

Consolidated Semiannual Report

MEDICALgorithmics

Capital Group

for the first half of 2018

The report includes:

- Interim Condensed Consolidated Financial Statements of Group
- Directors' Report on Operations of the Group
- Statements of the Management Board
- Independent Auditor's Review Reports



**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
OF THE CAPITAL GROUP
MEDICALGORITHMICS
FOR THE FIRST HALF OF 2018**

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Interim condensed consolidated statement of financial position

	PLN '000		EUR '000	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Non-current assets	228 158	228 573	52 311	54 802
Intangible assets	209 502	196 900	48 033	47 208
Long-term financial assets	200	10 910	46	2 616
Current assets	81 516	60 708	18 689	14 555
Short-term receivables	26 371	23 951	6 046	5 742
Long-term liabilities	12 626	67 649	2 895	16 219
Short-term liabilities	75 230	17 899	17 248	4 291
Equity attributable to Shareholders of the Parent Company	183 731	168 913	42 125	40 498
Share capital	361	361	83	86
Non-controlling interests	38 087	34 820	8 732	8 348
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	50.94	46.84	11.68	11.23

Interim condensed consolidated statement of comprehensive income

	01.01.2018-	01.01.2017-	01.01.2018-	01.01.2017-
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Sales revenue	93 709	102 542	22 104	24 142
Profit on sales	12 852	17 560	3 032	4 134
Operating profit	10 845	17 764	2 558	4 182
Profit before tax	9 717	14 908	2 292	3 510
Net profit	8 456	13 036	1 995	3 069
- attributable to Shareholders of the Parent Company	6 535	9 739	1 541	2 293
- attributable to non-controlling interests	1 921	3 297	453	776
Net profit attributable to Shareholders of the Parent Company per share (PLN/EUR) – basic	1.81	2.70	0.43	0.64

Interim condensed consolidated statement of cash flows

	01.01.2018-	01.01.2017-	01.01.2018-	01.01.2017-
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Net cash flows from operating activities	21 838	3 279	5 151	772
Net cash flows from investing activities	1 531	(24 678)	361	(5 810)
Net cash flows from financing activities	(11 461)	(6 938)	(2 703)	(1 633)
Total net cash flows	11 909	(28 337)	2 809	(6 671)

Method of conversion of selected figures into EUR:

- Individual items of the statements regarding the financial standing were calculated with the average FX rate of Narodowy Bank Polski as of 29 June 2018 at EUR/PLN 4.3616 and as of 29 December 2017 at EUR/PLN 4.1709;
- The presented items of the statements of comprehensive income and the statement of cash flows were translated using the rate being the arithmetical mean of average rates set by Narodowy Bank Polski as at the last day of each month of the financial period from 1 January 2018 to 30 June 2018, amounting to EUR/PLN 4.2395 and from 1 January 2017 to 30 June 2017, amounting to EUR/PLN 4.2474.

		30.06.2018	31.12.2017	30.06.2017
Intangible assets	12	209 502	196 900	210 043
Tangible fixed assets		15 783	17 249	20 764
Financial Assets	13	200	10 910	15 169
Deferred income tax assets		2 673	3 514	2 856
Fixed assets		228 158	228 573	248 832
Receivables under supplies and services and other	14	26 371	23 951	24 787
Financial Assets	13	10 705	4 226	4 236
Cash and cash equivalents	15	44 440	32 531	19 203
Current assets		81 516	60 708	48 226
TOTAL ASSETS		309 674	289 281	297 058
		30.06.2018	31.12.2017	31.12.2017
Share capital		361	361	361
Supplementary capital		124 622	124 622	124 622
Reserve from the valuation of the incentive scheme		6 797	5 312	5 179
Retained earnings		59 848	58 434	42 634
Foreign exchange differences		(7 897)	(19 816)	(9 598)
Equity attributable to Shareholders of the Parent Company		183 731	168 913	163 198
Non-controlling interests		38 087	34 820	36 804
Provisions		1 409	1 170	502
Deferred tax provision		3 410	2 250	2 995
Liabilities in respect of bonds and other financial liabilities	18	7 448	63 794	64 589
Other liabilities		120	120	160
Accruals and deferred income	17	239	315	472
Long-term liabilities		12 626	67 649	68 718
Credits and loans		28	873	2 582
Liabilities in respect of bonds and other financial liabilities	18	57 959	7 887	7 912
Trade and other liabilities	17	16 045	7 522	16 266
Income tax liabilities		25	311	778
Accruals and deferred income	17	1 173	1 306	800
Short-term liabilities		75 230	17 899	28 338
Total liabilities		87 856	85 548	97 056
TOTAL EQUITY AND LIABILITIES		309 674	289 281	297 058

		01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Sales revenue	6	49 218	61 096	93 709	102 542
Consumption of raw materials and materials		(2 026)	(1 066)	(3 899)	(2 871)
Employee benefits	7	(28 383)	(28 383)	(53 289)	(54 712)
Amortisation and depreciation	8	(2 839)	(3 213)	(5 489)	(6 639)
Third-party services	9	(8 175)	(9 482)	(14 857)	(17 112)
Other		(2 249)	(2 468)	(3 323)	(3 648)
Total costs of sales		(43 672)	(44 612)	(80 857)	(84 982)
Profit on sales		5 546	16 484	12 852	17 560
Other operating revenue	10	79	141	166	381
Other operating expenses	10	(1 853)	(155)	(2 173)	(177)
Operating profit		3 772	16 470	10 845	17 764
Finance income		458	164	662	684
Financial costs		(749)	(1 735)	(1 790)	(3 540)
Net financial costs		(291)	(1 571)	(1 128)	(2 856)
Profit before tax		3 481	14 899	9 717	14 908
Income tax	11	(313)	(2 908)	(1 261)	(1 872)
Net profit from continuing operations		3 168	11 991	8 456	13 036
Net profit for the reporting period attributable to Shareholders of the Parent Company		2 435	7 777	6 535	9 739
Net profit for the reporting period attributable to non-controlling interests		733	4 214	1 921	3 297
		3 168	11 991	8 456	13 036
Other comprehensive income					
Currency translation differences		13 285	(8 712)	10 665	(15 965)
Exchange differences on loans constituting a part of net investments in subsidiaries		6 192	(4 619)	4 944	(8 409)
Deferred tax on valuation of exchange differences on loans		(1 178)	878	(939)	1 598
Other comprehensive income		18 299	(12 453)	14 669	(22 776)
Other comprehensive income attributable to Shareholders of the Parent Company		14 884	(10 159)	11 919	(18 307)
Other comprehensive income attributable to non-controlling interests		3 415	(2 294)	2 750	(4 469)
Total comprehensive income for the reporting period					
Comprehensive income for the reporting period attributable to Shareholders of the Parent Company		17 319	(2 382)	18 454	(8 568)
Comprehensive income for the reporting period attributable to non-controlling interests		4 148	1 920	4 671	(1 172)
		21 467	(462)	23 125	(9 740)
Net profit attributable to Shareholders of the Parent Company per share (in PLN)					
- basic		0.68	2.16	1.81	2.70
- diluted		0.68	2.14	1.81	2.68

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2018	361	124 622	5 312	58 434	(19 816)	168 913	34 820
Comprehensive income for the reporting period							
Net profit for the current reporting period	-	-	-	6 535	-	6 535	1 921
Other comprehensive income	-	-	-	-	11 919	11 919	2 750
	-	-	-	6 535	11 919	18 454	4 671
Transactions recognised directly in equity							
Dividend payment	-	-	-	(5 121)	-	(5 121)	(1 404)
Valuation of the incentive scheme	-	-	1 485	-	-	1 485	-
Total contributions from and distributions to owners	-	-	1 485	(5 121)	-	(3 636)	(1 404)
Equity as at 30 June 2018	361	124 622	6 797	59 848	(7 897)	183 731	38 087

	Share capital	Supplementary capital	Incentive scheme valuation reserve	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 for the current reporting period	-	-	-	25 539	-	25 539	8 114
Other comprehensive income	-	-	-	-	(28 525)	(28 525)	(6 918)
	-	-	-	25 539	(28 525)	(2 986)	1 196
Transactions recognised directly in equity							
Dividend payment	-	-	-	(7 213)	-	(7 213)	(4 352)
Valuation of the incentive scheme	-	-	2 142	-	-	2 142	-
Total contributions from and distributions to owners	-	-	2 142	(7 213)	-	(5 071)	(4 352)
Equity as at 31 December 2017	361	124 622	5 312	58 434	(19 816)	168 913	34 820

	Share capital	Supplementary capital	Incentive scheme valuation reserve	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	-
Total contributions from and distributions to owners	-	-	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

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Cash flows from operating activities		
Net profit for the reporting period	8 456	13 036
Depreciation of property, plant and equipment	2 273	2 888
Amortisation of intangible assets	3 216	3 751
Income tax	2 200	(274)
Change in trade and other receivables	(2 133)	(4 721)
Change in accruals, prepayments and deferred income	(208)	133
Change in trade and other liabilities	3 402	(12 733)
Change of financial liabilities	-	100
Change in provisions	239	88
Valuation of the incentive scheme	1 485	2 009
Net finance (income)/costs	82	(98)
Tax paid	(780)	(2 447)
Foreign exchange differences	1 748	(170)
Interest	1 802	1 926
Other	57	(209)
	21 838	3 279
Cash flows from investing activities		
(Acquisition)/sale of intangible assets	(2 285)	(33 725)
(Acquisition)/sale of property, plant and equipment	(332)	(2 710)
(Acquisition)/sale of other investments	4 148	11 757
	1 531	(24 678)
Cash flows from financing activities		
Proceeds from credits taken out	-	2 513
Repayment of credit card debt	(845)	-
Interest paid on bonds	(1 374)	(1 371)
Repayment of financial liabilities	(7 838)	(8 080)
Distribution of Medi-Lynx profit to a minority shareholder	(1 404)	-
	(11 461)	(6 938)
Total net cash flows	11 909	(28 337)
Opening balance of cash and cash equivalents	38 087	47 540
Closing balance of cash	49 995	19 203

1. General information

Unless the context requires otherwise, such terms contained herein as the “Company”, “Medicalgorithmics”, the “Parent” or other expressions with a similar meaning and their grammatical inflections refer to Medicalgorithmics S.A., whereas terms such as the “Group”, the “Medicalgorithmics Group” and other expressions with a similar meaning and their grammatical inflections refer to the Group comprising Medicalgorithmics S.A. and its consolidated subsidiaries.

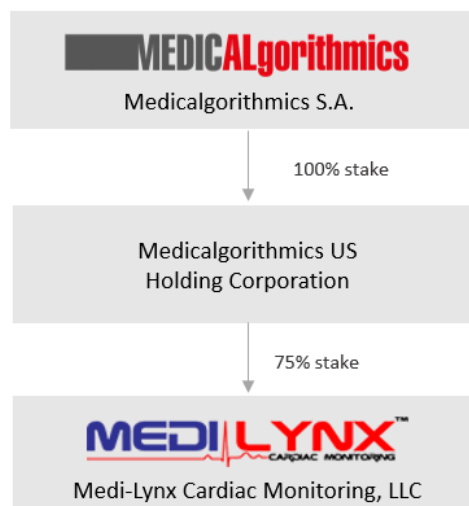
The term “Report” refers to this interim condensed consolidated report for the first half of 2018. “Consolidated statements” mean the interim condensed consolidated financial statements of the Medicalgorithmics Capital Group prepared as at 30 June 2018 covering the period from 1 January 2018 to 30 June 2018 and containing relevant comparative data as at 31 December 2017, as well as for the analogous comparative period of 2017.

