



Standalone Annual Report **MEDICALgorithmics**

for 2019

| This report includes:

- Letter from the CEO
- Standalone Financial Statements
- Management Report on the Activities of the Company
- Directors' Report on the Activities of the Capital Group and Medicalgorithmics S.A.

Dear Sir or Madam,

We would like to invite you to read the Annual Report of the Medicalgorithmics Group for 2019. A good introduction to the analysis of this document would be a summary of key events that contributed to the business situation and shaped the Group's financial performance in the past financial year.

Without doubt, 2019 was a very intense and demanding year for us from the operational point of view. Following thorough analysis, we decided to change our business model in our largest market, that is in the United States, to the so-called in-network model, based on long-term cooperation agreements with insurers. The US medical services market has recently been moving towards this model, which has begun to have a significant bearing on the Group's operations. We believe that this model is more advantageous in the long run, although it also means temporary deterioration of financial figures and the need to secure additional funding. In order to implement the plan of changing the business model, over the past year we signed several key contracts with insurers that cover the entire United States, including a contract with the largest insurer in that market, UnitedHealthcare. Contracts executed by the end of 2019 enabled access to approximately 70% of all insured persons in this market.

At the same time, intensified reorganisation efforts were underway at Medi-Lynx itself. At the end of 2019, we completed the first stage of reorganisation of this company, with significant improvements in its cost efficiency. Key operational initiatives and procedures implemented are already being successfully operated there. This year, we will continue our efforts to optimize costs and improve efficiency in all business areas of all Group companies, including: sales/marketing, finance, human resources, administration and IT as well as R&D and new product development. Of course, all this will be done taking account of the current market situation and factors related to the coronavirus pandemic.

The change of the business model in the United States provides us with access to new customers and aims at increasing sales volume in this market, although it results in lower reimbursement levels per service. The consequences of the above, as well as of the reorganisation activities being carried out, were reflected in the Group's financial performance in 2019. Revenues decreased by PLN 25.5 million, EBITDA by PLN 17,7 million, and Medicalgorithmics' net loss for the year stood at PLN 299 thousand. In our analyses, we had assumed that 2019 will be a transitional year, and the effects of the measures taken, including the savings generated, will become apparent in subsequent periods. On the other hand, lower reimbursement rates will be eventually offset by higher volumes of services provided. At the same time, at the end of 2019, we have already witnessed the advantageous effects of changing the business model in the United States – since August 2019, we have observed a positive trend in the number of commenced monitoring sessions per business day, which translates into the number of payment requests submitted.

Apart from sales and reorganisation activities, in 2019 we also continued intensive efforts in the R&D area. The solutions developed by us, with the support of funds obtained from the issue of series G shares carried out at the beginning of 2020, will allow for introduction of a new functionality and two new devices to the market in 2020. We are convinced that the expansion of our offer will ultimately translate positively into the Group's sales figures.

In 2019, we also expanded our Medicalgorithmics' operations in foreign markets outside the United States, including in Canada, Western Europe and Scandinavia. Revenues earned in these markets have increased by 91% over the past year and we assume that they will continue to grow after the pandemic situation in the world has settled.

We are currently in the second phase of the US business model change, scheduled for completion by the end of 2020. We are working on finalizing contracts with regional and national payers of US health insurance plans, which should ensure coverage of over 90% of the insured by the end of the year. At the end of the year, we assumed continuation of the positive trend in terms of commencing monitoring sessions and payment requests, so that the latter would reach 10 thousand per month at the end of 2020. However, the coronavirus pandemic now makes us approach these estimates with great caution. After a positive beginning of 2020, March saw a significant drop in the number of monitoring sessions commenced in the US market due to the difficult epidemic situation there. We anticipate that this trend may continue in subsequent periods, therefore we are analysing the available opportunities to support operations in the current economic environment in all Group companies. As the Management Board and the entire Team, we are determined to take all necessary actions and decisions to overcome this temporary crisis and return to business as usual.

In conclusion, I would like to thank the entire Medicalgorithmics team for their mobilisation in such an intensive and demanding time for the Group and our Shareholders and Investors for their trust and support in the business transformation process. Our priority now is to safely guide the Group through a period of turmoil associated with the coronavirus epidemic so that, once it has ceased, we can return to the path of business growth in a new global economic and social reality.

Yours faithfully,



Marek Dziubiński

President of the Management Board
Medicalgorithmics S.A.



**FINANCIAL
STATEMENTS
OF MEDICALGORITHMICS S.A.
FOR 2019**

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	PLN '000		EUR '000	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Statement of financial position				
Non-current assets	188 684	190 913	44 308	44 398
Current assets	17 429	33 677	4 093	7 832
Intangible assets	22 287	18 817	5 234	4 376
Long-term financial assets	64 021	72 275	15 034	16 808
Short-term receivables	9 684	6 897	2 274	1 604
Short-term financial assets	-	5 942	-	1 382
Cash and cash equivalents	1 987	15 750	467	3 663
Equity	183 674	167 080	43 131	38 856
Share capital	361	361	85	84
Short-term liabilities	5 934	54 782	1 393	12 740
Long-term liabilities	16 505	2 728	3 876	634
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	50,93	46,33	11,96	10,77

	01.01.2019-	01.01.2018-	01.01.2019-	01.01.2018-
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Statement of comprehensive income				
Sales revenue	48 986	42 906	11 387	10 056
Profit on sales	17 531	8 698	4 075	2 039
Operating profit	17 936	7 828	4 169	1 835
Profit before tax	20 099	13 732	4 672	3 218
Net profit	16 594	11 325	3 857	2 654
Earnings per ordinary share (PLN/EUR)	4,60	3,14	1,07	0,74

	01.01.2019-	01.01.2018-	01.01.2019-	01.01.2018-
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Statement of cash flows				
Net cash flows from operating activities	13 576	11 804	3 156	2 766
Net cash flows from investing activities	12 135	1 196	2 821	280
Net cash flows from financing activities	(39 474)	(7 454)	(9 176)	(1 747)
Total net cash flows	(13 763)	5 546	(3 199)	1 300

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 31 December 2019, i.e. EUR/PLN 4.2585, 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 31 December 2019, i.e. EUR/PLN 4.3018, and from 1 January 2018 to 31 December 2018, i.e. EUR/PLN 4.2669.

		31.12.2019	31.12.2018
Intangible assets	12	22 287	18 817
Property plant and equipment	13	5 327	2 000
Financial assets	14	64 021	72 275
Shares in subsidiaries	15	96 221	96 038
Deferred income tax assets	11	828	1 783
Non-current assets		188 684	190 913
Inventories	16	5 758	5 088
Trade and other receivables	17	9 684	6 897
Financial assets	14	-	5 942
Cash and cash equivalents	18	1 987	15 750
Current assets		17 429	33 677
TOTAL ASSETS		206 113	224 590
		31.12.2019	31.12.2018
Share capital	19	361	361
Supplementary capital		166 719	155 394
Retained earnings		16 594	11 325
Equity		183 674	167 080
Long-term liabilities			
Credits and loans	21	9 698	-
Provisions	20	716	797
Deferred tax liabilities	11	2 409	1 465
Liabilities in respect of bonds and other financial liabilities	23	2 656	-
Other liabilities		-	80
Accruals and deferred income	22	1 026	386
Long-term liabilities		16 505	2 728
Credits and loans		2 981	39
Liabilities in respect of bonds and other financial liabilities	23	1 042	50 472
Trade and other liabilities	22	1 911	3 956
Income tax liabilities	22	-	-
Accruals and deferred income	22	-	315
Short-term liabilities		5 934	54 782
Total liabilities		22 439	57 510
TOTAL EQUITY AND LIABILITIES		206 113	224 590

		01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Sales revenue	5	48 986	42 906
Raw materials and consumables used		(6 205)	(6 434)
Employee benefits	6	(13 150)	(15 283)
Amortization and depreciation		(3 115)	(1 173)
Third-party services	7	(7 942)	(9 375)
Other		(1 043)	(1 943)
Total costs of sales		(31 455)	(34 208)
Profit on sales		17 531	8 698
Other operating revenue	8	776	336
Other operating expenses	8	(371)	(1 206)
Operating profit		17 936	7 828
Finance income	9	3 601	8 990
Finance costs	9	(1 438)	(3 086)
Net finance (costs)/income		2 163	5 904
Profit before tax		20 099	13 732
Income tax	10	(3 505)	(2 407)
Net profit from continuing operations		16 594	11 325
Other net comprehensive income for the reporting period		-	-
Total comprehensive income for the reporting period		16 594	11 325
Basic profit per share in PLN		4,60	3,14
Diluted profit per share in PLN		4,60	3,14

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2019	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	-	-	-	16 594	16 594
	361	166 719	-	16 594	183 674
Transactions recognized directly in equity					
Dividend payment	-	-	-	-	-
Valuation of the incentive scheme	-	-	-	-	-
Total contributions from and distributions to owners	-	-	-	-	-
Equity as at 31 December 2019	361	166 719	-	16 594	183 674

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2018	361	159 042	5 312	(2 830)	161 885
Comprehensive income for the reporting period					
Net loss for the previous reporting period	-	(2 830)	-	2 830	-
Net profit for the current reporting period	-	-	-	11 325	11 325
	361	156 212	5 312	11 325	173 210
Transactions recognized directly in equity					
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	361	155 394	-	11 325	167 080

		01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Cash flows from operating activities			
Net profit for the reporting period		16 594	11 325
Depreciation of property, plant and equipment	13	1 491	491
Amortization of intangible assets	12	1 624	682
Income tax	10	3 505	2 407
Change in inventories	16	(670)	2 768
Change in trade and other receivables		(2 255)	(2 619)
Change in accruals, prepayments and deferred income		127	(315)
Change in trade and other liabilities		(2 531)	2 630
Change in provisions		(81)	224
Net finance costs		179	333
Tax paid		(2 116)	(823)
Foreign exchange differences		(2 332)	(5 263)
Interest		(294)	(86)
Other		335	50
		13 576	11 804
Cash flows from investing activities			
Proceeds from sale of investments	14	5 825	8 661
Loans granted	14	(7 673)	-
Repayment of loans granted with interest		19 721	-
Purchase of property plant and equipment and intangible assets	12,13	(5 476)	(6 158)
Acquisition of subsidiaries	15	(182)	(167)
Acquisition of other investments		(80)	(40)
Additional contribution to equity of subsidiaries	15	-	(1 100)
		12 135	1 196
Cash flows from financing activities			
Dividend payment	19.3	-	(5 121)
Proceeds from credits taken out	21	19 000	29
Repayment debt on account of credits taken out with interest		(6 597)	-
Repayment of bonds with interest	23	(51 369)	(2 748)
Payments of finance lease liabilities		(1 030)	-
Interest on finance leases		(110)	-
Other inflows from financing activities		632	386
		(39 474)	(7 454)
Total net cash flows		(13 763)	5 546
Opening balance of cash and cash equivalents		15 750	10 204
Closing balance of cash		1 987	15 750

1. Company data

Medicalgorithmics S.A. (the “Company”, “Entity”) is a Polish provider of advanced technologies which seeks to position itself as a leading supplier of systemic and algorithmic solutions in cardiac diagnostics, especially in the area of the ECG signal analysis. Established as a limited liability company in order to commercialise Polish technology innovations, the Company is now one of the largest global players on the cardiac telemetry market.

Medicalgorithmics S.A. is a joint-stock company registered in Poland. The 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 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 was assigned a Statistical ID No (REGON) 140186973 and a Tax ID No (NIP) 5213361457.

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

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

Management Board

Marek Dziubiński – President of the Management Board

Maksymilian Sztandera – Chief Financial Officer

Peter G. Pellerito – Member of the Management Board (as of 21 January 2020)

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. On 21 January 2020, the Supervisory Board of the Company resolved to appoint Mr Peter G. Pellerito to the Management Board.

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 Gołębiccki – 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 Gołębiccki. 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.

2. Basis for preparation of the financial statements

2.1. Declaration of compliance

The Company's annual separate financial statements have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (the “EU IFRSs”).

The EU IFRSs comprise all International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”) and related Interpretations, other than those listed below which are awaiting endorsement by the European Union (“EU”) and other than Standards and Interpretations that have been endorsed by the European Union but are not yet effective.

The Company did not elect to apply early new Standards and Interpretations that have been issued and endorsed by the European Union and will become effective after the reporting date.

Going concern – Company and Capital Group

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

assumption includes the current Management Board assessment regarding the development of the SARS-CoV-2 pandemic and its negative impact on the Group's results.

As it was presented in current reports no. 20/2020 and 27/2020 the effects of the SARS-CoV-2 pandemic and related regulatory activities to counteract the spread of the virus will reduce the Group's revenues and will result in worse financial results of the Capital Group in 2020. The expected decrease in revenues mainly concerns the US market and will be caused primarily by a decrease in the number of patients using ECG tests using PocketECG technology which will consequently reduce the number of applications for payment from insurers. As reported in current report no. 27/2020, Medi-Lynx reports a decrease in the number of ECG monitoring sessions initiated on the US market. From March 16, 2020 to April 12, 2020 (equivalent to the following weeks of the year from 12 to 15), the Company recorded a 43% decrease in the number of monitoring sessions started compared to the same period last year. At the same time, the Management Board predicts that this negative trend may be sustained in the coming weeks. A change in the number of ECG monitoring sessions initiated will affect the number of applications for payment from insurers, while a reliable assessment of the situation will be possible only after obtaining information on the number of applications for payment from insurers in the following months.

Due to the expected decline in revenues, Medi-Lynx has applied for a preferential loan under the CARES Act established by the US Congress. As part of the loan, Medi-Lynx obtained funds in the amount of USD 3.2 million, which, according to the "CARES Act" will be used to finance operating activities, including mainly to finance salaries. Pursuant to the provisions of the CARES Act, part of the loan, spent under certain conditions on employee remuneration, is non-returnable. The remaining part of the loan will be repaid within 24 months and bears an interest rate of 0.98% per annum.

Additionally, in order to optimally use the working time of people employed in the Medicalgorithmics Group companies, the dimensions of basic working time have been reduced, which will entail lower expenditure on remuneration. The Management Board informs that the introduced change is temporary and results from the adjustment of the demand for performed work to current market conditions.

In the opinion of the Management Board, the decrease in the number of ECG monitoring sessions started is temporary, and the actions taken by companies from the Medicalgorithmics group are aimed at reducing the threat associated with a temporary decline in revenues, while maintaining the ability of companies to quickly restore their original potential. Cash flow projections prepared on the basis of the current estimates of the Management Board regarding the development of the pandemic and its impact on the Group's operations, and taking into account the currently implemented and planned remedial actions show that the Group will have sufficient liquidity to meet its liabilities. At the same time, the Company's Management Board underlines that the unusual nature of the current situation, as well as its dynamic development, including the introduction of regulatory regulations, it is currently impossible to determine the actual impact of the situation on the future functioning of the market, including the functioning of the entire Capital Group, including The Company, its future financial results and cash flow position within a period of at least 12 months from the balance sheet date.

2.2. First-time adoption of standards and interpretations in 2019

The accounting policies applied in preparing these separate financial statements are consistent with the policies applied in preparing the Company's separate financial statements for the year ended 31 December 2018, save for the effect of application of the following new or amended standards and new interpretations effective for annual periods beginning on or after 1 January 2019.

- IFRS 16 "Leases" – endorsed by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019). The standard replaces the existing regulations concerning leases (e.g. IAS 17) and changes the approach to various types of lease agreements, imposing on the lessee a requirement to present assets and liabilities resulting from lease agreements, regardless of their type, in balance sheets,
- IFRIC 23 "Uncertainty over income tax treatments" – the new interpretation was published on 7 June 2017 and is effective for annual periods beginning on or after 1 January 2019. This interpretation is intended to indicate how to recognise income tax in the financial statements in cases where existing tax regulations may leave room for interpretation and differences of opinion between an entity and the tax authorities,
- Amendment to IFRS 9 "Prepayment features with negative compensation" – the amendment to IFRS 9 was published on 12 October 2017 and is effective for annual periods beginning on or after 1 January 2019. The amendments provide guidance on the measurement of financial assets that are prepayable under contract terms but, formally failing the solely payments of principal and interest (SPPI) test, could not be measured at amortised cost or at fair value through other comprehensive income,

- Amendment to IAS 28 “Long-term interests in associates and joint ventures” – the amendment to IAS 28 was published on 12 October 2017 and is effective for annual periods beginning on or after 1 January 2019. The amendments provide guidance on the measurement of interests in associates and joint ventures to which the equity method is not applied,
- Amendments to various standards introduced as part of “Annual Improvements to IFRS Standards 2015-2017 Cycle”. As part of the annual IFRS improvement cycle, minor amendments to the following standards were made on 12 December 2017:
 - IFRS 3 “Business Combinations” – clarifying that when an entity obtains control of a joint operation, it remeasures previously held interests in that joint operation,
 - IFRS 11 “Joint Arrangements” – clarifying that when an entity obtains joint control of a joint operation, the entity does not remeasure previously held interests in that joint operation,
 - IAS 12 “Income Taxes” – clarifying that all tax consequences of dividends are recognised in the same way,
 - IAS 23 “Borrowing Costs” – clarifying that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally.

These amendments are effective for annual periods beginning on or after 1 January 2019.

- Amendments to IAS 19 “Plan amendment, curtailment or settlement” – amendments to IAS 19 were published on 7 February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments relate to remeasurements of defined benefits plans on a plan amendment, requiring entities to use updated assumptions for the calculation of current service cost and interest for post-amendment periods if the net defined benefit liability (asset) is remeasured. IAS 19 previously failed to provide clear guidance on that specific issue.

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

2.3. Standards and interpretations coming into effect after the balance sheet date

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, but are not effective yet:

- IFRS 17 “Insurance contracts” – the new standard was published on 18 May 2017 and is effective for annual periods beginning on or after 1 January 2021. Its prior use is permitted (provided that IFRS 15 and IFRS 9 are simultaneously applied). The standard replaces the existing regulations on insurance contracts (IFRS 4),
- Amendment to IFRS 3 “Business combinations” – the amendment to IFRS 3 was published on 22 October 2018 and is effective for annual periods beginning on or after 1 January 2020,
- Amendments to IAS 1 and IAS 8: Definition of the term “material” – amendments to IAS 1 and IAS 8 were published on 31 October 2018 and are effective for annual periods beginning on or after 1 January 2020,
- Amendments in IAS 1 “Presentation of Financial Statements”: Classification of liabilities as short and long-term – the change in IAS 1 was published on January 23, 2020 and applies to annual periods beginning on January 1, 2020 or later. The amendment redefines the criteria that must be met in order to be considered as a short-term commitment,

The Company did not opt for early adoption of those new standards or amendments to the existing standards and interpretations. The Company estimates that the above standards, interpretations and amendments would not have a material effect on its financial statements if applied by the Company as at the balance sheet date.

2.4. New standards and Interpretations not yet endorsed by the EU:

There are no major differences between the IFRS as endorsed by the EU and the regulations issued by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to standards and new interpretation which were not yet endorsed by the EU as at the date of publication of the financial statements (the following effective dates refer to the full versions of respective standards):

- IFRS 14 “Regulatory deferral accounts” published on 30 January 2014 (EU endorsement process has been suspended),
- IFRS 17 “Insurance Contracts”, published on 18 May 2017,
- Amendments to IFRS 10 and IAS 28 “Sale or contribution of assets between an investor and its associate or joint venture” published on 11 September 2014 (EU endorsement process has been suspended),
- Amendment to IFRS 3 “Business combinations” published on 22 October 2018,

- Amendment to IAS 1 "Presentation of Financial Statements" published on January 23, 2020.

The Company estimates that none of those new standards, amendments to existing standards and interpretations would have had a material impact on its financial statements had they been applied by the Company as at the balance sheet date.

2.5. Effect of applying new accounting standards that became effective in 2019 on the Company's financial statements

a. 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 Company has applied IFRS 16 as of 1 January 2019.

The Company 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 Company, three main categories of lease contracts have been identified:

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

As of 1 January 2019, the Company, 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 Company 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 Company 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 Company 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 Company's financial statements

As at 1 January 2019, the Company, 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 Company 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 Company 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".

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	Adjustments due to the		
	31.12.2018	adoption of IFRS 16	01.01.2019
Non-current assets			
Property, plant and equipment	2 000	4 751	6 751
Equity and liabilities	Adjustments due to the		
	31.12.2018	adoption of IFRS 16	01.01.2019
Equity			
Retained earnings	11 325	-	72 032
Long-term liabilities			
Liabilities in respect of bonds and other financial liabilities	-	3 730	3 730
Short-term liabilities			
Liabilities in respect of bonds and other financial liabilities	50 472	1 021	51 493

Application of practical expedients

In applying IFRS 16 for the first time, the Company 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 Company 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
- the use of hindsight (i.e. knowledge gained after the fact) in determining the lease period if the agreement contains options to prolong or terminate the lease.

2.6. Basis of measurement

These financial statements were prepared under the historical cost convention, except with respect to financial assets measured at fair value through profit or loss (investment certificates).

2.7. Presentation and functional currency

The figures contained in the 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.

Transactions denominated in foreign currencies are recognised as at the transaction date in the Company's functional currency, at the spot exchange rate between the functional currency and the foreign currency effective on the transaction date.

Monetary items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant closing rate for that date.

Foreign exchange differences on measurement of the carrying amounts of monetary assets and liabilities represent the difference between the measurement at amortised cost in the functional currency as at the beginning of the reporting period, adjusted by interest accrued and payments made during the reporting period, and the measurement at amortised cost in the foreign currency converted at the closing rate effective on the end of the reporting period.

Non-monetary balance sheet items denominated in a foreign currency and measured at fair value are converted at the spot exchange rate for the functional currency effective on the date of fair value measurement.

Currency translation differences are recognised as a gain or loss of the current period. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate effective on the transaction date. Currency translation differences are recognised in profit or loss for the current period, except for differences on translation of equity instruments classified as available for sale, financial liabilities designated as hedges of a net investment in a foreign operation and assessed as effective, and qualified cash flow hedges which are recognised under other comprehensive income.

2.8. Judgments and estimates made

The preparation of financial statements in accordance with the International Financial Reporting Standards of the European Union 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 2.5 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 Company 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 Company recognises an impairment write-down to the present value of planned cash flows);
- 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.

2.9. Authority approving the financial statements for publication

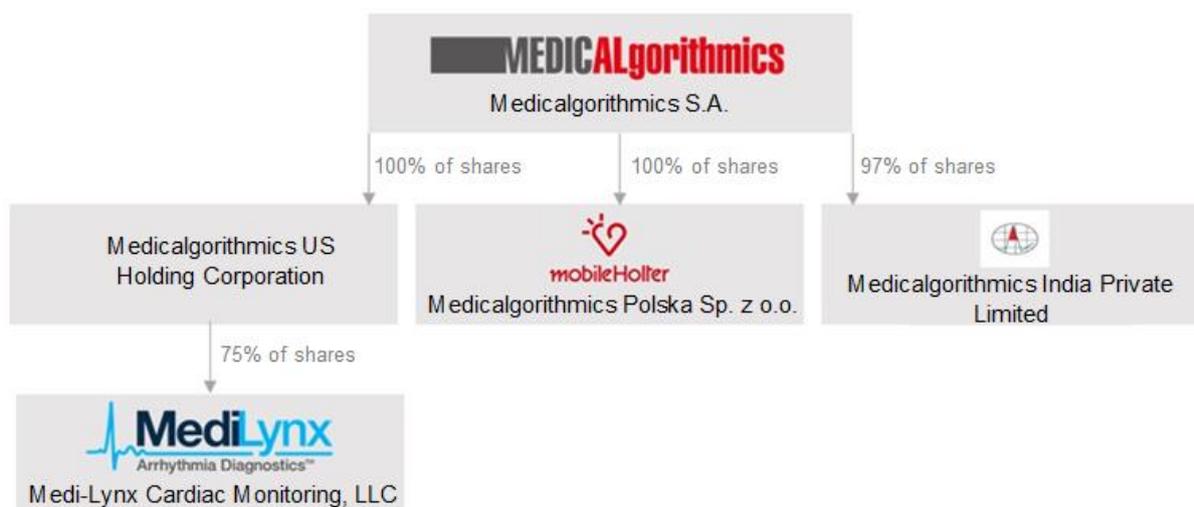
The Management Board of the Company is the authority approving the financial statements for publication.

2.10. Information about the Medicalgorithmics Capital Group

The Company is the parent of the Capital Group. The Medicalgorithmics Capital Group is composed of the Parent Company, 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 31 December 2019 are presented below:



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.

3. Significant accounting policies

The accounting policies presented below have been applied with respect to all the reporting periods presented in the financial statements.

3.1. Property, plant and equipment

Property, plant and equipment were carried at cost less accumulated depreciation and impairment. Land is not depreciated. Property, plant and equipment include own fixed assets, leasehold improvements, fixed assets under construction and third-party fixed assets accepted for use by the entity (where the terms of the contract transfer substantially all potential rewards and risks incidental to their ownership to the entity), and constitute assets used in the supply of goods or provision of services, for administrative purposes or to be leased to third parties, and their expected useful life exceeds one year. The cost of property, plant and equipment comprises costs incurred to acquire or construct an item of property, plant and equipment, including capitalised interest accrued up until the date when the fixed asset is placed in service. Subsequent expenditure are included in the carrying amount where an inflow of economic benefits to the Entity is probable. Day-to-day maintenance costs of property, plant and equipment are recognized in profit or loss of the current period.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and estimated cost of dismantling and removing the asset and restoring the site on which it was located, the entity is obliged to incur. Property, plant and equipment, other than fixed assets under construction and land, are depreciated. The depreciable amount is the cost of an asset less its residual value, and depreciation is calculated based on the useful life of the asset assumed by the entity and verified on a periodical basis. Depreciation commences when an asset is available for use and ceases at the earlier of: the date that the asset is classified as held for sale, the date that the asset is derecognized, the date that the recoverable amount of the

asset becomes higher than its carrying amount or the date that the asset is fully depreciated. The Company has adopted the following useful lives for particular categories of fixed assets:

Buildings and structures: 10 to 50 years;

Technical equipment and machinery: 5 to 25 years;

Vehicles: 3 to 10 years;

Equipment: 5 to 10 years;

Computer hardware: up to 3 years.

Leasehold improvements and fixed assets used under lease agreements: period remaining until the expiry of the contract.

Gains or losses arising from the derecognition of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and recognized in profit or loss of the current period.

3.2. Intangible assets

The Company recognises intangible assets only if:

- a) it is probable that future economic benefits that are attributable to the asset will flow to the Company; and
- b) the cost of the asset can be measured reliably.

