 262)	(1 191)
Foreign exchange differences	9 460	-
Interest accrued and payable	(404)	-
Other	(1)	22
	1 067	8 945
Cash flows from investing activities		
Proceeds from sale of investments	11 797	15 348
Interest received	-	154
Acquisition of subsidiaries	-	(53 532)
Loans granted	(27 799)	(44 544)
Purchases of property, plant and equipment, and intangible assets	(2 987)	(2 240)
Acquisition of other investments	(40)	-
Additional contributions to equity of subsidiaries	(8 051)	-
	(27 080)	(84 814)
Cash flows from financing activities		
Proceeds from the issue of debt securities	-	50 000
Proceeds from the issue of shares	-	32 186
Dividend payment	-	(6 392)
Proceeds from credits taken out	4	-
Interest paid on bonds	(1 371)	(466)
	(1 367)	75 328
Total net cash flows	(27 380)	(541)
Cash and cash equivalents at beginning of period	31 779	19 962
Closing balance of cash	4 399	19 421

33. Sales revenue structure

	01.07.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
By type				
Revenue from sales of services	8 721	12 602	28 122	36 615
Revenue from sales of devices	387	53	4 195	2 943
	9 108	12 655	32 317	39 558
By territory				
Domestic sales	139	48	203	185
Export sales	8 969	12 607	32 114	39 373
	9 108	12 655	32 317	39 558

34. Financial assets

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Investment certificates	19 108	19 205	30 902	35 026
Loans granted	71 283	71 551	50 643	46 172
Other investments	200	200	-	-
	90 591	90 956	81 545	81 198
of which long-term portion	75 046	80 313	69 386	76 852
of which short-term portion	15 545	10 643	12 159	4 346

* Investment certificates are described in detail in Note 13 to these financial statements.

Loans are classified as loans and own receivables. They are measured at amortized cost using the effective interest rate. Investment certificates are measured at fair value through profit or loss.

Loans granted

	Loan amount (USD '000)	Repayment date	Interest rate
Loan of 30 March 2016	11 300	29.03.2026	Fixed (6%)
Loan of 30 March 2016	200	01.06.2026	Fixed (6%)
Loan of 14 September 2016	200	14.09.2026	Fixed (6%)
Loan of 16 January 2017	1 000	30.12.2020	Fixed (4%)
Loan of 2 March 2017	5 813	30.12.2020	Fixed (4%)

All the above loans were granted to a subsidiary, MDG Holdco. Loans granted in the first quarter of 2017 with the total amount of USD 6,813 thousand, were used to settle the liabilities towards AMI/Spectacor for the client base. The fair value of financial assets is similar to their book value.

35. Shares in subsidiaries

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Medicalgorithmics US Holding Corporation	94 771	94 771	86 720	54 169
	94 771	94 771	86 720	54 169

In the second quarter of 2017, the Parent Company increased the share capital of a subsidiary, MDG HoldCo, by PLN 2,015 thousand. These funds were used in full to repay the first part of the liability towards the seller of the shares in Medi-Lynx, i.e. Medi-Lynx Monitoring, Inc. As at 30 September 2017, the Management Board did not find any evidence of impairment of shares in the subsidiary.

36. Trade and other receivables

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Receivables under supplies and services	3 746	6 013	4 373	5 009
Budgetary receivables	1 798	2 381	186	990
Other receivables	282	298	28 748	292
Prepayments and deferred expenses	1 924	3 469	242	660
	7 750	12 161	33 549	6 951
Long-term	-	-	1	2
Short-term	7 750	12 161	33 548	6 949

Trade receivables

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Trade receivables from related parties	3 025	5 218	3 498	2 120
Trade receivables from third parties	721	984	1 088	3 233
Revaluation write-down on receivables from other entities	-	(189)	(213)	(344)
Total net trade receivables	3 746	6 013	4 373	5 009

Prepayments and deferred expenses

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Insurance policies and deposits	42	48	42	38
Bonuses	1 622	3 244	-	512
Trade fairs	59	-	120	62
Fee for the listing of shares on the WSE	19	38	-	-
Advisory services	-	-	62	-
Other	182	139	18	48
Total prepayments and deferred expenses	1 924	3 469	242	660
Long-term portion	-	-	1	2
Short-term portion	1 924	3 469	241	658

37. Basic and diluted earnings per share

	01.01.2017- 30.09.2017	01.01.2016- 31.12.2016	01.01.2016- 30.09.2016
Profit/(loss) for the period (PLN '000)	(2 291)	41 634	3 537
Weighted average number of ordinary shares (in thousands of shares)	3 607	3 607	3 531
Effect of dilution of the potential number of ordinary shares (in thousands of shares)	-*	-*	487
Basic profit/(loss) per share in PLN (net profit/(loss) / weighted average number of shares)	(0,64)	11,54	0,99
Diluted profit/(loss) per share in PLN (net profit/(loss) / weighted average number of diluted shares)	(0,64)	11,54	0,88

* The subscription warrants issued have no dilutive effect because the average market value of ordinary shares in a particular period did not exceed the exercise price of warrants (the warrants are not "in the money").

