Interim condensed consolidated financial statements

of the MEDICALgorithmics Capital Group

for the 3rd quarter of 2019

	PLN '000		EUR '000	
Interim condensed consolidated statement of financial position	**30.09.2019 *(unaudited)***	**31.12.2018 *(audited)***	**30.09.2019 *(unaudited)***	**31.12.2018 *(audited)***
Non-current assets	260 132	227 170	59 478	52 830
Intangible assets	220 445	210 454	50 404	48 943
Long-term financial assets	200	200	46	47
Current assets	43 592	88 912	9 967	20 677
Short-term receivables	24 915	22 781	5 697	5 298
Short-term financial assets	-	5 942	-	1 382
Cash and cash equivalents	18 677	60 189	4 270	13 997
Long-term liabilities	29 178	13 257	6 671	3 083
Short-term liabilities	35 302	72 063	8 072	16 759
Equity attributable to Shareholders of the Parent Company	206 190	189 864	47 144	44 154
Share capital	361	361	82	84
Non-controlling interests	33 054	40 898	7 558	9 511
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	57.17	52.64	13.07	12.24

Interim condensed consolidated statement of comprehensive income	**01.01.2019-30.09.2019 *(unaudited)***	**01.01.2018-30.09.2018 *(unaudited)***	**01.01.2019-30.09.2019 *(unaudited)***	**01.01.2018-30.09.2018 *(unaudited)***
Sales revenue	136 254	142 479	31 624	33 497
Profit on sales	4 952	16 516	1 149	3 883
Operating profit	5 276	14 327	1 224	3 368
Profit before tax	3 326	12 185	772	2 865
Net profit/(loss)	3 904	10 878	906	2 557
- attributable to Shareholders of the Parent Company	5 950	8 382	1 381	1 971
- attributable to non-controlling interests	(2 046)	2 496	(475)	587
Net profit attributable to Shareholders of the Parent Company per share (in PLN/EUR) – basic	1.65	2.32	0.38	0.55

Interim condensed consolidated statement of cash flows	**01.01.2019-30.09.2019 *(unaudited)***	**01.01.2018-30.09.2018 *(unaudited)***	**01.01.2019-30.09.2019 *(unaudited)***	**01.01.2018-30.09.2018 *(unaudited)***
Net cash flows from operating activities	16 409	33 110	3 808	7 784
Net cash flows from investing activities	(1 958)	(503)	(455)	(118)
Net cash flows from financing activities	(55 963)	(17 336)	(12 989)	(4 076)
Total net cash flows	(41 512)	15 271	(9 635)	3 590

Method of conversion of selected figures into EUR:

- The presented selected items of the statement of financial position presented were converted using the mid-rate quoted by the National Bank of Poland (NBP) for 30 September 2019, i.e. EUR/PLN 4.3736, and for 31 December 2018, i.e. EUR/PLN 4.3000;
- The presented selected items of the statement of comprehensive income and the statement of cash flows were converted based on the arithmetic mean of the mid-rates quoted by the NBP for the last day of each month of the financial period from 1 January 2019 to 30 September 2019, i.e. EUR/PLN 4.3086, and from 1 January 2018 to 30 September 2018, i.e. EUR/PLN 4.2535.

		30.09.2019 (unaudited)	30.06.2019 (unaudited)	31.12.2018 (audited)	30.09.2018 (unaudited)
Intangible assets	13	220 445	208 163	210 454	206 283
Property, plant and equipment	14	36 213	38 867	14 685	15 904
Financial assets	15	200	200	200	200
Deferred tax assets		3 274	2 557	1 831	3 262
Non-current assets		**260 132**	**249 787**	**227 170**	**225 649**
Trade and other receivables	16	24 915	22 286	22 781	19 638
Financial assets	15	-	-	5 942	10 738
Cash and cash equivalents	17	18 677	20 887	60 189	47 802
Current assets		**43 592**	**43 173**	**88 912**	**78 178**
TOTAL ASSETS		**303 724**	**292 960**	**316 082**	**303 827**

		30.09.2019 (unaudited)	30.06.2019 (unaudited)	31.12.2018 (audited)	30.09.2018 (unaudited)
Share capital		361	361	361	361
Supplementary capital		124 622	124 622	124 622	124 622
Reserve from the valuation of the incentive scheme		-	-	-	7 539
Retained earnings		77 982	77 902	72 032	61 695
Foreign exchange differences		3 225	(8 400)	(7 151)	(11 060)
Equity attributable to Shareholders of the Parent Company		**206 190**	**194 485**	**189 864**	**183 157**
Non-controlling interests		**33 054**	**32 505**	**40 898**	**37 953**
Provisions		2 179	2 235	1 790	1 723
Deferred tax liabilities		3 935	3 645	3 306	3 101
Credits and loans	20	5 708	8 100	216	232
Liabilities in respect of bonds and other financial liabilities	21	16 460	17 728	7 479	7 311
Other liabilities		40	40	80	80
Accruals and deferred income	22	856	687	386	287
Long-term liabilities		**29 178**	**32 435**	**13 257**	**12 734**
Credits and loans	20	9 631	9 588	111	103
Liabilities in respect of bonds and other financial liabilities	21	13 509	12 336	58 399	58 709
Trade and other liabilities	22	9 590	8 533	10 717	9 334
Income tax liabilities		252	159	264	37
Accruals and deferred income	22	2 320	2 919	2 572	1 800
Short-term liabilities		**35 302**	**33 535**	**72 063**	**69 983**
Total liabilities		**64 480**	**65 970**	**85 320**	**82 717**
TOTAL EQUITY AND LIABILITIES		**303 724**	**292 960**	**316 082**	**303 827**

		01.07.2019-30.09.2019 *(unaudited)*	01.07.2018-30.09.2018 *(unaudited)*	01.01.2019-30.09.2019 *(unaudited)*	01.01.2018-30.09.2018 *(unaudited)*
Sales revenue	6	**42 156**	**48 770**	**136 254**	**142 479**
Raw materials and consumables used		(1 899)	(2 435)	(6 485)	(6 334)
Employee benefits	7	(27 243)	(29 179)	(77 046)	(82 468)
Amortisation and depreciation	8	(5 149)	(2 908)	(13 749)	(8 397)
Third-party services	9	(8 432)	(9 365)	(28 269)	(24 222)
Other		(1 615)	(1 219)	(5 753)	(4 542)
Total costs of sales		**(44 338)**	**(45 106)**	**(131 302)**	**(125 963)**
Profit/(loss) on sales		**(2 182)**	**3 664**	**4 952**	**16 516**
Other operating revenue	10	90	89	843	255
Other operating expenses	10	(246)	(271)	(519)	(2 444)
Operating profit/(loss)		**(2 338)**	**3 482**	**5 276**	**14 327**
Finance income	11	(8)	(72)	59	590
Finance costs	11	(139)	(942)	(2 009)	(2 732)
Net finance costs		**(147)**	**(1 014)**	**(1 950)**	**(2 142)**
Profit/(loss) before tax		**(2 485)**	**2 468**	**3 326**	**12 185**
Income tax	12	861	(46)	578	(1 307)
Net profit/(loss) from continuing operations		**(1 624)**	**2 422**	**3 904**	**10 878**
Net profit for the reporting period attributable to Shareholders of the Parent Company		80	1 847	5 950	8 382
Net profit/(loss) for the reporting period attributable to non-controlling interests		(1 704)	575	(2 046)	2 496
		(1 624)	**2 422**	**3 904**	**10 878**
Other comprehensive income					
Currency translation differences		10 822	(2 842)	9 757	7 823
Exchange differences on loans constituting a part of net investments in subsidiaries		4 459	(1 303)	4 081	3 641
Deferred tax on valuation of exchange differences on loans		(847)	248	(932)	(692)
Other comprehensive income		**14 434**	**(3 897)**	**12 906**	**10 772**
Other comprehensive income attributable to Shareholders of the Parent Company		11 625	(3 163)	10 376	8 756
Other comprehensive income attributable to non-controlling interests		2 809	(734)	2 530	2 016
Total comprehensive income for the reporting period					
Comprehensive income for the reporting period attributable to Shareholders of the Parent Company		11 705	(1 316)	16 326	17 138
Comprehensive income for the reporting period attributable to non-controlling interests		1 104	(159)	484	4 512
		12 809	**(1 475)**	**16 810**	**21 650**
Net profit attributable to Shareholders of the Parent Company per share (in PLN)					
- basic		0.02	0.51	1.65	2.32
- diluted		0.02	0.51	1.65	2.32

	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 2019 *(audited)*	**361**	**124 622**	**-**	**72 032**	**(7 151)**	**189 864**	**40 898**
Comprehensive income for the reporting period							
Net profit for the current reporting period	-	-	-	5 950	-	5 950	(2 046)
Other comprehensive income	-	-	-	-	10 376	10 376	2 530
	-	**-**	**-**	**5 950**	**10 376**	**16 326**	**484**
Transactions recognised directly in equity							
Distribution to a minority shareholder	-	-	-		-	-	(8 338)
Minority interest from the acquisition of investments in subsidiaries	-	-	-		-	-	10
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**(8 328)**
Equity as at 30 September 2019*(unaudited)*	**361**	**124 622**	**-**	**77 982**	**3 225**	**206 190**	**33 054**

	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 2019 *(audited)*	**361**	**124 622**	**-**	**72 032**	**(7 151)**	**189 864**	**40 898**
Comprehensive income for the reporting period							
Net profit for the current reporting period	-	-	-	5 870	-	5 870	(342)
Other comprehensive income	-	-	-	-	(1 249)	(1 249)	(278)
	-	**-**	**-**	**5 870**	**(1 249)**	**4 621**	**(620)**
Transactions recognised directly in equity							
Distribution to a minority shareholder	-	-	-	-	-	-	(7 782)
Minority interest from the acquisition of investments in subsidiaries	-	-	-	-	-	-	9
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**(7 773)**
Equity as at 30 June 2019*(unaudited)*	**361**	**124 622**	**-**	**77 902**	**(8 400)**	**194 485**	**32 505**

	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 *(audited)*	**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	-	-	-	14 416	-	14 416	4 532
Other comprehensive income	-	-	-	-	12 665	12 665	2 956
	-	**-**	**-**	**14 416**	**12 665**	**27 081**	**7 488**
Transactions recognised directly in equity							
Dividend payment	-	-	-	(5 121)	-	(5 121)	(1 410)
Valuation of the incentive scheme	-	-	(5 312)	4 303	-	(1 009)	-
Total contributions from and distributions to owners	**-**	**-**	**(5 312)**	**(818)**	**-**	**(6 130)**	**(1 410)**
Equity as at 31 December 2018 *(audited)*	**361**	**124 622**	**-**	**72 032**	**(7 151)**	**189 864**	**40 898**

	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 *(audited)*	**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	-	-	-	8 382	-	8 382	2 496
Other comprehensive income	-	-	-	-	8 756	8 756	2 016
	-	**-**	**-**	**8 382**	**8 756**	**17 138**	**4 512**
Transactions recognised directly in equity							
Dividend payment	-	-	-	(5 121)	-	(5 121)	(1 379)
Valuation of the incentive scheme	-	-	2 227	-	-	2 227	-
Total contributions from and distributions to owners	**-**	**-**	**2 227**	**(5 121)**	**-**	**(2 894)**	**(1 379)**
Equity as at 30 September 2018 *(unaudited)*	**361**	**124 622**	**7 539**	**61 695**	**(11 060)**	**183 157**	**37 953**

Cash flows from operating activities	01.01.2019-30.09.2019 *(unaudited)*	01.01.2018-30.09.2018 *(unaudited)*
Net profit for the reporting period	**3 904**	**10 878**
Depreciation of property, plant and equipment	8 013	3 506
Amortisation of intangible assets	5 736	4 891
Income tax	353	1 999
Change in trade and other receivables	(1 689)	4 660
Change in accruals, prepayments and deferred income	(252)	257
Change in trade and other liabilities	(1 141)	1 622
Change of financial liabilities	-	-
Change in provisions	390	552
Valuation of the incentive scheme	-	2 227
Loss on liquidation of fixed assets	178	-
Net finance costs	179	50
Tax paid	(1 544)	(1 323)
Foreign exchange differences	629	1 022
Interest	1 655	2 690
Other	(2)	79
	16 409	**33 110**
Cash flows from investing activities		
(Acquisition)/sale of intangible assets	(3 758)	(3 399)
(Acquisition)/sale of property, plant and equipment	(4 192)	(1 254)
(Acquisition)/sale of other investments	5 992	4 150
	(1 958)	**(503)**
Cash flows from financing activities		
Dividend payment	-	(5 121)
Proceeds from credits taken out	19 000	-
Repayment debt on account of credits taken out with interest	(4 163)	(1 625)
Repayment of other financial liabilities	(8 082)	(7 838)
Repayment of finance lease liabilities	(4 038)	-
Distribution of Medi-Lynx profit to a minority shareholder	(7 782)	(1 378)
Repayment of bonds with interest	(51 369)	(1 374)
Other inflows from financing activities	471	-
	(55 963)	**(17 336)**
Total net cash flows	**(41 512)**	**15 271**
Opening balance of cash and cash equivalents	60 189	32 531
Closing balance of cash	**18 677**	**47 802**

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.