An intangible asset is measured initially at cost. Intangible assets are amortized. Amortization rates were determined taking into account the assets' useful lives. Intangible assets are amortized on a straight-line basis over the following period:

Completed development work: 2 to 10 years;

Economic copyrights – licences: 2 to 5 years.

Expenditure on research is recognized as an expense when it is incurred. Prior to the commencement of production or use of new technological solutions, development costs are capitalized in intangible assets if the Company can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable economic benefits. Among other things, the Company should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- its ability to measure the expenditure attributable to the intangible asset during its development reliably.

Development costs with a pre-defined useful life are amortized. Amortization commences when an asset is ready for its intended use and ceases when the asset is classified as held for sale or derecognized.

The amortization period is equal to the useful life of an asset.

The amortization period and the amortization method adopted are reviewed at least at each financial year end. Development costs are amortized over the expected period of earning revenue from the sale of the product. The Company does not amortise development costs with an indefinite useful life.

Intangible assets with indefinite useful lives are tested for impairment on an annual basis, following the guidelines in IAS 36 "Impairment of assets".

Borrowing costs (e.g. interest on credits and loans or exchange differences on foreign currency credits and loans) that are directly attributable to the acquisition or production of an asset are capitalised as part of the cost of such an asset. Net financing costs include interest paid on the debt calculated using the effective interest rate, interest on cash invested by the Company, dividends due, foreign exchange gains or losses; and gains and losses on hedging instruments carried through profit or loss.

3.3. Inventories

Inventory components are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company measures inventories and a decrease therein using the FIFO method.

3.4. Financial assets

Financial assets are classified in one of the following categories:

- a) measured at amortized cost;
- b) measured at fair value through profit or loss,
- c) measured at fair value through other comprehensive income.

Classification of debt financial assets depends on the business model for the management of groups of financial assets and on the nature of the contractual cash flows for a given financial asset. Financial assets are classified at initial recognition and their classification may change only if the business model of managing financial assets changes. The principal financial asset management models include the business model whose objective is to hold assets in order to collect contractual cash flows, the model whose objective is to hold assets in order to collect contractual cash flows and sell the assets, and a model of holding assets for other purposes (in principle, it is a model whose objective is to hold assets in order to sell them). The Company has adopted the principle that the sale of a financial asset shortly before its maturity does not constitute a change in the business model from the model whose objective is to hold assets in order to collect contractual cash flows to the model whose objective is to hold assets in order to collect contractual cash flows and sell the assets or the model of holding assets for other purposes.

Financial assets are derecognized when rights to receive cash flows from the assets have expired or when the Company has transferred the rights to receive cash flows to a third party and has transferred substantially all risks and rewards of ownership.

a. Financial assets measured at amortised cost

A financial asset is measured at amortized cost if the following two conditions are met:

- a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Loans advanced, trade receivables and other receivables subject to IFRS 9 are classified by the Company as measured at amortized cost. Financial assets are measured at amortized cost using the effective interest rate method. Long-term receivables subject to IFRS 9 are discounted as at the balance sheet date. Trade receivables with maturities of less than 12 months are measured at nominal value less expected credit losses.

b. Financial assets measured at fair value through profit or loss

Short-term financial assets measured at fair value through profit or loss include assets acquired in order to achieve economic benefits resulting from short-term price changes. Short-term financial assets are initially recognised at cost and measured at fair value as at the balance sheet date. Gains or losses on measurement of financial assets are recognized in profit or loss as finance income or expenses. Financial assets measured at fair value through profit or loss include short-term investments in securities, including acquired units in investment funds.

c. Financial assets measured at fair value through other comprehensive income

The Company recognizes gains/losses on measurement of investments in debt and equity instruments disclosed by the Company on initial recognition in other comprehensive income. Dividends from equity instruments at fair value through other comprehensive income are recognized by the Company as income in profit or loss. As at the balance sheet date, the Company did not classify any financial assets into this category.

3.5. Non-derivative financial liabilities

The Company recognises subordinated liabilities and liabilities under outstanding debt securities at the date on which they arise. All other financial liabilities, including liabilities at fair value through profit or loss, are recognised at the trade date, or the date on which the Company becomes party to an agreement under which it is obliged to deliver the financial instrument. The Company derecognises a financial liability when it has been repaid or cancelled or becomes time barred. Financial assets and a financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the recognised amounts or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. Following initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. Other financial liabilities include credits, loans and other debt instruments, overdraft facilities, trade liabilities and other liabilities.

3.6. Measurement of shares in subordinates

Shares in subsidiaries are measured at the acquisition price less impairment losses. The acquisition price for shares in subordinates acquired in exchange for a contribution in kind is determined based on the carrying amount contributed assets as at the contribution date.

3.7. Impairment losses on assets

Financial assets (including receivables)

Financial assets not classified as at fair value through profit or loss are assessed at the end of each reporting period to determine whether there is objective evidence that they are impaired.

The Company uses the following approaches to estimate impairment of financial assets:

- general approach,
- simplified approach.

The Company applies the general approach to financial assets measured at fair value through other comprehensive income and to financial assets measured at amortized cost, except for trade receivables. In the general approach, the Company estimates the impairment loss on financial assets on the basis of a three-stage model based on the change in credit risk of financial assets since their initial recognition. If credit risk of a given financial asset has not increased significantly since initial recognition (stage 1), the Company recognizes 12-month expected credit losses. If the Company identifies a significant increase in credit risk of financial assets (stages 2 and 3), the Group recognizes lifetime expected credit losses for the affected financial assets. As at each reporting date, the Company analyses whether there is any indication of a significant increase in credit risk of its financial assets.

Due to the fact that the Company's trade receivables do not contain a material financing component, the Company applies a simplified approach in this respect and does not monitor changes in credit risk during the life of the financial instrument. The Company estimates expected credit losses related to trade receivables using the case-by-case approach and the benchmark approach based on historical collection statistics. The Company regularly reviews the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience. The impairment loss is remeasured at each reporting date.

Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Company.

The recoverable amount of an asset is the greater of its net realizable value and its value in use. An impairment loss is recognized when the carrying amount of an asset is higher than its recoverable amount. Impairment losses are recognized in profit or loss for the current period.

An impairment loss in respect of goodwill is not reversed. For other assets, impairment losses recognized in previous periods are reviewed at the end of each reporting period to determine whether there is any evidence of decrease in or complete reversal of the impairment loss. Impairment losses can be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

3.8. Employee benefits

In the event of termination of employment, the Company's employees are entitled to benefits provided for by the Polish labour law, including, but not limited to, an allowance for unused holiday leave and compensation for the obligation to refrain from engaging in any activity competitive to the employer's business.

Therefore, the Company recognises provisions for future employee benefits on account of unused holidays for previous periods and unpaid allowances. This provision is calculated by multiplying the number of days of unused leaves by the daily cost of remuneration for each employee.

Due to their immateriality, the Company does not recognise provisions for retirement severance pays and jubilee awards.

3.9. Provisions

A provision is recognized when the Company has a present legal or constructive obligation resulting from past events, which can be reliably estimated and which is likely to cause an outflow of economic benefits when discharged. Provisions are recognized in the amount equal to the best estimate of expenditure required to discharge the present obligation as at the end of the reporting period, taking into account the risks and uncertainties associated with events and circumstances leading to its discharge.

3.10. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash in bank accounts as well as deposits and short-term securities with maturities of up to three months.

3.11. Equity

Equity disclosed in the Company's financial statements comprises:

- a) The share capital recognized in the amount specified in the Articles of Association and entered in the court register.
- b) The share premium is reported as a separate item in equity. Share issue costs decrease the balance of equity.
- c) Supplementary capital recognized in accordance with the Commercial Companies Code;
- d) Retained earnings comprising retained earnings from previous years and profit or loss for the current financial period.

3.12. Revenue

IFRS 15 contains a "Five-step model" of recognising revenue from contracts with customers. Under IFRS 15, an entity recognises revenue in an amount of the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer. The new standard replaces all the existing requirements concerning revenue recognition in accordance with IFRS. The Five-step model includes:

Identifying the contract with a customer

A contract with a customer meets its definition when all the following criteria are met: the parties to the contract have approved the contract and are committed to perform their respective obligations; the Company can identify each party's rights regarding the goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance; and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identifying performance obligations

At contract inception, the Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Determining the transaction price

The Company considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charge, excise duty). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Allocating the transaction price to each performance obligation

The objective when allocating the transaction price is for the Company to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue at the moment of satisfaction of performance obligations

The Company recognizes revenue when (or as) the Company satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenue is recognised as the amounts of the transaction price that is allocated to that performance obligation. The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the performance creates or enhances an asset that the customer controls as the asset is created or enhanced;

- the performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company operates in the field of advanced telemedicine technologies and is a provider of cardiac diagnostic solutions, particularly in the field of ECG analysis. The Company's primary source of revenue is the sale of the PocketECG system. The Company operates on a subscription model, which means that it derives revenue from sales of devices, and then from subscriptions for their use and use of the related software and server infrastructure. In its records, the Company recognizes separately:

- revenue from sales of PocketECG devices;
- subscription revenue from cooperation with strategic partners.

In the opinion of the Management Board, according to the economic substance of the contracts, sales of the PocketECG system and the PocketECG system maintenance services constitute a single performance obligation (the use of the PocketECG device depends to a large extent on the use of the software and server infrastructure).

The Company transfers control of the system over time and, therefore, satisfies a performance obligation and recognizes revenue over time. The progress towards satisfaction of the obligation is determined by the Company using input methods.

Revenue is measured on the basis of the transaction price to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The estimated transaction price reflects a reliable estimate of the expected contractual consideration based on the entity's experience and capacity to satisfy such performance obligations. An estimate of the transaction price includes any expectations known to the entity in the prevailing contractual or business circumstances about the actual amount of consideration for the transfer of the goods or services, including, in particular, those that result in a price concession. The transaction price includes the part of variable consideration for which it is highly probable that no adjustment of a significant portion of revenue will be necessary in the future.

A reliable estimate of the transaction price is assessed at each balance sheet date.

3.13. Finance income and costs

Finance income comprises interest income on funds invested by the Company, fair value gains on financial instruments at fair value and realized differences between the purchase price and the price at which financial assets measured at fair value through profit or loss are sold or exchanged. Interest income is recognized in profit or loss of the period on the accrual basis using the effective interest rate method. Income from fair value measurement (including of transactions completed) is recognized in profit or loss of the period on the accrual basis, using the fair value measurement methods.

Finance costs comprise interest expense on borrowings, impairment losses recognized on financial assets and fair value losses on financial instruments at fair value.

Foreign exchange gains and losses are reported on a net basis under finance income or finance costs, as appropriate.

3.14. Income tax

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to offset current tax liabilities and assets, and if they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets are recognized in respect of tax loss carryforwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax comprises current and deferred tax. Current and deferred income tax is recognized in profit or loss for the period except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected income tax payable or receivable in respect of taxable income for the year, determined using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years' income.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and their amounts used for tax purposes. Deferred tax is not recognized for the following temporary differences: initial recognition of assets or liabilities from a transaction that is not a business combination and that affects neither profit or loss for the period, nor taxable income, differences relating to investments in subsidiaries and jointly controlled entities to the extent it is not probable they will be disposed of in the foreseeable future. In addition, deferred tax is not recognized in relation to temporary differences arising on initial recognition of goodwill. Deferred tax is measured at tax rates that are expected to be applied when temporary differences reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

4. Segment reporting

The core business of the Company comprises:

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

The Company operates mainly in Poland. 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 Company did not discontinue any operations and no operations are expected to be discontinued in the following period.

The Company 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 Company 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 Company identifies only one operating segment, comprising the provision of systemic and algorithmic solutions for cardiovascular 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 Company 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 Company level, the Management Board does not review the results of operations by any other types of activities and does not have separate financial data.

It should be noted, however, that the Company, apart from its operating activities, is the Parent and a holding company of the Medicalgorithmics Capital Group. In view of this function, it can be approximated that the following items in the statement of financial position and the statement of comprehensive income relate mainly to holding activities and other activities (operating activities not related to the provision of services):

- Investments in subsidiaries;
- Long-term financial assets (including loans granted);
- Finance income.

The remaining items in the statement of financial position and the statement of comprehensive income relate mainly to activities related to sales or are not allocated.

Other supplementary information on operating segments is disclosed in the notes on financial risk management.

5. Sales revenue structure

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
By type		
Revenue from sales of services	43 181	38 021
Revenue from sales of devices	5 805	4 885
	48 986	42 906
By territory		
Domestic sales	240	46
Export sales	48 746	42 860
	48 986	42 906

The Company's revenue is generated mainly in the United States. The year-on-year increase in revenue was primarily driven by nearly twofold increase in sales of goods and services in Europe, Australia and Canada. Moreover, higher average USD/PLN and EUR/PLN exchange rates had a positive impact on the value of revenue in 2019. For detailed information on revenue and year-on-year changes in revenue, see Section IV.1 of the Directors' Report on the operations of the Medicalgorithmics Capital Group and Medicalgorithmics S.A. in 2019.

6. Employee benefits

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Remuneration	(10 916)	(13 353)
Social security and other benefits	(2 234)	(1 930)
	(13 150)	(15 283)

In the reporting period, the Company recorded a year-on-year decrease in remuneration, mainly due to a decrease in average headcount and lower remuneration of the Management Board. For details on employee benefits, see Section III.1 of the Directors' Report on the operations of the Medicalgorithmics Capital Group and Medicalgorithmics S.A. in 2019.

7. Third-party services

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Lease and rental	(1 480)	(1 980)
Telecommunication and Internet services	(308)	(282)
IT services	(2 140)	(694)
Accounting and financial audit services	(822)	(432)
Advisory services	(1 524)	(2 145)
Transport and courier services	(102)	(132)
Leases	-	(5)
Marketing services	(217)	(2 494)
Other third-party services	(1 349)	(1 211)
	(7 942)	(9 375)

In 2019, the Company recorded a decrease in costs of third-party services, as compared to the corresponding period. The change in expenses was chiefly attributable to lower expenses on marketing services which were abandoned by the company as its subsidiary, Medi-Lynx, took over responsibility for the marketing activities and corresponding expenses. The noticeable decrease in the cost of lease and rental in the analyzed period results primarily from the application of IFRS 16 "Leases" by the Company in 2019 (a detailed description of the changes introduced by the standard, see Note 2.5 to these statements). In 2019, as well as in the comparative period, a significant part of the rental and lease costs was the cloud storage service (PLN 1,083 thousand), which is not subject to transformation in accordance with IFRS 16. In addition, the item rent and lease includes operating costs related to the rent of office space and the cost of renting low-value office equipment. IT services include consultancy on programming and maintenance of the IT environment.

8. Other operating revenue and expenses

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Settlement of subsidies	322	315
Other	454	21
Other operating revenue	776	336
Impairment losses on receivables	-	(92)
Impairment losses on inventories	-	(680)
Inventory utilization	(286)	-
Other	(85)	(434)
Other operating expenses	(371)	(1 206)

9. Finance income and costs

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Interest income	3 289	3 167
Foreign exchange differences	312	5 823
Finance income	3 601	8 990
Interest on leases	(110)	-
Interest on bonds	(835)	(2 748)
Interest on debt	(263)	-
Other	(230)	(338)
Finance costs	(1 438)	(3 086)
Net finance income	2 163	5 904

10. Effective tax rate

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Profit before tax	20 099	13 733
Tax at the tax rate applicable in Poland	(3 819)	(2 609)
Non-tax-deductible costs	(259)	(251)
Loss on sales of investment certificates	(142)	-
Non-taxable revenue	61	63
Relief for Research and Development	621	484
Other	33	(94)
Tax reported in the statement of comprehensive income	(3 505)	(2 407)

11. Deferred tax assets and liabilities

	31.12.2019	31.12.2018
Valuation of loans at amortized cost	848	449
Foreign exchange differences on valuation of cash	-	5
Settlement of expenditure on Research and Development	1 362	849
Other	199	162
Deferred tax liabilities	2 409	1 465
	31.12.2019	31.12.2018
Provision for receivables	-	17
Provision for costs	224	414
Impairment losses on inventories	-	129
Foreign exchange differences on valuation of foreign-currency loans to a related entity	220	500
Interest on bonds	-	101
Valuation of FIZ certificates	-	120
Costs of acquisition of Medi-Lynx *	339	339
Other	45	163
Gross deferred tax assets	828	1 783

* Included in the acquisition price of the Company for tax purposes and in current expenses for accounting purposes.

	31.12.2019	31.12.2018
Change in deferred tax reported in the statement of comprehensive income	(1 899)	(1 651)
Change in deferred tax recognized directly in equity	-	(1 009)
Net deferred tax assets/liability of which:	(1 581)	318
Deferred tax assets	828	1 783
Deferred tax liabilities	(2 409)	(1 465)

12. Intangible assets

	Costs of completed development works	Development works in progress	Other	Total
Gross value of intangible assets				
Gross value as at 1 January 2019	5 937	17 750	1 479	25 166
Increases	3 831	4 755	343	8 929
Decreases	-	(3 831)	-	(3 831)
Gross value as at 31 December 2019	9 768	18 674	1 822	30 264
Accumulated amortization and impairment losses				
Accumulated amortization and impairment losses as at 1 January 2019	5 482	-	867	6 349
Amortization	1 253	-	374	1 627
Accumulated amortization and impairment losses as at 31 December 2019	6 735	-	1 241	7 976
Net value				
As at 1 January 2019	455	17 750	612	18 817
As at 31 December 2019	3 033	18 674	581	22 287
	Costs of completed development works	Development works in progress	Other	Total
Gross value of intangible assets				
Gross value as at 1 January 2018	5 937	13 148	1 163	20 248
Increases	-	4 640	316	4 956
Decreases	-	(38)	-	(38)
Gross value as at 31 December 2018	5 937	17 750	1 479	25 166
Accumulated amortization and impairment losses				
Accumulated amortization and impairment losses as at 1 January 2018	5 027	-	640	5 667
Amortization	455	-	227	682
Accumulated amortization and impairment losses as at 31 December 2018	5 482	-	867	6 349
Net value				
As at 1 January 2018	910	13 148	523	14 581
As at 31 December 2018	455	17 750	612	18 817

Costs of completed development works

As at the balance sheet date, expenditure on development works on the PocketECG system was capitalised by the Company as intangible assets. It is currently the most technologically advanced solution offered by the Company. The basic technological advantage of the solution is the integration of the device, which previously consisted of two separate components, into a specially developed recorder of a smartphone type based on the Android operating system. The Group continues to develop and introduce new functionalities of the PocketECG system to maintain its technological advantage over competitive solutions.

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. As at 31 December 2018, the net value of the project was PLN 455 thousand and was fully amortised in 2019.

The above development works were carried out in part with co-financing from the European Union funds and were fully amortised in 2019 (non-amortised value as at 31 December 2018 amounted to PLN 315 thousand). According to the rules adopted by the Company, 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 Company conducts numerous development works to improve the existing products and services, and also develops new solutions. Key costs capitalised as development works in progress include the costs of salaries of the R&D staff.

At present, the key development projects are as follows:

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

As part of the ECG Techbot project, the research team continued work on a set of algorithms for automatic analysis and interpretation of ECG signal (algorithms for rhythm analysis, classification of morphology, detection of waves). The ECG TechBot project is supposed to enable to fully automate the verification of ECG test analysis and interpretation. The set of developed algorithms will enable to verify the analysis of cardiac rhythm and morphology classification. This will reduce the risk of human errors in ECG signal analysis verification and optimize the monitoring center operation.

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.

- PatchECG – a device enabling single-channel offline monitoring.

In response to the needs of the US market, the Company decided to complement its offer with the PatchECG device. The device is limited to 1 ECG channel and will be functionally focused mainly on ease of use while providing good quantitative data over 7-14 days. The most common application of the device is in the diagnosis of atrial fibrillation and arrhythmia, for which real-time monitoring is not required and intervention during monitoring is not essential, and for examinations that do not require several ECG channels. The PatchECG device will provide solutions which are reimbursed on the US market.

- PocketECG IV – fourth generation PocketECG system;

In 2020, the Company plans to introduce another version of the PocketECG system, a multi-channel, most advanced diagnostic device for monitoring arrhythmias and ECG changes, to the market. The fourth generation will primarily enable the PocketECG to be connected over the LTE band for more efficient continuous ECG signal transmission.

- PocketECG CRS – device and system for cardiac rehabilitation;

In 2019, the Group continued works on the functional development of the PocketECG CRS remote cardio rehabilitation system. On 31 July 2019, the Company received the approval of the Canadian governmental institution for public health care, Health Canada, for the PocketECG CRS system. With the approval, the Company will continue its efforts to commercialize the new system in Canada. In the fourth quarter of 2019, a contract for lending the devices was signed. 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.

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

Work on PocketECG 12Ch was suspended at the stage of the YOKE prototype. The development of algorithms continues under the TechBot project, and work on the complete product (hardware and software) will resume after the global version of the device operating in the LTE network has been developed. The launch of commercialization of PocketECG 12Ch 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.

In addition to the above products, new functionalities of the current PocketECG system continue to be developed to maintain the technological edge over competitive solutions. The Company is in the process of development work to extend the range of services offered on the US market to include the “Extended Holter” examination while integrating all types of examinations offered into a single PocketECG system. The expansion of the range is scheduled for the first quarter of 2020.

13. Property, plant and equipment

	Machinery and equipment including computer hardware	Vehicles	Other fixed assets	Leasehold improvements	Rights-of use (IFRS 16)	Total
Gross value of property plant and equipment						
Gross value as at 1 January 2019	1 909	389	703	632	4 751	8 384
Increases	305	-	57	16	-	378
Decreases	(35)	-	(23)	-	-	(58)
Gross value as at 31 December 2019	2 179	389	737	648	4 751	8 704
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as at 1 January 2019	877	84	473	199	-	1 633
Amortization and depreciation	469	78	131	66	1 057	1 801
Decreases	(35)	-	(21)	-	-	(56)
Accumulated depreciation and impairment losses as at 31 December 2019	1 311	162	583	265	1 057	3 378
Net value						
As at 1 January 2019	1 032	305	230	433	4 751	6 751
As at 31 December 2019	868	227	154	383	3 694	5 327
	Machinery and equipment including computer hardware	Vehicles	Other fixed assets	Leasehold improvements		Total
Gross value of property plant and equipment						
Gross value as at 1 January 2018	1 078	389	529	480		2 476
Increases	872	-	178	152		1 202
Decreases	(41)	-	(4)	-		(45)
Gross value as at 31 December 2018	1 909	389	703	632		3 633
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as at 1 January 2018	625	6	400	144		1 175
Amortization and depreciation	282	78	76	55		491
Decreases	(30)	-	(3)	-		(33)
Accumulated depreciation and impairment losses as at 31 December 2018	877	84	473	199		1 633
Net value						
As at 1 January 2018	453	383	129	336		1 301
As at 31 December 2018	1 032	305	230	433		2 000

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 2.5 hereto. The Company has no liabilities secured on its assets.

14. Financial assets

	31.12.2019	31.12.2018
Investment certificates	-	5 942
Loans granted	63 821	72 075
Shares	200	200
	64 021	78 217
of which long-term portion	64 021	72 275
of which short-term portion	-	5 942

Investment certificates

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/Spectacor 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.

They are measured at amortized cost using the effective interest rate. Loan agreements provide for a one-off repayment of principal and interest accrued at maturity.

15. Shares in subsidiaries

	31.12.2019	31.12.2018
Medicalgorithmics US Holding Corporation	94 771	94 771
Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o.)	1 267	1 267
Medicalgorithmics India Pvt. Ltd (formerly Algotel Solutions Pvt. Ltd)	183	-
	96 221	96 038

On 22 January 2019, the Company acquired 97% of new shares in Medicalgorithmics India Private Limited (formerly: Algotel Solutions Private Limited), based in India, as a result of which the Company became the owner of these shares. All the new shares were subscribed for the Company against a cash contribution of USD 48.6 thousand. The Company is in the process of acquiring the remaining shares in Medicalgorithmics India and will ultimately hold 100% of shares.

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

Selected financial data of subsidiaries as at 31 December 2019 (in functional currency):

	MDG HoldCo	Medi-Lynx	MDG Polska	MDG India
Statement of financial position	(USD '000)	(USD '000)	(PLN '000)	(USD '000)
Non-current assets	49 101	20 899	301	2
Current assets	362	7 943	379	129
Equity	30 088	19 790	216	79
Long-term liabilities	15 751	3 435	147	-
Short-term liabilities	3 624	5 617	317	51
Statement of comprehensive income				
Sales revenue	5 549	42 697	1 008	258

As at the balance sheet date, the Management Board assessed the recoverability of assets related to the Subsidiaries (shares in subsidiaries, loans granted and receivables). The recoverable amount is the value in use, determined on the basis of calculation of expected discounted net cash flows. Cash flows were estimated based on historical performance and expectations concerning the future growth of the market. In particular, account was taken of negative impact of SARS-COV-2 pandemic on achieved sales results (details in Note 33 hereto) and the change in the business model of Medi-Lynx which results in lower reimbursement rates for a single service, but in long term it also secures access to new clients and, as a consequence, in long term will significantly contribute to an increase in sales volume.

The Management Board is of the opinion that this strategy will allow the Group to achieve sustained annual revenue growth and implement its business growth strategy, as well as increase the security and stability of Medi-Lynx's revenue. The tests

indicated no need to recognize any impairment losses. Details on the assumptions made and test outcomes are provided in Note 15 to the consolidated financial statements of the Medicalgorithmics Capital Group for 2019.

16. Inventories

	31.12.2019	31.12.2018
Materials	5 523	5 383
Finished products	235	385
Impairment losses on inventories	-	(680)
	5 758	5 088

Inventories comprise components, semi-finished products and finished products. Components are usually purchased in relatively large batches at the beginning of a financial year and are supplemented if the quantity falls below the safety threshold, which ensures continuity of production. Inventories are regularly tested for impairment and disposed of when an impairment is detected. This is recognized in the Company's expenses on an ongoing basis.

17. Receivables

	31.12.2019	31.12.2018
Trade receivables	8 759	4 603
Budgetary receivables	723	1 984
Other receivables	98	59
Prepayments and deferred expenses	104	251
	9 684	6 897
Long-term	-	-
Short-term	9 684	6 897

The high balance of trade receivables as at 31 December 2019 results from receivables from the related company, Medi-Lynx (PLN 7,506 thousand). The fair value of receivables approximates their book value. For information on the Company's exposure to credit and currency risk on receivables, see Note 23.

