MEDICALgorithmics
INNOVATIVE SOLUTIONS IN MEDICINE

Consolidated semi-annual report **of the MEDICALGORITHMICS Capital Group**

for the six months ended 30 June 2020

The Report includes:

- Consolidated interim financial statements
- Directors’ Report on the operations of the Capital Group
- Representations of the Management Board

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MEDICALGORITHMICS CAPITAL GROUP FOR THE FIRST HALF OF 2020

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Interim condensed consolidated statement of financial position	PLN '000		EUR '000	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Non-current assets	256 244	246 862	57 377	57 969
Intangible assets	216 779	209 717	48 540	49 247
Long-term financial assets	200	200	45	47
Current assets	64 287	36 400	14 395	8 548
Short-term receivables	23 311	25 250	5 220	5 929
Cash and cash equivalents	40 975	11 150	9 175	2 618
Long-term liabilities	41 003	30 631	9 181	7 193
Short-term liabilities	44 441	27 909	9 951	6 554
Equity attributable to Shareholders of the Parent Company	211 725	195 840	47 408	45 988
Share capital	433	361	97	85
Non-controlling interests	23 362	28 882	5 231	6 782
Number of shares	4 327 829	3 606 526	4 327 829	3 606 526
Book value per ordinary share (PLN/EUR)	48,92	54,30	11,00	12,75

Interim condensed consolidated statement of comprehensive income	01.01.2020-30.06.2020	01.01.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Sales revenue	59 170	94 098	13 323	21 944
Profit/(loss) on sales	(18 878)	7 134	(4 251)	1 664
Operating profit/(loss)	(14 758)	7 614	(3 323)	1 776
Profit/(loss) before tax	(15 258)	5 811	(3 436)	1 355
Net profit/(loss)	(11 438)	5 528	(2 575)	1 289
- attributable to Shareholders of the Parent Company	(4 457)	5 870	(1 004)	1 369
- attributable to non-controlling interests	(6 981)	(342)	(1 572)	(80)
Net profit/(loss) attributable to Shareholders of the Parent Company per share (in PLN) – basic	(1,24)	1,63	(0,28)	0,38

Interim condensed consolidated statement of cash flows	01.01.2020-30.06.2020	01.01.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Net cash flows from operating activities	6 030	13 916	1 358	3 245
Net cash flows from investing activities	(1 413)	(1 072)	(318)	(250)
Net cash flows from financing activities	25 207	(52 146)	5 676	(12 161)
Total net cash flows	29 825	(39 302)	6 715	(9 166)

Method of conversion of selected figures into EUR:

- The presented selected items of the statement of financial position presented were converted using the mid-rate quoted by the National Bank of Poland (NBP) for 30 June 2020, i.e. EUR/PLN 4.4660, and for 31 December 2019, i.e. EUR/PLN 4.2585;
- 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 2020 to 30 June 2020, i.e. EUR/PLN 4.413, and from 1 January 2019 to 30 June 2019, i.e. EUR/PLN 4.2880.

		30.06.2020 (unaudited)	31.12.2019 (audited)	30.06.2019 (unaudited)
Intangible assets	13	216 779	209 717	208 163
Property plant and equipment	14	27 664	31 705	38 867
Financial assets	15	200	200	200
Deferred income tax assets		11 602	5 240	2 557
Non-current assets		**256 244**	**246 862**	**249 787**
Trade and other receivables	16	23 311	25 250	22 286
Cash and cash equivalents	17	40 975	11 150	20 887
Current assets		**64 287**	**36 400**	**43 173**
TOTAL ASSETS		**320 531**	**283 262**	**292 960**