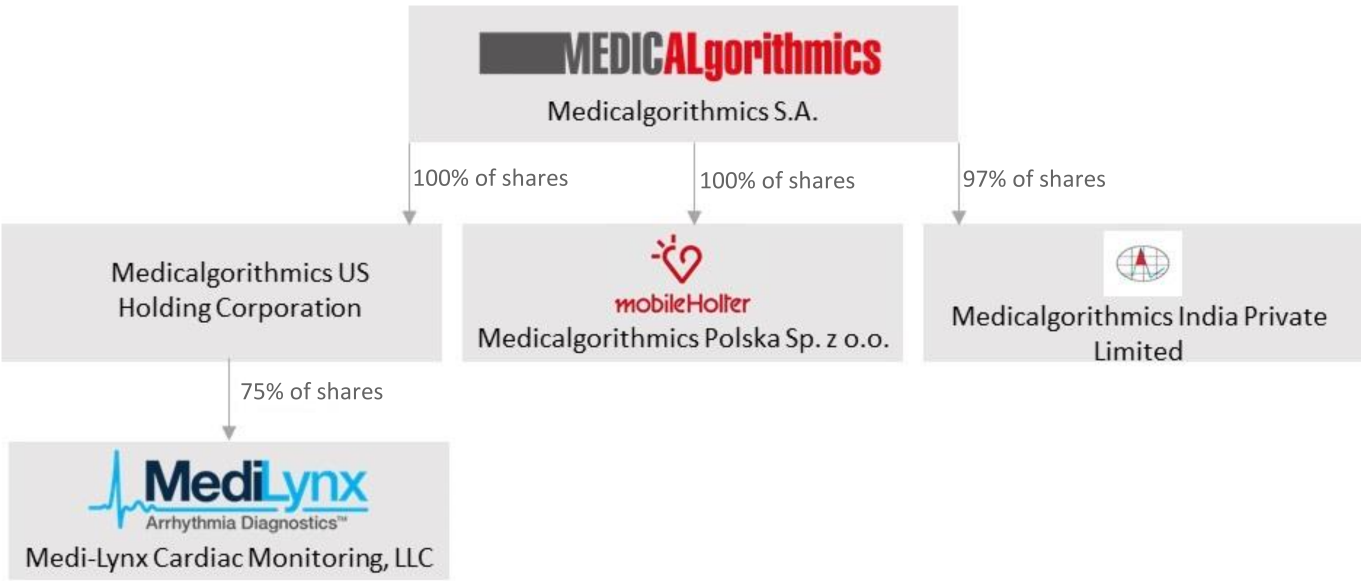
The term “Report” refers to this interim condensed consolidated report for Q3 2019. The term “Consolidated financial statements” means the interim condensed consolidated financial statements of the Medicalgorithmics Group as at 30 September 2019, covering the period 1 January 2019 to 30 September 2019 and including appropriate comparative data as at 30 June 2019 and 31 December 2018, as well as data for the corresponding comparative period of 2018.

2. Information on the Capital Group

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

- 100% of shares in Medicalgorithmics US Holding Corporation (“MDG HoldCo”), representing 100% of the votes at the General Meeting of Shareholders;
- 100% of shares in Medicalgorithmics Polska Sp. z o.o. (“Medicalgorithmics Polska”, “MDG Polska”; formerly: Kardiosystem Monitoring Sp. z o.o.);
- 75% of shares in Medi-Lynx Cardiac Monitoring, LLC (“Medi-Lynx”) with its registered office in Plano, Texas, USA, through MDG HoldCo;
- 97% of shares in Medicalgorithmics India Private Limited (“MDG India”; formerly: Algotel Solutions Private Limited („Algotel”)) with its registered office in Bangalore, India.

The composition of the Medicalgorithmics Capital Group and its organizational and equity links as at 30 September 2019 are presented below:



Business profile

The Medicalgorithmics 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 America, 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) and 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 made their debut on the NewConnect market, an alternative system of trading outside a regulated market operated by the Warsaw Stock Exchange. Since 3 February 2014, the shares of Medicalgorithmics S.A. have been listed on the regulated market of the Warsaw Stock Exchange.

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

The Parent Company was assigned a Statistical ID No (REGON) 140186973 and a Tax ID No (NIP) 5213361457. The Parent Company has its registered office in Warsaw at Al. Jerozolimskie 81, 02-001 Warsaw.

Management Board

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

On 22 July 2019, the Supervisory Board of the Company resolved to appoint Mr Maksymilian Sztandera to the Management Board, entrusting him with the function of the Chief Financial Officer.

Supervisory Board

Michał Wnorowski – Chairperson of the Supervisory Board, Member of the Audit Committee
Artur Małek – Member of the Supervisory Board, Chairman of the Audit Committee
Krzysztof Urbanowicz – Member of the Supervisory Board, Member of the Audit Committee
Marek Tatar – Member of the Supervisory Board
Mariusz Matuszewski – Member of the Supervisory Board
Marcin Gołębicki – Member of the Supervisory Board

On 26 June 2019, the General Meeting appointed the following two new members of the Supervisory Board of the current term of office: Mr Mariusz Matuszewski and Mr Marcin Gołębicki. The appointment of the new Supervisory Board Members was a result of the Supervisory Board's extension by the General Meeting from five to six members, and the resignation of Mr Grzegorz Grabowicz from the position of the Supervisory Board Member, which was notified by the Company in Current Report No 16/2019 dated 29 May 2019.

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 2018, as well as the Directors’ Report on activities of the Medicalgorithmics Capital Group and the Directors’ Report on activities of Medicalgorithmics in 2018.

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. and Medicalgorithmics Polska Sp. z o.o. The functional currency of subsidiaries, Medi-Lynx and MDG HoldCo, is the US dollar (“USD”), and of Medicalgorithmics India Pvt. Ltd – Indian rupee (“INR”).

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 gains and losses arising on translation are recognized as finance income (costs), or, where the accounting policies so provide, capitalised in assets. Non-monetary assets and liabilities recognized at historical cost and denominated in a currency other than the functional currency are stated at the historical exchange rate effective on the transaction date. Non-monetary assets and liabilities measured at fair value and denominated in a currency other than the functional currency are translated using the exchange rate effective on the date of the fair value measurement. Gains or losses resulting from the translation of non-monetary assets and liabilities recognised at fair value are recognised in accordance with the recognition of the gain or loss on the change in fair value (that is, in other comprehensive income or in profit or loss, respectively, depending on where the change in fair value is recognised).

4.3. Judgments and estimates made

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

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

A revision of accounting estimates is 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);
- right-of-use assets and finance lease liabilities recognised following the application of IFRS 16 (estimates of the useful life and discount rate used – as described in detail in Note 4.5 hereto);
- fair value and impairment in relation to financial assets, including shares in subsidiaries;
- trade receivables and other financial assets, including loans granted (at each balance sheet date the Capital Group assesses whether there is any objective evidence that a component of receivables or group of receivables is impaired; if the recoverable amount of an asset is less than its carrying amount, the Capital Group recognizes an impairment write-down to the present value of planned cash flows);
- sales revenue generated by Medi-Lynx (revenue estimates based on historical cash inflows for the provided services);
- provisions for liabilities and trade liabilities;
- inventories (assessment of the likelihood that inventories are impaired; the determination of impairment requires estimating the net realizable values);
- deferred tax assets (assessment of recoverability of assets and estimates of 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

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with the policies applied to draw up the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2019.

- IFRS 16 “Leases”;
- Amendments to IFRS 9 “Financial instruments” – prepayment features with negative compensation;
- IFRIC 23 “Uncertainty over income tax treatments”;
- Amendments to IAS 28 “Investments in associates” – long-term investments in associates and joint ventures;
- Amendments to IAS 19 “Employee benefits” – employee benefit plan amendment, curtailment or settlement;
- “Annual Improvements (2015−2017 cycle)” – amendments to IFRSs introduced as part of an annual improvements cycle.

The amendments introduced have been analysed by the Management Board of the Parent Company. Apart from the introduction of changes resulting from the application of IFRS 16 "Leases" (as described in this Note), the Management Board of the Company believes that other changes do not have a material impact on the Group’s financial position, results of operations and scope of disclosures in these interim condensed consolidated financial statements.

The Group did not elect to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective. The Management Board is currently assessing the effect of these standards on the Group's financial position, results of operations and the scope of disclosures in the consolidated financial statements, but does not expect any material changes in this respect.

The accounting principles applied are described in the published consolidated financial statements of the Medicalgorithmics Capital Group for 2018.

First-time adoption of IFRS 16 “Leases”

IFRS 16 “Leases”, published by the International Accounting Standards Board on 13 January 2016, is effective for annual periods beginning on or after 1 January 2019.

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions result in the lessee acquiring a right-of-use asset and incurring a lease liability. Thus, IFRS 16 abolishes the operating and finance lease classification and provides a single lessee accounting model. The lessee must recognise:

- assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value, and
- depreciation of the leased asset separately from interest on the lease liability.

IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, with each of them subject to different accounting treatment.

The Group has applied IRFS 16 as of 1 January 2019.

The Group has classified a contract as a lease when it conveys the right to control the use of an identified asset to the lessee. As a result of the analyses carried out by the Group, three main categories of lease contracts have been identified:

- real property: offices,
- other leases: cars.

As of 1 January 2019, the Group, as a lessee, recognises all identified lease contracts under a single model in which the lease asset (the right-of-use asset) is recognised in the statement of financial position in correspondence with the liability under lease contracts.

Implementation of IFRS 16

The Group used a simplified retrospective approach, with the cumulative effect of initially applying the standard recognised at the date of initial application. This approach enables the Group not to restate comparative data but instead to recognise the effect of applying the Standard as an adjustment to the opening balance of retained earnings on the date of initial application.

Following the analysis of leases, the Company's Management Board found that the application of the new standard had no impact on the financial figures presented by the Group so far and there was no need to adjust the opening balance of retained earnings as at 1 January 2019.

With respect to leases previously classified as operating leases, right-of-use assets were recognized as at 1 January 2019, measured at the amount equal to the lease liability at the date of initial application of IFRS 16, i.e. 1 January 2019.

Method of measurement and presentation of leases in the Group's financial statements

As at 1 January 2019, the Group, as a lessee, recognised lease liabilities measured at the present value of the outstanding lease payments and recognised the right-of-use assets at the amount equal to the lease liabilities. The interest rate used to split the lease payments into interest and principal portions was set at the level of the planned debt service cost (2.52%). The Group decided that it will apply simplified IFRS 16 requirements to leased assets of low value (up to PLN 100 thousand) and short-term leases. Payments relating to these leases will continue to be recognised on a straight-line basis over the lease term as an expense in profit or loss.

Following initial recognition, these assets are measured at cost (i.e. initial value less depreciation). Interest on lease liabilities are recognized in profit or loss except when they meet the criteria for capitalization in the carrying amount of the asset under construction that is financed by the liability.

The Group decided to present the right-of-use assets under the same reporting item as would be used to present the underlying assets, had they be owned by the lessee. This means that right-of-use assets were presented under "Property, plant and equipment".