	31.12.2019	31.12.2018
Trade receivables from related entities	7 680	3 597
Trade receivables from other entities	1 079	1 098
Impairment loss on receivables from other entities	-	(92)
Total net trade receivables	8 759	4 603
	31.12.2019	31.12.2018
Insurance policies and deposits	46	43
Tradeairs	-	133
Subscriptions	1	6
Advisory services	20	19
Other	37	50
Total prepayments and deferred expenses	104	251
Long-term portion	-	-
Short-term portion	104	251

The aging structure of trade receivables as at the end of the reporting period is as follows:

	Gross value as at 31 December 2019	Impairment loss as at 31 December 2019	Gross value as at 31 December 2018	Impairment loss as at 31 December 2018
Non-matured	3 937	-	4 128	-
Past due 1-30 days	4 413	-	140	-
Past due 31-60 days	50	-	127	-
Past due more than 61 days	359	-	300	(92)
	8 759	-	4 695	(92)

18. Cash and cash equivalents

	31.12.2019	31.12.2018
Cash in hand	8	7
Cash at banks	1 558	115
Cash in transit	1	-
Short-term deposits	420	15 628
	1 987	15 750

For information on the Company's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 23 of explanatory notes to the financial statements.

19. Equity
19.1. Share capital

	Ordinary shares ('000)	
	31.12.2019	31.12.2018
Number of shares at beginning of period	3 607	3 607
Number of fully-paid shares at end of period	3 607	3 607

19.2. Ordinary shares

As at 31 December 2019, the registered share capital was divided into 3,607 thousand ordinary shares with the nominal value of PLN 0.10 each. No shares were issued in 2019. After the balance sheet date, the Extraordinary General Meeting resolved to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. The capital increase was registered by the District Court for the capital city Warsaw in Warsaw on 6 April 2020. For more information on the issue of shares, see Note 33 hereto.

19.3. Dividends paid

No decision on dividend payment was made in the financial year. In the comparative period, the Company paid out a dividend from the 2017 profit in the amount of PLN 5,121 thousand.

19.4. Basic and diluted earnings per share

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Profit for the period (PLN '000)	16 594	11 325
Weighted average number of ordinary shares (in thousands of shares)	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)	4,60	3,14
Diluted profit per share in PLN (net profit weighted average number of diluted shares)	4,60	3,14

19.5. Shareholding structure as at the date of publication of the financial statements

Shareholder	Number of shares	% of shares
Marek Dziubiński (President of the Management Board)	480 000	11,09%
Funds managed by NN PTE, including NN OFE	540 586	12,49%
Caravan Capital	229 045	5,29%
OFE PZU*	472 000	10,91%
Other shareholders	2 606 198	60,22%
Number of shares	4 327 829	100,00%

* based on the number of shares registered on 22 December 2019 at the Extraordinary General Meeting of Shareholders on 7 January 2020.

As a result of the issue of series G shares, the total number of shares increased by 721,303 compared to the number of shares specified as at the date of publication of the periodic report for the third quarter of 2019. In the period from 1 January 2019 to 31 December 2019, the Parent Company did not acquire any treasury shares and does not hold any treasury shares.

20. Provisions

	31.12.2019	31.12.2018
Holiday pay accrual	716	715
Other	-	82
	716	797

21. 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. On 11 February 2020, an annex to the working capital facility was signed, extending the repayment date to 11 July 2022. 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.

22. Trade and other liabilities, accruals and deferred income

	31.12.2019	31.12.2018
Trade liabilities to other entities	987	1 210
Budgetary liabilities	459	519
Salaries and wages payable	215	2 178
Income tax liabilities	-	-
Other liabilities	250	49
	1 911	3 956
Short-term accruals and deferred income	-	315
Long-term accruals and deferred income	1 026	386
	2 937	4 657

The balance of trade payables from other entities comprises mainly liabilities related to purchases of components used in the production of devices, liabilities for the provision of IT services as well as lease and rental liabilities.

Accruals and deferred income include the value of subsidies received by the Company from the European Union funds for development works.

For information on the exposure to currency risk and liquidity risk associated with liabilities, see note 23.

The fair value of liabilities approximates their book value.

23. Liabilities in respect of bonds and other financial liabilities

	Long-term	Short-term	Total
Value as at 1 January 2019	-	50 472	50 472
Redemption of bonds	-	(50 472)	(50 472)
Finance lease liabilities - recognized as at 1 January 2019	3 730	1 021	4 751
Repayment of finance lease liabilities	-	(1 030)	(1 030)
Reclassification of finance lease liabilities	(1 051)	1 051	-
Other	(23)	-	(23)
Value as at 31 December 2019	2 656	1 042	3 698

Issue and redemption of bonds

In the second quarter of 2016, the Company issued 50,000 long-term bonds with a nominal value of PLN 1 thousand each. The term of the bonds 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 21.

24. Financial risk management

The Company is exposed to the following financial risks related to the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;

The Management Board is responsible for establishing the control system and overseeing the Company's risk management.

The risk management policies applied by the Company are aimed at identifying and analyzing risks to which the Company is exposed, determining appropriate limits and controls, as well as monitoring risks and the adequacy of the limits. The risk management policies and systems are reviewed on a regular basis to take account of changes in the market environment and the Company's business.

This note presents risks classified as financial risks. The analysis of other risk factors is presented in the Directors' Report.

24.1. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly connected with receivables and loans granted.

The Company's exposure to credit risk results mainly from individual characteristics of each client. There was a concentration of credit risk in 2019. Two largest counterparties generated jointly approx. 89% of the Company's sales revenue in 2019 (including the related entity Medi-Lynx).

As at 31 December 2019, receivables from the largest counterparty accounted for about 85% of total gross trade receivables, while receivables from the two largest debtors accounted for approx. 89% of the balance of receivables.

Carrying amount of financial assets reflects the maximum exposure to credit risk. The maximum credit risk exposure at the end of the reporting period was as follows:

	31.12.2019	31.12.2018
Investment certificates	-	5 942
Loans and receivables	73 402	78 721
Cash and cash equivalents	1 987	15 750
	75 389	100 413

The maximum credit risk exposure for loans and trade receivables at the end of the reporting period by geographical region and customer type was as follows:

	31.12.2019	31.12.2018
Poland	165	67
United States of America	7 506	3 555
Other regions	1 088	981
	8 759	4 603
Institutional clients	8 759	4 603

24.2. Liquidity risk

Liquidity risk is a risk that the Company may face difficulties in performing its obligations under financial liabilities which should be discharged by payment in cash or by transfer of other financial assets. The Company manages the liquidity risk by ensuring, to the maximum extent possible, that the Company has sufficient liquid assets to pay its liabilities when due, both in business-as-usual and in crisis situations, without exposing the Company to unacceptable losses or reputational damage.

Usually, the Company is provided with sufficient cash on demand to cover the expected operating expenses over a 60-day period, including financial liabilities. However, this policy does not cover extreme situations that cannot be predicted on the basis of rational premises, such as natural disasters.

The Company does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

	Carrying amount	Contractual cash flows	Less than 12 months	More than 12 months
31.12.2019				
Bank loans	12 666	12 666	2 981	9 698
Credit card debt	12	12	12	-
Trade and other liabilities	1 911	1 911	1 911	-
Finance lease liabilities	3 698	3 698	1 042	2 656
	18 287	18 287	5 946	12 354
31.12.2018				
Credit card debt	39	39	39	-
Trade and other liabilities	3 956	3 956	3 956	-
Bonds	50 472	50 472	50 472	-
	54 467	54 467	54 467	-

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. On 11 February 2020, an annex to the working capital facility was signed, extending the repayment date to 11 July 2022. The interest rate is the sum of the 3M WIBOR reference rate and the Bank's margin.

The Company obtained additional funds for product development and changes in the Group's business model through the issue of Series G ordinary bearer shares. On 7 January 2020, the Extraordinary General Meeting resolved to increase the share capital of the Company through the issue of new shares. As a result of the public offering effected in January 2020, 721,303 Series G shares were issued at an issue price of PLN 18.25 per share. The total value of the issue was PLN 13,163.8 thousand. For more information on the issue, see Note 33 to these financial statements.

24.3. Market risk

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

In order to manage market risk, the Company may buy and sell derivative instruments and assume financial liabilities. All transactions take place within guidelines set by the Management Board of the Company.

Currency risk

Presented below is the Company's exposure to currency risk calculated based on the exchange rates effective at the end of the reporting period:

Values in PLN '000	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
Trade receivables	531	8 064	-	810	3 819	-
Other receivables	-	-	-	-	-	-
Loans granted	-	63 821	-	-	72 075	-
Other liabilities	-	-	-	-	-	-
Trade liabilities	(84)	(366)	-	(18)	(359)	(7)
Finance lease liabilities*	(3 224)	-	-	(3 956)	-	-
Gross balance sheet exposure	(2 777)	71 519	-	(3 164)	75 535	(7)

* the comparative figures include lease liabilities recognised in accordance with IFRS 16 as at 1 January 2019

The Company's currency risk consists mainly in the variability of foreign exchange rates versus PLN. Most of the Company's revenue and a portion of expenses are generated in foreign currencies. Revenue is mainly earned in USD. The Company's expenditures on the purchase of components for production are denominated in USD, EUR, GBP and PLN. Costs of services, on the other hand, are incurred mainly in PLN and USD.

The following exchange rates were used to translate key foreign currencies during the year:

	Average exchange rates		End of the reporting period	
	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	31.12.2019	31.12.2018
EUR	4,3018	4,2669	4,2585	4,3000
USD	3,8440	3,6227	3,7977	3,7597
GBP	4,9106	4,8142	4,9971	4,7895

Sensitivity analysis

This analysis is based on the assumption that exchange rate movements will remain at a reasonable level at the end of the reporting period. The analysis is also based on the assumption that other variables, in particular interest rates, remain unchanged. The table below includes selected currencies and percentage changes:

	Equity	Profit or loss for current period
Effect in PLN '000		
31.12.2019		
EUR (appreciation of EUR by 5%)	(139)	(139)
USD (appreciation of USD by 5%)	3 576	3 576
31.12.2018		
EUR (appreciation of EUR by 5%)*	(158)	(158)
USD (appreciation of USD by 5%)	3 777	3 777

* these figures reflect the effect of measurement of lease liabilities recognised in accordance with IFRS 16 as at 1 January 2019

Depreciation of the zloty against USD as at 31 December 2019, all other factors being equal, would result in an increase in profit for the current period. Depreciation of the zloty against the USD as at 31 December 2019, all other factors being equal, would result in a decrease in profit for the current period.

Interest rate risk

The structure of floating-interest-rate financial instruments as at the end of the reporting period is presented below:

	31.12.2019	31.12.2018
Financial liabilities	-	50 472
Credits and loans	12 678	-
	12 678	50 472

Sensitivity analysis of cash flows from floating-interest-rate financial instruments

A change of an interest rate by 100 basis points would increase (decrease) equity and pre-tax profit by the amounts shown below. The following analysis is based on the assumption that other variables, in particular exchange rates, remain unchanged.

Effect in PLN '000	Profit or loss for current period		Equity	
	Increase by 100 bps	Decrease by 100 bps	Increase by 100 bps	Decrease by 100 bps
31.12.2019				
Floating-rate financial instruments	(117)	117	(117)	117
Sensitivity of cash flows (net)	(117)	117	(117)	117
31.12.2018				
Floating-rate financial instruments	(97)	98	(97)	98
Sensitivity of cash flows (net)	(97)	98	(97)	98

Comparison between fair values and carrying amounts

The table below presents a comparison between fair values of financial assets and liabilities and values presented in the statement of financial position:

	Category according to IFRS	31.12.2019		31.12.2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans granted	Financial assets at amortized cost	63 821	63 821	72 075	72 075
Trade and other receivables	Financial assets at amortized cost	9 684	9 684	6 897	6 897
Investment certificates bonds	Financial assets at fair value through profit or loss	-	-	5 942	5 942
Cash and cash equivalents	Financial assets at amortized cost	1 987	1 987	15 750	15 750
Trade and other liabilities	Other financial liabilities	1 911	1 911	3 956	3 956
Liabilities in respect of bonds and other financial liabilities	Other financial liabilities	3 698	3 698	50 472	50 472
Credits and loans	Other financial liabilities	12 678	12 678	-	-

24.4. Capital management

During the year, there were no changes in the Company's approach to capital management. The Company is not subject to external capital requirements.

The Management Board's policy is to maintain a sound capital base so as to preserve the confidence of capital market participants and ensure the future growth of business operations. The Management Board seeks to strike a balance between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base.

As at the end of the reporting period, the ratio of the Company's net debt to adjusted equity was as follows:

Item	31.12.2019	31.12.2018
Interest-bearing credits loans and bonds	12 678	50 511
Trade and other liabilities	1 911	3 956
Finance lease liabilities*	3 698	4 751
Less cash and cash equivalents	(1 987)	(15 750)
Net debt	16 300	43 468
Equity	183 674	167 080
Equity and net debt	199 974	210 548
Leverage ratio	8,2%	20,6%

* the comparative figures reflect the effect of measurement of lease liabilities recognised in accordance with IFRS 16 as at 1 January 2019

25. Leases

As described in Note 2.5 hereto, in 2019, the Company applied IFRS 16 "Leases" for the first time. As a result of the analyses carried out by the Company, three main categories of lease contracts have been identified:

- real property: offices (Warsaw office and production plant in Gdansk)
- other leases

Following the application of the new IFRS 16, the Company, 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. 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. Finance costs under finance leases are disclosed in Note 9 to the financial statements.

Right-of-use assets by lease category

The Company presents 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". Right-of-use assets by lease category are presented below:

	Net value as at 1 January 2019	Depreciation for 2019	Impairment losses	Net value as at 31 December 2019
Real property	4 709	(1 042)	-	3 667
Vehicles	42	(15)	-	27
	4 751	(1 057)	-	3 694

Right-of-use assets are depreciated over the lease term. In 2019, accumulated depreciation of right-of-use assets amounted to PLN 1,057 thousand.

Lease liabilities corresponding to right-of-use assets recognized

Lease liabilities are presented under "Liabilities in respect of bonds and other financial liabilities" (in short-term and long-term liabilities, as appropriate). Disclosures on the value of lease liabilities are presented in Note 22 to the financial statements.

Future non-discounted cash outflows included in the measurement of lease liabilities

	31.12.2019	31.12.2018
up to 1 year	1 114	1 114
1–5 years	3 575	3 575
more than 5 years	307	307
	4 996	4 996

Costs and payments not included in the measurement of lease liabilities

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Costs related to short-term leases	-	-
Costs related to leases of low value assets	7	8
Variable lease payments	24	21
	31	29

26. Contractual obligations to acquire property, plant and equipment

In the reporting period, the Company did not enter into any contractual obligations to acquire property, plant and equipment.

27. 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 24 to the consolidated financial statements of the Medicalgorithmics Capital Group for 2019.

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 19,000 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.

28. Transactions with related parties

Medicalgorithmics US Holding Corporation

Statement of financial position (in PLN '000) — as at

	<u>31.12.2019</u>	<u>31.12.2018</u>
Loans granted	63 821	72 075
Contribution to the supplementary capital	94 771	94 771

Statement of comprehensive income (in PLN '000)

	<u>01.01.2019- 31.12.2019</u>	<u>01.01.2018- 31.12.2018</u>
Interest on loans	3 429	3 664

Medi-Lynx Cardiac Monitoring LLC

Statement of financial position (in PLN '000) — as at

	<u>31.12.2019</u>	<u>31.12.2018</u>
Trade receivables	7 506	3 535

Statement of comprehensive income (in PLN '000)

	<u>01.01.2019- 31.12.2019</u>	<u>01.01.2018- 31.12.2018</u>
Revenue from sales of goods and services	40 851	38 726

Medicalgorithmics Polska Sp. z o.o.

Statement of financial position (in PLN '000) — as at

	<u>31.12.2019</u>	<u>31.12.2018</u>
Trade receivables	119	62
Contribution to equity	1 267	1 267

Statement of comprehensive income (in PLN '000)

	<u>01.01.2019- 31.12.2019</u>	<u>01.01.2018- 31.12.2018</u>
Revenue from sales of goods and services	78	31

Medicalgorithmics India Pvt. Ltd
Statement of financial position (in PLN '000) — as at

	31.12.2019	31.12.2018
Trade receivables	55	-
Contribution to the supplementary capital	183	-

Statement of comprehensive income (in PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018
Revenue from sales of goods and services	314	-

29. Transactions with executives

Remuneration of the Management Board and Supervisory Board of the Parent Company, payable for the reporting period, is presented in the table below:

	31.12.2019	31.12.2018
Remuneration of the Management Board Members	1 371	3 372
Remuneration of the Supervisory Board	408	376

30. Employment structure

	31.12.2019	31.12.2018
Number of employees (in FTEs)	107	125

As at the report date (29 April 2020), the Company had 81 employees (in FTEs).

31. Information about significant legal proceedings

In the period covered by these financial statements, no proceedings were pending before a court, an arbitration body or a public administration authority concerning the Company's liabilities or claims with a value equal to or higher than 10% of the Company's equity.

32. Information on the entity authorized to audit financial statements

On 25 June 2019, at a meeting of the Supervisory Board of the Company, BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with a registered office in Warsaw, ul. Postępu 12, 02-676 Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No 0000729684 and entered in the list of audit companies kept by the National Council of Statutory Auditors under No 3355, was appointed as the entity authorized to audit the Company's separate financial statements for 2019 and 2020 and to review the Company's interim separate financial statements for the first half of 2019 and 2020. The auditor's remuneration for the audit of the annual separate financial statements for 2019 amounts to PLN 80 thousand, while for the review of the separate interim financial statements for the first half of 2019 – to PLN 56 thousand.

CSWP Audyt Sp. z o.o. sp. k. was responsible for the review and audit of the separate financial statements for 2018. The auditor's remuneration for the audit of the annual separate financial statements for 2018 amounted to PLN 45 thousand, while for the review of the separate interim financial statements for the first half of 2018 – to PLN 21 thousand.

33. Events after the balance sheet date

On 7 January 2020, the Extraordinary General Meeting resolved to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. On 20 January 2020, a decision was taken to launch the public offering through private placement. The bookbuilding process was carried out on 20-23 January 2020 and the share subscription agreements were executed by 29 January 2020. 721,303 Series G shares were issued at an issue price of PLN 18.25 and nominal value of PLN 0.10 per share. The total value of the issue was PLN 13,163,779.75. On 6 April 2020, the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register registered in the register of entrepreneurs the increase in the Company's share capital from PLN 360,652.60 to PLN 432,782.90. The shareholding structure as at the date of publication of the report is presented in note 19 of this report. For more information on the share issue, see current reports 7/2020–15/2020 and 22/2020.

On 21 January 2020, the Supervisory Board of the Company resolved to appoint Mr Peter G. Pellerito to the Management Board of the Company, entrusting him with the function of the Member of the Management Board. Peter G. Pellerito also serves as CEO of Medi-Lynx. He is primarily responsible for delivering the Capital Group's strategic medium-term objectives,

i.e. changing the business model by signing long-term service contracts directly with key private insurers (in-network contracts) and expanding operations in the US market.

On 18 February 2020, the Company received a notification from Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw, containing information on the acquisition on 12 February 2020 of the Company's shares by Investment Funds managed by Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A. The transaction was settled on 14 February 2020. As a result of the transaction, the total share of the Funds in the total number of votes in the Company increased above 5% of the total number of votes. For further details, see Current Report No 17/2020.

On 3 March 2020, the Company received a notification from Caravan Capital Management LLC based in Tacoma, Washington, USA, acting on behalf of and for the benefit of shareholders of MIRI Strategic Emerging Markets Fund LP and The Kenneth Rainin Foundation ("Shareholders"), containing information on the acquisition on 28 February 2020 of Company's shares, as a result of which the total share of these Shareholders in the total number of votes in the Company increased above 5% of the total number of votes. More information on this subject is presented in current report no. 18/2020.

On 7 April 2020, the Company received an individual ruling on the tax law provisions regarding corporate income tax and issues related to preferential taxation of income generated by intellectual property rights, the so-called IP BOX preference. In the issued individual ruling, the Director of the National Revenue Information System fully agreed with the position presented in the Company's application regarding the first question that the charges for the service presented according to the described facts constitute the income from the qualified intellectual property right included in the sale price of the service, thereby qualifying for the IP BOX preferences and taxation based on art. 24d of Corporate Income Tax Act 5% income tax rate. This individual ruling applies to revenues generated in 2019 as well as revenues that will be recognized in subsequent years. Preliminary estimates assume that the application of the preferential rate to qualifying income will translate into a reduction in the tax burden for 2019 by approximately PLN 600,000. More information on this subject is presented in current report no. 23/2020.

The global economy is currently experiencing the negative impact of the spread of SARS-COV-2. The effects of the SARS-COV-2 pandemic and related regulatory activities to counteract the spread of the virus will reduce the Group's revenues and will result in worse financial results of the Capital Group in 2020. The expected decrease in revenues mainly concerns the US market and will be caused primarily by a decrease in the number of patients using ECG tests using PocketECG technology. Information on the impact of SARS-COV-2 on the operations of the Capital Group is presented in Note 33 to the consolidated financial statements and in current reports no. 20/2020 and 27/2020.

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.

34. Consolidated financial statements

Medicalgorithmics S.A. prepared the consolidated financial statements as the parent company. Financial statements of the Company and subsidiaries were included in consolidation.

This report was approved for publication on 29 April 2020.

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Peter G. Pellerito
Member of the Management Board

CSWP Sp. z o.o. Sp.k.
Entity responsible for maintaining accounting records
for and on behalf of Michał Włodarczyk

Warsaw, 29 April 2020



**DIRECTORS' REPORT
ON THE OPERATIONS OF
THE MEDICALGORITHMICS CAPITAL
GROUP
AND
MEDICALGORITHMICS S.A.**

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I. Overview of the Capital Group's operations

I. 1. Business profile of the Group

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 services;
- scientific research and development;
- manufacture of electro-medical equipment.

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

Main competitive advantages of the Capital Group are as follows:

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

The Group's primary source of revenue is the sale of diagnostic services provided to patients in the United States. These services are provided using PocketECG, the Medicalgorithmics S.A.'s proprietary solution, used for remote monitoring of heart disorders. Among the available devices for monitoring heart work, the PocketECG system stands out by, among others, the longest time of home arrhythmia monitoring, remote online access to complete monitoring records and full statistical analysis of cardiac arrhythmias. In particular, the system serves to detect the following arrhythmias: asymptotic, rare and irregular arrhythmias, and atrial fibrillation leading to stroke.

The PocketECG system has been approved for trading in the United States by the U.S. Food and Drug Administration (FDA). The system also bears the CE mark indicating that the device complies with the requirements of the European Union directives.

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

I. 2. Composition of the Capital Group

The Parent Company of the Group is Medicalgorithmics S.A. (the "Parent Company", "Company", "Issuer"), a joint-stock company registered in Poland, established in 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 Medicalgorithmics Capital Group is composed of Medicalgorithmics S.A. and its subsidiaries. The Parent Company holds:

- 100% of the share capital of Medicalgorithmics US Holding Corporation ("MDG HoldCo") with its registered office in Wilmington, Delaware, USA;
- 100% of the share capital of Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o. "Medicalgorithmics Polska", "MDG Polska") with its registered office in Warsaw;
- 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.

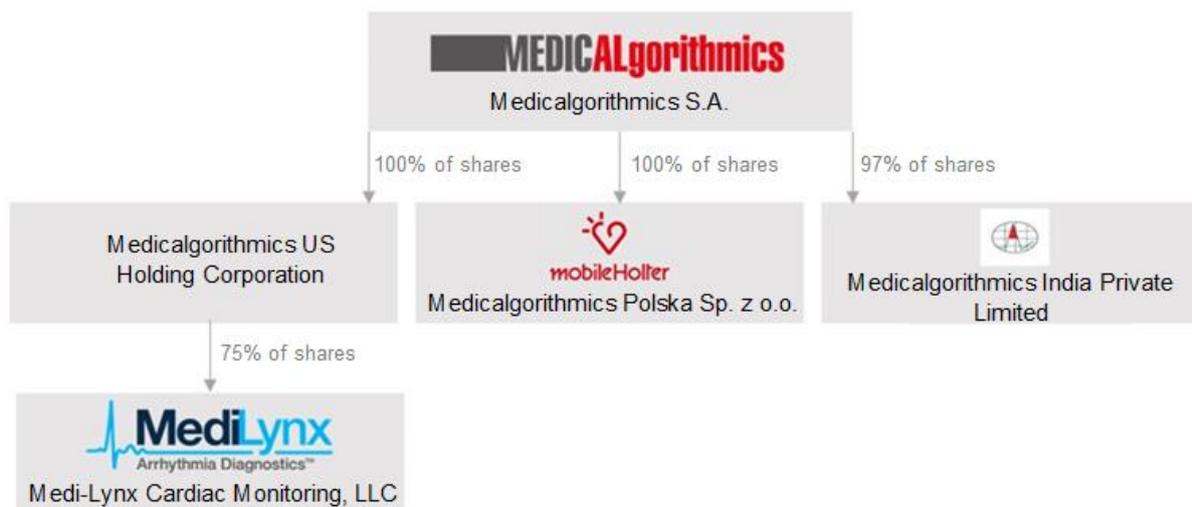
On 22 January 2019, the Company acquired 97% of new shares in Algotel Solutions Private Limited, based in India. All the new shares were subscribed for the Company against a cash contribution of USD 48,550. The Parent Company is in the

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

The financial statements of the Parent Company and all its subsidiaries were included in the consolidated financial statements using the full method.

The composition of the Medicalgorithmics Capital Group and its organizational and equity links as at 31 December 2019 are presented below:



1.3. Strategy and business model

The Medicalgorithmics Group's strategic objective is to become a leading provider of state-of-the-art technology and services in the field of cardiac arrhythmia diagnostics in North and South America, Asia, Europe and Australia. The Group is committed to organic growth and acquisitions, rapid growth and high customer satisfaction by delivering a flexible product and service offering in the identified market niches.

The Group is working to strengthen its position in the US healthcare market, expand its operations in other countries, and further expand its territory mainly to new markets. On every new market, Medicalgorithmics is working with a minimum of one strategic sales and operational partner to minimize its operating costs and focus on technological support for patient care and the development of cardiology solutions. In the U.S. market, the Group pursues a medium-term objective of changing its business model to involve signing long-term "in-network" contracts with insurers. In a broader perspective, after the change of the business model the Group will be able to implement its business growth strategy, as well as increase the security and stability of the Group's revenue.

A review of strategic options was launched in October 2018. In 2019, following the review of strategic options available to the Company, the Company decided to raise capital through an issue of shares on the Warsaw Stock Exchange. In the opinion of the Management Board, taking into account the directions of development of the Company's business, as well as the interest of shareholders, raising capital will enable the subsidiary, Medi-Lynx, to continue the process of changing the business model to the "in-network" model, and that will also enable the Group to conduct research and development work on new products and maintain an optimal level of working capital. In the first quarter of 2020, steps were taken to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. 721,303 Series G shares were issued at an issue price of PLN 18.25 per share. The total value of the issue was PLN 13.2 million. For more information on the share issue, see current reports 7/2020–15/2020.