		30.06.2020 (unaudited)	31.12.2019 (audited)	30.06.2019 (unaudited)
Share capital		433	361	361
Supplementary capital		137 128	124 622	124 622
Retained earnings		71 854	76 311	77 902
Foreign exchange differences		2 309	(5 454)	(8 400)
Equity attributable to Shareholders of the Parent Company		**211 725**	**195 840**	**194 485**
Non-controlling interests		**23 362**	**28 882**	**32 505**
Provisions		2 956	2 023	2 235
Deferred tax liabilities		4 819	3 343	3 645
Credits and loans	20	19 729	9 845	8 100
Liabilities in respect of bonds and other financial liabilities	21	12 289	14 394	17 728
Other liabilities		-	-	40
Accruals and deferred income	19	1 210	1 026	687
Long-term liabilities		**41 003**	**30 631**	**32 435**
Credits and loans	20	4 100	3 057	9 588
Liabilities in respect of bonds and other financial liabilities	21	13 851	13 015	12 336
Trade and other liabilities	19	12 604	9 444	8 533
Income tax liabilities		29	54	159
Accruals and deferred income	19	13 857	2 339	2 919
Short-term liabilities		**44 441**	**27 909**	**33 535**
Total liabilities		**85 444**	**58 540**	**65 970**
TOTAL EQUITY AND LIABILITIES		**320 531**	**283 262**	**292 960**

		01.04.2020-30.06.2020 *(unaudited)*	01.04.2019-30.06.2019 *(unaudited)*	01.01.2020-30.06.2020 *(unaudited)*	01.01.2019-30.06.2019 *(unaudited)*
Sales revenue	6	**23 098**	**45 401**	**59 170**	**94 098**
Raw materials and consumables used		(1 178)	(1 530)	(4 333)	(4 586)
Employee benefits	7	(19 972)	(24 985)	(47 223)	(49 803)
Amortization and depreciation	8	(4 050)	(4 413)	(8 098)	(8 600)
Third-party services	9	(7 558)	(10 756)	(16 291)	(19 837)
Other		(659)	(2 249)	(2 103)	(4 138)
Total costs of sales		**(33 418)**	**(43 933)**	**(78 048)**	**(86 964)**
Profit/(loss) on sales		**(10 320)**	**1 468**	**(18 878)**	**7 134**
Other operating revenue	10	4 216	91	4 216	753
Other operating expenses	10	(35)	(203)	(96)	(273)
Operating profit/(loss)		**(6 140)**	**1 356**	**(14 758)**	**7 614**
Finance income	11	(770)	(86)	79	67
Finance costs	11	(267)	(858)	(580)	(1 870)
Net finance costs		**(1 037)**	**(944)**	**(501)**	**(1 803)**
Profit/(loss) before tax		**(7 177)**	**412**	**(15 258)**	**5 811**
Income tax	12	2 673	209	3 820	(283)
Net profit/(loss) from continuing operations		**(4 503)**	**621**	**(11 438)**	**5 528**
Net profit/ (loss) for the reporting period attributable to Shareholders of the Parent Company		(1 193)	1 402	(4 457)	5 870
Net profit/ (loss) for the reporting period attributable to non-controlling interests		(3 310)	(781)	(6 981)	(342)
		(4 503)	**621**	**(11 438)**	**5 528**
Other comprehensive income					
Currency translation differences		(5 134)	(4 313)	6 726	(1 065)
Exchange differences on loans constituting a part of net investments in subsidiaries		(2 856)	(1 874)	3 085	(378)
Deferred tax on valuation of exchange differences on loans		543	200	(586)	(84)
Other comprehensive income		**(7 447)**	**(5 987)**	**9 225**	**(1 527)**
Other comprehensive income attributable to Shareholders of the Parent Company		(6 399)	(4 867)	7 763	(1 249)
Other comprehensive income attributable to non-controlling interests		(1 048)	(1 120)	1 461	(278)
Total comprehensive income for the reporting period					
Comprehensive income for the reporting period attributable to Shareholders of the Parent Company		(7 592)	(3 465)	3 306	4 621
Comprehensive income for the reporting period attributable to non-controlling interests		(4 359)	(1 901)	(5 520)	(620)
		(11 951)	**(5 366)**	**(2 213)**	**4 001**
Net profit/ (loss) attributable to Shareholders of the Parent Company per share (in PLN)					
- basic		(0,33)	0,39	(1,24)	1,63
- diluted		(0,33)	0,39	(1,24)	1,63