2. Information on the Capital Group

The Medicalgorithmics Capital Group is composed of Medicalgorithmics S.A. and its subsidiaries. The Parent Company is the owner:

- 100% of 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 organization of the Capital Group. The composition of the Medicalgorithmics Capital Group and its organizational and capital relationships as at 30 June 2018 was as follows:



Business profile

The Medicalgorithmics Capital Group operates in the field of advanced telemedicine technologies. The Group is a provider of cardiac diagnostic solutions, particularly in the field of ECG analysis.

The principal areas of operations of the Capital Group are:

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

The Group provides services in over a dozen countries on several continents, including North and South America, Asia, Europe and Australia. Currently, the United States is the largest market. The expansion of sales on the American market was possible owing to the openness of this market to medical innovations and the high level of reimbursement of cardiac diagnostic services by private and public insurers.

Key competitive advantages of the Group:

- advanced technology for mobile cardiac telemetry;
- flexible business model tailored to the specificity of the market;
- a team of top professionals in the areas of IT systems, programming, medical devices, digital signal processing and project management.

The key source of the Group's revenues is the sale of diagnostic services provided to patients in the United States using the proprietary PocketECG system for remote monitoring of heart disorders. PocketECG is a complete diagnostic technology for cardiac arrhythmia detection that provides physicians with current access to the ECG signal and the best diagnostic report on the market with statistical analysis of the data. One of the features that distinguish PocketECG from other competing devices is the transmission of full ECG signal. The system has been approved for trading in the United States by the U.S. Food and Drug Administration (FDA).

The system also bears the CE mark indicating that the device complies with the requirements of the European Union directives.

In addition to cardiac telemetry, the Group's products and solutions are used in the cardiac safety industry, i.e. in clinical trials of drugs for cardiac safety. Moreover, the Group collaborates closely with cardiovascular diagnostic and monitoring centres.

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 were listed on the NewConnect market, an alternative trading system outside the regulated market run 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.

During the first half of 2018 and in the period from the balance sheet date to the date of publication of this consolidated financial statements there were no changes to the composition of the Management Board of the Parent Company. As at the balance sheet date and as at the date of preparation and publication of these consolidated financial statements, the Management Board of the Company was composed of the following persons:

Management Board

Marek Dziubiński – President of the Management Board

Maksymilian Sztandera – Chief Financial Officer

On 26 June 2018 the Annual General Meeting of Shareholders changed the composition of Medicalgorithmics S.A. Supervisory Board. The General Meeting dismissed all of the existing Supervisory Board Members, i.e. Mr Marek Tatar, Mr Marcin Hoffmann, Mr Jan Kunkowski, Mr Piotr Żółkiewicz and Mr Artur Małek. Subsequently, the General Meeting appointed the following Supervisory Board Members:

Supervisory Board

Michał Wnorowski, Chairperson of the Supervisory Board, Member of the Audit Committee

Grzegorz Grabowicz, Member of the Supervisory Board, Chairman of the Audit Committee

Artur Małek, Member of the Supervisory Board, Member of the Audit Committee

Marek Tatar, Member of the Supervisory Board

Krzysztof Urbanowicz - Member of the 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 ("EU IFRSs"), 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 2017, as well as the Directors' Report on activities of the Capital Group and the Directors' Report on activities of the Company in 2017.

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.

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 recognised 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 recognised under finance income (costs) or, in cases specified in the accounting principles (policy), capitalised 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 denominated in other than functional currency are converted at the average exchange rate applicable as at the date of the measurement at fair value.

Profits or losses arising from the translation of non-monetary assets and liabilities recognized at fair value are recognized in accordance with the recognition of profit or loss from the change in fair value (i.e., respectively, in other comprehensive income or in profit or loss, where the fair value change is recognized).

4.3. Judgments and estimates performed

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 recognised 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 amortisation rates for intangible assets);
- property, plant and equipment (estimates of depreciation rates applied);
- fair value and impairment with respect to financial assets, including shares and stocks in subsidiaries;

- trade receivables and other financial assets receivables, including granted loans (as at the balance sheet date the Capital Company assets whether there is objective evidence of impairment of the receivables or receivables group; if the recoverable amount of an asset is less than its carrying amount, the Capital Group makes an impairment write-off 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 realisable 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 2017.

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 2017.

5. Segment reporting

The core business of the Capital Group comprises:

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

The Capital Group operates mainly outside of Poland, particularly in the US. 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 cardiac diagnostics, particularly for ECG analysis. This segment comprises sales of services and the supply of cardiac 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 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. Sales revenue structure

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
By type				
Revenue from sales of services	49 020	60 967	93 441	102 261
Revenue from sales of devices	198	129	268	281
Total revenue	49 218	61 096	93 709	102 542
	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
By territory				
Domestic sales	6	62	7	64
Export sales	49 212	61 034	93 702	102 478
Total revenue	49 218	61 096	93 709	102 542

7. Employee benefits

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Salaries	(27 224)	(27 084)	(51 014)	(52 034)
Incentive scheme	(743)	(1 005)	(1 485)	(2 009)
Social security and other employee benefits	(416)	(294)	(790)	(669)
	(28 383)	(28 383)	(53 289)	(54 712)

Details of the incentive scheme are described in section 20.6 of the consolidated financial statements of the Medicalgorithmics Capital Group for 2017.

8. Amortisation and depreciation

The most significant component of the amortization and depreciation expense is the amortization of client bases held by the Group (the Medi-Lynx client base recognized as a result of the final settlement of the purchase price and AMI/Spectocor client base acquired following the settlement agreement of 28 December 2016). The client bases are amortized over a period of 20 years, and the cost of amortization in the first half of 2018 amounted to PLN 2,783 thousand (PLN 3,081 thousand in the first half of 2017).

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. The total cost in this respect in the first half of 2018 amounted to PLN 1,369 thousand (PLN 1,999 thousand in the comparative period).

9. Third-party services

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Lease and rental	(1 167)	(1 180)	(2 277)	(2 217)
Telecommunication and Internet services	(1 311)	(1 305)	(2 532)	(3 304)
Accounting and financial audit services	(286)	(292)	(607)	(567)
Advisory services	(1 094)	(1 952)	(1 660)	(3 877)
Transport and courier services	(1 320)	(1 451)	(2 454)	(2 492)
Monitoring services	(519)	(652)	(1 257)	(716)
Leases	(7)	(30)	(7)	(61)
Maintenance services	(587)	(544)	(1 129)	(985)
Marketing services	(728)	(1 322)	(1 290)	(1 322)
Other third-party services	(1 155)	(754)	(1 643)	(1 571)
	(8 175)	(9 482)	(14 857)	(17 112)

10. Other operating revenue and expenses

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Settlement of subsidies	78	127	157	351
Impairment losses on receivables	-	12	-	24
Other	1	2	8	6
Other operating revenue	79	141	166	381
Impairment losses on receivables	-	-	(91)	-
Provisions for state tax	(1 371)	-	(1 371)	-
Other	(482)	(155)	(711)	(177)
Other operating expenses	(1 853)	(155)	(2 173)	(177)

On 21 August 2018 in current report number 30/2018 the Company reported a tax investigation carried out by the Texas Controller of Public Accounts, as a result of which a potential liability was found on the side of Medi-Lynx on account of tax on sales and excise tax for the period from 1 July 2014 to 31 December 2017. In accordance with current report number 31/2018, on the basis of tax advisors' opinion, the Company Management Board made a decision to establish a provision encumbering the financial result in the financial statement for the first half of 2018 for the part of tax liability unquestioned by the Group.

11. Effective tax rate

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Profit before tax	9 717	14 908
Tax at the tax rate applicable in Poland	(1 846)	(2 833)
Non-tax-deductible costs	(126)	(99)
Difference between the tax rate in Poland and USA	(173)	(497)
Amortisation of goodwill for tax purposes	768	1 422
Non-taxable revenue	31	-
Other	85	135
Tax reported in the statement of comprehensive income	(1 261)	(1 872)

At the start of 2018 corporate income tax in the US changed from 34% to 21%.

12. Intangible assets

	Wartość firmy	Bazy klientów	Koszty zakończonych prac rozwojowych	Prace rozwojowe w realizacji	Pozostałe	Ogółem
Wartość brutto wartości niematerialnych						
Wartość brutto na dzień 01.01.2018	77 482	110 103	5 937	13 148	1 864	208 534
Zwiększenia	-	-	-	2 062	223	2 285
Różnice kursowe	5 799	8 309	-	-	53	14 161
Wartość brutto na dzień 30.06.2018	83 281	118 412	5 937	15 210	2 140	224 980
Umorzenie i odpisy z tytułu utraty wartości						
Umorzenie oraz odpisy z tytułu utraty wartości na dzień 01.01.2018	-	5 505	5 027	-	1 102	11 634
Amortyzacja	-	2 960	228	-	206	3 394
Różnice kursowe	-	415	-	-	35	450
Umorzenie oraz odpisy z tytułu utraty wartości na dzień 30.06.2018	-	8 880	5 255	-	1 343	15 478
Wartość netto						
Na dzień 01.01.2018	77 482	104 598	910	13 148	762	196 900
Na dzień 30.06.2018	83 281	109 532	682	15 210	797	209 502

	Goodwill	Client bases	Costs of completed development works	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	-	-	-	3 425	213	3 638
Foreign exchange differences	(15 408)	(22 076)	-	-	(140)	(37 624)
Gross value as at 31 December 2017	77 482	110 103	5 937	13 148	1 864	208 534
Accumulated amortisation and impairment write-downs						
Accumulated amortisation and impairment write-downs as at 1 January 2017	-	-	4 311	-	826	5 137
Amortisation	-	5 505	716	-	343	6 564
Foreign exchange differences	-	-	-	-	(67)	(67)
Accumulated amortisation and impairment write-downs as at 31 December 2017	-	5 505	5 027	-	1 102	11 634
Net value						
As at 1 January 2017	92 890	132 179	1 626	9 723	965	237 383
As at 31 December 2017	77 482	104 598	910	13 148	762	196 900

	Goodwill	Client bases	Costs of completed development works	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	-	-	4 311	-	826	5 137
Amortisation	-	2 930	489	-	178	3 597
Foreign exchange differences	-	-	-	-	(45)	(45)
Accumulated amortisation and impairment write-downs	-	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

Spółka	Data nabycia	Nabywany udział w aktywach netto	Cena nabycia (tys. USD)	Wartość godziwa nabytych aktywów netto (tys. USD)	Wartość firmy (tys. USD)
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 on acquisition of Medi-Lynx 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 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. As a result of the test conducted at the end of 2017, the Parent Company's Management Board did not find any indications of impairment of goodwill. In 2018 impairment of assets indication were not found.

Goodwill is amortized for tax purposes at the level of the subsidiary, MDG HoldCo (included in the 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 value at the balance sheet date: USD 11,685 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/Spectocor. This transaction was carried out by the Capital Group in December 2016.

b. AMI client base (net value at the balance sheet date USD 17,571 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 amortises 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 capitalised by the Capital Group as intangible assets. The object of the development works is the PocketECG system. It is currently the most technologically advanced solution offered by the Group. 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 program of the Foundation for Polish Science – Innovator. The net value of the project is PLN 683 thousand. The project will be amortized until 31 December 2019.

The above development work was carried out in part with co-financing from the European Union funds, whose non-depreciated value as at 30 June 2018 amounted to PLN 472 thousand (31 December 2017 – PLN 629 thousand). According to the rules adopted by the Capital Group, the value of subsidies received is recorded 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).

- ECG TechBot – software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods.

The PocketECG CRS PocketECG 12Ch projects are financed from own funds. ECG TechBot is co-financed by the National Centre for Research and Development (“NCBiR”) from public funds. The estimated total cost of project implementation as well as the total amount of eligible costs is PLN 11,188 thousand, with the maximum value of co-financing set at PLN 6,335 thousand.

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 capitalised as development works in progress include the costs of salaries of the R&D staff.