The Group employs highly qualified staff and puts great emphasis on obtaining products and services of the highest quality. The Group products are patented in key markets and obtain the necessary quality and safety certificates. Some of the earned

profit is spent on research and technology development so that the Group may strengthen the status of an innovative market leader.

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

The primary strategic plans include:

- Introduction of new products;
- Innovations in medical diagnostics;
- Deployment of the new generation of PocketECG;
- Introduction of new IT technologies (web-based PocketECG client);
- Commercialization of PocketECG CRS;
- Introduction of integration and programming services for collaborating medical institutions;

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

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

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

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

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

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

In addition to the flagship PocketECG system, the Company also develops other innovative solutions for heart rate monitoring, including, among others: PocketECG CRS for hybrid cardiovascular rehabilitation, which can be used in hospitals, clinics, as well as at the patient's home. The company is also intensively working on a patch-type device for 1-channel heart rate monitoring and another version of the PocketECG system. For more information on ongoing projects concerning new products, see Section V.1 hereof.

I. 4. Segment information

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

I. 5. Shareholding structure of the Parent Company

The following chart and table present the shareholders of Medicalgorithmics S.A. holding 5% or more of total voting rights at the General Meeting as at the issue date of this report based on the Company's best knowledge, including changes in major holdings of shares after the issue of the previous quarterly report. 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.

Chart 1. Shareholding structure of Medicalgorithmics S.A.

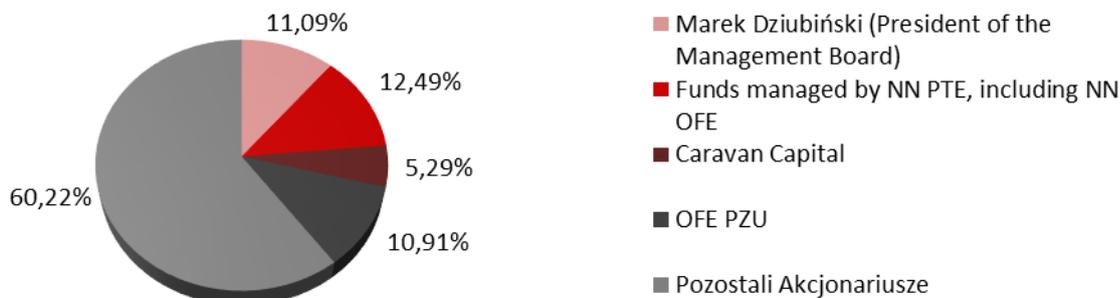


Table 1. Shareholding structure of Medicalgorithmics S.A.

Shareholder	Number of shares	% of shares
Marek Dziubiński (President of the Management Board)	480 000	11,09%
Funds managed by NN PTE, including NN OFE	540 586	12,49%
Caravan Capital	229 045	5,29%
OFE PZU*	472 000	10,91%
Other shareholders	2 606 198	60,22%
Number of shares	4 327 829	100,00%

* based on the number of shares registered on 22 December 2019 at the Extraordinary General Meeting of Shareholders on 7 January 2020.

As a result of the issue of series G shares, the total number of shares increased by 721,303 compared to the number of shares specified as at the date of publication of the periodic report for the third quarter of 2019.

Agreements which may cause future changes in the percentages of shares held by the existing shareholders and bondholders

The adopted incentive scheme for management and key employees is described in detail in Section I.14.

I. 6. Dividend policy

Pursuant to Article 395 of the Commercial Companies Code ("CCC"), the body competent to adopt a resolution on profit distribution (or coverage of loss) and dividend payment is the Ordinary General Meeting of Shareholders which should be held within 6 months after the end of each financial year. The Ordinary General Meeting of the Company sets forth the amount of dividend, the date of determining the right to dividend (the dividend record day) and the date of dividend payment in the resolution on profit distribution for the last financial year (Article 348 § 3 of the Commercial Companies Code). Pursuant to Article 27(3) of the Company's Articles of Association, the Company's Management Board is authorized to distribute interim dividends to shareholders. The payment of interim dividend requires the consent of the Supervisory Board.

The conditions of dividend payment adopted by the General Meeting will be determined by the Company's Management Board in consultation with the National Depository for Securities. A company whose shares are admitted to stock-exchange trading is obliged to agree on decisions and provide the WSE with information on its intention to pay dividends in the manner and on terms specified in the Detailed Exchange Trading Rules.

On 29 May 2017, the Management Board adopted Resolution No 03/05/2017 on the adoption of a recommendation concerning the policy for payment of dividend from the profit earned by the Company in the financial year 2016 and thereafter.

It is the Management Board's intention that the payment of dividend from the profit earned by the Company for financial years following the financial year 2016 be set at the level of up to 50% of the Medicalgorithmics Capital Group's consolidated net profit attributable to shareholders of the parent company for a given financial year based on the consolidated financial statements and that the remaining portion of profit be allocated to supplementary capital. In the event of actual or anticipated capital needs of the Company of significant value, the Management Board's recommendations regarding the payment of dividend from the profit earned by the Company for the financial years 2017, 2018 or 2019 may be set at the level of 20% of the consolidated net profit of the Medicalgorithmics Capital Group attributable to shareholders of the parent company for a given financial year on the basis of the consolidated financial statements and the remaining part of profit may be allocated to the supplementary capital.

In addition, the possibility of dividend payment from the Company's net profit disclosed in the Company's financial statements for the financial year 2017, 2018 or 2019 may be excluded or limited due to the provisions of the terms of issue of securities (in particular bonds) issued by the Company.

The ultimate recommendation of the Management Board concerning the distribution of profit generated in the Capital Group will be based on the market, financial and liquidity position of the Group, existing and future liabilities and provisions related thereto, determining the maximum level of debt. The Management Board's proposals concerning dividend payment take into account the capital required to support the Company's growth.

The Management Board will recommend days on which the list of shareholders entitled to receive dividends and the dividend payment dates will be determined, with due regard for the need to carry out this process in an efficient manner.

The ultimate decision on the distribution of the Company's net profit for subsequent financial years will be made by the Ordinary General Meeting of Shareholders.

Distribution of net profit for 2018

On 30 May 2019, the Management Board of Medicalgorithmics S.A. adopted Resolution No 1/05/2019 whereby it recommended that the Annual General Meeting of the Company allocate the entire amount of the Company's net profit for the financial year 2018 (PLN 11,325 thousand) to the Company's supplementary capital. The Management Board considered the Group's possible capital needs resulting from the planned change in the Group's business model in the United States and temporary negative impact on the Group's financial performance resulting from the change.

At the same time, the Company maintains the assumptions of the existing dividend policy of the Company for the next financial years.

On 26 June 2019, the General Meeting of Shareholders, having considered the motion of the Management Board regarding the distribution of profit for 2019, decided to allocate the entire net profit of Medicalgorithmics S.A. to supplementary capital.

I. 7. Purchase of treasury shares

In the reporting period, the Parent Company did not acquire any treasury shares.

I. 8. Management Board of the Parent Company

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. On 21 January 2020, the Supervisory Board of the Company resolved to appoint Mr Peter G. Pellerito to the Management Board.

The composition of the Medicalgorithmics S.A. Management Board as at the date of this report was as follows:

Dr Marek Dziubiński – President of the Management Board

Dr Marek Dziubiński (PhD) is a graduate of interdisciplinary studies at the Faculty of Physics, Mathematics and Computer Science of the University of Warsaw. He also completed doctoral studies at the Department of Multimedia Systems of the Faculty of Electronics, Telecommunications and Informatics of the Gdańsk University of Technology. Dr Dziubiński's PhD thesis was awarded by the Gdańsk University of Technology and received a national distinction. Marek Dziubiński is the author of numerous scientific publications, articles in scientific journals and conference papers. Over the past 18 years of his professional career, he has been involved in the development of digital signal processing algorithms, concentrating on the analysis of periodic and quasi-periodic signals. The PocketECG technology is based on a self-learning algorithm developed by Mr Dziubiński for the interpretation of ECG signals based on a limited number of signal leads, generating real-time results. Marek Dziubiński is also the author of the Company's business model.

Career:

- June 2005 – present: MEDICALGORITHMICS: President of the Management Board, Chief Technology Officer
- March 2005 – January 2006: Aud-X Team: Head of IT team
- June 2003 – August 2005: WAVEFORMATIC: Project Manager
- June 2004 – September 2005: PRESTO-SPACE: Project participant
- July 2000 – May 2003: Houpert Digital Audio: Programmer

Maksymilian Sztandera – Chief Financial Officer

Maksymilian Sztandera is a graduate of the Faculty of Economics at the University of Economics in Poznan and a qualified statutory auditor, entry number 13074. Between 7 September 2017 and 21 September 2018, he served as the Chief Financial Officer of the Company. He was a Deputy Chief Financial Officer between September 2014 and August 2015. Since August 2015, he has been the Chief Financial Officer of the Company. He previously worked for KPMG, AIG/Lincoln, Novum and VGD.

Peter G. Pellerito – Member of the Management Board

Mr Peter G. Pellerito is a graduate of the University of Downstate Medical, NY and Wharton Executive Business School, and also holds the GE Black Belt Six Sigma certificate. Since October 2018, he has been the Chief Executive Officer (CEO) of the Company's subsidiary, Medi-Lynx Cardiac Monitoring, LLC. Previously, he worked, among others, at Siemens Healthcare, GE Medical Systems and ImaCor, Inc.

Peter G. Pellerito receives remuneration for performing the function of CEO in the subsidiary Medi-Lynx and for performing the function of Member of the Management Board of the Parent Company (from the date of appointment, i.e. from 21 January 2020). Other Members of the Management Board of the Parent Company do not receive remuneration for their position in the management bodies of subsidiaries.

Table 2. Information on remuneration of the Parent Company's Management Board earned in 2019 (PLN '000)

Person	Function held in the Issuer's governing bodies	Remuneration
Marek Dziubiński	President of the Management Board	1,096
Maksymilian Sztandera	Member of the Management Board, Chief Financial Officer (since 22 July 2019)	275

There are no agreements concluded by and between the Company and members of the Management Board which would stipulate a compensation in the event of their resignation or dismissal from the occupied position.

I. 9. Supervisory Board of Medicalgorithmics S.A.

On 26 June 2019, the Annual General Meeting of Shareholders changed the composition of Medicalgorithmics S.A.'s Supervisory Board. 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.

The composition of the Medicalgorithmics S.A.'s Supervisory Board as at the date of this annual report was as follows:

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

Michał Wnorowski is a graduate of the SGH Warsaw School of Economics and the University of Economics in Krakow. Currently, he is an independent Supervisory Board Member in the following listed companies: Medicalgorithmics, Develia, Alumetal, Voxel, Arteria. His financial market career dates back to 1995. In 2012-2016, he served as the Investment Director, managing the Long-Term Share Portfolio in the PZU Group. Previously, he served for many years as head of the team for analysis and shareholder supervisor in the PZU Group. He has many years of experience in managing investment projects, market analysis, enterprise analysis and valuation as well as securities portfolio management. He has also been involved in the restructuring and shareholder supervision of companies. He has sat on the Supervisory Boards of: Robyg, Elektrobudowa, Travelplanet.pl, EMC Instytut Medyczny, Braster, Enter Air, Armatura Kraków, ARM Property.

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

Artur Małek is a graduate of the Cracow University of Economics, the Faculty of Finance and Banking, as well as of a Postgraduate Program at the Cracow University of Economics' School of Entrepreneurship and Management, Faculty of Accounting and Finance. MBA graduate of ICAN Institute and Oxford Brookes University – The Strategic Leadership Academy in Warsaw.

Currently he is a Member of the Management Board and Financial Director at Platige Image S.A. Previously, he held the position of a Financial Director at Calypso Fitness S.A., Financial Director at Benefit Systems S.A., Board Member and Financial Director at Noblestar Polska Sp. z o.o. and Controlling Director at Wola Info S.A.

Previously, Artur Małek held the following positions: President of the Management Board at Benefit IP Sp. z o.o., President of the Management Board at Benefit Multimedia Sp. z o.o., President of the Management Board at Benefit Intellectual Property Sp. z o.o., President of the Management Board at MBG Investment Sp. z o.o., Vice-President of the Management Board at Benefit Partners Sp. z o.o., Member of the Management Board at Noblestar Polska Sp. z o.o., Member of the Management Board at Fitness MCG Polska Sp. z o.o.

He sat on the Supervisory Boards, holding positions of supervisory board and audit committee members at: VRG S.A., Amica S.A. (Vice-Chairman of the Supervisory Board) and Elektrobudowa S.A.

Krzysztof Urbanowicz – Member of the Supervisory Board, Member of the Audit Committee

Krzysztof Urbanowicz is a graduate of the Warsaw University of Technology and the University of Warsaw, the Business School at the Warsaw University of Technology (MBA) and the University of Illinois at Urbana-Champaign (MBA). He is a graduate of numerous managerial courses, including the Advanced Management Programme IESE in Spain, the Senior Directorship Program INSEAD in France and St Gallen University in Switzerland. Since 2016 he's been the President of the Management Board at Elzab S.A. Currently, Krzysztof Urbanowicz is also a Supervisory Board Member in Pamapol S.A. and a Chairman of the Supervisory Board in Elzab Soft Sp. z o.o. Previously, he held the positions of the Vice-President of the Management Board and a Member of the Management Board at Comp S.A., President of the Management Board at Elzab S.A., Member of the Supervisory Board at Elzab SA., Chairman of the Supervisory Board at Micra-Metripod Kft and many others.

Marek Tatar, Member of the Supervisory Board

Marek Tatar is a graduate and a doctoral student in the Faculty of Law and Administration at the Jagiellonian University, Attorney-at-law. He is a Managing Partner at the Tatar i Wspólnicy sp. k. law firm. Earlier he worked at the company of Elektromontaż nr 2 Kraków S.A., Dom Maklerski PENETRATOR S.A. and in Trigon Dom Maklerski S.A. Currently, Marek Tatar is also the Chairman of Supervisory Boards at CryptoTech S.A., Sunex S.A. and Supervisory Board Member in Trigon Dom Maklerski S.A. and Termo-Rex S.A.

Mariusz Matuszewski – Member of the Supervisory Board

Mariusz Matuszewski is a graduate of the Mathematics, IT and Mechanics faculty of the University of Warsaw. He has 25 years of experience on the Polish, European and Global IT market. His career with Microsoft began in 1999, first at Microsoft Poland, followed by Microsoft EMEA, Microsoft Global Delivery and Microsoft Western Europe, where he has held different functions, including managing technical support and service or building and managing local and global consulting teams. He is currently employed by Microsoft Services as a Resource Manager.

Marcin Gołębicki – Member of the Supervisory Board

Marcin Gołębicki is a graduate of Harvard University, Minnesota University and Indiana University. He holds an MBA degree. He has been leading and managing large medical corporations in Europe, Asia, Africa and the Middle East for 22 years, including Johnson & Johnson, Boston Scientific, Abbott, St. Jude Medical (SJM). Most recently, as the Vice President of Abbott, St. Jude Medical (SJM), he launched the company's offices in Dubai, Africa, Turkey, Russia, Kazakhstan and Hong Kong, and was responsible for the company's expansion in the Emerging Markets area. He is a co-organizer of the Shark Tank competition for innovative startups and companies in the medical industry and an investor in medical businesses and startups. He serves on the Supervisory Boards of a number of companies in the medical and innovative sectors.

A new Audit Committee composed of elected members of the Supervisory Board was appointed on 22 July 2019. For details, see Section VII.7 of this report.

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 quarterly report. The information in the table is based on notifications received from members of the Management and Supervisory Boards in accordance with Article 160(1) of the *Act on Trading in Financial Instruments*.

Table 3. Company shares held by members of the Parent Company's Management and Supervisory Boards

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 26 November 2019 to 29 April 2020
Marek Dziubiński	President of the Management Board	400 000	-	+80 000
Maksymilian Sztandera	Member of the Management Board, Chief Financial Officer	-	-	Unchanged
Michał Wnorowski	Chairman of the Supervisory Board	-	-	Unchanged
Artur Małek	Member of the Supervisory Board	-	-	Unchanged
Krzysztof Urbanowicz	Member of the Supervisory Board	-	-	Unchanged
Marek Tatar	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.

Table 4. Information on remuneration of the Parent Company's Supervisory Board in 2019 (PLN '000)

Person	Function held in the Issuer's governing bodies	Remuneration
Michał Wnorowski	Chairperson of the Supervisory Board, Member of the Audit Committee	102
Artur Małek	Member of the Supervisory Board, Chairman of the Audit Committee	75
Krzysztof Urbanowicz	Member of the Supervisory Board, Member of the Audit Committee	68
Marek Tatar	Member of the Supervisory Board	64
Grzegorz Grabowicz	Member of the Supervisory Board (until 26 June 2019)	43
Mariusz Matuszewski	Member of the Supervisory Board (since 26 June 2019)	27
Marcin Gołębicki	Member of the Supervisory Board (since 26 June 2019)	29

There are no agreements concluded by and between the Company and members of the Supervisory Board which would stipulate a compensation in the event of their resignation or dismissal from the occupied position.

I. 10. Branches operated by the Parent Company

Medicalgorithmics S. A. has no formal branches. In 2019, however, it operated in two locations: at the Company's head office was in Warsaw and in the production plant in Gdansk.

Table 5. Branches of the Company and their locations

Name of the location	City	Address
Registered office – registered office of the Management Board	Warsaw	Al. Jerozolimskie 81, 02-001 Warszawa
Manufacturing plant	Gdansk	Ul. Marynarki Polskiej 100, 80-557 Gdansk

I. 11. Headcount

Information on the number of employees is presented in the table below.

Table 6. Headcount at the Parent Company and in the Capital Group

Number of employees (in FTEs)	31.12.2019	31.12.2018
Medicalgorithmics Capital Group	400	476
Medicalgorithmics S.A.	107	125

As at this report date (29 April 2020), the Parent Company and Capital Group had, respectively, 81 and 268 employees (in FTEs).

I. 12. Information on the agreement for the audit of the financial statements

On 25 June 2019, at a meeting of the Supervisory Board of the Company, BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with a registered office in Warsaw, ul. Postępu 12, 02-676 Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No 0000729684 and entered in the list of audit companies kept by the National Council of Statutory Auditors under No 3355, was appointed as the entity authorized to:

- Review the interim financial statements of Medicalgorithmics S.A. for the reporting periods ended 30 June 2019 and 30 June 2020;
- Review the Capital Group's interim consolidated financial statements for the reporting periods ended 30 June 2019 and 30 June 2020;
- Audit the financial statements of Medicalgorithmics S.A. for the financial years ended 31 December 2019 and 31 December 2020;
- Audit the Capital Group's consolidated financial statements for the financial years ended 31 December 2019 and 31 December 2020.

Table 7. Remuneration of the entity authorized to audit and review financial statements (PLN '000)

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018*
Audit of the annual separate and consolidated financial statements	228	109
Review of the interim separate and consolidated financial statements	112	47
Other services (agreement on the performance of agreed upon procedures)	-	4

* in relation to the entity authorised to audit and review the consolidated and separate financial statements for 2018 (CSWP Audyt Sp. z o.o. Sp. k.)

In addition, BDO USA, LLP, an entity related to an entity authorized to audit and review financial statements, provided authorized tax advisory services to Medi-Lynx. The remuneration for this amounted to USD 37.5 thousand.

I. 13. Information on changes in the key rules of managing the Company and its Capital Group

In the year ended 31 December 2019, there were no changes in the key rules of managing the Parent Company and the Capital Group. The Management Board of the Parent Company strives to harmonize the management principles in the Medicalgorithmics Group companies by implementing appropriate procedures and standards of ownership control.

I. 14. Information on the system of control of employee share plans

On 26 February 2016, the Company's Extraordinary General Meeting adopted an incentive scheme based on options for shares in Medicalgorithmics S.A., effective from 26 February 2016 to 31 December 2026.

As at 31 December 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 applied 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.

Pursuant to the Annex to the Actuarial Report of 1 March 2019, the Company derecognized the provision for future payments of bonuses in the form of equity-settled share-based payments recognized in previous periods. On 26 June 2019, the General Meeting of Shareholders of the Company adopted resolutions enabling the termination of the Company's incentive scheme.

II. Overview of factors determining the Group's development and summary of material events related to operations of the Group in 2019

2019 saw a number of significant events related to the operations of the Parent Company and the Capital Group which may have a bearing on their development. The measures taken were closely related to strategic objectives such as sales growth, diversification in terms of geography and products and introduction of innovations in medical diagnostics.

In the fourth quarter of 2018, the Management Board of Medicalgorithmics S.A. resolved to undertake a review of strategic options for continued growth of Medicalgorithmics S.A. and its Capital Group. In the course of the review of strategic options available to the Company, at the end of 2019, the Company decided to raise capital through an issue of shares on the Warsaw Stock Exchange, as announced in Current Report No 40/2019 of 10 December 2019. Raising capital will enable MediLynx to continue the process of changing the business model (as discussed below), and will also enable the Company to conduct research and development work on new products and maintain an optimal level of working capital.

Expansion of operations outside the United States

The Parent Company accomplished its plan to sell the PocketECG system on non-US markets by selling nearly 1400 new devices. During 2019, nearly 60 thousand patients were diagnosed using the PocketECG technology. The largest amounts of revenue were earned from cooperation with partners in Canada, Denmark and Australia. At the same time, the Company is building an increasingly strong market position in countries where it has already signed contracts, launching a number of business initiatives aimed at further sales growth.

The Parent Company also continued to seek business partners in new markets, which resulted in signing contracts in Finland, the Arab Emirates and Oman. A number of business efforts have been made in the Middle East to sign a contract for the distribution of PocketECG in Saudi Arabia and other smaller countries in the region. As expected by the Management Board, these efforts should yield results in the second quarter of 2020. The Company is also engaged in business development activities in South Korea, South East Asia and Western Europe. In Germany, a number of steps have been taken in the area of clinical marketing in cooperation with opinion leaders in leading medical centers. These measures are intended to assist the commercialization of the PocketECG technology in the German-speaking and Benelux countries. First sales results are expected in the third and fourth quarter of 2020.

On 22 January 2019, the Company acquired 97% of new shares in Medicalgorithmics India Private Limited (formerly: Algotel Solutions Private Limited), based in India. The Parent Company is in the process of acquiring the remaining shares and will ultimately hold 100% of shares. Through MDG India, Medicalgorithmics S.A. launched its expansion into the prospective Indian market, characterized by a strong sales potential (large population, dynamic economic growth). The company acquired

a strategic customer, Abbott, as well as several smaller local distributors, which translated into good sales figures. MDG India has been investing in its further development by increasing the number of area sales managers and the reach of its sales activities which should translate into even better financial performance in the future. Currently, the company is focused on expanding its indirect sales channel and on direct sales to hospital networks.

Significant events at Medi-Lynx

The Management Board of Medi-Lynx continued the implementation of the Group's strategic medium-term objective, i.e. changing the business model by signing long-term service contracts directly with key private insurers ("in-network" contracts). In the opinion of the Management Board, changing the business model is a key process leading to a greater number of services provided by Medi-Lynx in the United States and thus to increased revenue of the Group.

In the 1st quarter of 2019, Medi-Lynx, received a notification from MultiPlan Inc., a network of providers of medical services offered to private health insurers. According to this notification, the reimbursement rates for Medi-Lynx services used to settle with the customers of certain insurers using the MultiPlan network and resulting from the agreement concluded between Medi-Lynx and MultiPlan on 1 June 2016 no longer apply. This event entailed the risk of a decline in Medi-Lynx's revenue. Immediately after receipt of notification from MultiPlan, the Management Board of Medi-Lynx started talks on the terms of provision of its services via the MultiPlan network in order to secure revenue and ensure that a portion of payment requests will continue to be paid at MultiPlan rates by the majority of insurers using the network.

The event described above accelerated the process of changing the business model from an "out-of-network" model to an "in-network" model, i.e. the process of entering into long-term service contracts directly with private insurers. In 2019, several contracts were signed with large insurers covering the entire United States. On 25 July 2019, Medi-Lynx Cardiac Monitoring, LLC, entered into agreement with UnitedHealthcare Group, the largest private insurance network in the United States, thanks to which Medi-Lynx will be an accepted provider of medical services in the insurer's network in the US. The Group is more or less half-way through the business model transformation process. The second phase of the process, i.e. signing contracts with smaller, regional and local insurers, has now begun. By the end of the first quarter of 2020, the Group intends to have contracts covering 75% of the insured persons, and by the end of 2020 – 92%. As assumed, the process of changing the business model from "out-of-network" to "in-network" has translated into a temporary drop in revenue earned and a deterioration in Medi-Lynx's financial performance as compared to previous years. In the long run, however, the Group expects the new model to have a positive impact on its financial performance.

Marketing services

In 2019, the Group performed a number of marketing efforts aimed at supporting the sales growth strategy and at building and strengthening the PocketECG and Medi-Lynx brand image in the industry. Medi-Lynx has reorganised its sales forces and introduced a comprehensive training programme to improve the competence and effectiveness of its sales staff. The sales team has been equipped with modern IT tools to optimize their work, such as CRM (ZOHIO) and a new training platform (Brainshark). A strategy was implemented to maximize sales to new customers by focusing on territories with the largest business potential, and a growth strategy was implemented for existing customers. Work on online marketing was also continued in order to strengthen the expert brand image and generate sales leads for sales representatives in the United States.

An additional measure geared towards supporting sales growth was the Group's participation in the world's largest scientific conference for electrophysiologists. This event is organised each year in the US in May by the Heart Rhythm Society (HRS). In the area of sales and marketing, the Group also actively participated in a number of other industry conferences and networking events, promoting its solutions for cardiac rehabilitation and arrhythmia diagnostics in Poland and abroad. For the needs of the US market, the Group has developed a process for responding effectively to tenders that are held in multi-site health care systems. In addition, the Group has established a Scientific Advisory Council composed of US opinion leaders. This advisory body has been set up to provide opinions on specific clinical, developmental and business issues. The consultations, during which many clinical, operational, commercial and developmental opportunities were analysed, resulted in an action plan to improve the range of products and services and marketing activities.

Product development and R&D activities

In 2019, the Company continued its efforts aimed at the diversification of its products and further development of the PocketECG system. Intensive work is underway on a new version of the device, PocketECG IV, which will operate in the LTE network. Furthermore, on the basis of recommendations from the Electrophysiology Advisory Committee, the Group decided to launch the development of the PatchECG device. This device will enable 1-channel ECG monitoring and will extend the Company's portfolio, thus responding to the needs of customers and the competitors' products.