	Share capital	Supplementary capital	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2020 *(audited)*	**361**	**124 622**	**76 311**	**(5 454)**	**195 840**	**28 882**
Comprehensive income for the reporting period						
Net profit for the current reporting period	-	-	(4 457)	-	(4 457)	(6 981)
Other comprehensive income				7 763	7 763	1 461
	-	**-**	**(4 457)**	**7 763**	**3 306**	**(5 520)**
Transactions recognized directly in equity						
Issue of G series shares	72	12 507	-	-	12 579	-
Total contributions from and distributions to owners	**72**	**12 507**	**-**	**-**	**12 579**	**-**
Equity as at 30 June 2020 *(unaudited)*	**433**	**137 129**	**71 854**	**2 309**	**211 725**	**23 362**

	Share capital	Supplementary capital	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2019 *(audited)*	**361**	**124 622**	**72 032**	**(7 151)**	**189 864**	**40 898**
Comprehensive income for the reporting period						
Net profit for the current reporting period	-	-	4 279	-	4 279	(4 578)
Other comprehensive income	-	-	-	1 697	1 697	468
	-	**-**	**4 279**	**1 697**	**5 976**	**(4 110)**
Transactions recognized directly in equity						
Dividend payment	-	-	-	-	-	(7 916)
Valuation of the incentive scheme	-	-	-	-	-	9
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(7 907)**
Equity as at 31 December 2019 *(audited)*	**361**	**124 622**	**76 311**	**(5 454)**	**195 840**	**28 882**

	Share capital	Supplementary capital	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2019 *(audited)*	**361**	**124 622**	**72 032**	**(7 151)**	**189 864**	**40 898**
Comprehensive income for the reporting period						
Net profit for the current reporting period	-	-	5 870	-	5 870	(342)
Other comprehensive income	-	-	-	(1 249)	(1 249)	(278)
	-	**-**	**5 870**	**(1 249)**	**4 621**	**(620)**
Transactions recognized directly in equity						
Dividend payment	-	-	-	-	-	(7 782)
Valuation of the incentive scheme	-	-	-	-	-	9
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(7 773)**
Equity as at 30 June 2019 *(unaudited)*	**361**	**124 622**	**77 902**	**(8 400)**	**194 485**	**32 505**

	01.01.2020-30.06.2020 *(unaudited)*	01.01.2019-30.06.2019 *(unaudited)*
Cash flows from operating activities		
Net profit for the reporting period	**(11 438)**	**5 528**
Depreciation of property, plant and equipment	4 222	4 819
Amortization of intangible assets	3 876	3 781
Income tax	(3 234)	367
Change in trade and other receivables	1 733	573
Change in accruals, prepayments and deferred income	11 519	347
Change in trade and other liabilities	2 562	(2 197)
Change in provisions	933	445
Profit from the sale of investments	24	-
Net finance (income)/costs	-	179
Tax paid	(636)	(1 008)
Foreign exchange differences	(181)	(365)
Interest	684	1 432
Revenue recognized from the subsidy settlement	(4 179)	-
Other	144	15
	6 030	**13 916**
Cash flows from investing activities		
(Acquisition)/sale of intangible assets	(1 947)	(2 764)
(Acquisition)/sale of property, plant and equipment	534	(4 300)
(Acquisition)/sale of other investments	-	5 992
	(1 413)	**(1 072)**
Cash flows from financing activities		
Inflows from credits taken out	-	19 000
Income from issue of shares	12 578	-
Inflows from subsidies received	17 028	-
Repayment debt on account of credits taken out with interest	(1 927)	(1 709)
Repayment of other financial liabilities	-	(8 082)
Payments of finance lease liabilities	(2 657)	(2 505)
Distribution of Medi-Lynx profit to a minority shareholder	-	(7 782)
Repayment of bonds with interest	-	(51 369)
Other inflows from financing activities	185	301
	25 207	**(52 146)**
Total net cash flows	**29 825**	**(39 302)**
Opening balance of cash and cash equivalents	11 150	60 189
Closing balance of cash	**40 975**	**20 887**