13. Financial assets

	30.06.2018	31.12.2017	31.12.2017
Investment certificates	10 705	14 936	19 205
Shares	200	200	200
Financial assets	10 905	15 136	19 405
of which long-term portion	200	10 910	15 169
of which short-term portion	10 705	4 226	4 236

Investment certificates

As at 30 June 2018, the Capital Group held 107,699 investment certificates of the fund Bezpieczne Obligacje Fundusz Inwestycyjny Zamknięty (“Fund”) managed by Copernicus Capital TFI SA (“Investment Fund Company”). The value of one investment certificate was valued as at 30 June 2018 in the amount of PLN 99.40. 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 6 April 2018, 42,500 certificates of the total value of PLN 4,276 thousand were redeemed. Moreover, on 20 July 2018, the Company requested to redeem 46,000 certificates with a total value of PLN 4,572 thousand. As on 30 June 2018 the Company disclosed all held investment certificates (with a total value of PLN 10,705 thousand) in short term financial assets as it is planning to redeem them during the coming year.

14. Trade and other receivables

	30.06.2018	31.12.2017	30.06.2017
Trade receivables	20 732	19 612	17 291
Budgetary receivables	1 946	1 058	2 381
Other receivables	490	269	298
Prepayments and deferred expenses	3 203	3 012	4 817
	26 371	23 951	24 787
Long-term	-	-	-
Short-term	26 371	23 951	24 787

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	down	Net value
Non-matured	13 320	-	13 320
Overdue from 0 to 30 days	1 668	-	1 668
Overdue from 31 to 60 days	12	-	12
Overdue of more than 61 days	5 922	190	5 732
	20 922	190	20 732

Receivables recognised 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. According to the accounting policy, write-off of the estimated payments from insurers amounting to PLN 98 thousand in the first half of 2018, is directly recognized in the amount of revenue from sales of medical services, reducing their value.

15. Cash and cash equivalents

	30.06.2018	30.06.2018	31.12.2017
Cash in hand	8	11	10
Cash at banks	29 831	22 838	19 193
Short-term deposits	14 601	9 682	-
	44 440	32 531	19 203

16. Basic and diluted earnings per share

	01.01.2018- 30.06.2018	01.01.2017- 31.12.2017	01.01.2017- 30.06.2017
Profit for the reporting period attributable to shareholders of the Parent Company (in PLN '000)	6 535	25 539	9 739
Weighted average number of ordinary shares (in thousands of shares)	3 607	3 607	3 607
Effect of dilution of the potential number of ordinary shares (in thousands of shares)	-	-	21
Basic profit per share in PLN (net profit/weighted average number of shares)	1.81	7.08	2.70
Diluted profit per share in PLN (net profit/weighted average number of diluted shares)	1.81	7.08	2.68

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

17. Trade and other liabilities

	30.06.2018	31.12.2017	30.06.2017
Trade liabilities	2 867	2 207	2 787
Salaries and wages payable	5 782	5 002	5 919
Budgetary liabilities	455	311	291
Dividends payable	5 121	-	7 213
Other liabilities	1 820	2	56
	16 045	7 522	16 266
Income tax liabilities	25	311	778
	30.06.2018	31.12.2017	30.06.2017
Subsidies	554	630	786
Other	858	991	486
	1 412	1 621	1 272
of which long-term	239	315	472
of which short-term	1 173	1 306	800

The low value of other liabilities as on 30 June 2018 is the result of establishing a provision for liability on account of tax on sales and excise tax in conjunction with the results of the tax investigation. For more information, see Note 10 to these financial statements.

18. Liabilities in respect of bonds and other financial liabilities

	30.06.2018	30.06.2018	31.12.2017
Liabilities in respect of bonds	50 364	50 274	50 166
Liabilities arising from acquisition of shares in Medi-Lynx	15 043	21 407	22 335
Financial liabilities	65 407	71 681	72 501
of which long-term	7 448	63 794	64 589
of which short-term	57 959	7 887	7 912

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 against the seller of Medi-Lynx Cardiac Monitoring, LLC shares, i.e. Medi-Lynx Monitoring. As at 30 June 2018, the outstanding amount was USD 3,980 thousand. Payments are spread over two equal instalments amounting to USD 1,990 thousand, payable on 30 March 2019 and 30 March 2020. Liabilities bear interest at a fixed interest rate.

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, and the portion of the liability arising from the acquisition of Medi-Lynx, payable of 30 March 2019.

19. Information concerning seasonality or periodicity of the Capital Group operations

The operations of the Parent Company and the subsidiaries of the Medicalgorithmics Capital Group are not subject to seasonality nor periodicity. 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 lower volume of commissioned examinations falls in holiday periods and around popular holidays (Christmas, Independence Day, Thanksgiving). The analysed data show that the number of examinations done in June, July, November and December deviates from a few to a dozen percent in comparison with monthly averages, while in the best months of spring and autumn the analogous deviations in plus are observed.

20. Issue of securities

In the first half of 2018 there was no issue of securities.

21. Information concerning paid out or declared dividend

On 26 June 2018 the Annual General Meeting of the Company adopted a resolution on the disbursement of dividend from net profit generated by the Company in previous years and accumulated as part of its supplementary capital. According to the resolution, the amount of PLN 5,121 thousand was allocated to the dividend payment, i.e. PLN 1.42 per 1 share. All shares of the Company were covered with the dividend. The dividend date was set to 16 July 2018, and the dividend payment date – to 30 July 2018.

22. Transactions with executives

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

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Remuneration of the Management Board Members	1 727	3 660
Remuneration of the Supervisory Board	194	68

Costs of remuneration of the Parent Company in the first half of 2018 also include the costs of the incentive scheme described in section 20.6 of the Consolidated financial statements of the Medicalgorithmics Capital Group for 2017 and in section I.12 of the Directors' Report on activities of the Capital Group in 2017. These costs amounted to PLN 1,485 thousand. Valuation of the incentive scheme was reclassified to the incentive scheme valuation reserve.

23. Information about significant legal proceedings

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

24. Events after the balance sheet date

On 2 July 2018, the Company acquired all shares in Kardiosystem Monitoring sp. z o.o. ("Kardiosystem").

The price for acquiring shares in Kardiosystem was PLN 165 thousand, wherein the contract provides for additional payment up to PLN 350 thousand due in 2019–2023 depending on achieving assumed yearly sales goals.

Since 2010, Kardiosystem has been the exclusive partner of Medicalgorithmics in Poland, offering services based on PocketECG technology. The main purpose for purchasing Kardiosystem was to combine the sales forces of both companies and to create a common range of systems for arrhythmia diagnostics and cardio tele rehabilitation addressed to hospitals and doctor's surgeries in Poland. This will make it possible to increase sales on the Polish market.

Kardiosystem's competitive advantage comprises a qualified and experienced team of physicians and electro-cardiology technicians who are responsible for analyzing ECG records and preparing detailed diagnostic reports from tests. Furthermore, Kardiosystem has permanent relationships with health care facility representatives in Poland. After the transaction, Kardiosystem will provide analysis and monitoring services with respect to cardiac telemetry at the heart monitoring center, and the Company's sales department will be responsible for acquiring new customers and after-sales service.

In other words the significant event taking place after the balance sheet date was FDA's approval of the PocketECG CRS cardio rehabilitation system for trade in the United States. The system was cleared on 12 July 2018. Thus the Company can initiate actions to commercialize PocketECG CRS in the United States.

In July 2018 Medicalgorithmics signed a service distribution agreement through the use of PocketECG technologies with further Vingmed group companies in Norway and Sweden. Thus far the Company worked with the said group in Denmark. Expansion of the cooperation with the Vingmed group, one of the largest companies in Scandinavia in terms of distributing medical products and rendering services with the use thereof, shall guarantee the acquisition of new customers and increased sales in Scandinavia. The concluded agreements oblige partners to purchase and activate a minimum of 600 PocketECG devices during the coming two years and a minimum of 20% increase in orders in subsequent years.

On 21 August 2018 in current report number 30/2018 the Company reported a tax investigation carried out by the Texas Controller of Public Accounts (the Office), as a result of which a potential liability was found on the side of Medi-Lynx on account of tax on sales and excise tax for the period from 1 July 2014 to 31 December 2017. As reported in current report number 31/2018, the Group received an opinion from tax advisors, which indicated significant irregularities in the findings of the Office pertaining to a large portion of the potential tax liability.

On the basis of tax advisors' opinion, the Company Management Board made a decision to establish a provision encumbering the financial result in the financial statement for the first half of 2018 for the part of tax liability unquestioned by the Group. Due to the significant doubts as to the correctness of the Office's findings, the Management Board decided to submit an application for a reconsideration of the matter pertaining to the questioned proportion of the liability and not to establish a provision for that portion.

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.

	in PLN thousands		in EUR thousands	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Statement of financial position				
Non-current assets	185 946	188 858	42 633	45 280
Current Assets	40 034	26 564	9 179	6 369
Intangible assets	16 518	14 581	3 787	3 496
Short-term receivables	7 183	4 278	1 647	1 026
Equity	165 346	161 885	37 909	38 813
Share capital	361	361	83	87
Short-term liabilities	58 363	2 055	13 381	493
Long-term liabilities	2 271	51 482	521	12 343
Number of shares (item)	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	45.85	44.89	10.51	10.76
	01.01.2018-	01.01.2017-	01.01.2018-	01.01.2017-
Total income statement	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Sales revenue	20 054	23 209	4 730	5 464
Profit on sales	3 433	4 503	810	1 060
Operating profit	3 221	4 711	760	1 109
Profit/(loss) before tax	8 827	(4 440)	2 082	(1 045)
Net profit/(loss)	7 097	(3 668)	1 674	(864)
Earnings/(loss) per ordinary share (PLN/EUR)	1.97	(1.02)	0.46	(0.24)
	01.01.2018-	01.01.2017-	01.01.2018-	01.01.2017-
Statement of cash flows	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Net cash flows from operating activities	5 841	(5 291)	1 378	(1 246)
Net cash flows from investing activities	1 401	(25 953)	330	(6 110)
Net cash flows from financial activities	(1 274)	30	(300)	7
Total net cash flows	5 968	(31 214)	1 408	(7 349)

Method of conversion of selected figures into EUR:

- Individual items of the statements regarding the financial standing were calculated with the average FX rate of Narodowy Bank Polski as of 29 June 2018 at EUR/PLN 4.3616 and as of 29 December 2017 at EUR/PLN 4.1709;
- The presented items of the statements of comprehensive income and the statement of cash flows were translated using the rate being the arithmetical mean of average rates set by Narodowy Bank Polski as at the last day of each month of the financial period from 1 January 2018 to 30 June 2018, amounting to EUR/PLN 4.2395 and from 1 January 2017 to 30 June 2017, amounting to EUR/PLN 4.2474.