In 2019, the Company also continued its R&D work on the ECG TechBot project, subsidized by the National Centre for Research and Development. ECG TechBot is a dedicated software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods. In addition, the Company continued works on the functional development of the PocketECG CRS remote cardio rehabilitation system. The Parent Company has also been developing a device and system for remote, instant ECG description (12-channel ECG). However, the work on this project has been put on hold until the introduction of a device operating in the LTE network and the development of advanced algorithms for the analysis of 12-channel ECG signal as part of the TechBot project.

III. Discussion of the Group's performance and the Group's asset and financial position

III. 1. Discussion of the Group's performance

In 2019, 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 price for such services (in the case of "in-network" insurers) or the average amount of payments received for a given procedure (in the case of "out-of-network" 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.

Table 8. Key items of the statement of comprehensive income for 2019 and 2018, and changes over the last financial year

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Sales revenue	173 870	199 404	(25 534)	(13%)
Operating expenses	174 208	171 255	2 954	2%
Profit/ (loss) on sales	(338)	28 149	(28 487)	(101%)
Other operating revenue/(expenses), net	253	(3 425)	3 678	(107%)
Operating profit/ (loss)	(85)	24 724	(24 809)	(100%)
Net finance costs	(2 570)	(3 151)	581	(18%)
Profit/ (loss) before tax	(2 655)	21 573	(24 228)	(112%)
Net profit/ (loss), of which:	(299)	18 948	(19 247)	(102%)
Net profit attributable to Shareholders of the Parent Company	4 279	14 416	(10 137)	(70%)
Net profit/ (loss) attributable to non-controlling interests	(4 578)	4 532	(9 110)	(201%)
EBITDA	18 632	36 303	(17 671)	(49%)

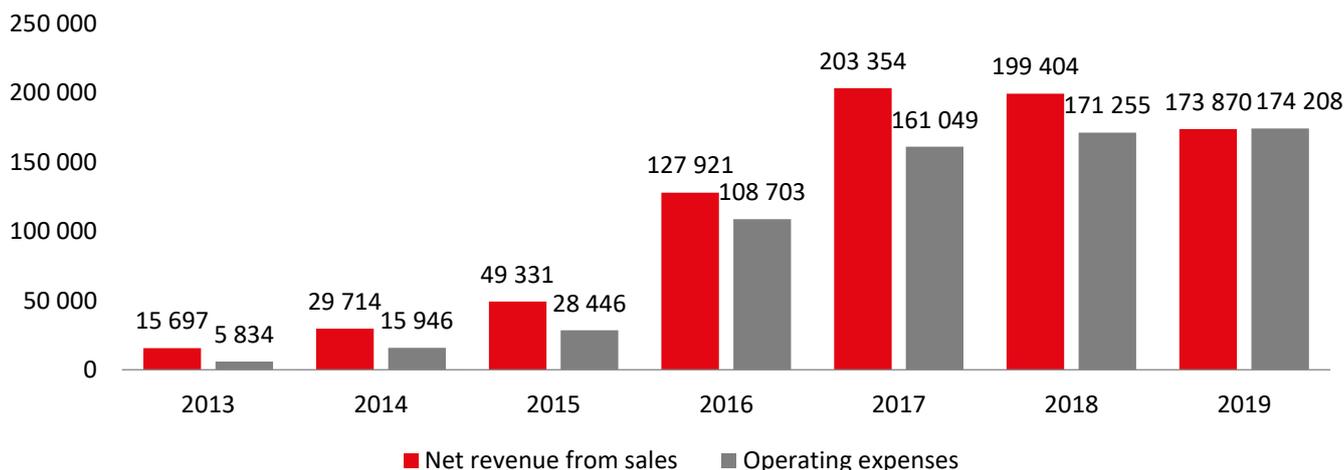
Sales revenue

In 2019, the Capital Group's revenue amounted to PLN 173.9 million, down PLN 25.5 million (-13%) on 2018. The level of revenue was negatively affected by a 13% decline in medical services provided, which translated into a decrease in Medi-Lynx' revenue by PLN 38.0 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 2.0 million. This resulted from the execution of an agreement with UnitedHealthcare Group and was aimed at adjusting the reduced recoverability 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 6% increase in the average USD/PLN exchange rate, which translated into an increase in the Group's revenue by approximately PLN 9.4 million (6%), 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 1.0 million (PLN 0.5 million in the corresponding period) and PLN 1.0 million (not consolidated in the corresponding period), respectively.

In 2019, the Group earned all of its revenue from the sales of PocketECG system. This revenue comprised the revenue from sales of devices in the amount of PLN 3.1 million (PLN 1.8 million in 2018), representing 1.8% of total revenue (0.9% in 2018), and revenue from sales of services in the amount of PLN 170.7 million (PLN 197.6 million in 2018), representing 98.2% of total revenue (99.1% in 2018).

Chart 2. The Group's sales revenue and operating expenses in particular years (PLN '000)



Operating expenses

Table 9. Structure of operating expenses in 2019 and 2018 (PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Raw materials and consumables used	8 303	9 085	(782)	(9%)
Employee benefits	102 103	110 549	(8 446)	(8%)
Amortization and depreciation	18 717	11 579	7 138	62%
External services	37 648	33 831	3 817	11%
Other	7 437	6 211	1 226	20%
TOTAL:	174 208	171 255	2 954	2%

Raw materials and consumables used

The costs of raw materials and consumables used decreased by 9% year on year. The costs of raw materials and consumables used at Medi-Lynx, not eliminated in the consolidation process, had the largest impact on the change, and in real terms they decreased by about PLN 1.1 million (24%). An increase in the average USD/PLN exchange rate (8%) offset this decrease by approx. PLN 0.2 million. Costs of raw materials and consumables used at Medicalgorithmics S.A. remained relatively flat year on year.

Employee benefits

Costs of employee benefits decreased by approximately PLN 8.4 million (-8%) year on year. The change is primarily attributable to the following factors:

(1) reduction in average headcount at Medi-Lynx. As a result of reorganization projects aimed, among others, at increasing efficiency and cost optimization, a decision was made to reduce headcount at Medi-Lynx 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 12.4 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 5.1 million.

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

(4) approx. PLN 1.1 million of employee benefit costs was recorded in subsidiaries, Medicalgorithmics Polska Sp. z o.o. (company consolidated as of 3rd quarter of 2018) and MDG India (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 2019, depreciation and amortization expenses increased by PLN 7.1 million (+62%), and currently they represent more than 11% 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/Spectacor 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 6.1 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 used to provide diagnostic services by the Group companies as fixed assets, the manufacturing cost of those PocketECG devices 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 2019, the total cost resulting from the above amounted to PLN 2.5 million (PLN 3.0 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 over the lease term, and the depreciation expense for these assets in 2019 amounted to PLN 6.4 million.

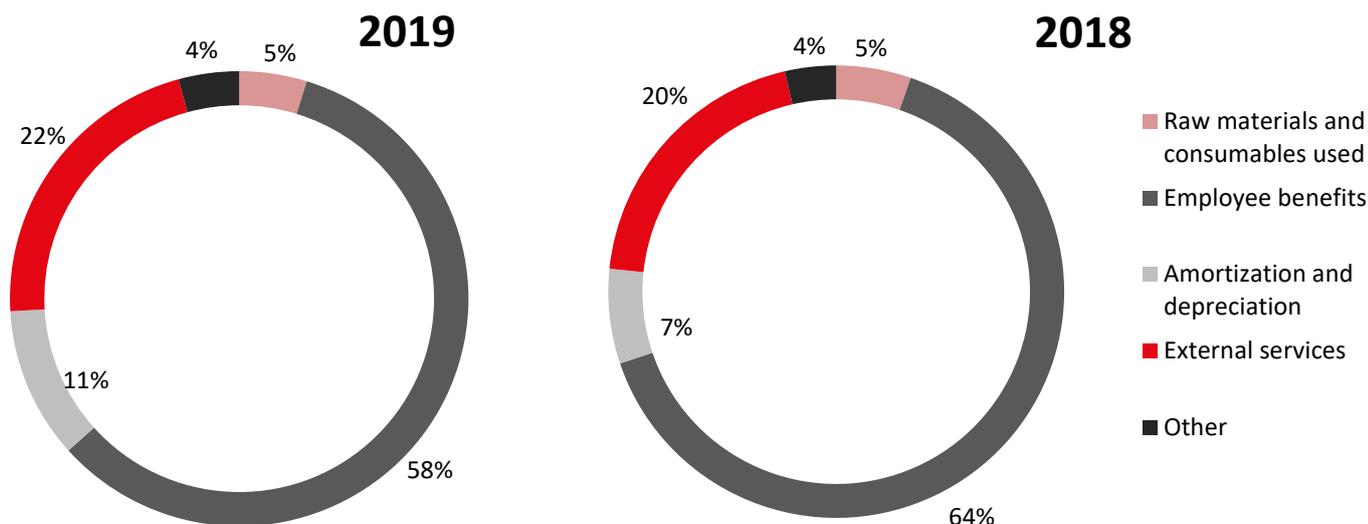
In connection with the introduction of the new version of the PocketECG system in the first half of 2019, the amortization of development and improvement expenditures previously incurred for the new version was also commenced. The increase in amortization costs on this account amounted to PLN 1.1 million.

Third-party services

Third-party services account for nearly 22% of the Group's operating expenses, and their amount increased by 11% year on year to PLN 37.6 million. The increase in expenses was largely attributable to a 6% increase in the average USD exchange rate, which translated into an increase in the Group's costs of third-party services by approximately PLN 1.6 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 structure of costs of third-party services in the reporting period and in the corresponding period is presented in Note 10 to the consolidated financial statements.

The year-on-year increase in costs of third-party services is mainly attributable to an increase in the cost of advisory and legal services related to the recruitment of new sales representatives and the implementation of the new business model. Due to intensive product development and implementation of new project management methods, the costs of IT services also increased significantly in the period under review. In 2019, the Group implemented new IT systems (e.g. XiFin, NetSuite), which translated into higher costs of telecommunications and Internet services. At the same time, there is a noticeable decrease in the cost of lease and rental, which results primarily from the application of IFRS 16 "Leases" by the Company in 2019. For a detailed description of the changes introduced by the standard, see Note 4.5 to these statements.

Chart 3. Structure of operating expenses in 2019 and 2018 (in %)



Net finance income

Table 10. Finance income and costs in 2019 and 2018 (PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Finance income	80	712	(632)	(89%)
Finance cost	(2 650)	(3 863)	1 214	(31%)
Net finance income	(2 570)	(3 151)	581	(18%)

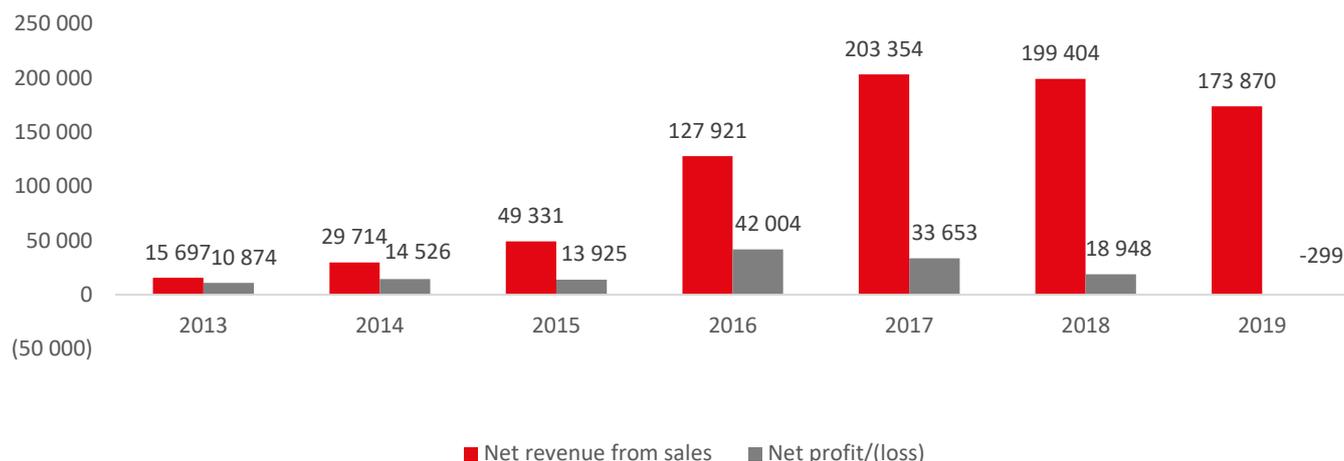
Finance costs comprise mainly interest on bonds, interest on a credit facility and interest on the liability to the seller of shares in Medi-Lynx. The nominal year-on-year decrease in financial costs is primarily attributable to the repayment of bonds on 21 April USD and a partial repayment on 1 April 2019 of the liability to the seller of shares in Medi-Lynx (the amount repaid was PLN 2.0 million). The redemption of bonds was partially financed with a working capital facility (PLN 19.0 million), bearing interest at the sum of the 3M WIBOR rate and the Bank's margin. Following the application of IFRS 16, interest on finance leases was recognized.

As at the reporting date, the Parent Company held a loan (granted in USD) granted to a consolidated foreign operation (MDG HoldCo). In accordance with IAS 21, this monetary item forms part of the net investment in a foreign operation. In the consolidated financial statements, foreign exchange differences (recognized under net finance income in the separate financial statements) are recognized in other comprehensive income.

Profit and profitability

In 2019, the Capital Group incurred a net loss of PLN 0.3 million, whereas the profit attributable to Shareholders of the Parent Company was PLN 4.3 million. The Parent Company holds 75% of shares in its subsidiary, Medi-Lynx, and thus the Group contributes to the loss incurred by Medi-Lynx in such share. The remainder of the loss incurred by Medi-Lynx is allocated to the minority shareholder in the consolidation process. At the level of profit attributable to Shareholders of the Parent Company, 75% of the loss incurred by Medi-Lynx is offset by the positive result of other Group companies.

Due to the factors described in the previous sections of this chapter, the margin on sales was 0% and the EBITDA margin was 11% (14% and 18% respectively in 2018).

Chart 4. Net sales and net profit in PLN '000 in particular years


In 2019, return on assets (ROA) stood at 0%, down by 6 percentage points from 6% in 2018. On the other hand, return on equity (ROE) in 2019 amounted to 0% and was lower than in 2018 by 8 percentage points. The decrease in this ratio was caused by a decrease in net profit, the reasons for which have already been discussed.

Table 11. ROA and ROE in 2019 and 2018 and changes in these ratios during the last financial year

	2019	2018	Change (p.p.)
ROA	0%	6%	(6)
ROE	0%	8%	(8)

ROA = net profit/total assets as at the end of the period

ROE = net profit/equity as at the end of the period

Cash flows

In 2019, the Capital Group achieved a positive balance of cash flows from operating activities, comprising mainly positive EBITDA (PLN 18.6 million) and changes in working capital. The Group recorded negative cash flows from investing activities resulting from expenditure incurred on research and development activities (PLN 4.9 million) and expenditure on property, plant and equipment (PLN 2.0 million), offset by proceeds from the redemption of investment certificates (PLN 5.8 million). Negative cash flows from financing activities were mainly due to the repayment of bonds with interest (PLN 51.4 million), partial repayment of liabilities to the seller of shares in Medi-Lynx (PLN 8.1 million), distribution to a minority shareholder (PLN 7.8 million), repayment of a credit facility (PLN 6.7 million) and repayment of finance lease instalments (PLN 5.3 million). In 2019, the Company raised PLN 19.0 million of financing in the form of a credit facility.

Table 12. Selected items of the cash flow statement for the financial years 2019 and 2018 (PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Net cash from operating activities	13 499	44 232	(30 733)	(69%)
Net cash from investing activities	(2 793)	2 407	(5 200)	(216%)
Net cash from financing activities	(59 745)	(18 981)	(40 764)	215%
Total net cash flows	(49 039)	27 658	(76 697)	(277%)
Closing balance of cash	11 150	60 189	(49 039)	(81%)

III. 2. Asset and financial position of the Capital Group

As at 31 December 2019, total assets amounted to PLN 283.1 million which represents a decrease by PLN 33.0 million (or 10%) from the end of 2018.

The tables below present the key assets the Group and sources of their financing, as well as changes in these assets during the last financial year.

Table 13. Key assets as at the end of 2019 and 2018 and changes in these assets during the last financial year

ASSETS (PLN '000)	31.12.2019	31.12.2018	Change	Change %
Fixed assets including :	246 862	227 170	19 692	9%
Intangible assets	209 717	210 454	(737)	(0%)
Property plant and equipment	31 705	14 685	17 020	116%
Long-term financial assets	200	200	0	0%
Current assets including :	36 400	88 912	(52 512)	(59%)
Trade and other receivables	25 250	22 781	2 468	11%
Short-term financial assets	-	5 942	(5 942)	(100%)
Cash and cash equivalents	11 150	60 189	(49 039)	(81%)
TOTAL ASSETS	283 262	316 082	(32 820)	(10%)

As at the balance sheet date, total non-current assets amounted to PLN 246.9 million and accounted for 87% of total assets. The most significant item of non-current assets were intangible assets, including client bases (PLN 102.1 million), goodwill recognized on the acquisition of shares in Medi-Lynx (PLN 85.2 million), and expenditure on research activities (PLN 18.7 million). Non-current assets increased by PLN 19.7 million (+9%) as compared to 31 December 2018. This increase resulted mainly from the recognition of right-of-use assets in accordance with IFRS 16 (PLN +24.9 million) and capitalisation of development expenditure in intangible assets (PLN +3.8 million). On the other hand, the increases were offset by accumulated amortization of intangible assets and depreciation of fixed assets.

As at 31 December 2019, current assets amounted to PLN 36.4 million which represents a decrease by PLN 52.5 million (or -59%) from 31 December 2018. Current assets accounted for 13% of total assets. The most significant items in this group of assets were cash (29%) and trade receivables (66%). The decrease in current assets resulted primarily from negative cash flows from financing activities related to the repayment of bonds and other financial liabilities.

Table 14. Key items of equity and liabilities as at the end of 2019 and 2018 and changes in these items during the last financial year

EQUITY AND LIABILITIES (PLN '000)	31.12.2019	31.12.2018	Change	Change %
Equity attributable to Shareholders of the Parent Company	195 840	189 864	5 976	3%
Non-controlling interests	28 882	40 898	(12 016)	(29%)
Long-term liabilities including:	30 631	13 257	17 375	131%
Credits and loans	9 845	216	9 628	4 450%
Liabilities in respect of bonds and other financial liabilities	14 394	7 479	6 915	92%
Short-term liabilities including:	27 909	72 063	(44 154)	(61%)
Credits and loans	3 057	111	2 946	2 643%
Liabilities in respect of bonds and other financial liabilities	13 015	58 399	(45 384)	(78%)
Trade and other liabilities	9 444	10 717	(1 274)	(12%)
Total liabilities	58 540	85 320	(26 780)	(31%)
TOTAL EQUITY AND LIABILITIES	283 262	316 082	(32 820)	(10%)

As at 31 December 2019, equity attributable to Shareholders of the Parent Company amounted to PLN 195.8 million, having increased by PLN 6.0 million (or +3%) from 31 December 2018. Equity accounted for 69% of total equity and liabilities. The change in equity attributable to Shareholders of the Parent Company was driven by the profit earned in 2019 (PLN +4.3 million) and foreign exchange gains resulting from a decrease in the USD exchange rate (PLN +1.7 million). Capital attributable to minority shareholders decreased by PLN 12.0 million, mainly as a result of the distribution of part of the profit to the minority shareholder and net loss incurred by Medi-Lynx.

As at the balance sheet date, long-term liabilities stood at PLN 30.6 million (11% of total assets), an comprised mainly financial liabilities (PLN 14.4 million) and long-term portion of the credit facility (PLN 9.8 million). Long-term liabilities

increased by PLN 17.4 million (+131%) as compared to 31 December 2018, mainly due to an increase in finance lease liabilities (PLN +14.4 million) and long-term portion of the credit facility (PLN +9.6 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 -7.8 million).

As at the balance sheet date, short-term liabilities amounted to PLN 27.9 million (10% 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 7.8 million) and finance lease liabilities (PLN 5.2 million).

Short-term liabilities decreased by PLN 44.1 million (-61%) 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 +3.1 million), a short-term portion of finance lease liabilities (PLN +5.2 million) and the previously mentioned transfer of all outstanding liabilities arising from the acquisition of shares in Medi-Lynx to short-term liabilities (PLN +7.8 million).

III. 3. Cash and financial assets

In 2019, the Group's cash declined by PLN 49.0 million (-81%) to PLN 11.2 million as at 31 December 2019. As described in Section III.2 hereof, the change results primarily from negative cash flows from financing activities related to the repayment of the Group's liabilities (including repayment of bonds and repayment of liabilities to the seller of shares in Medi-Lynx).

In addition, in accordance with the Management Board's decision to submit, in stages, the certificates held for redemption to increase current liquidity, the Company sold all of the investment certificates held with a total value of PLN 5.9 million. For more information on investment certificates, see Note 17 to the Group's consolidated financial statements for 2019.

The Management Board monitors the risk of occurring difficulties in meeting the obligations of the Capital Group with respect to financial liabilities that are settled by issuing cash or other financial assets. In line with the assumptions concerning the change in the business model, after a temporary decrease in sales revenue and operating cash flows, the Group expects an increase in the volume of examinations provided and an improvement in cash flows. In order to secure adequate funds for the Group's development and current operations in the transitional period, a decision was made to raise additional financing through the issue of new Series G ordinary bearer shares. Additionally, after the balance sheet date, annexes were signed to extend the repayment dates of liabilities to the seller of shares in Medi-Lynx Cardiac Monitoring and the bank credit facility. Simultaneously, intensive reorganization work is underway to improve efficiency and optimize costs.

Issue of shares

On 7 January 2020, the Extraordinary General Meeting resolved to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. On 20 January 2020, a decision was taken to launch the public offering through private placement. The bookbuilding process was carried out on 20-23 January 2020 and the share subscription agreements were executed by 29 January 2020. 721,303 Series G shares were issued at an issue price of PLN 18.25 per share. The total value of the issue was PLN 13.2 million. The capital increase was registered by the District Court for the capital city Warsaw in Warsaw on 6 April 2020. For more information on the share issue, see current reports 7/2020–15/2020 and 22/2020.

Chart 5. Structure of financial assets as at the end of 2019 and 2018

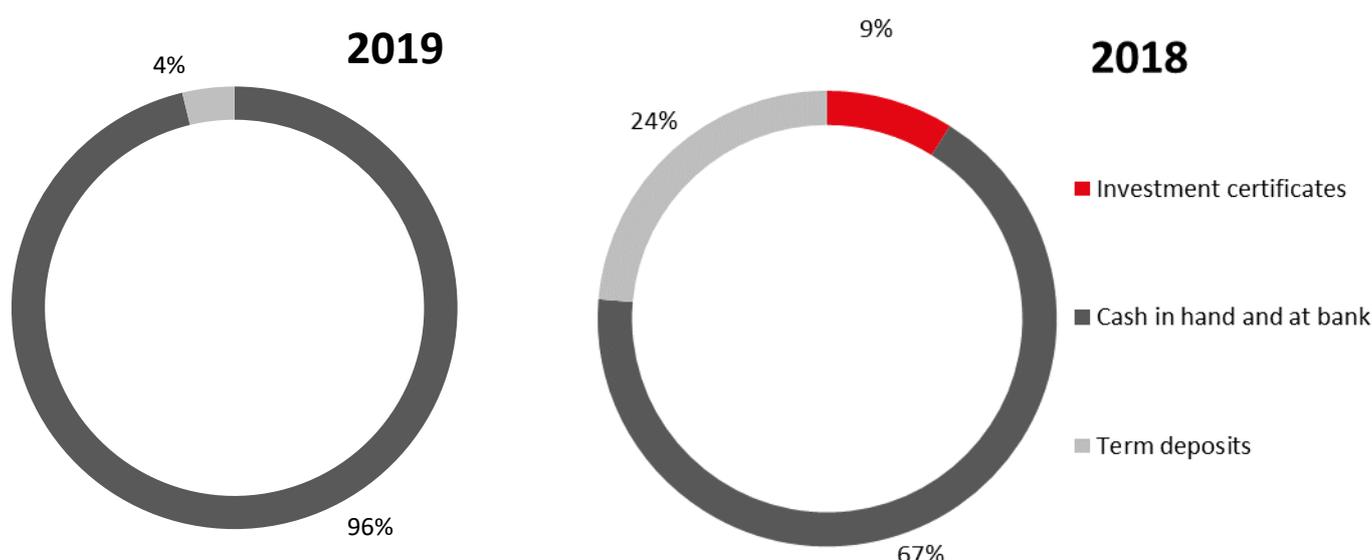


Table 15. Structure of the Group's financial assets as at the end of 2019 and 2018 (PLN '000)

Financial assets	31.12.2019	31.12.2018	Change	Change %
Investment certificates – short-term	-	5 942	(5 942)	(100%)
Cash in hand	8	7	1	22%
Cash in bank accounts	10 722	44 554	(33 832)	(76%)
Term deposits	420	15 628	(15 208)	(97%)

Credits and loans received

On 18 April 2019, a working capital facility contracted by the Parent with Bank Millennium S.A. in the amount of PLN 19.0 million was disbursed. The facility was taken out to partially finance redemption of series A bearer bonds issued by the Parent in 2016. On 11 February 2020, an annex to the working capital facility was signed, extending the repayment date to 11 July 2022. The interest rate is the sum of the 3M WIBOR reference rate and the Bank's margin. The facility was disbursed after the Group complied with all terms and conditions for opening the facility stipulated in the facility agreement on 18 April 2019.

Redemption of bonds

In 2016, the Parent Company issued bonds with a nominal value of PLN 50.0 million and a maturity date of 21 April 2019. The purpose of the issue was to finance an investment in a subsidiary, Medi-Lynx. For detailed information on issue, see Note 24 to the Consolidated financial statements of the Capital Group for 2019.

On 19 April 2019, the amount of PLN 50.0 million 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 31.0 million) and a working capital facility contracted by the Company (PLN 19.0 million). See Note 22 to the consolidated financial statements of the Group for 2019 for detailed information on external financing contracted.

Loans granted

The Capital Group granted only intercompany loans which are eliminated during consolidation.

Securities and financial guarantees granted and received

Medicalgorithmics S.A. is a party to agreements for the EU co-financing of investment projects aimed at the development of the products and services offered. A failure to meet the conditions set for the relevant development work may give rise to the risk that the grants received will have to be repaid. 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 31 December 2019, the outstanding amount was USD 1,990 thousand. After the balance sheet date, an annex was signed, changing the date of repayment of the last instalment to 30 September 2020. As at the balance sheet date, interest accrued amounts to USD 100 thousand. Liabilities bear interest at a fixed interest rate.