The Group presented lease liabilities under "Liabilities in respect of bonds and other financial liabilities" (in short-term and long-term liabilities, as appropriate), with disclosures on the value of lease liabilities presented in notes to the financial statements.

Effect of IFRS 16 on the financial statements

The effect of the application of IFRS 16 on the recognition of the right-of-use assets and related financial liabilities as at 1 January 2019 is presented in the table below:

Assets	31.12.2018	Adjustments due to the adoption of IFRS 16	01.01.2019
Non-current assets			
Property, plant and equipment	14 685	24 922	39 607

Equity and liabilities	31.12.2018	Adjustments due to the adoption of IFRS 16	01.01.2019
Equity			
Retained earnings	72 032	-	72 032
Long-term liabilities			
Liabilities in respect of bonds and other financial liabilities	7 479	20 305	27 784
Short-term liabilities			
Liabilities in respect of bonds and other financial liabilities	58 399	4 617	63 016

Application of practical expedients

In applying IFRS 16 for the first time, the Group will apply the following practical expedients permitted by the standard:

- application of a single discount rate (at the level of planned debt service cost – 2.52%) to a portfolio of leases with similar characteristics
- the treatment of operating lease agreements for which the remaining lease term is less than 12 months as at 1 January 2019 or for which the term is shorter than the normal operating cycle of the Group as short-term leases,
- exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application, and
- use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

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 2018.

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.

In the reporting period, the Group did not discontinue any operations and no operations are expected to be discontinued in the following period.

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

By type	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Revenue from sales of services	41 481	48 463	133 701	141 904
Revenue from sales of devices	675	307	2 553	575
Total revenue	**42 156**	**48 770**	**136 254**	**142 479**

By territory	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Domestic sales	246	119	853	126
Export sales	41 910	48 651	135 401	142 353
Total revenue	**42 156**	**48 770**	**136 254**	**142 479**

7. Employee benefits

	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Remuneration	(26 573)	(27 958)	(75 219)	(78 972)
Incentive scheme	-	(742)	-	(2 227)
Social security and other employee benefits	(670)	(479)	(1 827)	(1 269)
	(27 243)	**(29 179)**	**(77 046)**	**(82 468)**

As described in Notes 20.6 and 28 to the consolidated financial statements for 2018, the Company remeasured the incentive scheme based on current estimates regarding the fulfilment of financial criteria. To the best of its knowledge, the Company's Management Board decided to assume that it is impossible to meet the non-market condition. This assumption applies to all tranches of options offered under the incentive scheme (i.e. no non-market conditions will be fulfilled in any of the tranches). In accordance with IFRS 2 “Share based payments”, such an assumption has the effect that no amount should be recognized as an expense of the scheme. On 26 June 2019, the General Meeting of Shareholders of the Company adopted resolutions enabling the termination of the Company's incentive scheme.

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 period from 1 January 2019 to 30 September 2019 amounted to PLN 4,558 thousand (PLN 4,232 thousand in the corresponding period of 2018).

Due to the fact that the Group classifies the PocketECG devices as fixed assets, the value of the equipment used by Medi-Lynx to provide diagnostic services is depreciated over a period of 3 years. In the period from 1 January of 2019 to 30 September 2019, the total cost of the Group resulting from the above amounted to PLN 1,900 thousand (PLN 2,102 thousand in the corresponding period). In 2019, the Group applied IFRS 16 “Leases” for the first time. As described in Note 4.5 to this report, following the application of IFRS 16, the Group recognised right-of-use assets. Right-of-use assets for office space are depreciated overt the lease term, and the depreciation expense in the period from 1 January 2019 to 30 September 2019 amounted to PLN 4,304 thousand.

9. Third-party services

	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Lease and rental	(621)	(1 414)	(1 879)	(3 691)
Telecommunication and Internet services	(1 473)	(1 248)	(4 406)	(3 780)
IT services	(599)	(162)	(1 509)	(277)
Accounting and financial audit services	(574)	(441)	(1 575)	(1 048)
Advisory services	(1 600)	(1 461)	(6 187)	(3 121)
Transport and courier services	(1 141)	(1 671)	(4 269)	(4 125)
Monitoring services	(601)	(566)	(1 755)	(1 823)
Leases	(5)	(4)	(15)	(11)
Maintenance services	(386)	(569)	(1 125)	(1 698)
Marketing services	(581)	(1 074)	(2 603)	(2 364)
Other third-party services	(851)	(755)	(2 946)	(2 284)
	(8 432)	**(9 365)**	**(28 269)**	**(24 222)**

10. Other operating revenue and expenses

	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Settlement of subsidies	79	79	236	236
Reversal of impairment losses on inventories	-	-	442	-
Gain on a bargain purchase	-	-	139	-
Other	11	10	26	19
Other operating revenue	**90**	**89**	**843**	**255**
Impairment losses on receivables	(7)	-	(15)	(89)
Loss on disposal of fixed assets	(168)	-	(168)	-
Provisions for state tax	-	(14)	-	(1 385)
Other	(71)	(257)	(336)	(970)
Other operating expenses	**(246)**	**(271)**	**(519)**	**(2 444)**

In the financial statements for 2018, the Group recognized an impairment loss on components used in the production of PocketECG CDMA devices (in the separate financial statements of Medicalgorithmics S.A., the components used in the production of PocketECG devices and the devices themselves are presented as inventories. However, from the point of view of the Group, they are fixed assets). On 6 May 2019, an agreement was concluded with the telecommunications services provider under which the provider has guaranteed the availability of CDMA-based data transmission until 31 December 2022 (originally, the CDMA technology was planned to be phased-out and replaced with LTE technology by 31 December 2019). Therefore, the Group decided to reverse the previously recognised impairment loss on components. For further information on the event, see Current Report No 11/2019.

Following the accounting for the acquisition of Medicalgorithmics India Private Limited (formerly: Algotel Solutions Private Limited), in the first quarter of 2019 a gain on a bargain purchase of PLN 139 thousand was recognised in the statement of comprehensive income under other operating revenue. The acquisition was accounted for on a provisional basis and may change as a result of verification of fair values of assets, liabilities and contingent liabilities. The Management Board believes that this process will be completed until the preparation of the annual consolidated financial statements for the financial year ended 31 December 2019. However, as at the day of preparing these financial statements, the Management Board is not aware of any significant grounds for changing the accounting for the acquisition. For further information on the event, see Note 13 hereto.

11. Finance income and costs

	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Interest income	12	23	74	92
Foreign exchange differences	(15)	(113)	(15)	476
Other	(5)	18	-	22
Finance income	**(8)**	**(72)**	**59**	**590**
Interest on borrowings contracted	(276)	(967)	(1 418)	(2 669)
Interest on finance leases	(117)	-	(419)	-
Foreign exchange differences	213	6	-	-
Income from the measurement/sale of investment certificates	-	32	(117)	(50)
Other	41	(13)	(55)	(13)
Finance costs	**(139)**	**(942)**	**(2 009)**	**(2 732)**
Net finance costs	**(147)**	**(1 014)**	**(1 950)**	**(2 142)**

12. Effective tax rate

	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Profit before tax	3 326	12 185
Tax at the tax rate applicable in Poland	(632)	(2 315)
Non-tax-deductible costs	(247)	(220)
Difference between the tax rate in Poland and USA	148	(192)
Amortisation of goodwill for tax purposes	1 258	1 169
Non-taxable revenue	129	48
Other	(78)	203
Tax reported in the statement of comprehensive income	**578**	**(1 307)**

13. Intangible assets

	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 2019	**84 393**	**118 908**	**5 937**	**17 788**	**2 493**	**229 519**
Increases		-	3 831	3 692	229	**7 752**
Decreases				(3 831)	(163)	**(3 994)**
Foreign exchange differences	5 304	7 600	-	-	53	**12 958**
Gross value as at 30 September 2019	**89 697**	**126 508**	**9 768**	**17 649**	**2 613**	**246 236**
Accumulated amortization and impairment losses						
Accumulated amortization and impairment losses as at 1 January 2019	**-**	**11 890**	**5 482**	**-**	**1 693**	**19 065**
Amortization	-	4 744	900	-	279	**5 924**
Foreign exchange differences	-	760	-	-	42	**802**
Accumulated amortization and impairment losses as at 30 September 2019	**-**	**17 394**	**6 382**	**-**	**2 014**	**25 790**
Net value						
As at 1 January 2019	**84 393**	**107 018**	**455**	**17 788**	**800**	**210 454**
As at 30 September 2019	**89 697**	**109 114**	**3 386**	**17 649**	**599**	**220 445**

Gross value of intangible assets	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total
Gross value as at 1 January 2019	**84 393**	**118 908**	**5 937**	**17 788**	**2 493**	**229 519**
Increases	-	-	3 831	2 575	189	**6 595**
Decreases	-	-	-	(3 831)	-	**(3 831)**
Foreign exchange differences	(576)	(825)	-	-	(6)	**(1 407)**
Gross value as at 30 June 2019	**83 817**	**118 083**	**9 768**	**16 532**	**2 676**	**230 876**
Accumulated amortization and impairment losses						
Accumulated amortization and impairment losses as at 1 January 2019	**-**	**11 890**	**5 482**	**-**	**1 693**	**19 065**
Amortization	-	2 952	547	-	235	**3 734**
Foreign exchange differences	-	(82)	-	-	(4)	**(86)**
Accumulated amortization and impairment losses as at 30 June 2019	**-**	**14 760**	**6 029**	**-**	**1 924**	**22 713**
Net value						
As at 1 January 2019	**84 393**	**107 018**	**455**	**17 788**	**800**	**210 454**
As at 30 June 2019	**83 817**	**103 323**	**3 739**	**16 532**	**752**	**208 163**

Gross value of intangible assets	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total	
Gross value as at 1 January 2018	**77 482**	**110 103**	**5 937**	**13 148**	**1 864**	**208 534**	
Increases	766	-	-	4 640	572	**5 978**	*
Decreases	-	-	-	-	-	**-**	
Foreign exchange differences	6 145	8 805	-	-	57	**15 007**	
Gross value as at 31 December 2018	**84 393**	**118 908**	**5 937**	**17 788**	**2 493**	**229 519**	
Accumulated amortization and impairment losses							
Accumulated amortization and impairment losses as at 1 January 2018	**-**	**5 505**	**5 027**	**-**	**1 102**	**11 634**	
Amortization	-	5 945	455	-	554	**6 954**	*
Foreign exchange differences	-	440	-	-	37	**477**	
Accumulated amortization and impairment losses as at 31 December 2018	**-**	**11 890**	**5 482**	**-**	**1 693**	**19 065**	
Net value							
As at 1 January 2018	**77 482**	**104 598**	**910**	**13 148**	**762**	**196 900**	
As at 31 December 2018	**84 393**	**107 018**	**455**	**17 788**	**800**	**210 454**	*

Gross value of intangible assets	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total	
Gross value as at 1 January 2018	**77 482**	**110 103**	**5 937**	**13 148**	**1 864**	**208 534**	
Increases	678	-	-	3 308	413	**4 399**	*
Foreign exchange differences	4 285	6 139	-	-	39	**10 463**	
Gross value as at 30 September 2018	**82 445**	**116 242**	**5 937**	**16 456**	**2 316**	**223 396**	
Accumulated amortization and impairment losses							
Accumulated amortization and impairment losses as at 1 January 2018	**-**	**5 505**	**5 027**	**-**	**1 102**	**11 634**	
Amortization	-	4 359	341	-	446	**5 146**	*
Foreign exchange differences	-	307	-	-	26	**333**	
Accumulated amortization and impairment losses As at 30 September 2018	**-**	**10 171**	**5 368**	**-**	**1 574**	**17 113**	
Net value							
As at 1 January 2018	**77 482**	**104 598**	**910**	**13 148**	**762**	**196 900**	
As at 30 September 2018	**82 445**	**106 071**	**569**	**16 456**	**742**	**206 283**	*

** the increases in the gross value, accumulated amortization and net value relate to, among others, intangible assets acquired as a result of the acquisition of shares in Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o.)*

Goodwill

a. Medi-Lynx Cardiac Monitoring, LLC

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

On 30 March 2016, Medicalgorithmics S.A. acquired 75% of shares in Medi-Lynx with its registered office in Plano, Texas, USA, through its subsidiary, MGD HoldCo.