38. Liabilities arising from bonds

For information on the liabilities arising from bonds issued by the Parent Company, see Note 18 to these financial statements.

39. Trade and other liabilities, accruals and deferred income, income tax liabilities

	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Liabilities for supplies and services from other entities	461	1 351	968	2 391
Budgetary liabilities	348	291	300	304
Income tax liabilities	-	-	357	239
Dividends payable	7 213	7 213	-	-
Other liabilities	160	160	33 237	-
Short-term accruals and deferred income	367	361	509	654
Long-term accruals and deferred income	393	472	629	708
	8 942	9 848	36 000	4 296

40. Contingent liabilities

The Company is a party to agreements for the EU co-financing of investment projects aimed at the development of the products and services offered. If the conditions for the implementation of development works are not met, there may be a risk of necessity to return the subsidies received. The subsidies received are secured with promissory notes. As at the balance sheet date, the risk described above was assessed as doubtful. The Parent Company carries out its works in accordance with the schedule.

The Company endorses an interest-bearing promissory note issued by a subsidiary, MDG HoldCo with its registered office in the US to Medi-Lynx Monitoring, Inc. as a payment for the purchase of shares in Medi-Lynx. Detailed information about the security is provided in Note 18 to this report.

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo relatively frequent changes, often resulting in the absence of any established regulations or legal precedents for reference. Moreover, regulations in force contain ambiguities which result in a difference in opinions regarding their legal interpretation, both among various state authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs duties or foreign currency settlements) may be inspected by authorities authorized to impose high penalties, and the additional liabilities arising from such inspections have to be paid with interest. In the light of the above, the tax risk in Poland is higher than usual tax risk in countries with better-developed tax systems. Tax declarations can be audited over a period of five years. In consequence, the amounts presented in the financial statements may change at a later date, after the final amount is determined by tax authorities. The Capital Group was subject to control by the tax authorities. Tax authorities have got the right to inspect books and accounting records. Within five years of the end of the year which relevant tax return was filed, they may impose additional tax charges, including interest and other penalties. In the opinion of the Management Board, there were no circumstances that could lead to significant liabilities in this respect.

41. Transactions with related parties

In the audited period, there were no transactions with related parties concluded on terms other than arm's length terms.

Medicalgorithmics US Holding Corporation	30.09.2017	30.06.2017	31.12.2016	30.09.2016
Statement of financial position (in PLN '000) — as at				
Loans granted	71 283	71 552	50 643	46 172
Shares in subsidiaries	94 771	94 771	86 720	54 169
		01.01.2017-	01.01.2016-	01.01.2016-
Statement of comprehensive income (in PLN '000)		30.09.2017	31.12.2016	30.09.2016
Interest on loans		2 300	1 746	1 087
		30.09.2017	30.06.2017	30.09.2016
Medi-Lynx Cardiac Monitoring LLC				
Statement of financial position (in PLN '000) — as at				
Receivables under supplies and services	3 025	5 218	3 498	2 120
Other receivables	-	11	28 474	-

Statement of comprehensive income (in PLN '000)	01.01.2017- 30.09.2017	01.01.2016- 31.12.2016	01.01.2016- 30.09.2016
Revenue from sales of goods and services	26 073	19 564*	10 551*

** from the date of acquisition of control*

42. Transactions with executives

During the reporting period, the Management Board and the Supervisory Board received the following remuneration:

	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Remuneration of the Management Board Members	5 506	2 029
Remuneration of the Supervisory Board	101	100

43. Information about significant legal proceedings

In the period covered by this report, there were no proceedings pending before a court, arbitration body or public administration authority concerning the Company's liabilities or receivables, the value of which would constitute at least, individually or jointly, 10% of the Group's equity.

44. Events after the balance sheet date

There were no events after the balance sheet date other than those disclosed in these financial statements that should be disclosed or included in these financial statements.

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Member of the Management Board, Chief Financial Officer

Warsaw, 22 November 2017



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