In 2018, the Parent Company 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 19,000 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.

Material off-balance sheet items

Apart from the surety described above, there are no other material off-balance sheet items.

IV. Discussion of the Company's performance and the Company's asset and financial position

IV. 1. Discussion of the Group's performance

In 2019, the Company continued its strategy and operated on the basis of the subscription model according to which it sells the devices and then charges monthly subscription fees for their use and for the use of the related software and server infrastructure.

The table below presents the key items of the Company's statement of comprehensive income for 2019 and 2018.

Table 16. Key items of the statement of comprehensive income for 2019 and 2018, and changes over the last financial year (in PLN '000)

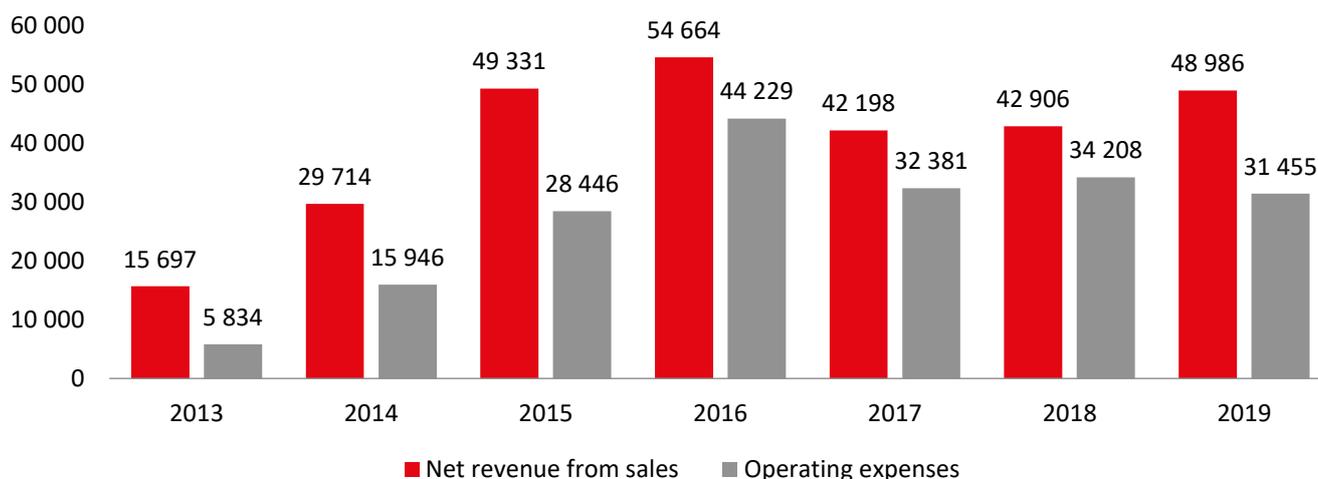
	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Sales revenue	48 986	42 906	6 080	14%
Operating expenses	31 455	34 208	(2 753)	-8%
Profit on sales	17 531	8 698	8 833	102%
Other operating revenue/(expenses), net	405	(870)	1 275	-147%
Net finance income/(costs)	2 163	5 904	(3 741)	-63%
Profit before tax	20 099	13 732	6 367	46%
Net profit	16 594	11 325	5 269	47%
EBITDA	21 051	9 001	12 050	134%

Sales revenue

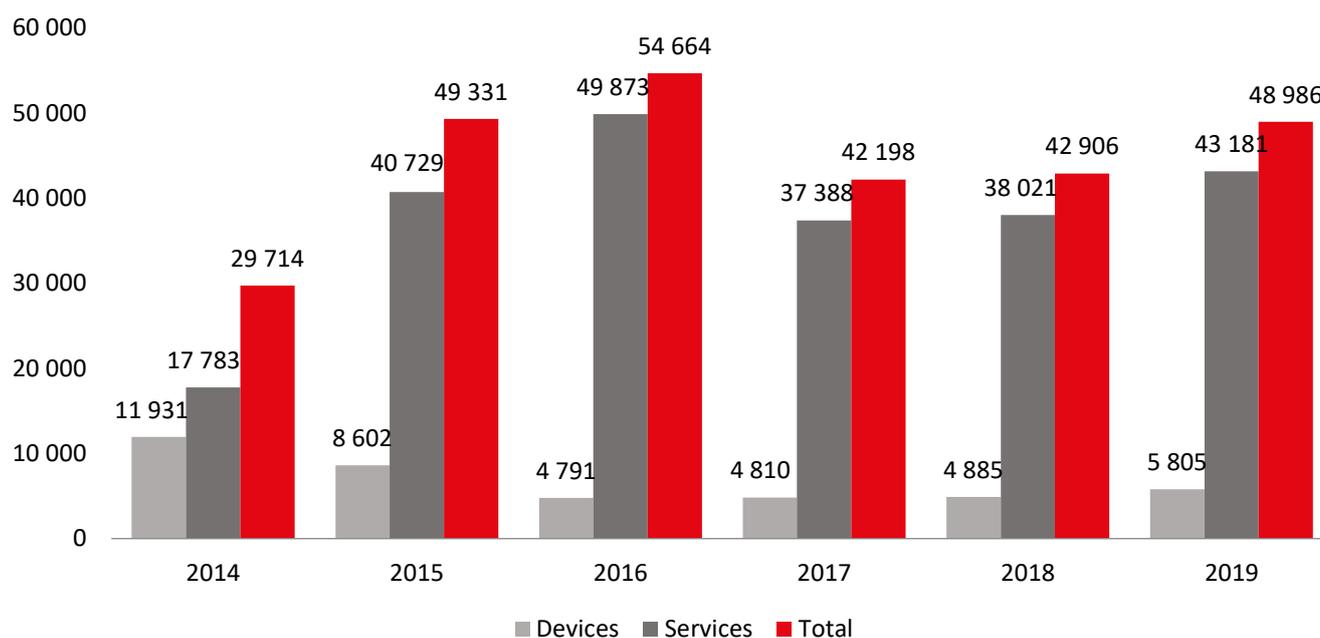
In 2019, the revenue of Medicalgorithmics S.A. amounted to PLN 49.0 million, which represents an increase by 14% as compared to 2018.

The Company's revenue is generated mainly in the United States. It increased by PLN 2.1 million year on year. The Company achieved an almost twofold increase in sales of goods and services on other markets – in Europe, Australia and Canada (up by PLN 4m year on year). Moreover, higher average USD/PLN and EUR/PLN exchange rates had a positive impact on the value of revenue in 2019.

Chart 6. The Company's sales revenue and operating expenses in particular years (PLN '000)



In 2019, the Company earned all of its revenue from the sales of PocketECG system. This revenue comprised the revenue from sales of devices in the amount of PLN 5.8 million (PLN 4.9 million in 2018), representing 12% of total revenue (11% in 2018), and revenue from sales of services in the amount of PLN 43.2 million (PLN 38.0 million in 2018), representing 88% of total revenue (89% in 2018).

Chart 7. Sales revenue by type in particular years (PLN '000)


The Company earns the vast majority of its sales revenue in USD. In 2019, revenue in USD accounted for 90% of total sales revenue (94% in 2018).

Operating expenses

Table 17. Structure of operating expenses in 2019 and 2018 (PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Raw materials and consumables used	6 205	6 434	(229)	(4%)
Employee benefits	13 150	15 283	(2 133)	(14%)
Amortization and depreciation	3 115	1 173	1 942	166%
External services	7 942	9 375	(1 433)	(15%)
Other	1 043	1 943	(900)	(46%)
TOTAL:	31 455	34 208	(2 753)	(8%)

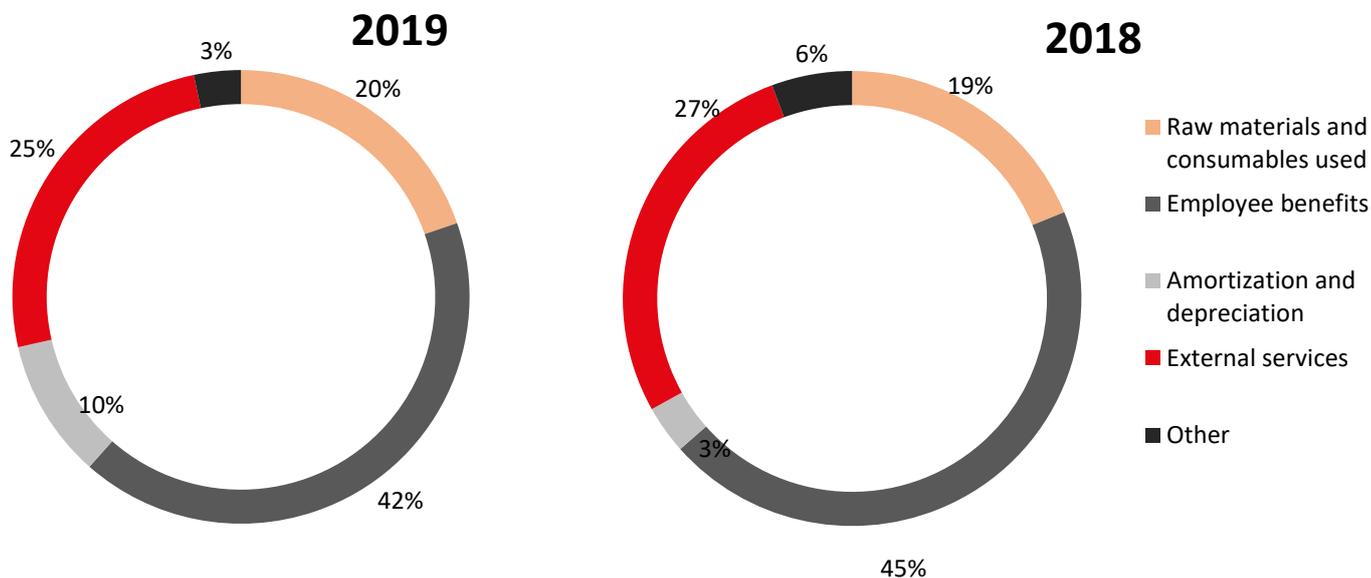
Employee benefits, comprising salaries and salary surcharges, were the most significant component of operating expenses. A high share of such expenses in the structure of expenses (42% of total operating expenses) results from the business profile of Medicalgorithmics S.A., which is mainly based on the development of new technologies in the area of manufacturing and software. The Company builds its competitive advantage on the basis of a highly qualified team. In the reporting period, the Company recorded a year-on-year decrease in remuneration, mainly due to a decrease in average headcount and lower remuneration of the Management Board.

The second largest item of operating expenses in 2019 were costs of third-party services (25%). Marketing costs, costs of lease of production and office space as well as costs of IT services were the most important components of costs of third-party services. In the reporting period, the Company recorded a significant decrease in costs of third-party services, as compared to the corresponding period. It is mainly attributable to a decrease in expenses on marketing services which were abandoned by the company as its subsidiary, Medi-Lynx, took over responsibility for the marketing activities and corresponding expenses. In the period under review, the Company reported a noticeable decrease in the cost of lease and rental which results primarily from the application of IFRS 16 "Leases" in 2019. In 2019, the Company incurred high costs of IT services, which include consultations on programming and maintenance of the IT environment and are an important element in the development of new technologies of the Company.

Depreciation costs increased year-on-year mainly due to the application of IFRS 16 "Leases" in 2019. As described in Note 2.5 to the separate financial statements for 2019, following the application of IFRS 16, the Company recognised right-of-use

assets. Right-of-use assets are depreciated over the lease term, and the depreciation expense for fixed assets leased in the reporting period under review was PLN 769 thousand.

Chart 8. Structure of operating expenses in 2019 and 2018 (in %)



Net finance income

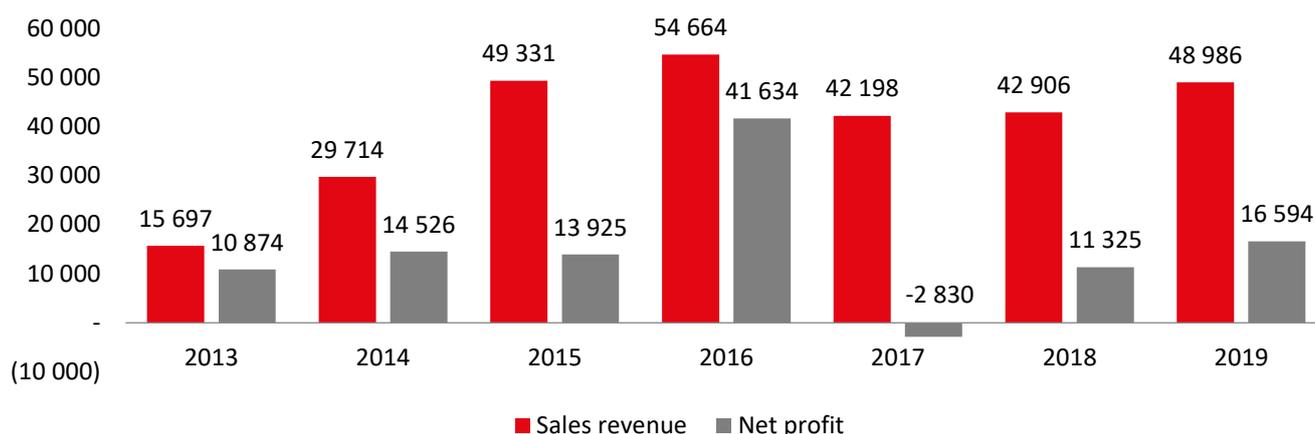
Table 18. Finance income and costs in 2019 and 2018 (PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Finance income	3 601	8 990	(5 389)	(60%)
Finance cost	(1 438)	(3 086)	1 648	(53%)
Net finance income	2 163	5 904	(3 741)	(63%)

In 2019, the Company reported a net finance income of PLN 2.2 million. Finance income comprised mainly interest accrued on loans to related parties and foreign exchange gains of PLN 3.3 million. Finance costs include primarily interest on bonds and amounted to PLN 1.2 million.

Profit and profitability

In 2019, Medicalgorithmics S.A. reported a net profit of PLN 16.6 million (compared to a loss of PLN 11.3 million in the corresponding period of the previous year). In 2019, operating expenses decreased by 8% year on year. Additionally, sales revenue increased by 14% year on year. The return on sales in 2019 was 34% (26% in 2018).

Chart 9. Net sales and net profit in PLN '000 in particular periods


The sales margin and EBITDA margin were 36% and 43%, respectively (20% and 21% in 2018). The year-on-year increase in revenue was primarily driven by nearly twofold increase in sales of goods and services in Europe, Australia and Canada. Moreover, higher average USD/PLN and EUR/PLN exchange rates had a positive impact on the value of revenue in 2019.

Cash flows

In 2019, Medicalgorithmics S.A achieved a positive balance of cash flows from operating activities, mainly as a result of surplus from net profit and depreciation/amortization. The Company reported positive cash flows from investing activities, which was mainly due to the repayment of loans granted to related entities together with interest due and the sale of investment certificates. Negative cash flows from financing activities resulted primarily from the repayment of bonds with interest and the partial repayment of the credit facility contracted by the Company.

Table 19. Selected items of the cash flow statement for the financial years 2019 and 2018 (PLN '000)

	01.01.2019- 31.12.2019	01.01.2018- 31.12.2018	Change	Change %
Net cash from operating activities	13 575	11 804	1 771	15%
Net cash from investing activities	12 135	1 196	10 939	915%
Net cash from financing activities	(39 474)	(7 454)	(32 020)	430%
Total net cash flows	(13 763)	5 546	(19 309)	(348%)
Closing balance of cash	1 987	15 750	(13 763)	(87%)

IV. 2. Asset and financial position of the Company

As at 31 December 2019, total assets amounted to PLN 206.0 million which represents a decrease by PLN 18.6 million (or - 8%) from 31 December 2018. The tables below present the key assets the Company and sources of their financing, as well as changes in these assets during the last financial year.

Table 20. Key assets as at the end of 2019 and 2018 and changes in these assets during the last financial year

ASSETS (PLN '000)	31.12.2019	31.12.2018	Change	Change %
Fixed assets including:	188 684	190 913	(2 229)	(1%)
Intangible assets	22 287	18 817	3 470	18%
Property plant and equipment	5 327	2 000	3 327	166%
Long-term financial assets	64 021	72 275	(8 254)	(11%)
Shares in subsidiaries	96 221	96 038	183	0%
Current assets including:	17 429	33 677	(16 248)	(48%)
Inventories	5 758	5 088	670	13%
Trade and other receivables	9 684	6 897	2 787	40%
Short-term financial assets	-	5 942	(5 942)	(100%)
Cash and cash equivalents	1 987	15 750	(13 763)	(87%)
TOTAL ASSETS	206 113	224 590	(18 477)	(8%)

As at 31 December 2019, total non-current assets amounted to PLN 188.7 million and accounted for 92% of total assets. The most significant components of this group of assets were shares in subsidiaries (51% of the balance of fixed assets), long-term financial assets (34%) and intangible assets (12%). Shares in subsidiaries included shares in Medi-Lynx (PLN 94.7 million), Medicalgorithmics Polska (PLN 1.3 million) and Medicalgorithmics India (PLN 0.2 million). Long-term financial assets comprised mainly loans granted to a subsidiary, MDG Holdco, to finance the purchase of equity interest in Medi-Lynx and provide working capital to the subsidiary (PLN 63.8 million). The main component of intangible assets is expenditure on development work (PLN 18.6 million) described in Note 12 to the Company's separate financial statements for 2019.

As at 31 December 2019, the balance of non-current assets remained at a similar level as at the end of 2018 (PLN -2.3 million, -1% y/y). Intangible assets increased by 18% y/y mainly due to higher costs of completed development works (PLN +2.6 million). The Company also reported a significant increase in property, plant and equipment, primarily due to the application of IFRS 16 "Leases" in 2019. As described in Note 2.5 to the separate financial statements for 2019, following the application of IFRS 16, the Company recognised right-of-use assets. They amounted to PLN 3.7 million as at the balance sheet date. Long-term financial assets decreased as a result of the sale of investment certificates in 2019 (PLN -5.9 million). Shares in subsidiaries increased due to the acquisition of 97% of shares in Algotel Solutions Private Limited (currently: Medicalgorithmics India Private Limited) in January 2019 and the injection of capital into the acquired subsidiary (PLN +0.2 million).

As at the end of 2019, current assets amounted to PLN 17.4 million and accounted for 8% of total assets. The most significant component of this group of assets were trade and other receivables, accounting for 56% of total current assets. Current assets decreased by PLN 16.3 million y/y (-48%) mainly on the back of a decrease in cash and cash equivalents (PLN 13.8 million, -87%) and short-term financial assets (PLN -5.9 million, -100%). The decrease in cash was mainly caused by the repayment of bonds issued by the Company together with interest. The decrease in short-term financial assets results from the sale of all investment certificates held by the Company on 11 April 2019. The effect of these changes was partially offset by an increase in trade and other receivables resulting chiefly from an increase in trade receivables from related parties (PLN +4.1 million).

Table 21. Key items of equity and liabilities as at the end of 2019 and 2018 and changes in these items during the last financial year

EQUITY AND LIABILITIES (PLN '000)	31.12.2019	31.12.2018	Change	Change %
Equity	183 674	167 080	16 594	10%
Long-term liabilities including:	16 505	2 728	13 778	505%
Credits and loans	9 698	-	9 698	100%
Liabilities arising from bonds and other financial liabilities	2 656	-	2 656	100%
Short-term liabilities including:	5 934	54 782	(48 849)	(89%)
Liabilities arising from bonds and other financial liabilities	1 042	50 472	(49 430)	(98%)
Trade and other liabilities	1 911	3 956	(2 046)	(52%)
Total liabilities	22 439	57 510	(35 071)	(61%)
TOTAL EQUITY AND LIABILITIES	206 113	224 590	(18 478)	(8%)

As at 31 December 2019, equity amounted to PLN 183.5 million (+10% y/y). The increase in equity was driven by the accumulation of profit earned in 2019 (PLN +16.6 million).

As at 31 December 2019, long-term liabilities came at PLN 16.5 million, having increased by PLN 13.8 million (+505%) year on year. This increase reflected primarily the contracting by the Company of a working capital facility of PLN 19 million in 2019 to partially finance the redemption of series A bearer bonds issued by the Company in 2016. The increase in long-term liabilities was also due to the fact that in 2019 the Company applied the new IFRS 16 "Leases", as a result of which long-term finance lease liabilities were recognized. They amounted to PLN 2.7 million as at the balance sheet date.

As at 31 December 2019, short-term liabilities stood at PLN 5.9 million, down by PLN 48.9 million y/y (-89%). The decrease was chiefly due to the redemption of all bonds issued by the Company on 21 April 2019 (PLN 50.4 million). Trade and other payables also decreased (PLN -2.0 million y/y), primarily due to lower payroll liabilities which comprised only a provision for employee benefits in 2019 (PLN 0.2 million).

IV. 3. Cash and financial assets

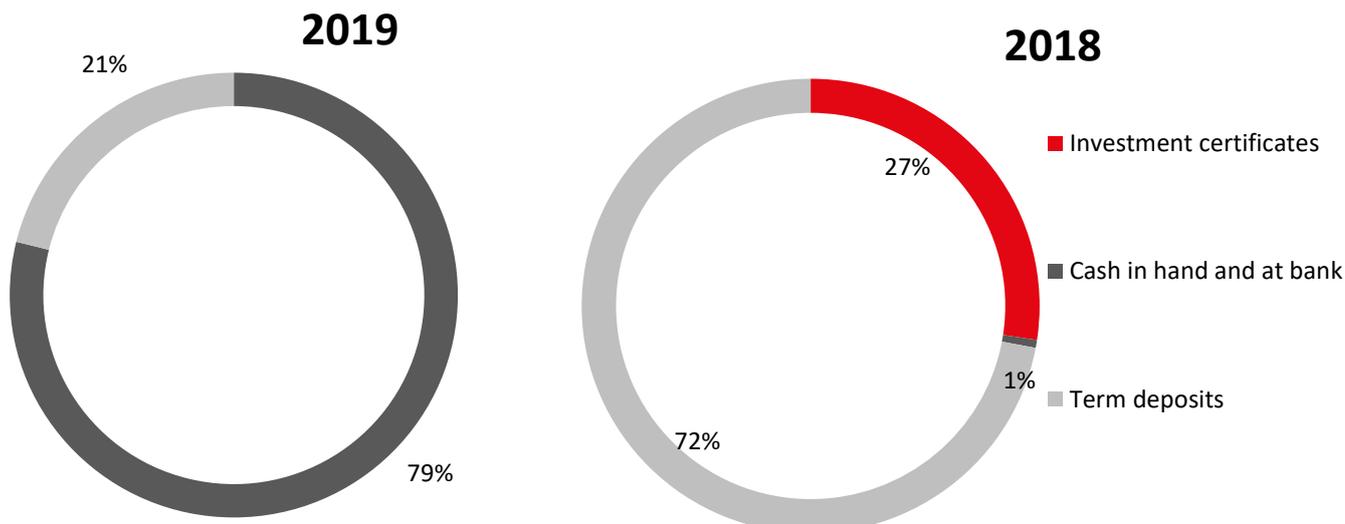
In 2019, the Company's cash declined by PLN 13.8 million (-87%) to PLN 2.0 million as at 31 December 2019. The change results primarily from negative cash flows from financing activities related to the repayment of the Company's financial liabilities. In 2019, the Company repaid the issued bonds covering the liability from its own funds, including funds from the sale of investment certificates with a total value of PLN 5.9 million, and using a credit facility of PLN 19 million.

The current financial position of the Company is safe. The Company's capital management policy is to maintain a capital base which ensures timely settlement of liabilities, preservation of confidence of capital market participants and future growth of the Company's business.

Table 22. Structure of the Company's cash and financial assets as at the end of 2019 and 2018 (PLN '000)

Financial assets	31.12.2019	31.12.2018	Change	Change %
Investment certificates – short-term	-	5 942	(5 942)	(100%)
Cash in hand	8	7	1	22%
Cash in bank accounts	1 558	115	1 443	1 255%
Term deposits	420	15 628	(15 208)	(97%)

Chart 10. Structure of cash and financial assets as at the end of 2019 and 2018



Credits and loans received

As at the end of 2019, Medicalgorithmics S.A. reported a liability on account of credits and loans in the amount of PLN 12,678 thousand, resulting primarily from the credit facility contracted by the Company with Bank Millennium S.A., in the amount of PLN 19,000 thousand. The facility was taken out to partially finance redemption of series A bearer bonds issued by the Company in 2016. For more information on the credit facility, see Note 21 to the separate financial statements for 2019.

Issue of shares

In the reporting period, the Company did not issue shares. After the balance sheet date, on 7 January 2020, the Extraordinary General Meeting resolved to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. On 20 January 2020, a decision was taken to launch the public offering through private placement. The bookbuilding process was carried out on 20-23 January 2020 and the share subscription agreements were executed by 29 January 2020. 721,303 Series G shares were issued at an issue price of PLN 18.25 per share. The total value of the issue was PLN 13,163,779.75. The capital increase was registered by the District Court for the capital city Warsaw in Warsaw on 6 April 2020. For more information on the share issue, see current reports 7/2020–15/2020 and 22/2020.

Issue and redemption of bonds

In 2016, the Company issued bonds with a nominal value of PLN 50,000 thousand and a maturity date of 21 April 2019. The purpose of the issue was to finance an investment in a subsidiary, Medi-Lynx. 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. For more information on the issue and redemption of bonds, see Note 23 to the separate financial statements for 2019.

Loans granted

In 2016, the Company granted loans to its subsidiary, MDG HoldCo, in the total amount of USD 11,700 thousand. The purpose of the loans was to finance the acquisition of shares in Medi-Lynx and to finance the subsidiary's operating activities. In 2017, the Company granted another loan to MDG HoldCo in the amount of USD 6,813 thousand. These funds were used to settle the liabilities towards AMI/Spectocor for the client base. For detailed information on loans granted, see Note 14 to the separate financial statements for 2019.

Sureties and financial guarantees granted and received

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 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 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 31 December 2019, the outstanding amount was USD 1,990 thousand. After the balance sheet date, an annex was signed, changing the date of repayment of the last instalment to 30 September 2020. As at the balance sheet date, interest accrued amounts to USD 100 thousand. Liabilities bear interest at a fixed interest rate.

In 2018, the Company 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 19,000 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.