The acquisition of the subsidiary resulted in the creation of a positive goodwill 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 recognised 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 2018, the Parent Company's Management Board did not find any indications of impairment of goodwill.

Goodwill is amortized for tax purposes at the level of the subsidiary, MDG HoldCo (included in the consolidated financial statements). As at 30 September 2019, the remaining tax value of goodwill to be amortized amounts to USD 23,911 thousand.

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.

b. Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o.)

Company	Acquisition date	Acquired share in net assets	Acquisition price (PLN '000)	Fair value of acquired net assets (PLN '000)	Goodwill (PLN '000)
Medicalgorithmics Polska Sp. z o.o.	02.07.2018	100%	167	(599)	766

On 2 July 2018, the Company acquired all shares in Kardiosystem Monitoring sp. z o.o. The price for acquiring shares in Kardiosystem was PLN 167 thousand, wherein the contract provides for additional payment up to PLN 350 thousand due in 2019–2023 depending on achieving assumed yearly sales goals. On 26 November 2018, the company changed its name to Medicalgorithmics Polska Sp. z o.o.

The acquisition of the subsidiary resulted in the creation of a positive goodwill on acquisition of Medicalgorithmics Polska Sp. z o.o. in the consolidated financial statements of the Medicalgorithmics Capital Group. A goodwill is the excess of the consideration paid, value of shares in the subsidiary and fair value as at the date of acquisition of shares in the subsidiary's share capital over the fair value of the acquired identifiable net assets of the subsidiary.

The financial effects of the acquisition of shares in Medicalgorithmics Polska Sp. z o.o. were accounted for in the financial statements for the third quarter of 2018 on the basis of fair value estimates. As at 31 December 2018, the Capital Group adjusted the preliminary amounts recognized in connection with the acquisition of Medicalgorithmics Polska Sp. z o.o. The goodwill determined as at 31 December 2018 amounted to USD 766 thousand.

Goodwill is tested for impairment on an annual basis (or more frequently if there are any indications of impairment). Impairment losses are recognised as an expense in the period and are not reversed in the subsequent period. In 2019, no indications of impairment were found.

c. Medicalgorithmics India Private Limited (formerly: Algotel Solutions Private Limited)

On 22 January 2019, the Company acquired 97% of new shares in Algotel Solutions Private Limited, based in India. All the new shares were subscribed for the Company against a cash contribution of USD 48,550. The remaining shares (3%) are still held by the founders of Algotel Solutions Private Limited, i.e. Mr Ravi Chandran and Mr Kailas Kumar Springeri. As a result of the aforesaid transaction, the minority interest of PLN 9 thousand was recognized. The Parent Company is in the process of acquiring the remaining shares and will ultimately hold 100% of shares. On 25 June 2019, the company changed its name to Medicalgorithmics India Private Limited.

The acquisition was accounted for on a provisional basis and may change as a result of verification of fair values of assets, liabilities and contingent liabilities. The Management Board believes that this process will be completed until the preparation of the annual consolidated financial statements for the financial year ended 31 December 2019. Following the accounting for the acquisition, in the first quarter of 2019 a gain on a bargain purchase of PLN 139 thousand was recognised in the statement of comprehensive income under other operating revenue. The gain on a bargain purchase was recognized due to the fact that MDG India is at the early stage of its development and requires the operational support of the Parent Company in order to achieve business growth. As at the day of preparing these financial statements, the Management Board is not aware of any significant grounds for changing the accounting for the acquisition.

Company	Acquisition date	Acquired share in net assets	Acquisition price (PLN '000)	Fair value of acquired net assets (PLN '000)	Gain on a bargain purchase (PLN '000)
Medicalgorithmics India Private Limited	22.01.2019	97%	183	331	139

Net sales revenue and net profit (loss) of MDG India for the period from 1 January 2019 to the acquisition date are presented in the following table:

Company	Acquisition date	Net loss until the date of acquisition of shares (PLN '000)	Revenue until the date of acquisition of shares (PLN '000)
Medicalgorithmics India Private Limited	22.01.2019	(76)	2

The Management Board estimates that had the acquisition of MDG India occurred on 1 January 2019, the total aggregated revenue of the Medicalgorithmics Group for the period from 1 January 2019 to 30 September 2019 would have amounted to PLN 136,256 thousand, and the aggregated net profit for that period would have amounted to PLN 3,826 thousand. At the same time, the Management Board believes that the fair value of assets and liabilities as at 1 January 2019 would be similar to the fair value of assets and liabilities as at the acquisition date, i.e. 22 January 2019.

The business of the acquired company includes distribution of the PocketECG system in India. Through MDG India, the Group launched its expansion into the prospective Indian market, characterized by a strong sales potential (large population, dynamic economic growth).

Accounting for the financial effects of the acquisition of shares in Medicalgorithmics India is presented below (PLN ‘000):

	Fair values recognized on acquisition of shares
Property, plant and equipment	4
Non-current assets	**4**
Trade and other receivables	22
Cash and cash equivalents	390
Current assets	**412**
Total assets	**416**
Trade and other liabilities	14
Income tax liabilities	71
Total liabilities	**85**
NET ASSETS	**331**
Acquired share in net assets	97%
Fair value of acquired net assets	322
Acquisition price	183
Goodwill/ (Gain on a bargain purchase)	**(139)**

Client bases

a. Medi-Lynx’s client base (net value at the balance sheet date: USD 10,895 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 16,383 thousand)

In December 2016, the Capital Group acquired a client base from AMI/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. The tests carried out as at 31 December 2018 indicated no need to recognise any impairment losses. The Management Board believes that no reasonably possible change of any of the key assumptions could result in the carrying amount of the CGUs exceeding their recoverable amount. For details on the impairment test, see Note 15 to the consolidated financial statements for 2018.

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 programme of the Foundation for Polish Science – Innovator. The net value of the project is PLN 569 thousand. The project will be amortised until 31 December 2019.

The above development works were carried out in part with co-financing from the European Union funds, whose non-amortised value as at 30 September 2019 amounted to PLN 79 thousand (31 December 2018: PLN 315 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.

Key costs capitalized as development works in progress include the costs of salaries of the R&D staff. As at the balance sheet date, the Group updated its assessment of the potential of target markets and the impact of commercialization of new products on the Group's performance. With respect to PocketECG CRS, the potential of the US, Canadian, Indian and Polish markets will allow the product to be commercialized in the coming periods and generate sufficient cash flows to cover the expenditures incurred. In the case of PocketECG 12Ch, the launch of commercialization is scheduled for 2022. In the opinion of the Management Board of the Company, development works will be completed and will produce the expected economic effects.

14. Property, plant and equipment

Gross value of property, plant and equipment	Buildings and structures	Machinery and equipment including computer hardware	Other fixed assets	Leasehold improvements	Rights-of-use (IFRS 16)*	Total
Gross value as at 1 January 2019	**2 338**	**25 364**	**2 135**	**632**	**24 922**	**55 391**
Increases	250	2 453	337	16	-	**3 055**
Decreases	(174)	(1 510)	(305)	-	(791)	**(2 781)**
Change in inventories	-	1 137	-	-	-	**1 137**
Foreign exchange differences	125	1 084	130	-	1 289	**2 629**
Gross value as at 30 September 2019	**2 538**	**28 527**	**2 296**	**648**	**25 420**	**59 429**
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as at 1 January 2019	**655**	**13 114**	**1 815**	**200**	**-**	**15 784**
Depreciation	191	3 116	336	49	4 673	**8 365**
Decreases	(35)	(1 485)	(291)	-	-	**(1 812)**
Foreign exchange differences	33	758	87	-	-	**879**
Accumulated depreciation and impairment losses as at 30 September 2019	**844**	**15 503**	**1 947**	**249**	**4 673**	**23 216**
Net value						
As at 1 January 2019	**1 683**	**12 250**	**320**	**432**	**24 922**	**39 607**
As at 30 September 2019	**1 694**	**13 023**	**350**	**400**	**20 747**	**36 213**

Gross value of property plant and equipment	Buildings and structures	Machinery and equipment including computer hardware	Other fixed assets	Leasehold improvements	Rights-of-use (IFRS 16)*	Total
Gross value as at 1 January 2019	**2 338**	**25 364**	**2 135**	**632**	**24 922**	**55 391**
Increases	176	2 211	282	16	-	2 685
Decreases	(374)	(41)	351	-	-	(64)
Change in inventories	-	1 679	-	-	-	1 679
Foreign exchange differences	(14)	(118)	(14)	-	(140)	(286)
Gross value as at 30 June 2019	**2 126**	**29 095**	**2 754**	**648**	**24 782**	**59 405**
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as at 1 January 2019	**655**	**13 114**	**1 815**	**200**	**-**	**15 784**
Depreciation	115	1 910	180	32	2 614	**4 851**
Foreign exchange differences	(4)	(83)	(10)	-	-	**(97)**
Accumulated depreciation and impairment losses as at 30 June 2019	**766**	**14 941**	**1 985**	**232**	**2 614**	**20 538**
Net value						
As at 1 January 2019	**1 683**	**12 250**	**320**	**432**	**24 922**	**39 607**
As at 30 June 2019	**1 360**	**14 154**	**769**	**416**	**22 168**	**38 867**

**The Company implemented IFRS 16 "Leases" on 1 January 2019. Following the application of this standard, right-of-use assets were recognised in the statement of financial position as at 1 January 2019. For details on the adoption of IFRS 16, see Note 4.5 hereto.*

Gross value of property plant and equipment	Buildings and structures	Machinery and equipment including computer hardware	Other fixed assets	Leasehold improvements	Total
Gross value as at 1 January 2018	**1 816**	**22 805**	**1 821**	**480**	**26 922**
Increases	376	4 360	195	152	**5 083**
Decreases	-	(92)	(4)	-	**(96)**
Change in inventories	-	(2 768)	-	-	**(2 768)**
Foreign exchange differences	146	1 059	123	-	**1 328**
Gross value as at 31 December 2018	**2 338**	**25 364**	**2 135**	**632**	**30 469**
Accumulated depreciation and impairment losses					
Accumulated depreciation and impairment losses as at 1 January 2018	**413**	**7 860**	**1 255**	**145**	**9 673**
Depreciation	220	4 676	480	55	**5 431**
Foreign exchange differences	22	578	80	-	**680**
Accumulated depreciation and impairment losses as at 31 December 2018	**655**	**13 114**	**1 815**	**200**	**15 784**
Net value					
As at 1 January 2018	**1 403**	**14 945**	**566**	**335**	**17 249**
As at 31 December 2018	**1 683**	**12 250**	**320**	**432**	**14 685**

Gross value of property plant and equipment	Buildings and structures	Machinery and equipment including computer hardware	Other fixed assets	Leasehold improvements	Total
Gross value as at 1 January 2018	**1 816**	**22 805**	**1 821**	**480**	**26 922**
Increases	-	3 761	186	152	4 099
Decreases	-	(92)	(4)	-	(96)
Change in inventories	-	(1 912)	-	-	(1 912)
Foreign exchange differences	101	738	85	-	925
Gross value as at 30 September 2018	**1 918**	**25 300**	**2 088**	**632**	**29 938**
Accumulated depreciation and impairment losses					
Accumulated depreciation and impairment losses as at 1 January 2018	**413**	**7 860**	**1 255**	**145**	**9 673**
Depreciation	161	3 321	366	40	3 887
Foreign exchange differences	15	403	55	-	474
Accumulated depreciation and impairment losses as at 30 September 2018	**590**	**11 584**	**1 676**	**185**	**14 034**
Net value					
As at 1 January 2018	**1 403**	**14 945**	**566**	**335**	**17 249**
As at 30 September 2018	**1 328**	**13 716**	**413**	**447**	**15 904**

15. Financial assets

	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Investment certificates	-	-	5 942	10 738
Shares	200	200	200	200
Financial assets	**200**	**200**	**6 142**	**10 938**
of which long-term portion	200	200	200	200
of which short-term portion	-	-	5 942	10 738

Investment certificates

As at 31 December 2018, the Group holds 61,699 investment certificates of the fund Bezpiecznych Obligacji Fundusz Inwestycyjny Zamknięty (the “Fund”) managed by Copernicus Capital TFI S.A. (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 were measured at fair value through profit or loss. As at 31 December 2018, the value of a single investment certificate was determined at PLN 96.31. The fair value of a single certificate was measured by the Investment Fund Company.