	30.06.2018	31.12.2017	30.06.2017
Intangible assets	16 518	14 581	12 989
Tangible fixed assets	1 603	1 301	879
Financial Assets	26 70 381	74 691	80 313
Shares in subsidiaries	27 94 771	94 771	94 771
Deferred income tax assets	2 673	3 514	2 580
Fixed assets	185 946	188 858	191 532
Inventories	5 974	7 856	9 325
Receivables under supplies and services and other	28 7 183	4 278	12 161
Financial Assets	26 10 705	4 226	10 643
Cash and cash equivalents	16 172	10 204	565
Current assets	40 034	26 564	32 694
TOTAL ASSETS	225 980	215 422	224 226

	30.06.2018	31.12.2017	30.06.2017
Share capital	361	361	361
Supplementary capital	151 091	159 042	159 042
Reserve from the valuation of the incentive scheme	6 797	5 312	5 179
Retained earnings	7 097	(2 830)	(3 668)
Equity	165 346	161 885	160 914
Provisions	700	573	502
Provision for deferred income tax	1 212	536	1 386
Liabilities arising from bonds	30 -	49 938	49 838
Other liabilities	31 120	120	160
Accruals and deferred income	31 239	315	472
Long-term liabilities	2 271	51 482	52 358
Credits and loans	28	11	1 410
Liabilities arising from bonds	30 50 364	336	328
Liabilities for supplies and services and other	31 7 656	1 326	8 855
Income tax liabilities	-	67	-
Accruals and deferred income	31 315	315	361
Short-term liabilities	58 363	2 055	10 954
Total liabilities	60 634	53 537	63 312
TOTAL EQUITY AND LIABILITIES	225 980	215 422	224 226

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Sales revenue	25 10 409	8 416	20 054	23 209
Raw materials and consumables used	(1 359)	(430)	(2 984)	(3 549)
Employee benefits	(4 198)	(4 411)	(7 703)	(9 416)
Amortisation and depreciation	(264)	(317)	(539)	(761)
Third-party services	(2 431)	(2 446)	(4 040)	(3 684)
Other	(1 099)	(1 138)	(1 355)	(1 296)
Total costs of sales	(9 351)	(8 742)	(16 621)	(18 706)
Profit/ (loss) on sales	1 058	(326)	3 433	4 503
Other operating revenue	79	141	166	381
Other operating expenses	(263)	(155)	(378)	(173)
Profit / (loss) form operating activity	874	(340)	3 221	4 711
Finance income	7 515	987	8 386	2 203
Finance costs	(684)	(6 105)	(2 780)	(11 354)
Net financial costs	6 831	(5 118)	5 606	(9 151)
Profit/ (loss) from continued operations	7 705	(5 458)	8 827	(4 440)
Income tax	(1 468)	989	(1 730)	772
Net profit / (loss) from continued operations	6 237	(4 469)	7 097	(3 668)
Other net comprehensive income for the reporting	-	-	-	-
Total comprehensive income	6 237	(4 469)	7 097	(3 668)
Basic profit/(loss) per share in PLN	1.73	(1.24)	1.97	(1.02)
Diluted profit/(loss) per share in PLN	1.73	(1.23)	1.97	(1.01)

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2018	361	159 042	5 312	(2 830)	161 885
Comprehensive income for the reporting period					
Net loss for the previous reporting period	-	(2 830)	-	2 830	-
Net profit for the current reporting period	-	-	-	7 097	7 097
	-	(2 830)	-	9 927	7 097
Transactions recognised directly in equity					
Dividend payment	-	(5 121)	-	-	(5 121)
Valuation of the Incentive Scheme	-	-	1 485	-	1 485
Total contributions from and distributions to owners	-	(5 121)	1 485	-	(3 636)
Equity as at 30 June 2018	361	151 091	6 797	7 097	165 346

19

	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 loss for the previous reporting period	-	34 421	-	(34 421)	-
Net profit for the current reporting period	-	-	-	(2 830)	(2 830)
	-	34 421	-	(37 251)	(2 830)
Transactions recognised directly in equity					
Dividend payment	-	-	-	(7 213)	(7 213)
Valuation of the Incentive Scheme	-	-	2 142	-	2 142
Total contributions from and distributions to owners	-	-	2 142	(7 213)	(5 071)
Equity as at 31 December 2017	361	159 042	5 312	(2 830)	161 885

	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					
Zysk netto za poprzedni okres sprawozdawczy	-	34 421	-	(34 421)	-
Strata netto za bieżący okres sprawozdawczy	-	-	-	(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
Total contributions from and distributions to owners	-	-	2 009	(7 213)	(5 204)
Equity as at 30 June 2018	361	159 042	5 179	(3 668)	160 914

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Cash flows from operating activities		
Net profit (loss)	7 097	(3 668)
Depreciation of property, plant and equipment	215	163
Amortization of intangible assets	324	598
Income tax	1 730	(772)
Change in stock	1 882	385
Change in trade and other receivables	(2 612)	(1 981)
Change in accruals, prepayments and deferred income	(158)	(3 531)
Change in financial assests	-	210
Change in trade and other liabilities	1 209	(4 390)
Change in provisions	127	88
Net finance (income)/costs	82	(98)
Valuation of the incentive scheme	1 485	2 009
Tax paid	(572)	(2 447)
Foreign exchange differences	(4 944)	8 410
Interest	7	(265)
Other	(31)	(2)
	5 841	(5 291)
Cash flows from investing activities		
Proceeds from sale of investments	4 148	11 797
Loans granted	-	(27 799)
Expenditure on purchases of intangible assets	(2 747)	(1 860)
Acquisition of other investments	-	(40)
Subsidies to the capital of Medi-Lynx	-	(8 051)
	1 401	(25 953)
Cash flows from financing activities		
Proceeds from credits taken out	-	1 401
Repayment of financial liabilities	18	-
Interest paid on bonds	(1 374)	(1 371)
Other financial proceeds	82	-
	(1 274)	30
Total net cash flows	5 968	(31 214)
Opening balance of cash and cash equivalents	10 204	31 779
Closing balance of cash	16 172	565

25. Sales revenue structure

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
By type				
Revenue from sales of services	9 137	8 059	17 697	19 401
Revenue from sales of devices	1 272	357	2 357	3 808
	10 409	8 416	20 054	23 209
	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
By territory				
Domestic sales	6	63	7	64
Export sales	10 403	8 353	20 047	23 145
	10 409	8 416	20 054	23 209

26. Financial assets

	30.06.2018	31.12.2017	30.06.2017
Investment certificates	10 705	14 936	19 205
Loans granted	70 181	63 781	71 551
Shares	200	200	200
	81 086	78 917	90 956
of which long-term portion	70 381	74 691	80 313
of which short-term portion	10 705	4 226	10 643

Investment certificates were described in detail in note 13.

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

27. Shares in subsidiaries

	30.06.2018	31.12.2017	30.06.2017
Medicalgorithmics US Holding Corporation	94 771	94 771	94 771
	94 771	94 771	94 771

28. Trade and other receivables

	30.06.2018	31.12.2017	30.06.2017
Trade receivables	4 120	3 481	6 013
Budgetary receivables	1 184	290	2 381
Other receivables	296	269	298
Prepayments and deferred expenses	1 583	238	3 469
	7 183	4 278	12 161
Long-term	-	-	-
Short-term	7 183	4 278	12 161

29. Basic and diluted earnings per share

	01.01.2018- 30.06.2018	01.01.2017- 31.12.2017	01.01.2017- 30.06.2017
Profit for the reporting period ('000 PLN)	7 097	(2 830)	(3 668)
Weighted average number of ordinary shares ('000 of shares)	3 607	3 607	3 607
Dilution effect	-	-	21
Basic profit per share in PLN (net profit / weighted average number of shares)	1.97	(0.78)	(1.02)
Diluted profit per share in PLN (net profit / weighted average number of diluted shares)	1.97	(0.78)	(1.01)

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

30. Liabilities in respect of bonds

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

31. Trade and other liabilities, accruals and other liabilities

	30.06.2018	31.12.2017	30.06.2017
Trade liabilities	1 662	529	1 351
Budgetary liabilities	455	311	291
Salaries and wages payable	387	484	-
Tax liabilities	-	67	-
Dividend liabilities	5 121	-	7 213
Other liabilities	31	2	160
Short-term accruals	315	315	361
Long-term accruals	239	315	472
	8 210	2 023	9 848

32. 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, the existing regulations sometimes lack clarity, leading to differing opinions as regards the legal interpretation of tax provisions, both between state authorities and between authorities and the private sector. Tax settlements as well as other settlements (including those related to customs duties or foreign currencies) may be inspected by authorities which are competent to impose significant penalties. Any additional liabilities resulting from such inspections need to be paid with interest. 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.

33. 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

As of the day	30.06.2018	31.12.2017	30.06.2017
Loans granted	70 181	63 781	71 552
Payments to the capital	94 771	94 771	94 771
	01.01.2018-	01.01.2017-	01.01.2017-
P&L ('000 PLN)	30.06.2018	31.12.2017	30.06.2017
Interest on loans	1 744	3 475	1 519

Medi-Lynx Cardiac Monitoring LLC

As of the day	30.06.2018	31.12.2017	30.06.2017
Trade receivables	3 154	2 833	5 218
Other receivables	-	-	11
	01.01.2018-	01.01.2017-	01.01.2017-
P&L ('000 PLN)	30.06.2018	31.12.2017	30.06.2017
Revenues	18 796	35 250	17 599

34. Transactions with executives

Transactions with executives are disclosed in note 22.

35. Information about significant legal proceedings

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

36. 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
Chief Financial Officer

Warsaw, 28 August 2018



**MANAGEMENT BOARD REPORT
ON THE OPERATIONS OF
MEDICALGORITHMICS
IN THE FIRST HALF OF 2018**

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I. Characteristics of the activities of the Capital Group

I. 1. Business profile of the Group

The Medicalgorithmics Capital Group operates in the field of advanced telemedicine technologies. The Group is a provider of cardiac diagnostic solutions, particularly in the field of ECG analysis.

The principal areas of operations of the Capital Group are:

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

The Capital Group provides services in over a dozen countries on several continents, including North and South America, Europe and Australia. Currently, the United States is the largest market.

Main competitive advantages of the Capital Group are as follows:

- breakthrough technology in the field of mobile cardiac telemetry;
- effective business model based on subscription revenue;
- a team of top professionals in the areas of IT systems, programming, medical devices, digital signal processing and project management.

The Group's main source of revenue is sales of diagnostic services to patients in the United States. These services are provided using PocketECG, the company's proprietary solution, used 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.

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

The PocketECG system was admitted to trading in the United States by the US Food and Drug Administration (FDA). PocketECG has got a CE marking that indicates that the product meets the requirements of the European Union directives.

In addition to cardiac telemetry, the Group's products and solutions are used in the cardiac safety industry, i.e. in clinical trials of drugs for cardiac safety. Moreover, the Group collaborates closely with cardiovascular diagnostic and monitoring centres.

I. 2. Composition of the Capital Group

The Group's Parent Company is Medicalgorithmics S.A. (hereinafter the Parent Company / the Company / the Issuer), a joint stock company registered in Poland, which was established in 2005. In 2011, the Company's shares were listed on the NewConnect market, an alternative trading system outside the regulated market run 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 Medicalgorithmics Capital Group is composed of Medicalgorithmics S.A. and its subsidiaries. The Parent Company is the owner:

- 100% of the share capital of Medicalgorithmics US Holding Corporation ("MDG HoldCo") with its registered office in Wilmington, Delaware, USA;
- 75% of shares in Medi-Lynx Cardiac Monitoring, LLC ("Medi-Lynx"), with its registered office in Plano, Texas, USA, through a subsidiary.

During the period which this statement pertains to, there were no changes in the organisation of the Capital Group. The financial statements of the Parent Company and all its subsidiaries were included in the consolidated financial statements using the full method.

Figure 1. Structure of Medicalgorithmics Capital Group during the period this statement pertains to.



Currently, the Group is working to strengthen its position in the US healthcare market, expand its operations in other countries, and further expand its territory mainly to European countries. On every new market, Medicalgorithmics is working with a minimum of one strategic sales and operational partner to minimise operating costs and focus on support for patient technology and the development of cardiology solutions.

The Group employs highly qualified staff and puts great emphasis on obtaining products and services of the highest quality. The Group products are patented in key markets and obtain the necessary quality and safety certificates. Some of the earned profit is spent on research and technology development so that the Group may strengthen the status of an innovative market leader.

The Group is focused on the development of cardiac diagnostic devices and services, both stationary and remote.

Strategic plans assume the development of the following areas of operation:

- Medical diagnosis;
- Cardiological rehabilitation;
- 12-channel ECG system;
- Technological support for the research industry in terms of cardiac safety of medicaments;
- Integration and programming services for collaborating medical institutions.

The unique business model developed by the Management Board of the Parent Company, which is tailored to the specific character of the Group, is a source of sustainable profitability. The technologically advanced production of the PocketECG system located in Poland ensures full control over product quality, relatively low labor costs and protection of technological secrets.