V. Other material information on operations of the Issuer and the Capital Group

V. 1. Ongoing research and development projects

The Parent Company conducts a number of development works to improve the current version of the PocketECG system and works on new solutions in the area of heart rate monitoring. The key development projects for the Group are:

- PocketECG IV – fourth generation PocketECG system;
- PatchECG – a device enabling single-channel offline monitoring.
- PocketECG CRS – device and system for cardiac rehabilitation;
- PocketECG 12Ch – device and system for remote, instant resting 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 launch of PocketECG IV and PatchECG devices will be a priority in 2020. In the first quarter of 2020, the Group plans to update the existing device and its software to provide additional arrhythmia diagnostics service. Current programming work includes software changes to enable the use of PocketECG to provide an Extended Holter service which, as of 2020, has become an official medical procedure and is reimbursed by both public and private insurers in the US. Changes in the

software will extend the list of medical procedures that can be performed by the PocketECG system to four, thus completing the Company's portfolio. At the same time, intensive work is underway on the hardware layer of the device; the launch of a new device, incorporating 4G technology, is scheduled for the second quarter of 2020.

At the end of 2020, the Group intends to introduce the so-called PatchECG. This device will be limited to the analysis of one ECG channel and will be functionally focused mainly on ease of use while providing good quantitative data over 7-14 days. PatchECG will be complementary to the currently sold PocketECG and will provide a solution that is reimbursed in the US market. The decision to extend the portfolio to include PatchECG was made on the basis of the recommendation from the Advisory Councils - an advisory body in Medi-Lynx composed of opinion leaders in the US and in response to the needs of the US market, where competitors have patch-type devices in their portfolio. The expansion of the portfolio to include PatchECG will enable the Group to access medical facilities that want to cooperate with partners that offer both more advanced, albeit more expensive, diagnostics (in the form of online-based devices such as PocketECG) and simpler, although cheaper, offline diagnostics in the form of a patch.

PocketECG CRS enables a patient to do prescribed exercises both in a medical facility, where the initial phase of rehabilitation takes place, and later at home. Among telerehabilitation devices (i.e. devices for rehabilitation outside a medical facility via remote communication), PocketECG CRS is a technological pioneer. It enables full patient ECG and life parameter (e.g. heart rate) recording during each rehabilitation training. The product is currently undergoing pilot tests in facilities in Poland and abroad. The PocketECG CRS was cleared by the Food and Drug Administration (FDA) under the procedure 510(k). Following FDA's approval, the Company will soon initiate actions to commercialise the new system in the U.S. On 31 July 2019, the product was also approved on the Canadian market, and pilot tests are currently underway. After their completion and introduction of changes, if any, talks on the commercialization of the system will be undertaken.

As regards PocketECG 12Ch – The product is at an advanced stage of development; the work was suspended at the stage of the YOKE prototype. In the course of the work, it turned out to be crucial to develop an advanced algorithm in the form of Techbot, which will enable the collection and correct analysis of data from 12 channels. Work on PocketECG will resume after the completion of the Techbot project and the development of an LTE-enabled device, and is expected to be completed by the end of 2022. In the opinion of the Management Board, development works will be completed and will produce the expected economic effects.

As part of the ECG Techbot project, the research team continued work on a set of algorithms for automatic analysis and interpretation of ECG signal (algorithms for rhythm analysis, classification of morphology, detection of waves). The ECG TechBot project is supposed to enable to fully automate the process of verification of ECG test analysis and interpretation. The set of developed algorithms will enable to verify the analysis of cardiac rhythm and morphology classification. This will reduce the risk of human errors in ECG signal analysis verification and optimize the monitoring center operation. The system will be the first product in the world to provide real-time analysis results which do not require specialist verification and interpretation of an ECG record. The project is currently at an advanced stage of industrial testing. An arrhythmia recognition algorithm has been developed which is significantly better than the previous version of algorithms used in PocketECG III. Further development of the arrhythmia recognition algorithm and QRS detector is underway.

The PocketECG IV, PatchECG, PocketECG CRS and PocketECG 12Ch projects are financed from own funds. In 2020, the funds raised from the issue of Series G Shares in the Parent Company will also be employed. 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. The commercialization of PocketECG IV and PatchECG is scheduled for 2020. In the first phase, both products will be marketed exclusively in the United States. 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.

The table below presents the structure of expenditure on development work in progress. Changes in the balance of expenditure on development work in progress are also presented in Note 15 to the consolidated financial statements of the Medicalgorithmics Capital Group for 2019.

Table 23. Structure of expenditure on development works in progress at the end of 2019 and 2018 (PLN '000)

	31.12.2019	31.12.2018	Change	Change %
Salaries including overheads	12 780	11 876	904	8%
Other	5 894	5 912	(18)	(0%)
TOTAL:	18 674	17 788	886	5%

V. 2. Other investments in Poland and abroad

The Capital Group is currently not engaged in any investment projects other than those described in this report.

V. 3. Factors and events, especially non-recurring ones, with material bearing on financial performance

In the reporting period, there were no events, other than those described in Sections III - IV which had a material bearing on operations of the Issuer and the Capital Group and the consolidated financial statements for 2019.

V. 4. Material court, arbitration and administrative proceedings

In the period covered by this report, no proceedings were pending before a court, an arbitration body or a public administration authority concerning the Parent Company's liabilities or claims with a value equal to or higher than 10% of the Company's equity. No proceedings were also pending before a court, an arbitration body or a public administration authority concerning liabilities or claims of other Group companies with a value equal to or higher than 10% of the Group's equity.

V. 5. Related party transactions

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

Transactions with Members of the Parent Company's Management Board and Supervisory Board are described in Sections I.8 and I.9 of this report.

Transactions with related parties of the Parent Company have been discussed in detail in Note 28 to the financial statements of Medicalgorithmics S.A. for 2019.

Shareholders (as related entities)

No decision on dividend payment was made in the financial year. In the comparative period, the Company paid out a dividend from the 2017 profit. 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.

V. 6. The Management Board's position regarding the possibility of achieving forecasts

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

V. 7. Information on factors which, in the Issuer's opinion, will affect its performance during at least the next year

In the opinion of the Management Board, effects of the SARS-COV-2 pandemic and related regulatory activities to counteract the spread of the virus will reduce the Group's revenues and will result in worse financial results of the Capital Group in 2020. The expected decrease in revenues mainly concerns the US market and will be caused primarily by a decrease in the number

of patients using ECG tests using PocketECG technology which will consequently reduce the number of applications for payment from insurers. As reported in current report no. 27/2020, Medi-Lynx reports a decrease in the number of ECG monitoring sessions initiated on the US market. From March 16, 2020 to April 12, 2020 (equivalent to the following weeks of the year from 12 to 15), the Company recorded a 43% decrease in the number of monitoring sessions started compared to the same period last year. At the same time, the Management Board predicts that this negative trend may be sustained in the coming weeks. A change in the number of ECG monitoring sessions initiated will affect the number of applications for payment from insurers, while a reliable assessment of the situation will be possible only after obtaining information on the number of applications for payment from insurers in the following months.

In the opinion of the Management Board, the decrease in the number of ECG monitoring sessions started is temporary, and the actions taken by companies from the Medicalgorithmics group are aimed at reducing the threat associated with a temporary decline in revenues, while maintaining the ability of companies to quickly restore their original potential.

At the same time, the Company's Management Board underlines that the unusual nature of the current situation, as well as its dynamic development, including the introduction of regulatory regulations, it is currently impossible to determine the actual impact of the situation on the future functioning of the market, including the functioning of the entire Capital Group, including The Company, and its future financial results.

In the opinion of the Management Board, another important factor contributing to the Group's performance over the next year is the implementation of objectives of the business model. As mentioned in part II of this report, the Group is in the process of entering into contracts with insurers. As previously assumed, the process of changing the business model translated into lower average examination rates and lower revenue for the Group. In the long run, after pandemic period, the Group expects the new model to have a positive impact on its financial performance. The new model means lower rates for services, but allows to increase the volume because it makes it much easier for customers to cooperate with the Group. However, it should be emphasized that there is a risk that despite the measures taken, the Management Board's projections will not met and the sales volume will not increase. This risk is significantly affected by the current coronavirus epidemic.

Moreover, there are also certain other factors, both internal and external, that will directly or indirectly affect the Group's financial results in the next year. The most important of them include:

- revision of medical examinations prices and payments for the procedure received from "in-network" insurers by the subsidiary, Medi-Lynx;
- decrease in average amount of payments received for Medi-Lynx services used in settlements with "out-of-network" insurers;
- 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.

V. 8. Prospects for the development of the Capital Group's operations in the upcoming year

The objective of the Parent Company and Group companies is to ensure a long-term increase in the company's value. For this reason, the Management Board is committed to ensuring further development that will strengthen Group's position among the leading providers of state-of-the-art cardiac telemetry technologies, not only in the United States, but also in other countries around the world. The Group pursues its business objective by improving its own products and services in the field of telemedicine technologies, researching and searching for new directions of the Group's development, developing new algorithms and products (services) and acquiring new customers in the existing and new markets.

Undoubtedly, the biggest challenge of the coming months will be to lead the Group through the turbulence period caused by the coronavirus epidemic, so that after it ceases to be able to return to the path of business development. Simultaneously The Management Board intends to continue the process of changing the business model of the subsidiary, Medi-Lynx, consisting in signing long-term service contracts directly with key private insurers ("in-network" contracts). The Group assumes that if this goal is achieved, although it will result in lower reimbursement rates for a single service, the Group will secure access to new clients and, as a consequence, significantly increase the sales volume. In 2019, several contracts were signed with large insurers covering the entire United States. The second phase of the process, i.e. signing contracts with

smaller, regional and local insurers, has now begun. By the end of the first quarter of 2020, the Group intends to have contracts covering 75% of the insured persons, and by the end of 2020 – 92%. The Group also plans to continue a comprehensive information and image campaign of the PocketECG system as part of its business development in the United States, including participation in industry conferences, publications in the specialist press and numerous sales initiatives via social media.

In order to expand and strengthen its market position on other markets, the Parent Company plans to conclude agreements with new business partners and further expand its cooperation with existing customers. In 2020, the Parent Company also intends to continue its efforts to create reimbursement codes for the long-term arrhythmia monitoring service in German-speaking countries and the Benelux. The Management Board expects that business initiatives undertaken in 2019 in this region will translate into sales in the second half of 2020. The Company is also engaged in business development activities in South-East Asia, the Middle East and South Korea. In addition, by acquiring shares in an Indian company, the Group has secured access to this prospective multi-million dollar market.

Moreover, the Group will implement research and development projects to improve the current version of the PocketECG system and has been working on new solutions in the area of heart rate monitoring, including a 1-channel heart rate monitoring device, a hybrid cardiac telerehabilitation system and a system for remote, immediate ECG description. For more information on the products developed, see Section V.1. hereof.

V. 9. Assessment of the feasibility of investment plans

In 2019, following the review of options available to the Company, the Company decided to raise capital through an issue of shares on the Warsaw Stock Exchange. In the opinion of the Management Board, taking into account the directions of development of the Company's business, as well as the interest of shareholders, raising capital will enable the subsidiary, Medi-Lynx, to continue the process of changing the business model to the "in-network" model, and that will also enable the Group to conduct research and development work on new products and maintain an optimal level of working capital. In the first quarter of 2020, steps were taken to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. 721,303 Series G shares were issued at an issue price of PLN 18.25 per share. The total value of the issue was PLN 13.2 million (for more information on the share issue, see current reports 7/2020–15/2020).

As at the publication date, the Capital Group and the Parent Company have the ability to finance the ongoing investment projects using own funds and proceeds from the aforementioned issue. However, the Management Board of the Parent Company emphasizes the factors and risks listed in Sections V.7 and VI of this report which, in the case of materialization, may affect ability to implement the investment plans.

V. 10. Information on sources of supply and markets

When manufacturing the PocketECG system, the Company uses a number of suppliers of electronic components and sub-assemblies. Sources of supply are diversified, however the Group is constantly establishing new business contacts with potential suppliers. There was no single counterparty whose supplies accounted for more than 10% of the Company's net sales revenue.

V. 11. Other agreements significant to the Group's business

The Capital Group and the Parent Company did not execute any agreements significant for their operations other than those mentioned above.

The Capital Group and the Parent Company did not execute any agreements in the reporting period or after the balance sheet date that could result in a change in the shareholder structure of the Parent Company.

On 7 January 2020, the Extraordinary General Meeting resolved to increase the share capital of the Company through the issue of new Series G ordinary bearer shares. On 20 January 2020, a decision was taken to launch the public offering through private placement. The bookbuilding process was carried out on 20-23 January 2020 and the share subscription agreements were executed by 29 January 2020. 721,303 Series G shares were issued at an issue price of PLN 18.25 per share. The total value of the issue was PLN 13,163,779.75. The capital increase was registered by the District Court for the capital city Warsaw in Warsaw on 6 April 2020. For more information on the share issue, see current reports 7/2020–15/2020 and 22/2020.

V. 12. Information on any retirement and similar benefit obligations

Due to their immateriality, the Group does not recognize provisions for retirement severance pays and jubilee awards.

VI. Description of material risk factors and risk management methods

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

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

The Management Board of the Parent Company is responsible for establishing and supervising the risk management by the Capital Group. The Capital Group's risk management policy is to identify and analyse the risks to which the Capital Group is exposed, to set appropriate limits and controls, and to monitor the risk and the extent of matching the limits to the risk.

The risk management policies and systems are reviewed on a regular basis to take account of changes in the market environment and the Capital Group's business. Using such tools as training, management standards and procedures, the Capital Group seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

Operational risk

Risk associated with strategic objectives

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

Risk associated with technical breakdowns and technology development

The Group is exposed to the risk of failure of software, electronic equipment and ICT infrastructure. Frequent technical problems could induce customers (medical centres and electrophysiologists) to use competitive solutions. The Group is also exposed to errors caused by inappropriate data integration and cyber-attacks, which may affect the Group's operations and financial performance.

The Group's business is highly dependent on specialist ICT systems and technologies and the Group should ensure continuous development of the technology employed in order to remain competitive on the market. The risk of failure to adapt the Company's product to the changing technological conditions, including the LTE bands, may prevent the planned expansion on global markets.

Risk of customer concentration

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

Risk associated with product concentration

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

Risk associated with key employees

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

Risk associated with suppliers

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

Risk of delays to the Group's deliveries

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

Risk of failure to obtain or retain approvals

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

Risk associated with industry development and competition

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

Risk of force majeure

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

Risk associated with SARS-CoV-2

The global economy is currently experiencing the negative impact of the SARS-CoV-2 virus spread. The effects of the SARS-CoV-2 pandemic and related regulatory activities to counteract the spread of the virus will significantly reduce revenues and will result in worse financial results of the Capital Group in 2020. The expected decrease in revenues mainly concerns the US market and will be caused primarily by a decrease in the number of patients using ECG tests using PocketECG technology, which in turn will result in a decrease in the number of applications for payment from insurers. In the opinion of the Management Board, the decrease will be of a temporary nature, and the actions taken by the companies from the Medicalgorithmics group will allow to mitigate the risk associated with a temporary decrease in revenues, while maintaining the ability of companies to quickly restore their original potential. However, taking into account the atypicality of the current

situation and its dynamic development, it is currently impossible to fully determine the actual impact of the existing situation on the future functioning of the market, including the functioning of the entire Capital Group and its future financial results.

Information on the impact of the SARS-CoV-2 pandemic on the Group's operations and the remedial actions taken are described in note 33 to the consolidated financial statements.

Financial risk

Below is a summary of financial risks. For a more detailed description of financial risk management methods and sensitivity analysis, see Note 25 to the consolidated financial statements for 2018 and Note 24 to the financial statements of Medicalgorithmics S.A. for 2019.

Liquidity risk

The Group is exposed to liquidity risk understood as loss of the ability to settle liabilities on time or to acquire funds for financing operations. In particular, this risk is associated with the settlement of trade liabilities, liabilities to public authorities and financial liabilities. In part, the Group finances its assets with borrowed capital – credit facility and promissory notes. There is a risk that the Group will experience economic difficulties and will not be able to repay the promissory note or credit facility.

Credit risk

The Group is exposed to the risk of financial loss in a situation where a customer or counterparty fails to meet its contractual obligations. Credit risk to which the Group is exposed is primarily related to a significant concentration of receivables. Recipients of services provided by the Capital Group are dispersed – they include primarily hospitals, hospital networks, clinics, doctors, doctors' groups. The payers, on the other hand, are the insurers who constitute a less numerous group. Following the transition to the "in-network" model and the signing of contracts with insurers, the Group has reduced its credit risk as this model allows for more efficient collection of receivables.

Risk associated with the macroeconomic situation

The Group's operations depend on the macroeconomic situation in the markets where products and services are or will be distributed and provided, including primarily in the United States. The effectiveness, and in particular the profitability of the Group's business depends, among other things, on the economic growth rate, fiscal and monetary policy, the level of inflation and the level of health care expenditures in these countries. All these factors indirectly affect the Group's revenue and financial performance and may also affect the implementation of the Group's growth strategy.

In the current situation of the SARS-CoV-2 pandemic, the global economic outlook has clearly deteriorated. Actions implemented by many countries to prevent the further spread of SARS-CoV-2, including restrictions on the functioning of the service sector, as well as deterioration of moods and change in attitudes of consumers and companies have contributed to the weakening of current activity in many economies. Unemployment is expected to increase and other adverse phenomena such as payment gridlocks or an increasing number of failing enterprises are expected to occur. All these factors may have a negative impact on the results achieved by the Group. The companies of the Capital Group try to monitor the impact of the global situation on the markets in which they operate and, as far as possible, adapt their operations to the changing situation.

Currency risk

The Group is exposed to currency risk related primarily to changes in the USD/PLN exchange rate. The Group reports its financial figures in PLN, whereas the majority of transactions are concluded by the Group in USD. Fluctuations in currency exchange rates primarily affect changes in the value of the Group's revenue and receivables, translated into PLN. Thus there is a risk of the Polish correctly strengthening, which will result in a decrease in margins generated on sales by the Polish company. The impact of exchange rate fluctuations on profit or loss is naturally partly offset by the fact that approximately 79% of costs are incurred in USD. The Group does not hedge its open currency positions.

Risk of changes in the structure of examinations prescribed by physicians

Medi-Lynx offers different types of examinations based on the PocketECG system. The Group has no influence on the structure of the examinations performed; in the event of unfavourable changes - i.e. a decrease in the volume of high-value examinations in favour of examinations with the lowest value of reimbursement, the average examination rate and thus the Group's revenue will decrease. Due to the dynamically developing medical services market in the United States, changes in physicians' preferences concerning methods of diagnosing patients may significantly affect the Group's revenue.

Risk of terminating or reducing reimbursements

Amongst others, the Group distributes its products in public health care systems and collaborates with a number of private insurers.

If one of the key insurers were to stop reimbursing the medical procedure provided by the Group or significantly reduce the reimbursement rates, this change could have a material adverse effect on the Group's operating results. In addition, consolidation processes in the private insurer market and, as a result, their growing bargaining power may also lead to lower levels of reimbursement of services than those currently applied. The model of cooperation between Medi-Lynx and private insurers with whom long term "out-of-network" contracts are not signed also remains a risk factor. The growing negotiating position of insurers, aided by changing regulations causes an ever growing price and legal pressure on suppliers of medical services without "out-of-network" agreements and may translate into the obtained rates for tests and the possibility of acquiring new customers.

Legal risk

Risk associated with liability for the product introduces to trade

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

The Group holds third party liability insurance in connection with its operations, purchased from a reputable insurance company and comprising a product liability insurance policy with a high sum insured and a worldwide coverage.

Risk associated with key agreements

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

Risk associated with the protection of intellectual property and company secrets

The Group's operations and its competitive position rely on ensuring comprehensive protection of the uniqueness of technical solutions introduced to the market in subsequent generations of the Company's products. There is a risk that competitors may market devices that use protected technical solutions implemented by the Company, as well as a risk that the Company's software copyrights may be infringed. The above potential infringements of the Company's intellectual property rights may require the Company to undertake legal measures and incur the related costs. Wherein there is no guarantee for the Company that such actions will be successful.

Risk associated with personal data processing

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

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

The observed and expected changes to the provisions of law, and in particular applicable to business activities, labor law and social insurance, medical law and health care system law, personal data protection law, commercial law may be heading in a direction which causes the occurrence of negative consequences for the Group's operations. New legal regulations may entail interpretation problems, inconsistent court rulings, unfavorable interpretations adopted by public administration bodies, lack of cohesion between Polish and EU body of rulings. This risk exists in a particular manner within the scope of tax

law, due to the high impact of regulations and the manner for their interpretation within this scope on the Company's financial situation. The planned and possible changes in the regulations governing the introduction of medical devices to the market and the financing of medical services in the Group's target markets remain a significant source of risk. Some amendments to existing legislation could significantly hinder or even reduce the scale of business.

Also regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo relatively frequent changes, often resulting in the absence of any established regulations or legal precedents for reference.

In addition, the tax authorities are authorized to inspect the books and accounting records of the Group. There is a risk that additional financial charges may be imposed on the Group together with interest and other penalties.

VII. Statement of compliance with corporate governance standards

VII. 1. Corporate governance rules applied in the Parent Company

Medicalgorithmics S.A. accepted the corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies, adopted by the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 by way of resolution No 26/1413/2015, as of the date of admission of the Company's shares to trading on the regulated market. The Code of Best Practice for WSE Listed Companies is available on the WSE website (<http://www.gpw.pl>) under the WSE-listed companies corporate governance tab.

In 2019, Medicalgorithmics S.A. observed all corporate governance rules included in the Code of Best Practice, except for those listed below.

In 2019, the Company did not comply (in whole or in part) with the following provisions of the Code of Best Practice:

- as regards recommendations: VI.R.1.
- as regards detailed rules: I.Z.1.15, II.Z.2., IV.Z.5., V.Z.6., VI.Z.4.

In 2019, the following provisions of the Code of Best Practice did not apply to the Company:

- as regards recommendations: I.R.2., IV.R.2, IV.R.3., VI.R.2,
- as regards detailed rules: I.Z.1.10, I.Z.1.16, III.Z.2., III.Z.4., IV.Z.2., VI.Z.1., VI.Z.2.

The justification for refraining from application, in whole or in part, of the aforementioned recommendations and detailed rules is provided below:

I. Disclosure Policy, Investor Communications

I.R.2. Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.

The recommendation did not apply due to the fact that the Parent Company is not engaged in any sponsorship, charitable or similar activities.

I.Z.1.10. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation.

This principle is not applicable. The Parent Company has not decided to publish financial projections.

I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the reporting and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;

The Parent Company refrained from the application of this rule. Pursuant to the Parent Company's Articles of Association, members of the Management Board are appointed by the Supervisory Board, whereas members of the Supervisory Board

are appointed by the General Shareholders' Meeting. Information on qualifications and professional experience of the persons appointed to the Management and Supervisory Boards is published in current reports and on the Parent Company's website. At the same time, the Parent Company informs that no formal diversity policy has been prepared in the form of a single document or adopted.

Nevertheless, the Management Board of the Parent Company, being aware of the importance and need to ensure diversity with respect to all employees of the Parent Company, guided by the belief that such an approach has a significant impact on the effectiveness of the entire business and on building the company's position, both in the opinion of its customers, employees and other stakeholders, follows the best practices in its day-to-day operations and decisions and, above all, naturally focuses on:

- a) applying the principles of equal treatment in the workplace, which means non-discrimination in any way whatsoever, either directly or indirectly, on the basis of gender, age, education, colour, religion, non-religiousness, political views, citizenship, nationality, ethnic origin, sexual orientation, gender identity, marital status, family status, lifestyle, health, disability, and the form, extent and basis of employment and the circumstances giving rise to discrimination;
- b) being guided by objective substantive criteria and professionalism in the selection of employees for various job functions within the organization;
- c) building diverse teams to enable their members to have a broader perspective in the process of solving problems, increased creativity, improved working atmosphere and, as a result, to ensure the transfer of knowledge and innovation;
- d) treating employees with due dignity and respect as well as respecting and appreciating individual differences between team members so that each person employed can use his/her personal potential to contribute to the development of the Parent Company as a whole and its individual products;
- e) creating a working environment with an atmosphere of dialogue, openness, tolerance and teamwork;
- f) strengthening the corporate culture based on the mission implemented and values elaborated by the Parent Company, so that it supports a proactive attitude, self-confidence and belief that everything depends on us and on the relations between us;
- g) enabling work/life balance through flexible working time, ad-hoc home working, the possibility to leave work in case of emergencies, trouble-free emergency leave.

I.Z.1.16. Information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting;

This principle is not applicable. The Parent Company does not broadcast general meetings.

II. Management Board, Supervisory Board

II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

The Parent Company refrained from the application of this rule. Serving as members of management boards or supervisory boards of companies not belonging to the Capital Group by members of the Company's Management Board depends on the criterion of competitiveness of such companies in relation to the Capital Group. The Parent Company has considered generally applicable legal regulations in this respect as sufficient.

III. Internal Systems and Functions

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

This principle is not applicable. The Parent Company did not have a separate function of the person responsible for risk management, internal audit and compliance. This is justified due to the size and business profile of the Parent Company. However, in view of the current European and national legislation, the Parent Company will consider the possibility of appointing individuals responsible for the aforementioned functions.

III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

This principle is not applicable. The Parent Company did not have a separate function of the person responsible for internal audit. The Management Board presents the Supervisory Board with an appropriate assessment on an ongoing basis. However, such an assessment is not a formal report.

IV. General Meeting, Shareholder Relations

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through: 1) real-time broadcast of the general meeting, 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the venue of the general meeting; 3) exercise the right to vote during a general meeting either in person or through a proxy.

This recommendation is not applicable. Due to the current shareholding structure and for economic reasons, the Parent Company does not hold general meetings using electronic communication means. To the best of the Parent Company's knowledge, the current formula of organization of the general meeting meets the shareholders' expectations and enables proper and effective execution of rights attached to shares. The Parent Company will consider holding general meetings using electronic means of communication if it becomes aware of such expectations of a wider group of shareholders.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

This recommendation is not applicable, as the Parent Company does not issue securities outside Poland.

IV.Z.2. If this is justified by the shareholder structure of the Company, the Company ensures a generally available real-time broadcast of the proceedings of the general meeting of shareholders.

This principle is not applicable. Due to the current shareholding structure and for economic reasons, the Parent Company does not hold general meetings using electronic communication means. To the best of the Parent Company's knowledge, the current formula of organization of the general meeting meets the shareholders' expectations and enables proper and effective execution of rights attached to shares. The Parent Company will consider holding general meetings using electronic means of communication if it becomes aware of such expectations of a wider group of shareholders.

IV.Z.5. The rules of general meetings and the method of conducting the meeting and adopting resolutions must not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules of the general meeting should take effect at the earliest as of the next general meeting.