1. General information

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

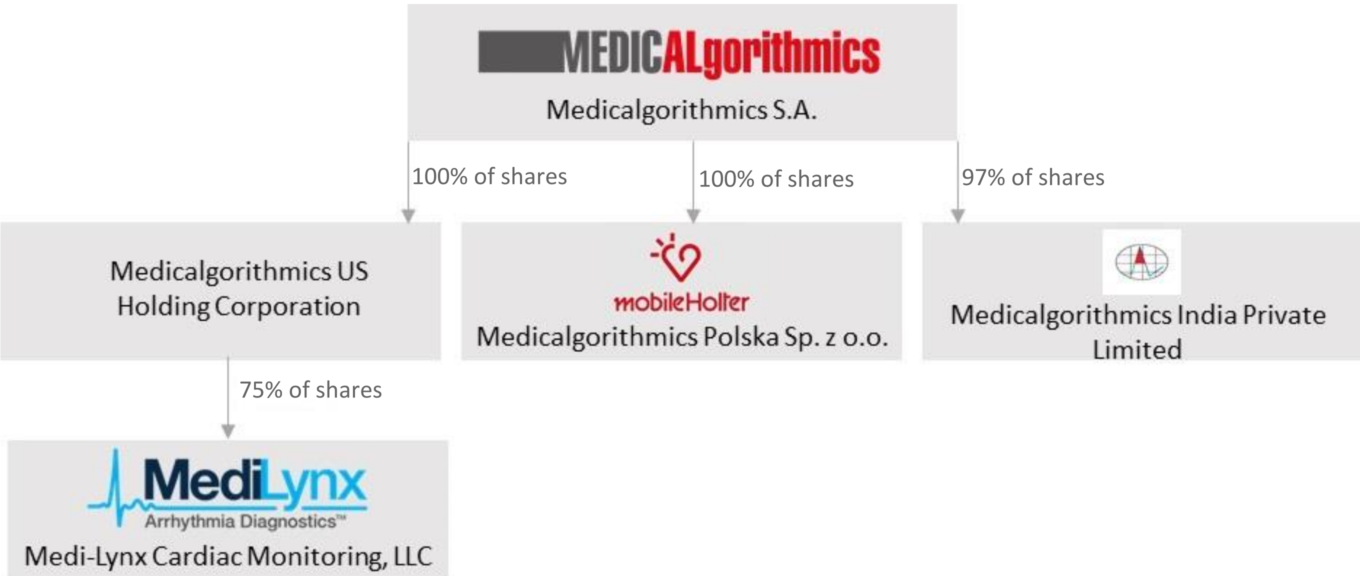
The term “Report” refers to this interim condensed consolidated report for 1st half of 2020. The term “Consolidated financial statements” means the interim condensed consolidated financial statements of the Medicalgorithmics Group as at 30 June 2020, covering the period 1 January 2020 to 30 June 2020 and including appropriate comparative data as at 31 December 2019, as well as data for the corresponding comparative period of 2019.

2. Information on the Capital Group

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

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

The composition of the Medicalgorithmics Capital Group and its organizational and equity links as at 30 June 2020 are presented below:



Business profile

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

The principal areas of operations of the Capital Group are:

- provision of ECG monitoring services;
- provision of information technology 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, Asia, Europe and Australia. Currently, the United States is the largest market. The expansion of sales on the American market was possible owing to the openness of this market to medical innovations and the high level of reimbursement of cardiac diagnostic services by private and public insurers.

Key competitive advantages of the Group:

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

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

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

3. Information about the Parent Company

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

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

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

Management Board

Marek Dziubiński – President of the Management Board
Maksymilian Sztandera – Member of the Management Board, Chief Financial Officer
Peter G. Pellerito – Member of the Management Board (since 21 January 2020)

Supervisory Board

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

During the first half of 2020 and in the period from the balance sheet date to the date of publication of these consolidated financial statements for the first half of 2020, there were no changes in the composition of the Parent Company's Supervisory Board.

On 21 January 2020, the Supervisory Board of the Company resolved to appoint Mr Peter G. Pellerito to the Management Board, entrusting him with the function of the Management Board Member.