The first market where Medicalgorithmics S.A. offered its product was the Polish market, whereas since 2010, the United States has been the primary sales market for the Company. The decision to expand into the US market was dictated by the openness of the US market to medical innovations and the high level of cardiac rehabilitation services provided by private and state insurers, which translates into significant telemedicine market value and prospects for its continued dynamic growth. Initially, in the US market, PocketECG system was sold in a subscription model, in co-operation with two strategic partners who provide diagnostic services to hospitals, clinics, cardiac surgeries and other healthcare units. In March 2016, through a company established for this purpose, Medicalgorithmics S.A. acquired 75% of shares of one of its trading partners – Medi-Lynx's. And on in December 2016 it purchased a client database from another of the trading partners. Thus, since 2017, in the US market, the Capital Group has been the exclusive provider of services provided by the PocketECG system to its target clients.

As a result of the above-mentioned acquisitions, the Capital Group was formed, concentrating both technological activity connected with creating innovative products and providing top quality remote cardiac diagnostic services, using its own products. Within the Group, Medi-Lynx, operating since the beginning of 2014, is the provider of these diagnostic services.

Medi-Lynx provides diagnostic services to patients in more than 35 states and earns revenue from the entities, in which the patients using the PocketECG system are insured. Services provided by Medi-Lynx are divided into three main categories, i.e. Telemetry, Event Monitoring and Holter, which are settled using Commercial Procedural Terminology (CPT). Based on the data collected by PocketECG, ECG technicians employed by Medi-Lynx produce comprehensive reports to help doctors diagnose heart disorders detected during the performed examination.

When manufacturing the PocketECG system, the Parent Company uses a number of suppliers of electronic components and sub-assemblies. Sources of supply are diversified and the Group is constantly establishing new business contacts with potential suppliers.

I. 4. Information on the segments

The Capital Group operates mainly outside of Poland, particularly in the US. 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.

I. 5. Shareholding structure of the Parent Company

The chart and the table below represent the shareholders of Medicalgorithmics S.A. holding at least 5% of votes at the General Meeting of Shareholders at the moment of submitting this report and in accordance with the best knowledge of the Company, indicating changes to the ownership structure of large block of shares in the period from the submission of the previous periodic report. The information contained in the table reflect the information received from shareholders in accordance with Article 69 of the *Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies*.

Chart 1. Shareholding structure of Medicalgorithmics S.A.

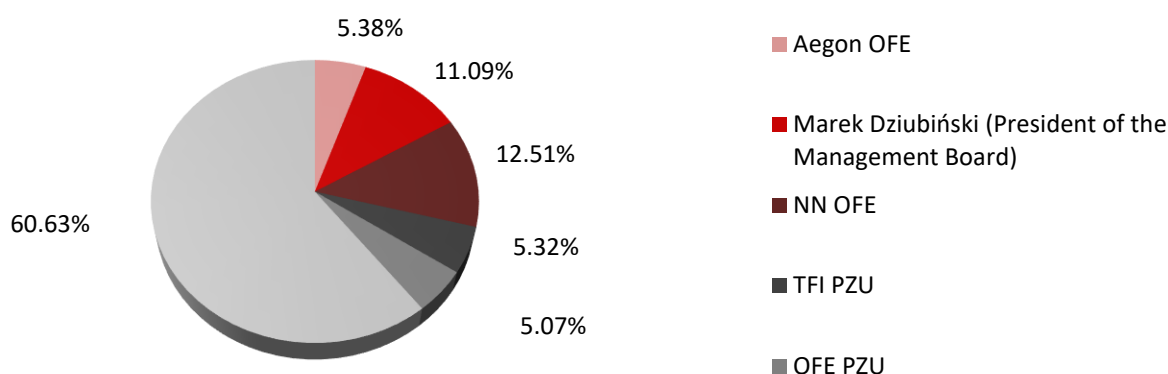


Table 1. Shareholding structure of Medicalgorithmics S.A.

Shareholder	Number of shares (item) as at 28 August 2018	% of share capital	Number of votes	% share in the overall number of votes	Change in the period from 22 May 2018 to 28 August 2018
Aegon OFE	193,863	5.38%	193,863	5.38%	unchanged
Marek Dziubiński (President of the Management Board)	400,000	11.09%	400,000	11.09%	unchanged
NN OFE	451,000	12.51%	451,000	12.51%	unchanged
TFI PZU ¹	191,935	5.32%	191,935	5.32%	+2,890
OFE PZU ²	182,830	5.07%	182,830	5.07%	+2,523
Other shareholders	2,186,898	60.63%	2,186,898	60.63%	- 5,413
TOTAL NUMBER OF SHARES	3,606,526				

1) information based on the number of shares registered by the entity at the Ordinary General Meeting of 26 June 2018.

2) On 20 June 2018, the Company announced in current report number 18/2018 that it had received a notice from a Company shareholder within the scope of which Powszechne Towarzystwo Emerytalne PZU S.A., acting on behalf of the open-ended pension fund Otwarty Fundusz Emerytalny PZU "Złota Jesień" (OFE PZU), announces that as a result of completing the sale of 2,523 (two thousand five hundred twenty-three) shares of the Company on the Warsaw Stock Exchange on 18 June 2018, after settling the transaction on 20 June 2018, OFE PZU holds more than 5% of the total number of votes in the Company.

I. 6. Management Board of the Parent Company

During the first half of 2018 and in the period from the balance sheet date to the date of publication of this report there were no changes to the composition of the Management Board of the Parent Company. As at the balance sheet date and as at the date of preparation and publication of this report, the Management Board of the Company was composed of the following persons:

Management Board

Marek Dziubiński – President of the Management Board
Maksymilian Sztandera – Chief Financial Officer

I. 7. Supervisory Board of Medicalgorithmics S.A.

On 26 June 2018 the Annual General Meeting of Shareholders changed the composition of Medicalgorithmics S.A. Supervisory Board. The General Meeting dismissed all of the existing Supervisory Board Members, i.e. Mr Marek Tatar, Mr Marcin Hoffmann, Mr Jan Kunkowski, Mr Piotr Żółkiewicz and Mr Artur Małek. Subsequently, the General Meeting appointed the following Supervisory Board Members:

Supervisory Board

Michał Wnorowski, Chairperson of the Supervisory Board, Member of the Audit Committee

Grzegorz Grabowicz, Member of the Supervisory Board, Chairman of the Audit Committee

Artur Małek, Member of the Supervisory Board, Member of the Audit Committee

Marek Tatar, Member of the Supervisory Board

Krzysztof Urbanowicz - Member of the Supervisory Board

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 the information received from shareholders in accordance with Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies.

Table 2. Shares of Medicalgorithmics S.A. held by members of the Parent Company's Management Board and Supervisory Board

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 22 May 2018 to 28 August 2018
Marek Dziubiński	President of the Management Board	400,000	-	Unchanged
Maksymilian Sztandera	Chief Financial Officer	-	-	Unchanged
Michał Wnorowski	Chairman of the Supervisory Board	-	-	Unchanged
Grzegorz Grabowicz	Member of the Supervisory Board	-	-	Unchanged
Artur Małek	Member of the Supervisory Board	-	-	Unchanged
Marek Tatar	Member of the Supervisory Board	-	-	Unchanged
Krzysztof Urbanowicz	Member of the Supervisory Board	-	-	Unchanged

1) An indirect holding is when a person owns shares in an entity which directly holds shares in the Company; such ownership is not equivalent to having the status of the parent of the entity which directly holds shares in the Company.

I. 8. Information about changes in the methods of managing the Company and its Capital Group

In the six-month period ended on 30 June 2018 there were no material changes to the basic management principles of the Parent Company. The Management Board of the Parent Company strives to harmonise the management principles in the companies within the Medicalgorithmics Capital Group through the implementation of appropriate procedures and standards of ownership.

II. Overview of development factors and summary of material events related to the Group's operations in the first half of 2018

A number of significant events associated with the Group's operations occurred in the first six months of 2018, which might have an impact on its development. The undertaken actions were strictly associated with the Group's strategic objectives, which comprise an expansion of sales as well as geographical and product diversification.

As part of the expansion of sales of the PocketECG system on new markets, in the first six months of 2018 the Parent Company acquired new trading partners. In June 2018 the Company signed an agreement for the distribution and sales of the arrhythmia diagnostics system with a new strategic partner, m-Health Solutions, Inc., which undertook to buy and activate a thousand PocketECG devices in the first year of cooperation. m-Health specialises in cardiovascular diagnostics and remote heart monitoring. The company has been operating on the Canadian market since 2009 and has served over 70 thousand patients in cooperation with 3 thousand physicians.

The Company also expanded its cooperation with the Scandinavian Vingmed Group within sales of the cardiac arrhythmia diagnostics system. Agreements have been signed with Vingmed AS from Norway and Vingmed AB from Sweden. Under the terms of the agreement, a partner is obligated to purchase and activate a minimum of 600 PocketECG devices during two years and a minimum of 20% increase in orders in subsequent years. The Vingmed Group is one of the largest companies in Scandinavia in terms of distributing medical products and rendering services with the use thereof.

In the first six months of 2018 the Company pursued actions with the aim of product diversification. At the start of the current year it began promoting a new proprietary product - the PocketECG CRS, a system for remote cardiac rehabilitation. Pilot implementations started at a number of renowned hospitals in Poland. On July 12, 2018, the Company received a notification from the Food and Drug Administration (FDA) that the PocketECG CRS was cleared under the procedure 510(k). Following FDA's approval, the Company will soon initiate actions to commercialise the new system in the U.S.

In the first six months of 2018, the Group performed a number of marketing actions, which aimed to support the adopted sales growth strategy and to build and support PocketECG brand image in the industry. The Group has prepared a strategy on Medicalgorithmics, Medi-Lynx and PocketECG brands identification as well as a marketing communication plan. In the first six months of 2018 works continued within the scope of online marketing, which are to support the brand's expert image and generate sales leads for sales reps in the US. All actions were monitored and optimised through the implementation of HubSpot, a tool for marketing automation.

An additional action geared towards sales growth was the Group's participation in the world's largest scientific conference for electrophysiologists. This annual event is organised in the US in May by the Heart Rhythm Society (HRS). A strategy on maximising the benefits stemming from participation in this event within the scope of sales and marketing has been prepared. The Group also took an active role in numerous industry conferences, promoting its cardio rehabilitation and arrhythmia diagnostics solutions in Poland and abroad.

In the first six months of 2018 the Group continued research and development works. ECG TechBot, was one of the projects, for which at the end of 2017 the Parent Company received funding from the National Centre for Research and Development. It is dedicated software that uses a set of algorithms for automatic analysis and interpretation of an ECG signal based on the so-called deep learning methods. The Company also continued works on the functional development of the PocketECG CRS remote cardio rehabilitation system.

For more information on ongoing research and development projects, see section III.4 of the Management Board report for 2017 on the operations of the Medicalgorithmics Capital Group.

III. Assets and financial standing of the Capital Group and commentary to the achieved results

III. 1. Commentary to the achieved results

In the first half of 2018, the Capital Group continued its strategy basing its operations on the innovative PocketECG system. The Group's consolidated revenue comprises mainly:

- revenue from medical services in the US market generated by Medi-Lynx;
- subscription revenue generated by Medicalgorithmics S.A. from cooperation with strategic partners, excluding Medi-Lynx;
- revenue from sales of PocketECG devices, excluding Medi-Lynx.

Medi-Lynx revenue are derived from the number of diagnostic services performed over a given period and the refund rate for research (in the case of public insurers) or the amount of contractual payments for a given procedure (in the case of private insurers).

The Parent Company operates on a subscription model, which means that it derives revenue from sales of devices, and then from subscriptions for their use and use of the related software and server infrastructure.