The Parent Company refrained partially from the application of this rule, as the Parent Company did not adopt any regulations of the General Meeting. This principle is applicable to other aspects, i.e. to the extent to which it relates to the manner of conducting the meeting and adopting resolutions.

V. Conflict of interest, related-party transactions

V.Z.6. In its internal regulations, the Company determines criteria and circumstances, which may lead to the conflict of interest in the Company, and the rules of conduct, if the conflict of interest occurs or is likely to occur.

The Parent Company refrained from the application of this rule. The Parent Company has not introduced any specific internal regulations concerning the resolution of conflicts of interest, considering generally applicable legal regulations in this respect as sufficient.

VI. Remuneration

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

The Parent Company refrained from the application of this rule. Remuneration of members of the Management Board and the Supervisory Board is determined, respectively, by the Supervisory Board and the General Meeting. The Management Board of the Parent Company has no impact on the introduction of regulations in this respect. The remuneration policy for members of the management board and key managers results from the Parent Company's practice, however, it has not been adopted in the form of a binding document. In connection with the amendment of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies and Certain Other Acts and the entry into force on 30 November 2019 of the provisions imposing an obligation on public companies to develop a remuneration policy for members of their management and supervisory boards by 30 June 2020, the Parent Company intends to adopt a remuneration policy by that date.

VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The recommendation is not applicable, as the Parent Company currently does not have a formalized remuneration policy for members of the Company's governing bodies and key managers. The Company will take this principle into account when adopting its remuneration policy.

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

This principle is not applicable. In its resolution No 2/06/2019 of 26 June 2019, the Ordinary General Meeting repealed the incentive scheme introduced in the Company in 2016 due to the inability to meet one of the financial criteria of the scheme concerning the EPS ratio (non-market condition) in the specified periods of the scheme, of which the Management Board notified in the Company's financial statements for 2018.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

This principle is not applicable. This is a consequence of the fact that the existing incentive scheme for the managerial staff and key employees was repealed by resolution of the Ordinary General Meeting No 2/06/2019 of 26 June 2019 for the reasons indicated in VI.Z.1 above.

VI.Z.4. In this directors' report, the company should report on the remuneration policy including at least the following:

1. general information about the company's remuneration system;
2. information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3. information about non-financial remuneration components due to each management board member and key manager;
4. significant amendments of the remuneration policy in the last financial year or information about their absence;
5. assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The Parent Company refrained partially from the application of this rule. The Directors' Report on the operations of the Parent Company and the Capital Group in 2019 will disclose the remuneration of each Member of the Company's Management Board. The remuneration policy for members of the management board results from the Parent Company's practice, however, it has not been adopted in the form of a binding document of a remuneration policy. In connection with the amendment of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies and Certain Other Acts and the entry into force on 30 November 2019 of the provisions

imposing an obligation on public companies to develop a remuneration policy for members of their management and supervisory boards by 30 June 2020, the Parent Company intends to adopt a formalised remuneration policy by that date.

VII. 2. Key features of the Capital Group's internal control and risk management systems used in the preparation of separate and consolidated financial statements

The Management Boards of the Capital Group companies are responsible for internal control and risk management systems and their efficiency with respect to the process of preparing financial statements. The internal control system and risk management in this respect is based on the identification and assessment of risk areas accompanied by defining and taking actions aimed at minimising or eliminating them.

The internal control system at the Capital Group helps to ensure the fulfilment of the Group's tasks, as well as the achievement of long-term profitability objectives and also helps to maintain the reliability of financial reporting. It comprises a number of controls, responsibilities and the identification and assessment of risks that may adversely affect the achievement of the Capital Group's objectives. In organizational terms, the internal control system comprises functional control performed by the Management Board, managers of units and employees in accordance with their responsibilities.

In order to ensure the effective operation of the Parent Company's internal control system and risk management in the financial reporting process, the Management Board of the Parent Company has adopted and approved an accounting policy for Medicalgorithmics S.A. that complies with the International Financial Reporting Standards and is updated on an ongoing basis to reflect new regulations.

The flow of information within the Capital Group is strictly controlled in order to prepare up-to-date, reliable and complete financial statements drawn up in a reliable manner, on the basis of accounting regulations and policies. The keeping of the accounting books of the Capital Group companies in 2019 and preparation of the financial statements was entrusted to an experienced accounting firms, which apply their own control systems for the process of preparing financial statements.

The accounting books are kept in an IT system which ensures a clear division of competences, coherence of accounting records and control between ledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The IT systems are adapted on an ongoing basis to the changing accounting policies or other legal standards, which allows for high flexibility of functionalities.

The systems are protected against unauthorized access with passwords and function-based access control. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

The process of preparing the separate financial statements of the Capital Group companies is carried out in close cooperation with the financial department of the Parent Company which reports directly to the Management Board of the Parent Company. Both in the Capital Group companies and in the entities responsible for keeping the Group companies' accounting books, there are a number of principles concerning the system of control, identification and assessment of risk inherent in the Group's operations, including the principle of making accounting records based only on properly drawn up and accepted documents, or checking these documents in formal, accounting and substantive terms. The information flow between the Group companies and the entities responsible for keeping the accounting books is also controlled.

Substantive control over the preparation of the consolidated financial statements is exercised by the Management Board of the Parent Company which approves quarterly, semi-annual and annual financial statements before their publication. Annual and semi-annual financial statements are audited/reviewed by an independent statutory auditor selected by the Supervisory Board of Medicalgorithmics S.A.

VII. 3. Shareholders of the Parent Company and their rights

The ownership structure of major holdings of shares in the Parent Company as at the date of publication of this report is presented in Section I.5.

All the Parent Company's shares are ordinary, bearer shares with no special control rights. The Articles of Association of Medicalgorithmics S.A. do not provide for any limitations on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, time limits for exercising voting rights or provisions according to which the rights

attaching to securities are separated from the holding of such securities. As at the date of this report, there are no restrictions on the transferability of ownership rights to the Parent Company's shares, except for lock-up clauses entered into with an entity that acquired 151 thousand series F shares issued in 2016, i.e. Medi-Lynx Monitoring, Inc. Until 30 March 2018, these shares could not be disposed of, including through sale, pledge, swaps or other similar transactions. This restriction applied to a block of 50% of shares covered by the lock-up agreement until 30 March 2019, and to 25% of those shares until 30 March 2020.

VII. 4. General Meeting

The General Meeting of Medicalgorithmics S.A. is the supreme governing body of the Parent Company. The general meetings can be either ordinary or extraordinary, based on generally applicable regulations and the Articles of Association of Medicalgorithmics S.A., which are available on the Parent Company's website.

In particular, the General Meeting has the authority to:

- review and approve the Directors' Report on the Parent Company's operations and the financial statements for the previous financial year;
- appoint and dismiss the Chairman, Vice-Chairman and members of the Supervisory Board;
- grant discharge to members of the Management Board and Supervisory Board in respect of their performance of duties;
- increase and decrease the share capital;
- adopt resolutions on distribution of profit or coverage of loss;
- create and reverse capital reserves;
- determine the rules of remuneration of the Supervisory Board members;
- amend the Parent Company's Articles of Association;
- consider issues submitted to it by the Supervisory Board, Management Board or Shareholders;
- adopt resolutions on dissolution, liquidation or merger of the Parent Company;
- appoint liquidators;
- issue bonds convertible to shares and bonds with pre-emptive rights;
- issue subscription warrants;
- adopt the rules of Procedure for the Parent Company's Supervisory Board;
- determine the date on which the list of Shareholders entitled to dividend for the financial year in question (the dividend record date) and the dividend payment date are established.

The Parent Company's shareholders exercise their rights in accordance with the generally applicable regulations and the Articles of Association of Medicalgorithmics S.A.

Any amendment to the Parent Company's Articles of Association requires a relevant resolution of the General Meeting adopted by a majority of three-fourths of the total vote, and an entry in the National Court Register of a constitutive nature. Amendments to the Articles of Association of Medicalgorithmics S.A. are made by the General Meeting in compliance with applicable laws and regulations, in the manner and form prescribed by the Commercial Companies Code.

VII. 5. Management Board of the Parent Company

The Management Board, chaired by the President of the Management Board, manages the Parent Company and represents it before third parties. As of the date of publication of this report, two members of the Management Board acting jointly or a member of the Management Board acting together with a commercial proxy are authorised to represent the Parent Company. In the period from 1 January 2019 to 6 February 2020, each member of the Management Board was authorised to represent the Parent Company independently. Moreover, the Management Board shall have the right to appoint commercial proxies with the Supervisory Board's consent. No commercial proxy has been appointed.

The Supervisory Board operates pursuant to generally applicable laws, and the Articles of Association of Medicalgorithmics S.A. All matters relating to the management of the Parent Company's affairs which are not reserved under the law or the Articles of Association for the General Meeting or the Supervisory Board, fall within the scope of powers and responsibilities of the Management Board. The power of the Management Board to make decisions to issue or buy back shares is limited by virtue of the Articles of Association. Pursuant to § 14(5) of the Articles of Association of Medicalgorithmics S.A., a resolution of the General Meeting is required to increase the share capital and issue shares. Unless stipulated otherwise in mandatory

provisions of law, the Management Board decides on all matters connected with a share capital increase within the limits of the authorized share capital.

As at the date of this report, the Parent Company's Management Board is composed of 2–5 members appointed for a five-year term of office. In the period from 1 January 2019 to 6 February 2020 (date of entry of amendments to the Parent Company's Articles of Association in the Register of Entrepreneurs of the National Court Register), the Parent Company's Management Board was composed of 1–3 members appointed for a five-year term of office. The composition of the Management Board is determined by the Supervisory Board which appoints and dismisses its members.

The changes that have been in force since 6 February 2020 (date of entry of amendments to the Parent Company's Articles of Association in the Register of Entrepreneurs of the National Court Register) result from the adoption by the Extraordinary General Meeting of Shareholders of Medicalgorithmics SA on 7 January 2020 of Resolution No 5/01/2020 to amend the Company's Articles of Association as regards the composition and rules of representation of the Company. The resolution is attached to Current Report No 2/2020 of 7 January 2020 published on the website of Medicalgorithmics S.A.

As at the date of publication of this report, the Company's Management Board consisted of:

Marek Dziubiński	-	President of the Management Board
Maksymilian Sztandera	-	Chief Financial Officer
Peter Gregory Pellerito	-	Member of the Management Board

On 22 July 2019, Mr Maksymilian Sztandera was appointed to the Management Board of the Parent Company pursuant to Resolution No 26 of the Supervisory Board of Medicalgorithmics S.A. on appointment of a Member of the Management Board – Chief Financial Officer. Mr Peter Gregory Pellerito was appointed Member of the Management Board of the Parent Company by Resolution No 2/2020 of the Supervisory Board of Medicalgorithmics S.A. of 21 January 2020.

VII. 6. Supervisory Board of the Parent Company

The Supervisory Board of Medicalgorithmics S.A. exercises ongoing supervision of the Parent Company's operations. The Supervisory Board operates pursuant to generally applicable laws, and the Articles of Association of Medicalgorithmics S.A. In accordance with the Articles of Association, the Supervisory Board consists of 5 to 9 members appointed and dismissed by the General Meeting in a manner specified in the Articles of Association. Supervisory Board members are appointed for a joint term of office of three years.

As at the date of publication of this report, the Company's Supervisory Board consisted of:

Michał Wnorowski	-	Chairman of the Supervisory Board
Mariusz Matuszewski	-	Member of the Supervisory Board
Artur Małek	-	Member of the Supervisory Board
Marek Tatar	-	Member of the Supervisory Board
Krzysztof Urbanowicz	-	Member of the Supervisory Board
Marcin Gołębiccki	-	Member of the Supervisory Board

In connection with Mr Grzegorz Grabowicz's resignation from the Supervisory Board of Medicalgorithmics S.A. on 29 May 2019, with effect from the date of the next Ordinary General Meeting of Shareholders, on 26 June 2019 the Ordinary General Meeting of Shareholders set the number of members of the Supervisory Board of the current term of office at 6 and supplemented the composition of the Supervisory Board by appointing Mr Mariusz Matuszewski and Mr Marcin Gołębiccki as members of the Supervisory Board. As of that date, the Supervisory Board has remained in the aforementioned composition.

VII. 7. Audit Committee of the Parent Company

Pursuant to the Parent Company's Articles of Association, members of the Audit Committee, including the Chairman, is appointed by the Supervisory Board from among the Supervisory Board members for the term of office of the Supervisory Board. The Audit Committee is composed of 3 members, including the Chairman, and acts as a collective body. Where permitted by generally applicable law, the Audit Committee's tasks are performed collectively by the Supervisory Board. The Audit Committee is responsible for the supervision of financial reporting in the Parent Company.

Composition of the Audit Committee

In the period from 1 January 2019 to 22 July 2019, the Audit Committee was composed of:

Grzegorz Grabowicz	-	Chairman of the Audit Committee (until 26 June)
Michał Wnorowski	-	Member of the Audit Committee
Artur Małek	-	Member of the Audit Committee

All members of the Audit Committee listed above had skills and knowledge of accounting or auditing of financial statements. Grzegorz Grabowicz graduated from the University of Łódź, Faculty of Management and Marketing, majoring in Accounting. He is a certified auditor and has experience in auditing financial statements acquired in an audit firm, Deloitte. Additionally, he was a member of the management and supervisory boards of companies in the financial sector. Artur Małek is a graduate of the Cracow University of Economics, the Faculty of Finance and Banking, as well as of a Postgraduate Program at the Cracow University of Economics' School of Entrepreneurship and Management, Faculty of Accounting and Finance. Artur Małek has experience in accounting confirmed by holding the functions of CFO, member of management and supervisory boards of companies listed on the Warsaw Stock Exchange. Michał Wnorowski is a graduate of the Warsaw School of Economics. His capital market career dates back to 1995. During 24 years of his professional career he worked for financial institutions managing clients' assets and served on supervisory boards and audit committees of listed and unlisted companies.

Artur Małek has the knowledge of and skills required in the industry in which the Parent Company operates. He has been a member of the Supervisory Board of the Parent Company since 2015. Additionally, Artur Małek has professional experience in the field of new technologies.

In view of the resignation of Mr Grzegorz Grabowicz from the Supervisory Board, and thus also from the position of Chairman and Member of the Company's Audit Committee, considering the need to supplement the composition of the Company's Audit Committee, the Supervisory Board, pursuant to § 20 (11) of the Company's Articles of Association and § 6 (2) of the Rules of Procedure for the Supervisory Board and § 2.1 of the Rules of Procedure for the Audit Committee of the Supervisory Board, adopted a resolution dated 22 July 2019 and elected Mr Krzysztof Urbanowicz as a member of the Audit Committee, appointing Mr Artur Małek as Chairman of the Audit Committee.

In the period from 22 July 2019 to the date of publication of this report, the Audit Committee was composed of:

Artur Małek	-	Chairman of the Audit Committee
Michał Wnorowski	-	Member of the Audit Committee
Krzysztof Urbanowicz	-	Member of the Audit Committee

All members of the Audit Committee meet the criteria of independence from the Company and other requirements specified in Article 129 of the Act of 11 May 2017 on statutory auditors, audit companies and public supervision (Journal of Laws of 2019, item 1421).

All current members of the Audit Committee have skills and knowledge of accounting or auditing of financial statements. Artur Małek is a graduate of the Cracow University of Economics, the Faculty of Finance and Banking, as well as of a Postgraduate Program at the Cracow University of Economics' School of Entrepreneurship and Management, Faculty of Accounting and Finance. Artur Małek has experience in accounting confirmed by holding the functions of CFO, member of management and supervisory boards of companies listed on the Warsaw Stock Exchange. Michał Wnorowski is a graduate of the Warsaw School of Economics. His capital market career dates back to 1995. During 24 years of his professional career he worked for financial institutions managing clients' assets and served on supervisory boards and audit committees of listed and unlisted companies. Krzysztof Urbanowicz is a graduate of the Warsaw University of Technology and the University of Warsaw, the Business School at the Warsaw University of Technology (MBA) and the University of Illinois at Urbana-Champaign (MBA). He performs management functions and serves on supervisory boards of IT companies.

Artur Małek and Krzysztof Urbanowicz have the knowledge of and skills required in the industry in which the Parent Company operates. They both have many years of professional experience in managing companies from field of new technologies.

Assessment of independence of the audit firm auditing the Parent Company's financial statements

In 2019, the audit firm BDO Sp. z o.o. sp. k. with its registered office in Warsaw provided services to the Parent Company comprising the audit and review of financial statements of the Company and consolidated financial statements of the Medicalgorithmics Group for the first half of 2019, 2019 and first half of 2020.

Pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, the Audit Committee adopted the following documents by way of Resolution No 1 of 20 October 2017:

- Policy for the provision of permitted non-audit services by an audit firm carrying out a statutory audit of the Parent Company's and the Capital Group's financial statements, by entities affiliated with that audit firm and by a member of the audit firm's network;
- Policy and procedure for appointing an audit firm to conduct statutory audit/review of the Parent Company's and the Capital Group's financial statements.

Key elements of the audit firm selection policy

Key elements of the audit firm selection policy are as follows:

- The audit firm is selected by the Company's Supervisory Board after considering the Audit Committee's recommendation;
- If the selection of an audit firm does not concern the extension of the audit agreement, the Audit Committee prepares and submits to the Supervisory Board a recommendation covering at least two audit firms selected within the procedure of collecting proposals organized by the company and indicates a reasonable preference with respect to one of them;
- The selection of the audit firm is made sufficiently in advance to allow the audit agreement to be signed or renewed in sufficient time to allow the audit firm to participate in the stock-taking of significant assets;
- When selecting an audit firm, the Audit Committee and the Supervisory Board of the Company pay particular attention to the need to maintain the independence of the audit firm and the statutory auditor, and take into account the experience of the audit firm in the statutory audit of financial statements of public-interest entities, including companies listed on the Warsaw Stock Exchange, and knowledge of the IT industry or new technologies;
- The selection of an audit firm is made taking into account the principles of rotation of the audit firm and the key statutory auditor under generally applicable law;
- The first audit agreement is concluded with the audit firm for a period of no less than two years with the option to extend it for further periods of at least two years, taking into account the principles of rotation of the audit firm and the statutory auditor.

Key elements of the policy for the provision of non-audit services by the audit firm conducting the audit

- The provision of non-audit services by an audit firm requires the approval of the Audit Committee by way of a resolution at the request of the Management Board of the Company;
- Non-audit services are provided by the auditor in accordance with the laws of general application and requirements of independence laid down for such services in the rules of professional ethics and standards governing the performance of such services, as appropriate.
- The auditor may provide permitted services to the Company or entities controlled by it only if it is justified by the interests of the Parent Company or entities controlled by it, in particular if the auditor, knowing the Company and its environment, can offer high-quality permitted services to the Company on competitive terms.

Recommendation concerning the selection of an auditing firm to perform the audit

By Resolution No 5/2019 of 25 June 2019, the Audit Committee issued a recommendation on the selection of an audit firm, i.e. BDO Sp. z o.o. sp.k., to review and audit the Company's financial statements and the Medicalgorithmics Group's consolidated financial statements for the first half of 2019, 2019, first half of 2020 and 2020. The recommendation complied with the applicable requirements. The recommendation was prepared following the completion of the Company's procedure for appointing an audit firm to conduct statutory audit/review of the Parent Company's and the Capital Group's financial statements.

Detailed rules of operation of the Audit Committee are regulated in the Regulations of the Audit Committee adopted by Resolution No 1 of the Supervisory Board of 20 October 2017.

Number of meetings held

The Audit Committee held 9 meetings in 2019.

VIII. Basic information about the Parent Company

Medicalgorithmics S.A. is a joint-stock company registered in Poland, incorporated by a notarial deed registered in Repertory A No 1327/2005 of 23 June 2005. In 2011, the Parent 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.

Registered office:	Aleje Jerozolimskie 81, 02-001 Warszawa
E-mail address:	finanse@medicalgorithmics.com
Website:	www.medicalgorithmics.com
Website for the Investor Relations:	www.medicalgorithmics.pl
Contact details for the media:	Piotr Owdziej (CC Group) tel.: +48 697 612 913 Piotr.Owdziej@ccgroup.pl

IX. Information about the operations of the Issuer

Registry data

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

Share capital

As at the date of this annual report, the share capital (registered with the National Court Register) amounts to PLN 432 thousand and comprises 4,327,829 ordinary bearer shares with a par value of PLN 0.10 per share, including:

- 1,747,200 Series A ordinary bearer shares
- 508,200 series B ordinary bearer shares
- 236,926 series C ordinary bearer shares
- 929,600 series D ordinary bearer shares
- 33,600 series E ordinary bearer shares
- 151,000 series F ordinary bearer shares
- 721,303 series G ordinary bearer shares

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Peter G. Pellerito
Member of the Management Board

Warsaw, 29 April 2020

Other representations and Information of the Parent Company's Management Board

To the best knowledge of the Management Board of the Parent Company, the annual consolidated financial statements of the Medicalgorithmics Capital Group for 2019 and the separate financial statements of Medicalgorithmics S.A. and the comparative data for 2018 were prepared in accordance with the applicable accounting policies and give a true, reliable and fair view of the Medicalgorithmics Capital Group's and Medicalgorithmics S.A.'s assets, financial position and performance, and that the Directors' Report on operations of the Medicalgorithmics Capital Group and Medicalgorithmics S.A. in 2019 gives a true picture of the Medicalgorithmics Capital Group's and Medicalgorithmics S.A.'s development, achievements and position, including a description of key risks and threats.

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

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Peter G. Pellerito
Member of the Management Board

Warsaw, 29 April 2020

Based on the representation of the Supervisory Board of Medicalgorithmics S.A. on the selection of the audit firm to audit the financial statements of Medicalgorithmics S.A. for 2019 and the consolidated financial statements of Medicalgorithmics Capital Group for 2019 in accordance with the regulations, including regulations concerning the selection and procedure for the selection of the audit firm, the Management Board of the Parent Company hereby informs that:

- the audit firm and members of the audit team met the conditions required to issue an impartial and independent auditor's report on the financial statements of Medicalgorithmics S.A. for 2019 and an impartial and independent auditor's report on the consolidated financial statements of Medicalgorithmics Capital Group for 2019, in accordance with the applicable laws, professional standards and rules of professional ethics,
- Medicalgorithmics S.A. complies with the applicable laws governing the rotation of audit firms and lead auditors as well as with the mandatory cooling-off periods;
- Medicalgorithmics S.A. has in place a policy governing the selection of audit firms and a policy on the provision of additional non-audit services by audit firms, their related parties or members of their networks to Medicalgorithmics S.A., including services that are conditionally exempt from the prohibition on the provision of services by an audit firm.

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

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Peter G. Pellerito
Member of the Management Board

Warsaw, 29 April 2020

Evaluation of the Supervisory Board of Medicalgorithmics S.A.

regarding the financial statements of Medicalgorithmics S.A. for 2019, reports of the Management Board on the business operation of Medicalgorithmics S.A. for 2019, the consolidated financial statements of the Medicalgorithmics Capital Group for 2019 and the Management Board's report on the business operation of the Medicalgorithmics Capital Group for 2019

The Supervisory Board of the Medicalgorithmics S.A. ("Company"), acting on the basis of § 70 (1)(14) and § 71 (1)(12) Regulation of the Minister of Finance of March 29, 2018 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws 2018, no. 757), positively evaluate the following reports:

- financial statements of Medicalgorithmics S.A. for 2019,
- the Management Board report on the operation of Medicalgorithmics S.A. for 2019,
- consolidated financial statements of the Medicalgorithmics Capital Group for 2019,
- the Management Board report on the operation of the Medicalgorithmics Capital Group for 2019

in terms of their compliance with the accounting books, documents and the actual state.

Justification

The Supervisory Board evaluates the separated financial statements for 2019 and the consolidated financial statements for 2019, as well as the Management Board's reports on the business operations of the Company and the Medicalgorithmics Capital Group based on a detailed analysis of:

- above-mentioned reports,
- reports of an independent auditor, i.e. BDO spółka z ograniczoną odpowiedzialnością sp.k., on the audit of the separated financial statements of the Company for 2019 and the consolidated financial statements of the Medicalgorithmics Capital Group for 2019, which provides that the financial reports are a fair and clear picture of the financial situation and financial statements of the Company and the Medicalgorithmics Capital Group as at December 31, 2019 and the financial result of the Company and the Group for 2019, are in accordance with applicable International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations, and accounting principles, are prepared on the basis of properly kept accounting books in accordance with the provisions of Chapter 2 of the Accounting Act, are consistent in form and content with the applicable to the Company and the Group law and the Company's Articles of Association;
- additional report for the Audit Committee prepared pursuant to art. 11 Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and relevant provisions of the Act of 11 May 2017 on statutory auditors, audit companies and public supervision.

The Supervisory Board also relied on information and data obtained in the course of audit process, in particular provided by the Company's Management Board, the auditor BDO spółka z ograniczoną odpowiedzialnością sp. k., during meetings with its representatives, including a key auditor, as well as by the Audit Committee of the Supervisory Board, regarding the process, results and significance of the audit for the reliability of financial reporting in the Company and the role of the Audit Committee in the process of auditing financial statements.

Chairman of the Supervisory Board - Michał Wnorowski

Member of the Supervisory Board - Krzysztof Urbanowicz

Member of the Supervisory Board - Artur Małek

Member of the Supervisory Board - Marek Tatar

Member of the Supervisory Board - Mariusz Matuszewski

Member of the Supervisory Board - Marcin Gołębicki

Warsaw, 29 April 2020

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Statement of the Supervisory Board of the Medicalgorithmics S.A.

on the functioning of the Audit Committee regarding the publication of the individual and consolidated annual report for 2019

The Supervisory Board of the Medicalgorithmics S.A., acting on the basis of § 70 (1)(8) and § 71 (1)(8) Regulation of the Minister of Finance of March 29, 2018, on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws 2018, no.757), according to the best knowledge states that:

- a) Medicalgorithmics S.A. respects law regarding the establishment, membership rules and activities of the audit committee, including the fulfillment by its members criteria of the independence and requirements on possession of knowledge and skills in the industry in which Medicalgorithmics S.A. operates, as well as in the field of accounting or auditing financial statements;
- b) the Audit Committee of Medicalgorithmics S.A. performed duties indicated in applicable regulations.

Chairman of the Supervisory Board - Michał Wnorowski

Member of the Supervisory Board - Krzysztof Urbanowicz

Member of the Supervisory Board - Artur Małek

Member of the Supervisory Board - Marek Tatar

Member of the Supervisory Board - Mariusz Matuszewski

Member of the Supervisory Board - Marcin Gołębicki

Warsaw, 29 April 2020

[the signatures on the original copy]



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