On 11 April 2019, all certificates held by the Company, with the total value of PLN 5,942 thousand, were redeemed. As at the balance sheet date, the Group held no other financial instruments measured at fair value through profit or loss.

16. Trade and other receivables

	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Trade receivables	20 722	19 267	18 277	15 244
Budgetary receivables	774	763	2 072	2 241
Other receivables	101	72	62	230
Accruals and deferred income	3 318	2 184	2 370	1 923
	24 915	**22 286**	**22 781**	**19 638**
Long-term	-	-	-	-
Short-term	24 915	22 286	22 781	19 638

The fair value of receivables approximates their book value. As at 30 September 2019, the total value of past due trade receivables for which no impairment losses were recognized amounts to PLN 7,758 thousand.

Receivables recognized by the Group in the US in relation to insurers who reimburse service fees are estimated based on the Group's actual cash inflow. Historical analyses of payments for services enabled the estimation that the average payment period for services provided is up to 9 months. After this period, impairment losses are recognised for all outstanding receivables. According to the accounting policy, the impairment loss on estimated payments from insurers (amounting to PLN 228 thousand in the reporting period) is deducted directly from the amount of revenue from sales of medical services.

17. Cash and cash equivalents

	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Cash in hand	11	9	7	12
Cash at banks	18 246	20 462	44 554	37 441
Short-term deposits	420	416	15 628	10 349
	18 677	**20 887**	**60 189**	**47 802**

18. Shareholding structure of the Parent Company

Shareholder	Number of shares as at 26 November 2019	% ownership interest	Number of votes	% of total voting rights	Change in the period from 3 September 2019 to 26 November 2019
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
OFE PZU	444 361	12.32%	444 361	12.32%	+53 361
Free float	2 117 302	58.71%	2 117 302	58.71%	-53 361
TOTAL NUMBER OF SHARES	**3 606 526**	**100.00%**	**3 606 526**	**100.00%**	

In the period from 1 January 2019 to 30 September 2019, the Parent Company did not acquire any treasury shares and does not hold any treasury shares.

19. Basic and diluted earnings per share

	01.01.2019-30.09.2019	01.01.2018-31.12.2018	01.01.2018-30.09.2018
Profit for the reporting period attributable to shareholders of the Parent Company (in PLN '000)	5 950	14 416	8 382
Weighted average number of ordinary shares (in thousands of shares)	3 607	3 607	3 607
Basic profit per share in PLN (net profit/weighted average number of shares)	**1.65**	**4.00**	**2.32**
Diluted profit per share in PLN (net profit/weighted average number of diluted shares)	**1.65**	**4.00**	**2.32**

20. Credits and loans

On 18 April 2019, a working capital facility contracted by the Company with Bank Millennium S.A. in the amount of PLN 19,000 thousand was disbursed. The facility was taken out to partially finance redemption of series A bearer bonds issued by the Company in 2016. Pursuant to the concluded loan agreement, the facility will be repaid in 24 monthly instalments, with the final repayment date falling on 11 April 2021. The interest rate is the sum of the 3M WIBOR reference rate and the Bank's margin. The facility was disbursed after the Company complied with all terms and conditions for opening the facility stipulated in the facility agreement on 18 April 2019.

21. Liabilities in respect of bonds and other financial liabilities

	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Liabilities in respect of bonds	-	-	50 472	51 104
Liabilities arising from acquisition of shares in Medi-Lynx	8 117	7 500	15 406	14 916
Lease liabilities	21 852	22 564	-	-
Financial liabilities	**29 969**	**30 064**	**65 878**	**66 020**
of which long-term	16 460	17 728	7 479	7 311
of which short-term	13 509	12 336	58 399	58 709

Issue and redemption of bonds

In the second quarter of 2016, the Group issued 50,000 long-term bonds with a nominal value of PLN 1 thousand each. The term of the bonds was 3 years. Their redemption date was 21 April 2019. The bonds bore interest at a variable rate. The interest rate was 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 was due on a semi-annual basis.

On 19 April 2019, the amount of PLN 50,000 thousand was deposited to the account of the Krajowy Depozyt Papierów Wartościowych S.A. (the Central Securities Depository of Poland – "KDPW"), for the redemption of all bonds. The deadline for redemption of the Bonds was 21 April 2019. The funds were transferred by KDPW to bank accounts of direct participants on the first business day following the redemption date, i.e. 23 April 2019. The participants transferred the funds received to the accounts of eligible bondholders.

The redemption of the bonds was financed partially with own funds (PLN 31,000 thousand) and a working capital facility contracted by the Company (PLN 19,000 thousand). For details of borrowings contracted, see Note 20.

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 September 2019, the outstanding amount is USD 1,990 thousand and is payable on 30 March 2020. As at the balance sheet date, interest accrued amounts to USD 40 thousand. 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 the last instalment of liability arising from the acquisition of Medi-Lynx, payable on 30 March 2020.

Lease liabilities corresponding to right-of-use assets recognised (IFRS 16)

In 2019, the Group applied IFRS 16 "Leases" for the first time. As described in Note 4.5 hereto, following the application of the new IFRS 16, the Group, as a lessee, recognised lease liabilities measured at the present value of the outstanding lease payments and recognised the right-of-use assets at the amount equal to the lease liabilities.

22. Trade and other liabilities

	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Trade liabilities	1 913	175	1 446	4 099
Salaries and wages payable	6 471	6 936	8 389	4 217
Budgetary liabilities	1 060	1 151	833	467
Other liabilities	146	271	49	551
	9 590	**8 533**	**10 717**	**9 334**
Income tax liabilities	252	159	264	37

	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Subsidies	935	844	700	602
Other	2 241	2 762	2 258	1 485
	3 176	**3 606**	**2 958**	**2 087**
of which long-term	856	687	386	287
of which short-term	2 320	2 919	2 572	1 800

23. Contingent liabilities

Contingent liabilities are disclosed in Note 32 to these financial statements.

24. Seasonal and cyclical changes

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

25. Issue of securities

No securities were issued in the period from 1 January 2019 to 30 September 2019.

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

The table below presents shares in the Parent Company held, directly or indirectly, by members of its Management and Supervisory Boards as at the issue date of this report, and changes in the holdings after the issue date of the previous annual report of the Parent Company. The information contained in the table is based on notifications received from shareholders in accordance with Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

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 3 September 2019 to 26 November 2019
Marek Dziubiński	President of the Management Board	400 000	-	Unchanged
Maksymilian Sztandera	CFO, Member of the Management Board	-	-	Unchanged
Michał Wnorowski	Chairperson 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
Mariusz Matuszewski	Member of the Supervisory Board	-	-	Unchanged
Marcin Gołębicki	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.

27. Information on dividends paid or declared

On 26 June 2019, the Ordinary General Meeting of Shareholders of the Parent Company passed a resolution No 17/06/2019 to allocate the entire net profit reported in the Company's Financial statements for the financial year ended 31 December 2018 to the supplementary capital of Medicalgorithmics S.A.

Pursuant to resolution No 16/06/2018 of the Ordinary Shareholders' Meeting of Medicalgorithmics S.A., on 30 July 2018 the Parent Company paid out a dividend to shareholders in the aggregate amount of PLN 5,121 thousand, i.e. PLN 1.42 per share. The dividend was paid for all 3,607 thousand shares in the Company.

28. Transactions with executives

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

	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Remuneration of the Management Board Members	945	2 549
Remuneration of the Supervisory Board	306	283

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

In the reporting period, the Capital Group continued to implement its strategy, pursuant to which its operations were based on the innovative PocketECG system. The Group's consolidated revenue comprises mainly:

- revenue from medical services generated by Medi-Lynx, MDG Polska and MDG India;
- subscription revenue generated by Medicalgorithmics S.A. from cooperation with strategic partners, excluding Medi-Lynx and other subsidiaries;
- revenue from sales of PocketECG devices, excluding Medi-Lynx and other subsidiaries.

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 earns revenue from sales of devices, and then from subscriptions for their use and use of the related software and server infrastructure.

The table below presents the key items of the Group's statement of comprehensive income for the period from 1 January to 30 September 2019 and 2018.

	01.01.2019-30.09.2019	01.01.2018-30.09.2018	Change	Change %
Sales revenue	136 254	142 479	(6 226)	(4%)
Operating expenses	131 302	125 963	5 339	4%
Profit on sales	4 952	16 516	(11 564)	(70%)
Other operating revenue/(expenses), net	324	(2 189)	2 514	(115%)
Operating profit	5 276	14 327	(9 050)	(63%)
Net finance income/(costs)	(1 950)	(2 142)	192	(9%)
Profit before tax	3 326	12 185	(8 859)	(73%)
Net profit, *of which*:	**3 904**	**10 878**	**(6 974)**	**(64%)**
Net profit/(loss) attributable to Shareholders of the Parent Company	5 950	8 382	(2 432)	(29%)
Net profit/(loss) attributable to non-controlling interests	(2 046)	2 496	(4 542)	(182%)
EBITDA	19 025	22 724	(3 699)	(16%)

Sales revenue

In the period ended 30 September 2019, the Capital Group's revenue amounted to PLN 136.3 thousand, which is a 4% decrease year on year.

The level of revenue was negatively affected by a 12% decline in medical services provided, which translated into a decrease in Medi-Lynx' revenue by PLN 18.1 million in real terms (without the effect of changes in USD/PLN exchange rates). In addition, in the current period Medi-Lynx recognised an additional impairment loss on receivables of approx. PLN 2 million. This resulted from the execution of an agreement with UnitedHealthcare Group and was aimed at adjusting the reduced receverability of receivables as compared to receivables that had been initially recognised. For additional information on the agreement with UnitedHealthcare Group, see Current Report No 33/2019 of 25 July 2019.

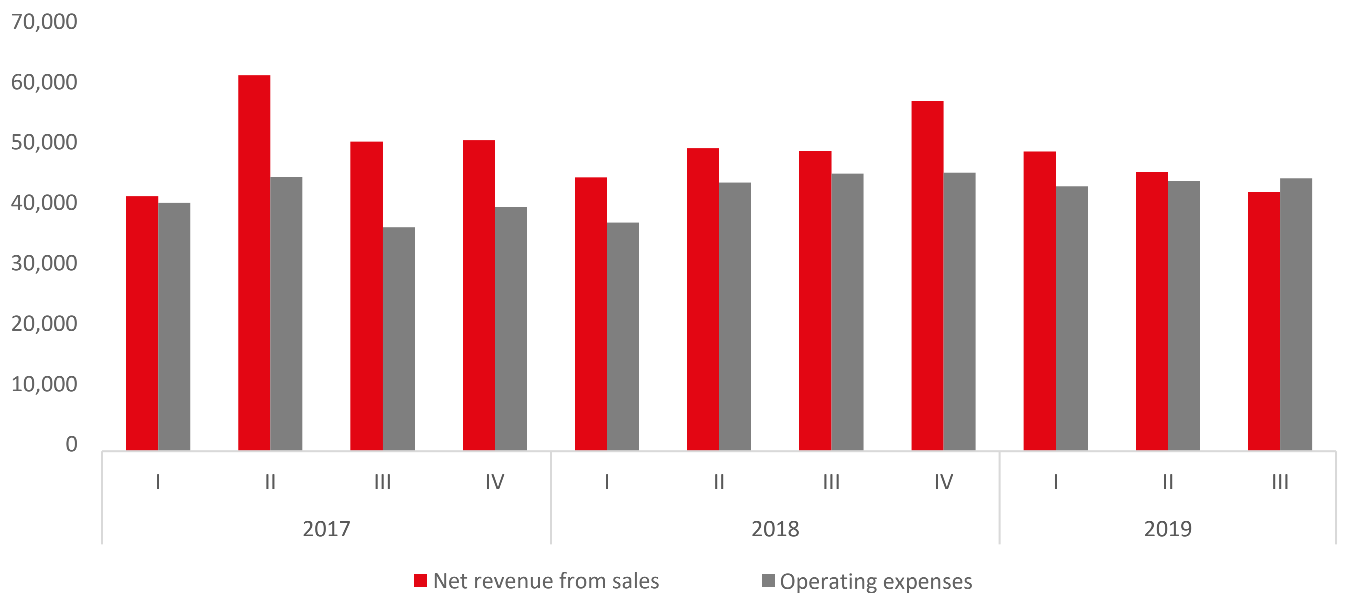
The increase in revenue was largely attributable to a 8% increase in the average USD/PLN exchange rate, which translated into an increase in the Group's revenue by approximately PLN 9.2 million (8%), as well as an increase in the Parent Company's revenue from other partners by PLN 3.5 million. Additionally, the increase in the Group's revenue was driven by the recognition of revenue of Medicalgorithmics Polska Sp. z o.o. and MDG India in the amounts of PLN 0.7 million (PLN 0.2 million in the corresponding period) and PLN 0.5 million (not consolidated in the corresponding period), respectively.