Table 3. Key items from the statement of comprehensive income for the first half of 2018 and 2017 and dynamics of the changes in the audited period (in PLN '000)

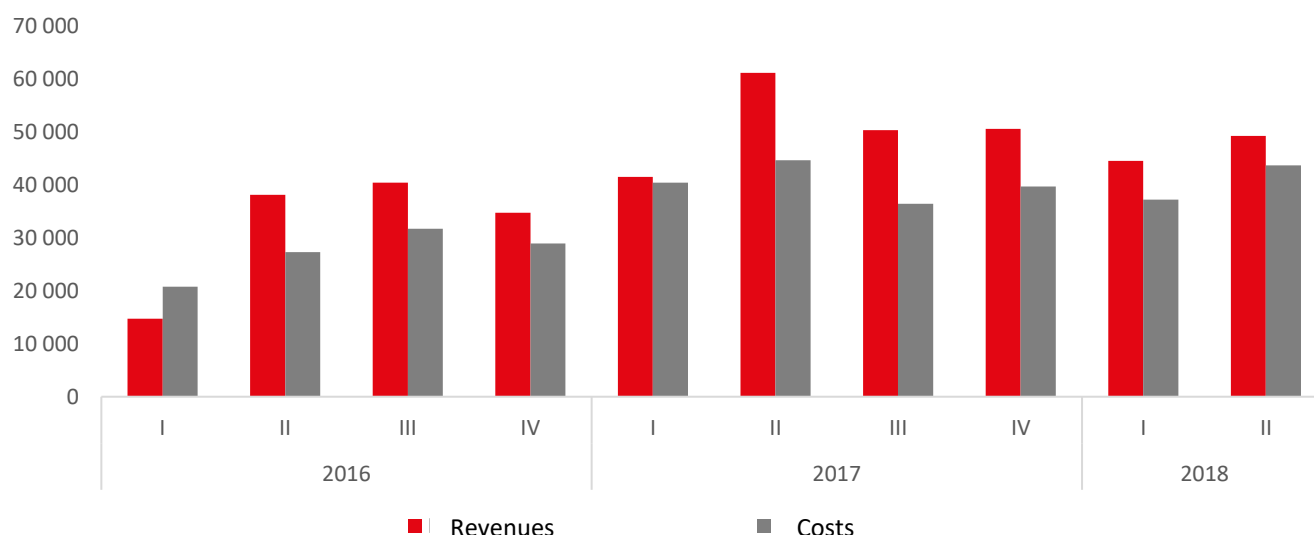
	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017	Change	Change %
Sales revenue	93,709	102,542	(8,833)	(9%)
Operating expenses	80,857	84,982	(4,125)	(5%)
Profit on sales	12,852	17,560	(4,708)	(27%)
Other operating revenue/(expenses), net	(2,007)	204	(2,211)	(1,084%)
Operating profit	10,845	17,764	(6,919)	(39%)
Net finance income/(costs)	(1,128)	(2,856)	1,728	(60%)
Profit before tax	9,717	14,908	(5,191)	(35%)
Net profit, of which:	8,456	13,036	(4,580)	(35%)
Net profit/(loss) attributable to Shareholders of the Parent Company	6,535	9,739	(3,204)	(33%)
Net profit/(loss) attributable to non-controlling interests	1,921	3,297	(1,376)	(42%)
EBITDA	16,334	24,403	(8,069)	(33%)

Sales revenue

In the first six months of 2018, the revenues of the Capital Group stood at PLN 93.7 million which represented a PLN 8.8 million (-9%) decrease as compared to the first six months of 2017. The primary cause was a 10% decrease in the average exchange rate of the dollar, resulting in an approx. PLN 9.9 million (-10%) smaller revenues for the Group and a decrease in the revenues of other partners, with the exception of Medi-Lynx, in the amount of PLN 4.4 million (-4%). These decreases were partially offset by the organic growth of Medi-Lynx revenues in the amount of PLN 5.4 million (+5%).

The decrease in revenues for the other partners with the exception of Medi-Lynx amounting to PLN 4.4 million is associated with the fact that the cooperation with AMI/Spectocor came to an end in February 2017. In the previous year, revenues on sales from that partner amounted to approx. PLN 4.7 million. Revenues from cooperation with other partners, excluding the AMI impact increased by approx. PLN 0.3 million

Chart 2. The Group's revenue from sales and cost of sales in particular quarters of 2016–2018 (PLN '000)



In the first half of 2018, the Group's total revenues came from sales of the PocketECG system, which consisted of revenue from sales of services in the amount of PLN 93.4 million (PLN 102,2 million in the first half of 2017), accounting for 99.7% of total revenues (the same proportion in the first half of 2017) and revenue from sales of devices in the amount of PLN 0.3 million (PLN 0.3 million in the first half of 2017), accounting for 0.3% of total revenues.

Operating expenses

Analogously to the changes observed at revenue levels, operating costs decreased in the first half of 2018 as compared to the first half of 2017. The decrease in the average dollar exchange rate had a significant impact on lower costs - the total positive effect of the foreign exchange rate change on operations amounted to approx. PLN 8.8 million (-10%).

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017	Change	Change %
Consumption of raw materials and materials	3,899	2,871	1,028	36%
Employee benefits	53,289	54,712	(1,423)	(3%)
Amortisation and depreciation	5,489	6,639	(1,150)	(17%)
Third-party services	14,857	17,112	(2,255)	(13%)
Other	3,323	3,648	(325)	(9%)
TOTAL:	80,857	84,982	(4,125)	(5%)

Consumption of raw materials and materials

The increase in the consumption of raw materials and energy in the amount of PLN 1.0 million, i.e. by 36% was primarily caused by an increase in the cost of servicing of devices mainly sold to Medi-Lynx. Incomes on that account are eliminated in the consolidation process, the cost of used components is disclosed as consumption of materials.

Employee benefits

Costs of employee benefits decreased by approx. PLN 1.4 million (-3%) as compared to the first half of 2017. The change was mainly attributable to two factors: (1) a change in the dollar average exchange rate, which translated into a cost decrease of approx. PLN 4.9 m and (2) a headcount increase at Medi-Lynx, as a result of which costs increase by approx. PLN 5.2 million. The headcount increase at Medi-Lynx was due to the acquisition of AMI/Spectocor's client base and the need to handle the growing volume of tests.

Additionally, lower costs of employee benefits are a result of a reduction of approx. PLN 0.5 million to the incentive scheme (details of the incentive scheme and conditions of its introduction are described in Section I.12 of the Management Board Report on the Capital Group's operations in 2017) and lower costs of employee benefits at the Parent Company by approx. PLN 1.7 million.

The costs of employee benefits constitute the most significant item in the Group's operating costs structure (66%). The high share of costs of employee benefits 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.

Amortisation and depreciation

In the first half of 2018, there is also a PLN 1.2 million (-17%) decrease in amortisation and depreciation costs, which now accounts for nearly 7% of total operating costs. The most significant component of the amortisation and depreciation expense is the amortisation of client bases held by the Group (the Medi-Lynx client base recognised as a result of the final settlement of the purchase price and AMI/Spectocor client base acquired following the settlement agreement of 28 December 2016). According to the Management Board's estimates, the client bases will bring economic benefits and will be amortised over a period of 20 years. The total cost of amortisation and depreciation of both databases in the first half of 2018 amounted to PLN 2,8 million which represents a decrease of approx. PLN 0.3 million as compared to the analogous period in the previous year. The entire change is a result of the decrease in the dollar average exchange rate.

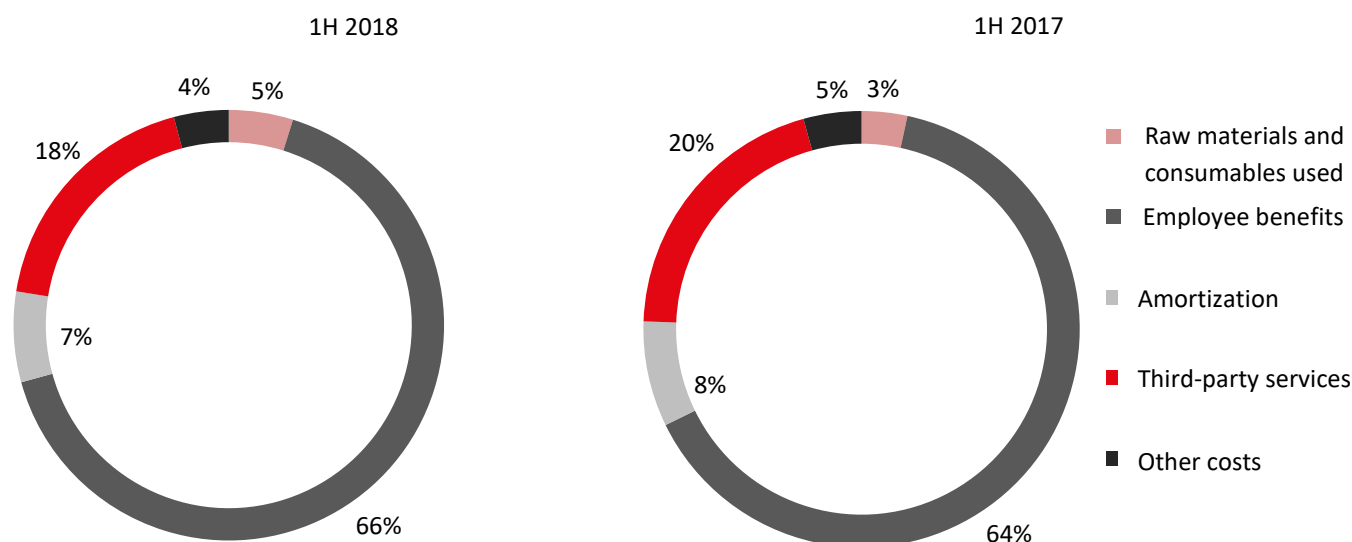
Moreover, due to the fact that, from the Group's point of view, the PocketECG devices constitute fixed assets, the cost of producing PocketECG devices sold to Medi-Lynx is not recognised to the cost of raw materials and materials consumed at one time, but it is depreciated over a period of 3 years, corresponding to the expected life cycle of the devices. The total cost on that account in the first half of 2018 amounted to PLN 1.4 million which represents a decrease of approx. PLN 0.6 million as compared to the analogous period in the previous year, and that is primarily the result of fully depreciating the devices acquired in 2014 (PLN 0.4 million) and decrease to the average exchange rate of the dollar (PLN 0.2 million).

Third-party services

At present, third-party services account for 18% of the Group's operating expenses, and their amount decreased by PLN 2.3 million (-13%) as compared to the corresponding period. The key items of costs of third-party services include: telecommunications and Internet services, lease and rental services as well as courier and transport services.

The decrease in costs is primarily caused by a decrease in the average exchange rate of the dollar in the amount of PLN 1.2 million and a decrease in consultancy costs in conjunction with ending negotiations with the US Department of Justice held in Q1 2017, in the amount of PLN 2.4 million. On the other hand, in conjunction with increased volume of tests, the Group incurred higher costs of transport and monitoring.

Chart 3. Structure of operating costs of the Group in the first half of 2018 and 2017

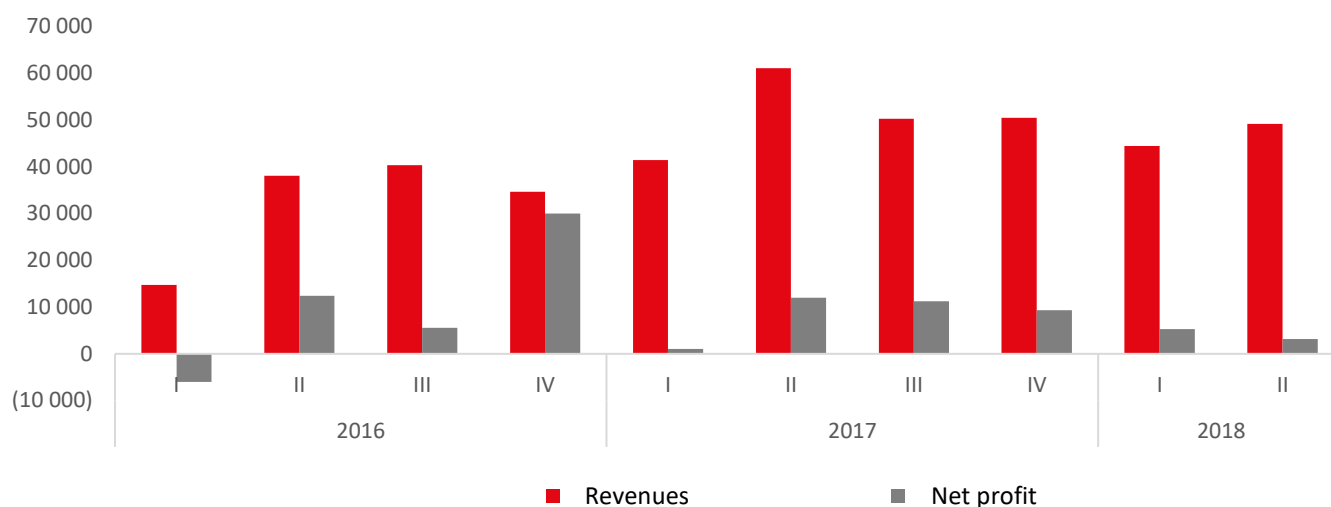


Profit and profitability

Net profit generated in the first half of 2018 amounted to PLN 8.5 million, and the profit attributable to shareholders of the Parent Company – PLN 6.5 million. At the level of profit before tax, the result of the first half of the year was charged with the costs of financial operations in the amount of PLN 1.1 million, which was mainly influenced by interest accrued on financial liabilities of the Group.

As a result of repayment of a part of the financial liabilities (primarily payment of subsequent installments of the liability incurred on account of acquiring Medi-Lynx shares) net financial costs in the first half of 2018 decreased as compared to the analogous period in the previous year by approx. PLN 1.7 million. On the other hand, the positive impact of smaller financial costs was eradicated by other operating costs pertaining to provisions for potential state tax costs at Medi-Lynx - PLN 1.4 million (for additional information on provisions see note 10 of Medicalgorithmics Capital Group interim condensed consolidated financial statements for the first half of 2018). The sales margin was 14% and EBITDA margin stood at 17%.

Chart 4. Revenue from sales and net profit of the Group in PLN '000 in particular quarters of the years 2016-2018



III. 2. Assets and financial standing of the Capital Group

As at 30 June 2018, total assets amounted to PLN 309.7 million which represents an increase by PLN 20.4 million (or +7%) as compared to balance as at 31 December 2017. At the balance sheet date, total non-current assets amounted to PLN 228.2 million and accounted for 74% of total assets. The most significant item of non-current assets were intangible assets, including client bases (PLN 109.5 million) and goodwill recognised on the acquisition of shares in Medi-Lynx (PLN 83.3 million). Current assets of PLN 81.5 million account for nearly 26% of total assets. The most significant items in this group of assets are cash (PLN 44.4 million) and trade receivables (PLN 20.7 million).

The increase in the dollar exchange rate by approximately 7% as compared to 31 December 2017 had a significant impact on the increase of total assets. The overall impact of foreign exchange rate changes resulted in an increase in total assets by PLN 15.6 million. Excluding the impact of foreign exchange rate changes, the value of the Group's cash as on balance sheet data increased by PLN 5.3 million (+16%). A significant increase with reference to the figure as at the end of 2017 was also reported to the value of development works in progress (PLN 2.1 million, +16%), in conjunction with the development projects the Group is engaged with. The value of financial assets held by the Company as on 30 June 2018 was lower by PLN 4.2 million (-28%) as compared to 31 December 2017 as a result of redeeming investment certificates in Q2 2018.

As at 30 June 2018, equity attributable to Shareholders of the Parent Company amounted to PLN 183.7 million (59% of total assets). The most significant components of liabilities were financial liabilities which include liabilities in respect of bonds together with interest accrued (PLN 50.4 million) and promissory note liabilities in respect of acquisition of shares in Medi-Lynx (PLN 15.0 million). As compared to the balance as at 31 December 2017, this item declined by PLN 6.4 million, mainly as a result of repayment of another instalment of the liability arising from acquisition of shares in Medi-Lynx. Net debt decreased by PLN 19.1 million from 31 December 2017, and amounts to PLN 20.9 million. In conjunction with the nearing bond maturity date (21 April 2019), on the balance sheet date the value of liabilities on account of bonds was entirely disclosed as short-term liabilities. The significant value increase to the trade and other liabilities item as compared to 31 December 2017 was caused by the occurrence of dividend disbursement liability (+ PLN 5.1 million). The dividend disbursement took place after the balance sheet date.

III. 3. Disclosure of proceedings pending before a court, an arbitration body or a public administration authority

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

III. 4. Related party transactions

In the discussed period, there were no related party transactions concluded under non-market conditions. Summary of transactions with related parties is presented in Note No 33 to the financial statements.

Shareholders (as related entities)

On 26 June 2018, the Ordinary General Meeting of Shareholders of the Parent Company passed a resolution No 16/06/2018 on distribution of the dividend from the net profit disclosed in the Company's financial statements for the financial year ended on 31 December 2017.

According to the aforementioned resolution, the amount of PLN 5,121 thousand was allocated to the dividend payment, i.e. PLN 1.42 per 1 share. All shares of the Company were covered with the dividend. The dividend date was set to 16 July 2018, and the dividend payment date – to 30 July 2018.

III. 5. The Management Board's position regarding the possibility of achieving forecasts

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

III. 6. Information on factors which in the Issuer's opinion will affect its performance during at least the following half year

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 results achieved in the next half-year. 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;
- developments on the US medical services market, where the Group generates 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 the countries where the Group operates.

III. 7. Description of basic threats and risks related to other months of the financial year

The Capital Group is exposed to various types of risk associated with its operations and environment, and these may have an impact on the performance of its strategic tasks and objectives. Threats and risks have been classified according to three categories:

- operational risk;
- financial risk;
- legal risk.

The Management Board of the Parent Company is responsible for establishing and supervising the risk management by the Capital Group. The Capital Group's risk management policy is to identify and analyse the risks to which the Capital Group is exposed, to set appropriate limits and controls, and to monitor the risk and the extent of matching the limits to the risk. The risk management policy and systems are subject to regular reviews in order to update in terms of changes in market conditions and changes to the Capital Group's operations. Through appropriate training, adopted standards and management procedures, the Capital Group strives to build a mobilising and constructive control environment in which employees understand their roles and responsibilities.

Operational risk

Risk associated with strategic objectives

The Group's strategic objective is to attain the position of a leading supplier of modern technological solutions within the field of mobile cardio diagnostics in the United States and on the EU market and the in developing countries. The Group intends to achieve the aforementioned objective by developing technologies, expanding the sales network in the United States, geographical and product diversification. On account of a number of factors which impact the effectiveness of the pursued growth strategy, the Group is unable to fully guarantee that all of its strategic objectives will be achieved. The risk of making inaccurate decisions stemming from an inappropriate assessment of a given situation or the Group's inability to adjust to changing market conditions may mean that the adopted growth strategy will not be fully executed, and the future financial performance may be worse than the estimates.

Risk associated with technical breakdowns and ICT security

The Group's operations are exposed to the risk of software faults, electronic devices, IT and telecommunications infrastructure breakdowns. Frequent technical problems could encourage clients (medical centres and electrophysiologist doctors) to use solutions supplied by the competition. The Group is also exposed to errors associated with incorrect data integration and cyber attacks, which might impact the Group's operations and its financial performance.

Risk associated with concentration of recipients

The Group provides medical services to a dispersed group of recipients (patients in many different medical institutions), nevertheless the number of payers (insurers) is limited. If one of the key insurers were to stop reimbursing the medical procedure provided by Group this change could have an adverse effect on the Group's operating results. Furthermore, in most markets a single commercial partner is responsible for the Group's sales. Exclusivity clauses in agreements restrict the options for the Group using alternative distribution channels. Legal disputes between the Group and given commercial partners could potentially result in extended periods during which the value of PocketECG systems distributed by the given business partner is diminished or the distribution ceases altogether. There is also the risk of a commercial partner not performing the specified business objectives associated with increasing sales on a target market.

Risk associated with product concentration

The Group's operations are primarily based on selling a single solution - the PocketECG system and additional services stemming from the sale of the PocketECG system. In the event of a significant decrease in the market demand for PocketECG systems as a results of a loss of the competitive advantage enjoyed by the Group's technology, a downturn on the cardio diagnostics market or as a consequence of other adverse external or internal events, the Group is exposed to a risk of a significant decrease of revenues on sales, and as a consequence a deterioration of financial results and loss of financial liquidity.

Risk associated with key employees

The Group's operations are based on top managers and professionals in the areas of IT systems, programming, medical devices, digital signal processing, project management, cardio diagnostics, electrophysiology and sale of medical services. The fierce competition on the demand side of the labour market and a limited number of specialised workers and managers on the telemedical market means that attracting and retaining and appropriate staff is one of the significant challenges faced by the Group.

The loss of key personnel may have an adverse effect on the Group's operations.

Risk associated with suppliers

The Group procures components for the production of PocketECG devices from a limited number of verified recipients, who guarantee high quality of products. In the event of delays in the supply of the required volume of components, a decrease in the quality or a change in the prices thereof, the Group would be forced to seek other sources of supply. Taking into account that the recipient selection and verification process is extended, possible delays, decrease in quality of the supplied elements or interruptions to component deliveries might limit of delay the production of PocketECG systems.

Risk of delays to the Group's deliveries

In conjunction with the multi-stage PocketECG device production process and the limited number of new devices available, deliveries of devices to recipients are exposed to a risk of delays in the event of a significant steep increase in orders. In the event of a rapid increase to the volume of orders for PocketECG systems, there is a potential risk of insufficient production capacity to satisfy the demand reported by recipients.

Risk of failure to obtain or retain approvals

Introducing the Group's products to trade on target markets is associated with obtaining certificates, approvals and consents appropriate for the given jurisdictions. The Group's solutions are classified as medical devices pursuant to US law and are subject to numerous Food and Drug Administration (FDA) regulations. The Company holds the necessary certificates, approvals and admissions to trade for the sold products, however there is a risk of their loss, suspension or withdrawal. Furthermore the Group may fail to obtain approvals for new or modified products.

Risk associated with industry development and the competition

The global telemedicine market is developing very rapidly and this entails changes to the products available on the market as well as significant variability of industry standards and patent requirements. In conjunction with the above, there is a risk that the Group fails to adapt to rapid market changes, which might entail a deterioration to its competitive position and financial standing.

Risk of force majeure

The Group is exposed to the consequences of numerous events, the occurrence of which it is unable to foresee or for which it is unable to estimate the probability of their occurrence. Such event, inter alia, include: geopolitical conflicts, terrorism, natural disasters, economic recessions or crises within the public health sphere. The occurrence of such events, and in particular a cumulation during a single period, may significantly disrupt the Group's operations.

Financial risk

Liquidity risk

The Group is exposed to liquidity risk understood as loss of the ability to settle liabilities on time or to acquire funds for financing operations. In particular this risk is associated with payment of trade liabilities, public law liabilities and financial liabilities. In part the Group finances its assets through borrowing - bonds and promissory notes. There is a risk of the Group finding itself in a difficult economic situation where it is unable to repay a promissory note or redeem obligations.

Credit risk

The Group is exposed to the risk of financial loss in a situation where a customer or counterparty fails to meet its contractual obligations. Credit risk within the Group is primarily related to a significant concentration of receivables and held investment certificates. The five largest business partners jointly generated approx. 76% of the Group's sales revenue in the first half of 2018. As at 30 June 2018, receivables from five largest counterparties accounted for about 70% of total trade receivables.