In the reporting period, the Group earned all of its revenue from the sales of services provided using the PocketECG system. Sales of services reached PLN 133.7 million (PLN 141.9 million in 2018) and accounted for approx. 98% of total revenue (99.6% in the corresponding period), while revenue from sales of devices to non-related entities stood at PLN 2.6 million (PLN 0.6 million in the corresponding period). The vast majority of revenue, as in the previous year, was received in US dollars.

In the period from 1 July 2019 to 30 September 2019, the Group's revenue amounted to PLN 42.2 thousand and decreased by PLN 3.2 million or 7% q/q. The q/q change in revenue is directly related to a decrease in the number of examinations carried out by Medi-Lynx which, in turn, results from the ongoing process of changes in the sales model. The number of claims submitted in the third quarter of 2019 decreased by approx. 7% q/q.

The dynamics of revenue generated outside the USA is strong and in the first three quarters of 2019 it amounted to 192% year on year. Apart from the expansion of companies in India and Poland, the Company also sells its products and services in Canada, Scandinavia, the Czech Republic and Australia.

Chart 1. The Group's revenue from sales and operating expenses in particular quarters of 2017-2019 (PLN '000)



Operating expenses

In the period ended 30 September 2019, operating expenses stood at PLN 131.3 million, up 5% year on year. The increase in the average USD exchange rate had a significant impact on the increased expenses - the total effect of changes in the exchange rate on operating expenses amounted to approx. PLN 9.6 million (+8%).

	01.01.2019-30.09.2019	01.01.2018-30.09.2018	Change	Change %
Raw materials and consumables used	6 485	6 334	151	2%
Employee benefits	77 046	82 468	(5 422)	(7%)
Amortisation and depreciation	13 749	8 397	5 352	64%
Third-party services	28 269	24 222	4 047	17%
Other	5 753	4 542	1 211	27%
TOTAL:	**131 302**	**125 963**	**5 339**	**4%**

Raw materials and consumables used

The costs of raw materials and consumables used increased by 2% year on year. This change was primarily attributable to a significant increase in the number of devices sold to other partners (transactions outside the Group). During 9 months of 2019, the Group sold 1,146 devices (304 devices in the corresponding period of the previous year). The increase in sales volume, combined with the increase in costs of materials used for maintenance services, translated into an increase in costs of raw materials and consumables used by approx. PLN 0.7 million.

On the other hand, at Medi-Lynx, the cost of raw materials and consumables used decreased by approx. PLN 1.1 million. However, an increase in the average USD/PLN exchange rate (8%) offset this decrease by approx. PLN 0.2 million.

Employee benefits

In the period ended 30 September 2019, costs of employee benefits decreased by approximately PLN 5.4 million (-7%) year on year. The change is primarily attributable to the following factors:

(1) reduction in average headcount at Medi-Lynx. Following the verification of sales performance, a decision was made to change the business model and, consequently, the headcount at Medi-Lynx was reduced in the fourth quarter of 2018 and in early 2019. As a result of the reduction in headcount, the costs of wages and salaries at Medi-Lynx decreased by approximately PLN 8.8 million.

(2) the above positive effect was partially offset by a change in the average USD exchange rate which translated into an increase in costs by approximately PLN 4.7 million.

(3) costs of employee benefits at the Parent Company declined by approx. PLN 2.1 million.

(4) approx. PLN 0.8 million of employee benefit costs was recorded in subsidiaries, Medicalgorithmics Polska Sp. z o.o. (company consolidated as of 3rd quarter of 2018) and Medicalgorithmics India Private Limited (company consolidated as of 1st quarter of 2019).

The costs of employee benefits represent the most significant item in the structure of the Group's operating expenses (59%). 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 subsidiaries, 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 period ended 30 September 2019, depreciation and amortization expenses increased by PLN 5.4 million (+64%), and currently they represent more than 10% of total operating expenses.

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). According to the Management Board's estimates, the client bases will bring economic benefits and will be amortized over a period of 20 years. The total amortization expense for both client bases amounted to PLN 4.6 million in the reporting period and increased by about PLN 0.4 million year on year. The change is attributable exclusively to an increase in the average USD exchange rate.

In addition, due to the fact that the Group classifies the PocketECG devices as fixed assets, the manufacturing cost of PocketECG sold to Medi-Lynx is not charged on a one-off basis to costs of raw materials and consumables used, but it is amortized over a period of 3 years, corresponding to the expected life cycle of the devices. In the period from 1 January 2019 to 30 September 2019, the total cost resulting from the above amounted to PLN 2.0 million (PLN 2.1 million in the corresponding period).

The application of IFRS 16 "Leases" also had a noticeable impact on the increase in amortisation and depreciation expense. As described in Note 4.5 to this report, following the application of IFRS 16, the Group recognised right-of-use assets. Right-of-use assets for office space are depreciated overt the lease term, and the depreciation expense for these assets in the period from 1 January 2019 to 30 September 2019 amounted to PLN 4.3 million.

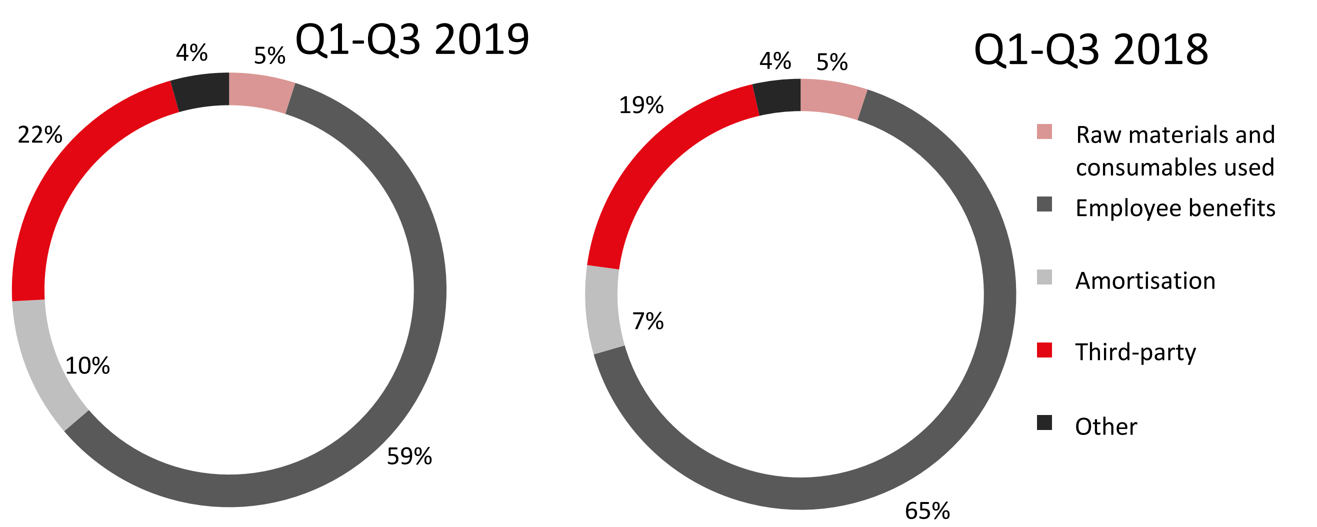
In connection with the introduction of the new version of the PocketECG system in the first half of 2019, the amortization of development and improvement expenditures previously incurred for the new version was also commenced. The increase in amortization costs on this account amounted to PLN 0.8 million.

Third-party services

Third-party services account for nearly 22% of the Group's operating expenses, and their amount increased by 17% year on year to PLN 28.3 million. The increase in expenses was largely attributable to a 8% increase in the average USD exchange rate, which translated into an increase in the Group's costs of third-party services by approximately PLN 1.5 million.

The key items of costs of third-party services include: telecommunications and Internet services, courier and transport services, as well as advisory and marketing services. The table in note 9 hereto presents in detail the structure of costs of third-party services in the reporting period and in the corresponding period. Comparing the period of 9 months of 2019 with the corresponding period of 2018, a significant increase in advisory and legal costs is visible, resulting from significant costs of recruiting new sales representatives and costs related to the cooperation with external consultants and law firms with respect to the implementation of the new business model. In addition to advisory services, in order to meet the need for product development and implementation of new project management methods, the Parent Company also incurred higher costs of IT services. Nominal increases in other categories were mainly attributable to an increase in the average USD exchange rate. On the other hand, the application of IFRS 16 resulted in a decrease in lease costs (currently this category includes mainly lease payments for servers used by the PocketECG system).

Chart 2. Structure of operating expenses in the period from 1 January to 30 September 2019 and 2018 (in %)



Profit and profitability

Net profit generated in the reporting period amounted to PLN 3.9 million and profit attributable to Shareholders of the Parent Company amounted to PLN 5.9 million. In the wake of the drop in sales and the increase in operating expenses, margin on sales shrank by PLN 11.6 million. The reversal of the impairment loss related to CDMA technology and the recognised gain on bargain purchase of MDG India had a positive impact on profit. In the previous year, costs of state tax at Medi-Lynx, amounting to PLN 1.4 million, were recognized at the level of other operating activities.

Profit before tax was encumbered with net finance costs of PLN 2.0 million, comprising mainly interest on the Group's financial liabilities (PLN 1.4 million) and interest recognized following the application of IFRS 16 (PLN 0.4 million).

The sales margin was 4% and EBITDA margin stood at 14% (vs 12% and 16%, respectively, in the corresponding period).

Asset and financial position

As at 30 September 2019, total assets amounted to PLN 303.7 million which represents a decrease by PLN 12.4 million (or -4%) from 31 December 2018.

As at the balance sheet date, total non-current assets amounted to PLN 260.1 million and accounted for 86% of total assets. The most significant item of non-current assets were intangible assets, including client bases (PLN 109.1 million), goodwill recognized on the acquisition of shares in Medi-Lynx (PLN 89.7 million), expenditure on research activities (PLN 17.6 million) and cost of completed development works (PLN 3.4 million) Non-current assets increased by PLN 33.0 million (+15%) as compared to 31 December 2018. This increase resulted mainly from the recognition of right-of-use assets in accordance with IFRS 16 (PLN +20.7 million) and capitalisation of development expenditure in intangible assets (PLN +3.7 million). On the other hand, the increases were offset by accumulated amortization of intangible assets and depreciation of fixed assets.

As at 30 September 2019, current assets amounted to PLN 43.6 million which represents a decrease by PLN 45.3 million (or -51%) from 31 December 2018. Current assets accounted for 14% of total assets. Current assets comprise cash (43%) and trade receivables (57%). Current assets decreased due to negative cash flows from financing activities related to the repayment of bonds and liabilities on account of the acquisition of shares in Medi-Lynx.

As at 30 September 2019, equity attributable to Shareholders of the Parent Company amounted to PLN 206.2 million, having increased by PLN 16.3 million (or +9%) from 31 December 2018. Equity account for 68% of total assets. The change in equity attributable to Shareholders of the Parent Company was driven by the profit earned in the current reporting period (PLN +5.9 million) and foreign exchange gains resulting from a decrease in the USD exchange rate (PLN +10.4 million).

As at the balance sheet date, long-term liabilities stood at PLN 29.2 million (10% of total assets), an comprised mainly financial liabilities (PLN 16.5 million) and long-term portion of the credit facility (PLN 5.7 million). Long-term liabilities increased by PLN 15.9 million (+120%) as compared to 31 December 2018, mainly due to recognition of finance lease liabilities (PLN +16.5 million) and long-term portion of the credit facility (PLN +5.7 million). This increase was offset by the transfer of all outstanding liabilities arising from the acquisition of shares in Medi-Lynx to short-term liabilities (PLN -7.5 million).

As at the balance sheet date, short-term liabilities amounted to PLN 35.3 million (11% of total assets). The most significant components of short-term liabilities were financial liabilities which included liabilities arising from the acquisition of shares in Medi-Lynx (PLN 8.1 million) and finance lease liabilities (PLN 4.3 million).

Short-term liabilities decreased by PLN 36.8 million (-51%) from 31 December 2018. This is primarily attributable to the repayment of bonds in the 2nd quarter of 2019 (PLN -51.2 million) and the repayment of liabilities on account of the acquisition of shares in Medi-Lynx (PLN -8.1 million). On the other hand, the decrease in liabilities was offset by recognition of a short-term portion of the credit facility (PLN +9.6 million), a short-term portion of finance lease liabilities (PLN +4.3 million) and the previously mentioned transfer of all outstanding liabilities arising from the acquisition of shares in Medi-Lynx to short-term liabilities (PLN +7.5 million).

30. Factors and events, including non-recurring ones, with material bearing on the interim financial statements

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

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

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

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

Medicalgorithmics 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 grants are secured by promissory notes. As at the balance sheet date, the risk described above was assessed as doubtful. The Company carries out its works in accordance with the schedule.

The Parent 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. As at 30 September 2019, the outstanding amount is USD 1,990 thousand and is payable on 30 March 2020. Liabilities bear interest at a fixed interest rate.

As disclosed in a current report No 9/2019, a collateral was established in connection with the credit facility agreement concluded, in the form of a notarial declaration of the Company about submission, for the benefit of the Bank, to the rigour of enforcement pursuant to Article 777 § 1(5) of the Code of Civil Procedure from the entirety of property with regard to fulfilment of the obligation to pay the Bank any sums of cash due to the liabilities arising from the Agreement, up to the maximum amount of PLN 30,400 thousand.

Moreover, pursuant to the agreement of 18 April 2019, concluded by and between the Company, represented by the Company's Supervisory Board, and the President of the Management Board, Mr Marek Dziubiński, the Company has made a commitment that, in the case of possible dismissal of Mr Marek Dziubiński from the position of a Member of the Management Board of the Company or failure to appoint him Member of the Management Board for the next term of office, the Company shall ensure that Mr Marek Dziubiński shall be released by the Bank from an liability with his personal assets arising from the established Pledge and submitted Declaration.

33. Other information relevant for the assessment of the Group's standing and ability to meet its obligations

In the reporting period, there were no significant changes in the Group, other than those disclosed in this report, which would affect the its personnel, asset and financial position. The Group reports high financial liquidity and settles its liabilities in a timely manner.

34. Factors which, in the Issuer's opinion, will affect its performance during at least the next quarter

According to the Management Board, the Capital Group's current financial condition and growth prospects do not involve any significant threats to its ability to continue as a going concern in the foreseeable future. However, there are factors, both internal and external, that will directly or indirectly affect the financial performance in the next quarter. The most important of them include:

- revision of medical examinations refund fees and payments for the procedure received from private insurers by the subsidiary, Medi-Lynx;
- change in the business model and signing long-term service contracts directly with key private insurers;
- decrease in reimbursement rates for Medi-Lynx services used in settlements with clients of some insurers using the Multiplan network (described in Note 32 to the Consolidated financial statements for 2018);
- developments on the US medical services market, where the Group generates the vast majority of its revenue;
- growing sales to partners with whom the Parent Company has signed contracts, which will help diversify and boost revenue;
- growth of cardiac diagnostics sector in countries where the Group's products are sold and level of reimbursement for services provided with PocketECG devices;
- movements in exchange rates of the currencies of countries where the Group operates.

The Capital Group is also 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. These risks were described in detail in the report for the first half of 2019, in the Directors' Report on activities of the Medicalgorithmics Capital Group, section III.7. Key threats and risks related to the remaining months of the financial year.

The Management Board of the Company is in the process of reviewing strategic options, and this review has not been completed by the date of publication of this report. The Management Board carries out analyses aimed at identifying the most optimal development directions of the Group's business, resulting in the selection of the preferred measures to achieve the Group's long-term goal which is to ensure the best possible position for the Group on the market for advanced systems for cardiology and to maximize value for the Company's shareholders.

35. Information about significant legal proceedings

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

36. Events after the balance sheet date

In its Current Report No 37/2019 of 4 October, the Company announced that on 4 October 2019 it received a notification from Powszechne Towarzystwo Emerytalne PZU S.A. ("PTE PZU") acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" (open-ended pension fund, "OFE PZU"). PTE PZU notified that as a result of concluding on 30 September 2019 a transaction for the purchase of 7,500 (seven thousand and five hundred) shares of the Company on the Warsaw Stock Exchange, following its settlement on 2 October 2019, OFE PZU increased its existing shareholding of over 10% of the total number of votes by at least 2% of the total number of votes.

After closing the transaction, OFE PZU holds 444,361 shares of the Company, representing 12.32% of the Company's share capital and 444,361 votes at the Company's general meeting, accounting for 12.32% of the total number of votes at the Company's general meeting.

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.

Statement of financial position	PLN '000 30.09.2019 (unaudited)	PLN '000 31.12.2018 (audited)	EUR '000 30.09.2019 (unaudited)	EUR '000 31.12.2018 (audited)
Non-current assets	190 793	190 913	43 624	44 398
Current assets	16 153	33 677	3 693	7 832
Intangible assets	21 521	18 817	4 921	4 376
Long-term financial assets	66 633	72 275	15 235	16 808
Short-term receivables	8 495	6 897	1 942	1 604
Short-term financial assets	-	5 942	-	1 382
Cash and cash equivalents	1 433	15 750	328	3 663
Equity	181 741	167 080	41 554	38 856
Share capital	361	361	82	84
Short-term liabilities	12 355	54 782	2 825	12 740
Long-term liabilities	12 850	2 728	2 938	634
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	50.39	46.33	11.52	10.77

Statement of comprehensive income	01.01.2019-30.09.2019 (unaudited)	01.01.2018-30.09.2018 (unaudited)	01.01.2019-30.09.2019 (unaudited)	01.01.2018-30.09.2018 (unaudited)
Sales revenue	36 724	30 591	8 523	7 192
Profit on sales	12 731	5 005	2 955	1 177
Operating profit	13 174	4 870	3 058	1 145
Profit before tax	18 382	9 225	4 266	2 169
Net profit	14 661	7 389	3 403	1 737
Earnings per ordinary share (PLN/EUR)	4.07	2.05	0.94	0.48

Statement of cash flows	01.01.2019-30.09.2019 (unaudited)	01.01.2018-30.09.2018 (unaudited)	01.01.2019-30.09.2019 (unaudited)	01.01.2018-30.09.2018 (unaudited)
Net cash flows from operating activities	9 179	8 629	2 131	2 029
Net cash flows from investing activities	13 376	(1 535)	3 104	(361)
Net cash flows from financing activities	(36 872)	(6 265)	(8 558)	(1 473)
Total net cash flows	(14 317)	829	(3 323)	195

Method of conversion of selected figures into EUR:

- The presented selected items of the statement of financial position presented were converted using the mid-rate quoted by the National Bank of Poland (NBP) for 30 September 2019, i.e. EUR/PLN 4.3736, and for 31 December 2018, i.e. EUR/PLN 4.3000;
- The presented selected items of the statement of comprehensive income and the statement of cash flows were converted based on the arithmetic mean of the mid-rates quoted by the NBP for the last day of each month of the financial period from 1 January 2019 to 30 September 2019, i.e. EUR/PLN 4.3086, and from 1 January 2018 to 30 September 2018, i.e. EUR/PLN 4.2535.

		30.09.2019 *(unaudited)*	30.06.2019 *(unaudited)*	31.12.2018 *(audited)*	30.06.2018 *(unaudited)*
Intangible assets		21 521	20 862	18 817	17 602
Property plant and equipment		5 825	6 205	2 000	1 800
Financial assets	38	66 633	61 483	72 275	69 873
Shares in subsidiaries	39	96 221	96 221	96 038	96 038
Deferred tax assets		593	1 120	1 783	3 173
Non-current assets		**190 793**	**185 891**	**190 913**	**188 486**
Inventories		6 225	6 767	5 088	5 944
Trade and other receivables	40	8 495	6 747	6 897	6 389
Financial assets	38	-	-	5 942	10 738
Cash and cash equivalents		1 433	2 519	15 750	11 033
Current assets		**16 153**	**16 033**	**33 677**	**34 105**
TOTAL ASSETS		**206 946**	**201 924**	**224 590**	**222 591**

		30.09.2019 *(unaudited)*	30.06.2019 *(unaudited)*	31.12.2018 *(audited)*	30.06.2018 *(unaudited)*
Share capital		361	361	361	361
Supplementary capital		166 719	166 719	155 394	151 091
Reserve from the valuation of the incentive scheme		-	-	-	7 539
Retained earnings		14 661	6 934	11 325	7 389
Equity		**181 741**	**174 014**	**167 080**	**166 380**
Provisions		823	886	797	654
Deferred tax liabilities		2 630	1 906	1 465	1 290
Liabilities in respect of bonds and other financial liabilities		2 960	3 197	-	-
Credits and loans	42	5 541	7 916	-	-
Other liabilities		40	40	80	80
Accruals and deferred income	43	856	686	386	287
Long-term liabilities		**12 850**	**14 631**	**2 728**	**2 311**
Credits and loans	42	9 557	9 514	39	31
Liabilities in respect of bonds and other financial liabilities		1 055	1 006	50 472	51 104
Trade and other liabilities	43	1 467	2 601	3 956	2 450
Income tax liabilities		197	-	-	-
Accruals and deferred income	43	79	158	315	315
Short-term liabilities		**12 355**	**13 279**	**54 782**	**53 900**
Total liabilities		**25 205**	**27 910**	**57 510**	**56 211**
TOTAL EQUITY AND LIABILITIES		**206 946**	**201 924**	**224 590**	**222 591**

		01.07.2019-30.09.2019 *(unaudited)*	01.07.2018-30.09.2018 *(unaudited)*	01.01.2019-30.09.2019 *(unaudited)*	01.01.2018-30.09.2018 *(unaudited)*
Sales revenue	37	**12 005**	**10 537**	**36 724**	**30 591**
Raw materials and consumables used		(1 034)	(1 351)	(5 096)	(4 335)
Employee benefits		(3 609)	(4 346)	(9 963)	(12 049)
Amortisation and depreciation		(861)	(307)	(2 256)	(846)
Third-party services		(1 952)	(2 720)	(5 816)	(6 760)
Other		(220)	(241)	(862)	(1 596)
Total costs of sales		**(7 676)**	**(8 965)**	**(23 993)**	**(25 586)**
Profit on sales		**4 329**	**1 572**	**12 731**	**5 005**
Other operating revenue		84	89	689	2 545
Other operating expenses		(74)	(12)	(246)	(390)
Operating profit		**4 339**	**1 649**	**13 174**	**4 870**
Finance income		4 764	(558)	6 531	6 467
Finance costs		441	(693)	(1 323)	(2 112)
Net finance income/(costs)		**5 205**	**(1 251)**	**5 208**	**4 355**
Profit before tax		**9 544**	**398**	**18 382**	**9 225**
Income tax		(1 817)	(106)	(3 721)	(1 836)
Net profit from continuing operations		**7 727**	**292**	**14 661**	**7 389**
Other comprehensive income		-	-	-	-
Total comprehensive income for the reporting period		**7 727**	**292**	**14 661**	**7 389**
Basic profit per share in PLN		2.14	0.08	4.07	2.05
Diluted profit per share in PLN		2.14	0.08	4.07	2.05