Management of the credit risk associated with the investment certificates held is at the disposal of the fund managing those assets and follows from the provisions of its statutes. The main components of fund investments in which the Group holds investment certificates are debt securities in the form of bonds listed on the Catalyst market.

Risk associated with the macroeconomic situation

The Group's operations are dependent upon the macroeconomic situation prevailing on the markets in which the products will be distributed and services rendered, and in particular in the United States. Effectiveness, and in particular profitability of the Group's economic operations is inter alia dependent upon the economic growth experienced by those countries as well as the fiscal and monetary policy, inflation levels as well as health care spending levels therein. All of these factors have an indirect impact on the revenues and financial results generated by the Group and may also impact the performance of the growth strategy adopted by the Group.

Foreign exchange risk

The Group is exposed to foreign exchange risk primarily associated with fluctuations in the exchange rate of the dollar against the zloty. The Group reports performance in zlotys, whereas most transactions executed by the Group are in US dollars. Exchange rate fluctuations primarily result in a change to the value of revenues and the Group's receivables converted into zloty. Thus there is a risk of the Polish correctly strengthening, which will result in a decrease in margins generated on sales by the Polish company. The impact of exchange rate fluctuations is partially naturally eliminated as approximately 80% of the costs are incurred in US dollars. The Group does not use open currency positions.

Risk of terminating or reducing reimbursements

Amongst others, the Group distributes its products within the scope of public health care systems and works with numerous private insurers. If one of the key insurers were to stop reimbursing the medical procedure provided by the Group or significantly reduce the reimbursement amounts, this change could have a material adverse effect

on the Group's operating results. Furthermore, consolidation processes in the private insurers' market and their increasingly powerful negotiating position may also lead to lower reimbursement levels than those in place today. The model of cooperation between Medi-Lynx and private insurers with whom long term out-of-network contracts are not signed also remains a risk factor. The growing negotiating position of insurers, aided by changing regulations causes an ever growing price and legal pressure on suppliers of medical services without out-of-network agreements and may translate into the obtained rates for tests and the possibility of acquiring new customers.

Legal risk

Risk associated with liability for the product introduces to trade

Due to the fact that the Group's devices monitor the users' strategically important vital parameters - functioning of the circulation system, any irregularities in the operation of these devices may result in actions or omission by users or their physicians which are not adequate to the user's actual state of health, which may translate into a significant threat to the users' life or health. Furthermore, the Group's devices may, as a result of design faults or breakdowns, cause electric shocks, burns, poisoning or contamination with harmful substances. As a result of the aforementioned incidents, the Group may be obligated to pay compensation for the benefit of the users of the Group's goods or for the benefit of the heirs of such users or other persons, and also to satisfy recourse claims brought in particular by physicians, hospitals or distributors against whom users may bring their claims directly.

Risk associated with key agreements

The Group recognises the risk associated with the failure to perform, improper performance or termination of significant agreements, including as a result of a termination by the counterparty. Failure to perform or improper performance of significant agreements may entail the occurrence of a liability for the Company on account thereof, including liability in compensation. Termination of individual significant agreements may entail a partial or total loss of revenues which the Group expected from the given agreements, wherein at the same time it does not have to go hand in hand with a proportional reduction to costs forecast in conjunction with these agreements.

Risk associated with the protection of intellectual property and company secrets

The Group's operations and its competitive position relies on ensuring overall protection to the uniqueness of technological solutions introduced onto the market within the scope of subsequent generations of the Company's products. There is a risk of competitive entities introducing to trade devices which use protected technical solutions implemented by the Company and also of the possibility of an infringement to its software copyrights. The possible infringements of the Company's intellectual property described above may require it to undertake legal intervention and bear the associated costs. Wherein there is no guarantee for the Company that such actions will be successful.

Risk associated with personal data processing

Within the scope of its operations the Company process various kinds of personal data, including sensitive data of various categories of natural persons. In particular, the Company processes data pertaining to the health of users of goods produced by the Company. In conjunction with the above, the Company is subject to personal data protection regulations in appropriate jurisdictions in which the Company has introduced its products to trade. The European Union (and Poland) has adopted far reaching regulations within that scope. The above leads to the risk of breaching personal data protection regulations and as a consequence to severe financial penalties or sanctions being imposed on the Company by supervisory authorities.

Risk associated with a change to the legal environment, including within the scope of tax law

The observed and expected changes to the provisions of law, and in particular applicable to business activities, labor law and social insurance, medical law and health care system law, personal data protection law, commercial law may be heading in a direction which causes the occurrence of negative consequences for the Group's operations. New legal regulations may entail interpretation problems, inconsistent court rulings, unfavorable interpretations adopted by public administration bodies, lack of cohesion between Polish and EU body of rulings. This risk exists in a particular manner within the scope of tax law, due to the high impact of regulations and the manner for their interpretation within this scope on the Company's financial situation. A significant source of risk are the planned and possible changes within the scope of regulations governing the introduction to trade of medical devices and financing medical services on the Group's target markets. Introduction of some changes to the regulations as in force at present could significantly hinder or even restrict the scope of operations.

Also 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. Furthermore, tax authorities have got the right to inspect the Group's books and accounting records. There is the risk of additional financial burden together with interest and other penalties being imposed on the Group.

IV. Basic 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 were listed on the NewConnect market, an alternative trading system outside the regulated market run 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 core operations of Medicalgorithmics S.A. are as follows:

1. Sales of PocketECG devices and software to monitoring centres, hospitals and other cardiac diagnostic facilities;
2. Sales of subscriptions to use PocketECG system and IT infrastructure for arrhythmia diagnostics;
3. Sales of data processing and analysis services in the telemedicine sector;
4. Sales of programming services related to the use of the PocketECG system.

The Company operates on the largest and most promising markets – North and South America, Europe, Asia and Australia.

Registered office:	Aleje Jerozolimskie 81, 02-001 Warsaw, Poland
E-mail address:	finanse@medicalgorithmics.com
Website:	www.medicalgorithmics.com
Website for the Investor Relations:	www.medicalgorithmics.pl
Contact for media:	Katarzyna Perzak tel.: +48 501 004 440 k.perzak@medicalgorithmics.com

V. Information about the operations of the Issuer

Registered data

The District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register KRS No 0000372848; Tax ID No (NIP) 5213361457; Statistical ID No (REGON): 140186973

Share capital

The amount of share capital (registered in the National Court Register) as at the date of preparation of this annual report amounts to PLN 361 thousand and is divided into 3,606,526 ordinary bearer shares with a nominal value of PLN 0.10 each, including:

- 1,747,200 A series ordinary bearer shares
- 508,200 B series ordinary bearer shares
- 236,926 C series ordinary bearer shares
- 929,600 D series ordinary bearer shares
- 33,600 E series ordinary bearer shares
- 151,000 F series ordinary bearer shares

Marek Dziubiński

President of the
Management Board

Maksymilian Sztandera

Chief Financial Officer

VI. Other statements of the Parent Company's Management Board

The Management Board of the Parent Company in Medicalgorithmics Capital Group declares that according to its best knowledge, the semi-annual consolidated financial statements for the first half of 2018 and comparable data have been drawn up in accordance with applicable accounting principles and they give a correct, true and fair view of the asset and financial standing of Medicalgorithmics Capital Group and its financial performance and that the semi-annual statements on the activities of Medicalgorithmics Capital Group for the first half of 2018 gives a true picture of the development, achievements and standing of the Group, including most important risks and threats.

On behalf of the Management Board of Medicalgorithmics S.A.:

Marek Dziubiński
President of the
Management Board

Maksymilian Sztandera
Chief Financial Officer

The Management Board of the Parent Company in Medicalgorithmics Capital Group declares that entity authorised to audit financial statements, i.e. CSWP Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa {limited liability company, limited partnership} with its registered office in Warsaw, entered into the list of entities authorised to audit financial statements under the number 3767, which reviewed the interim condensed consolidated financial statements of the Medicalgorithmics Capital Group for the first half of 2018, was selected in accordance with the law provisions. Moreover, the Management Board declares that a certified auditor performing the audit of the semi-annual condensed consolidated financial statements meets conditions for expressing the unbiased and independent opinion on the audit, in accordance with the applicable law and professional standards.

On behalf of the Management Board of Medicalgorithmics S.A.:

Marek Dziubiński
President of the
Management Board

Maksymilian Sztandera
Chief Financial Officer

**INDEPENDENT AUDITORS' REVIEW REPORT
ON THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS OF
MEDICALGORITHMICS S.A.
FOR THE PERIOD
FROM 1 JANUARY 2018 TO 30 JUNE 2018**

To the Shareholders and Supervisory Board of Medicalgorithmics S.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Medicalgorithmics S.A. Capital Group ("the Capital Group") with its registered office in Warsaw, Aleje Jerozolimskie 81, acting as its Parent Company ("the Parent Company"), that consist of the condensed interim consolidated statement of financial position as at 30 June 2018, the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated statement of changes in equity, the condensed interim consolidated statement of cash flow for the period from 1 January 2018 to 30 June 2018, and selected explanatory notes ("the condensed interim consolidated financial statements").

Management of the Parent Company is responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* published in form of decrees of the European Committee. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Auditing 2410 in form of International Standard on Review Engagements 2410 *Review of interim financial information performed by the independent auditor of the entity* adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors dated 5 March 2018.

A review of the condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in form of International Standards on Auditing adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors dated 5 March 2018, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements were not prepared in all material respects in accordance with the International Accounting Standard 34 *Interim Financial Reporting* published in form of decrees of the European Committee.

Signed on the Polish original

.....
Certified auditor 11505

Jędrzej Szalacha

CSWP Audyt Spółka z ograniczoną
odpowiedzialnością Sp. k.

Audit firm number 3767

Warsaw, 28 August 2018

**INDEPENDENT AUDITORS' REVIEW REPORT
ON THE CONDENSED INTERIM UNCONSOLIDATED
FINANCIAL STATEMENTS OF
MEDICALGORITHMICS S.A.
FOR THE PERIOD
FROM 1 JANUARY 2018 TO 30 JUNE 2018**

To the Shareholders and Supervisory Board of Medicalgorithmics S.A.

Introduction

We have reviewed the accompanying condensed interim unconsolidated financial statements of Medicalgorithmics S.A. with its registered office in Warsaw, Aleje Jerozolimskie 81 ("the Company"), that consist of the condensed interim unconsolidated statement of financial position as at 30 June 2018, the condensed interim unconsolidated statement of comprehensive income, the condensed interim unconsolidated statement of changes in equity, the condensed interim unconsolidated statement of cash flow for the period from 1 January 2018 to 30 June 2018, and selected explanatory notes ("the condensed interim unconsolidated financial statements").

Management of the Company is responsible for the preparation of these condensed interim unconsolidated financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* published in form of decrees of the European Committee. Our responsibility is to express a conclusion on these condensed interim unconsolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Auditing 2410 in form of International Standard on Review Engagements 2410 *Review of interim financial information performed by the independent auditor of the entity* adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors dated 5 March 2018.

A review of the condensed interim unconsolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in form of International Standards on Auditing adopted by the resolution no. 2041/37a/2018 of the National Council of Statutory Auditors dated 5 March 2018, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these condensed interim unconsolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim unconsolidated financial statements were not prepared in all material respects in accordance with the International Accounting Standard 34 *Interim Financial Reporting* published in form of decrees of the European Committee.

Signed on the Polish original

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Certified auditor 11505
Jędrzej Szalacha

CSWP Audyt Spółka z ograniczoną
odpowiedzialnością Sp. k.

Audit firm number 3767

Warsaw, 28 August 2018



Central Tower, 19th floor
Al. Jerozolimskie 81
02-001 Warsaw, Poland



+48 22 825 12 49
finanse@medicalgorithmics.com
medicalgorithmics.pl