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2019 *(audited)*	**361**	**155 394**	**-**	**11 325**	**167 080**
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	11 325	-	(11 325)	-
Net profit for the current reporting period	-	-	-	14 661	14 661
	-	**11 325**	**-**	**3 336**	**14 661**
Transactions recognised directly in equity					
Dividend payment	-	-	-	-	-
Valuation of the incentive scheme	-	-	-	-	-
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**
Equity as at 30 September 2019*(unaudited)*	**361**	**166 719**	**-**	**14 661**	**181 741**

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2019 *(audited)*	**361**	**155 394**	**-**	**11 325**	**167 080**
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	11 325	-	(11 325)	-
Net profit for the current reporting period	-	-	-	6 934	6 934
	-	**11 325**	**-**	**(4 391)**	**6 934**
Transactions recognised directly in equity					
Valuation of the incentive scheme	-	-	-	-	-
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**
Equity as at 30 June 2019*(unaudited)*	**361**	**166 719**	**-**	**6 934**	**174 014**

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2018 *(audited)*	**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	-	-	-	11 325	11 325
	-	**(2 830)**	**-**	**14 155**	**11 325**
Transactions recognised directly in equity					
Payment for the issue of F series shares					
Dividend payment	-	(5 121)	-	-	(5 121)
Valuation of the incentive scheme	-	4 303	(5 312)	-	(1 009)
Total contributions from and distributions to owners	**-**	**(818)**	**(5 312)**	**-**	**(6 130)**
Equity as at 31 December 2018 *(audited)*	**361**	**155 394**	**-**	**11 325**	**167 080**

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2018 *(audited)*	**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	-	-	-	7 389	7 389
	-	**(2 830)**	**-**	**10 219**	**7 389**
Transactions recognised directly in equity					
Dividend payment	-	(5 121)	-	-	(5 121)
Valuation of the incentive scheme	-	-	2 227	-	2 227
Total contributions from and distributions to owners	**-**	**(5 121)**	**2 227**	**-**	**(2 894)**
Equity as at 30 September 2018 *(unaudited)*	**361**	**151 091**	**7 539**	**7 389**	**166 380**

Cash flows from operating activities	01.01.2019-30.09.2019 *(unaudited)*	01.01.2018-30.09.2018 *(unaudited)*
Net profit for the reporting period	**14 661**	**7 389**
Depreciation of property, plant and equipment	1 059	344
Amortisation of intangible assets	1 197	502
Income tax	3 721	1 836
Change in inventories	(1 137)	1 912
Change in trade and other receivables	(1 598)	(2 058)
Change in accruals, prepayments and deferred income	(236)	(237)
Change in financial assets	-	-
Change in trade and other liabilities	(2 489)	1 124
Change in provisions	25	81
Net finance (income)/costs	179	50
Valuation of the incentive scheme	-	2 227
Tax paid	(1 168)	(862)
Foreign exchange differences	(4 850)	(3 546)
Interest	(433)	(142)
Other	248	9
	9 179	**8 629**
Cash flows from investing activities		
Proceeds from sale of investments	5 825	4 148
Repayment of loans granted with interest	19 721	-
Loans granted	(7 673)	-
Acquisition of subsidiaries	(183)	(167)
Purchase of property, plant and equipment and intangible assets	(4 169)	(4 376)
Acquisition of other investments	(40)	(40)
Additional contributions to equity of subsidiaries	-	(1 100)
Other cash used in investing activities	(105)	-
	13 376	**(1 535)**
Cash flows from financing activities		
Dividend payment	-	(5 121)
Proceeds from credits taken out	19 000	-
Repayment of credits taken out with interest	(4 132)	21
Repayment of bonds with interest	(51 369)	(1 374)
Payments of finance lease liabilities	(802)	-
Interest on finance lease liabilities	(56)	-
Other inflows from financing activities	487	209
	(36 872)	**(6 265)**
Total net cash flows	**(14 317)**	**829**
Opening balance of cash and cash equivalents	15 750	10 204
Closing balance of cash	**1 433**	**11 033**

37. Sales revenue structure

By type	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Revenue from sales of services	11 144	9 948	31 789	27 645
Revenue from sales of devices	862	589	4 935	2 946
	12 006	**10 537**	**36 724**	**30 591**

By territory	01.07.2019-30.09.2019	01.07.2018-30.09.2018	01.01.2019-30.09.2019	01.01.2018-30.09.2018
Domestic sales	23	26	148	33
Export sales	11 983	10 511	36 576	30 558
	12 006	**10 537**	**36 724**	**30 591**

38. Financial assets

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Investment certificates	-	-	5 942	10 738
Loans granted	66 433	61 283	72 075	69 673
Shares	200	200	200	200
	66 633	**61 483**	**78 217**	**80 611**
of which long-term portion	66 633	61 483	72 275	69 873
of which short-term portion	-	-	5 942	10 738

On 11 April 2019, all certificates held by the Company, with the total value of PLN 5,942 thousand, were redeemed.

Loans granted

	Loan amount (USD '000)	Repayment date	Interest rate
Loan of 30 March 2016	11 300	29.03.2026	Fixed (6%)
Loan of 1 June 2016	200	01.06.2026	Fixed (6%)
Loan of 14 September 2016	200	14.09.2026	Fixed (6%)
Loan of 16 January 2017	1 000	30.12.2026	Fixed (4%)
Loan of 2 March 2017	2 912	30.12.2026	Fixed (4%)

All the above loans were granted to a subsidiary, MDG Holdco. The loans were intended to finance the subsidiary's acquisition of a 75% equity interest in Medi-Lynx, provide working capital to the subsidiary and settle the liability towards AMI/Spectocor for the client base acquired from this entity. The fair value of financial assets approximates their book value.

On 15 April 2019, MDG HoldCo made a partial repayment of the loan of 2 March 2017 to the Parent Company, in the amount of USD 2,901 thousand, including interest accrued in the amount of USD 299 thousand.

39. Shares in subsidiaries

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Medicalgorithmics US Holding Corporation	94 771	94 771	94 771	94 771
Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o.)	1 267	1 267	1 267	1 267
Medicalgorithmics India Pvt. Ltd (formerly Algotel Solutions Pvt. Ltd.)	183	183	-	-
	96 221	**96 221**	**96 038**	**96 038**

40. Trade and other receivables

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Trade receivables	7 817	5 919	4 603	4 071
Budgetary receivables	292	597	1 984	1 269
Other receivables	98	71	59	133
Accruals and deferred income	288	160	251	917
	8 495	**6 747**	**6 897**	**6 390**
Long-term	-	-	-	-
Short-term	8 495	6 747	6 897	6 390

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Trade receivables from related entities	6 064	4 291	3 597	3 272
Trade receivables from other entities	1 860	1 727	1 098	889
Impairment loss on receivables from other entities	(107)	(99)	(92)	(90)
Total net trade receivables	**7 817**	**5 919**	**4 603**	**4 071**

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Insurance policies and deposits	43	49	43	40
Remuneration settled over time	178	-	-	629
Trade fairs	-	-	133	59
Subscriptions	2	4	6	9
Fee for the listing of shares on the WSE	5	10	-	18
Advisory services	19	19	19	38
Other	41	78	50	124
Total prepayments and accrued income	**288**	**160**	**251**	**917**
Long-term portion	-	-	-	-
Short-term portion	288	160	251	917

41. Basic and diluted earnings per share

	01.01.2019-30.09.2019	01.01.2018-31.12.2018	01.01.2018-30.09.2018
Profit for the period (PLN '000)	14 661	11 325	7 389
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)	-	-	-
Basic profit per share in PLN (net profit/weighted average number of shares)	**4.07**	**3.14**	**2.05**
Diluted profit per share in PLN (net profit/weighted average number of diluted shares)	**4.07**	**3.14**	**2.05**

42. Credits and loans

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Short-term portion of credit card debt	57	14	39	32
Short-term bank credits	9 500	9 500	-	-
Total	**9 557**	**9 514**	**39**	**32**

On 18 April 2019, a working capital facility contracted by the Company with Bank Millennium S.A. in the amount of PLN 19,000 thousand was disbursed. The facility was taken out to partially finance redemption of series A bearer bonds issued by the Company in 2016. Pursuant to the concluded loan agreement, the facility will be repaid in 24 monthly instalments, with the final repayment date falling on 11 April 2021. The interest rate is the sum of the 3M WIBOR reference rate and the Bank's margin. The facility was disbursed after the Company complied with all terms and conditions for opening the facility stipulated in the facility agreement on 18 April 2019.

43. Trade and other liabilities, accruals and deferred income

	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Trade liabilities to other entities	738	971	1 210	1 574
Budgetary liabilities	437	767	519	457
Salaries and wages payable	146	592	2 178	342
Other liabilities	146	271	49	77
Short-term accruals and deferred income	79	158	315	315
Long-term accruals and deferred income	856	686	386	287
	2 402	**3 445**	**4 657**	**3 052**

44. 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 21 to this report.

On 16 July 2018 Medicalgorithmics S.A. established security for the Company's liabilities resulting from the lease of usable area in the building at Al. Jerozolimskie 81 in Warsaw in the form of an irrevocable and unconditional bank guarantee in the total amount of PLN 404 thousand. The beneficiary of the guarantee is Central Tower 81 Sp. z o.o. (the lessor). The guarantee is valid from the date of issue to 30 August 2024.

As disclosed in a current report No 9/2019, a collateral was established in connection with the credit facility agreement concluded, in the form of a notarial declaration of the Company about submission, for the benefit of the Bank, to the rigour of enforcement pursuant to Article 777 § 1(5) of the Code of Civil Procedure from the entirety of property with regard to fulfilment of the obligation to pay the Bank any sums of cash due to the liabilities arising from the Agreement, up to the maximum amount of PLN 30,400 thousand.

Moreover, pursuant to the agreement of 18 April 2019, concluded by and between the Company, represented by the Company's Supervisory Board, and the President of the Management Board, Mr Marek Dziubiński, the Company has made a commitment that, in the case of possible dismissal of Mr Marek Dziubiński from the position of a Member of the Management Board of the Company or failure to appoint him Member of the Management Board for the next term of office, the Company shall ensure that Mr Marek Dziubiński shall be released by the Bank from an liability with his personal assets arising from the established Pledge and submitted Declaration.

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.

45. 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

Statement of financial position (in PLN '000) — as at	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Loans granted	69 673	61 283	72 075	69 673
Contribution to the supplementary capital	94 771	94 771	94 771	94 771

Statement of comprehensive income (in PLN '000)	01.01.2019-30.09.2019	01.01.2018-31.12.2018	01.01.2018-30.09.2018
Interest on loans	1 895	3 664	2 639

Medi-Lynx Cardiac Monitoring LLC

Statement of financial position (in PLN '000) — as at	30.09.2019	30.06.2019	31.12.2018	30.06.2018
Trade receivables	5 935	4 182	3 535	3 185

Statement of comprehensive income (in PLN '000)	01.01.2019-30.09.2019	01.01.2018-31.12.2018	01.01.2018-30.09.2018
Revenue from sales of goods and services	30 851	38 726	28 391

Medicalgorithmics Polska Sp. z o.o.

Statement of financial position (in PLN '000) — as at	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Trade receivables	80	76	62	87
Contribution to equity	1 267	1 267	1 267	1 267

Statement of comprehensive income (in PLN '000)	01.01.2019-30.09.2019	01.01.2018-31.12.2018	01.01.2018-30.09.2018
Revenue from sales of goods and services	32	31	24

Medicalgorithmics India Pvt. Ltd

Statement of financial position (in PLN '000) — as at	30.09.2019	30.06.2019	31.12.2018	30.09.2018
Trade receivables	48	33	-	-
Contribution to equity	183	183	-	-

Statement of comprehensive income (in PLN '000)	01.01.2019-30.09.2019	01.01.2018-31.12.2018	01.01.2018-30.09.2018
Revenue from sales of goods and services	238	-	-

46. Transactions with executives

Transactions with executives are disclosed in Note 28 hereto.

47. Information about significant legal proceedings

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

48. 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, 26 November 2019

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