4. Basis for preparation of the consolidated financial statements

4.1. Declaration of compliance

The interim condensed consolidated financial statements of the Capital Group and the interim condensed separate financial statements of Medicalgorithmics S.A. were prepared in conformity with Interim Accounting Standard 34 “Interim financial reporting” (“IAS 34”) and with the relevant accounting standards applicable to interim financial reporting as endorsed by the European Union (“EU IFRSs”), published and effective at the time of preparation of these financial statements. The interim condensed financial statements do not include all the information and disclosures required for annual financial statements. These should be read in conjunction with the consolidated financial statements of the Capital Group and the separate financial statements of the Company for the year ended 31 December 2019, as well as the Directors’ Report on activities of the Medicalgorithmics Capital Group and Medicalgorithmics S.A. in 2019.

Going Concern

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

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. In the United States significant decrease in the number of patients undergoing ECG tests using PocketECG technology was noted, which will consequently reduce the number of applications for payment from insurers. In total in second quarter of 2020 the number of procedures sold decreased by 22% compared to same period last year.

The biggest drop in the number of procedures sold on US market was noted in April 2020. Beginning May 2020 the Group records a slow increase in volumes as a result of the process of gradual defrosting of the economy and actions taken by Medi-Lynx. The PocketECG system is promoted as a comprehensive telemedicine platform enabling fully remote diagnostics, without the need for a physical visit to a doctor. Currently, a large part of tests is carried out in a fully remote form - i.e. the device is delivered directly to the patient's home. The data currently held by the Company indicate an upward trend in the number of medical procedures performed, but it is still difficult to predict the further course of the pandemic and whether this trend will continue in the second half of 2020.

The Management Board has taken a number of measures to mitigate the impact of the pandemic on the Group's operations. 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 certain operating activities, 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. Medi-Lynx received also non-returnable support for health care companies in the amount of USD 1 million. In addition, to support the current liquidity of Medi-Lynx, the Medicare public insurer paid USD 2.7 million in the form of an advance payment on services. This amount is to be settled with the amounts due for tests rendered to Medicare over a period of 210 days. After this date, the remaining balance will be refunded to Medicare.

Additionally, in order to optimally use the working time of people employed in the Medicalgorithmics Group companies, the 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, 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 and its future financial results and cash flow position in next 12 months.

4.2. Presentation and functional currency

The figures contained in the consolidated financial statements are presented in Polish zlotys ("PLN"), rounded to the nearest thousand without decimal places. The Polish zloty is the functional currency of Medicalgorithmics S.A. and Medicalgorithmics Polska Sp. z o.o. The functional currency of subsidiaries, Medi-Lynx and MDG HoldCo, is the US dollar ("USD"), and of Medicalgorithmics India Pvt. Ltd – Indian rupee ("INR").

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

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

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

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

4.3. Judgments and estimates made

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

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

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

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

- intangible assets (estimates concerning forecasts used in impairment tests and estimates of amortisation rates for intangible assets);
- property, plant and equipment (estimates of depreciation rates applied);
- right-of-use assets and finance lease liabilities recognised following the application of IFRS 16 (estimates of the useful life and discount rate used);
- fair value and impairment in relation to financial assets, including shares in subsidiaries;
- trade receivables and other financial assets, including loans granted (at each balance sheet date the Capital Group assesses whether there is any objective evidence that a component of receivables or group of receivables is impaired; if the recoverable amount of an asset is less than its carrying amount, the Capital Group recognizes an impairment write-down to the present value of planned cash flows);
- sales revenue generated by Medi-Lynx (revenue estimates based on historical cash inflows for the provided services);

- provisions for liabilities and trade liabilities;
- inventories (assessment of the likelihood that inventories are impaired; the determination of impairment requires estimating the net realizable values);
- deferred tax assets (assessment of recoverability of assets and estimates of potential impairment write-downs);
- deferred tax provisions.

There were no significant changes in the estimated values of the amounts presented in previous reporting periods which had a significant impact on the current period.

For estimating sales revenues generated by Medi-Lynx, the Group uses a model based on historical cash inflows for the service. The rates for a given type of medical procedure for a given insurer are estimated on the basis of average payments occurring over twelve months period ending six months before the date of estimation. The transaction price estimate takes into account all expectations known to the entity including applicable contractual and business conditions as to the actual value of the revenue for particular types of procedures. Reliable estimate of the transaction price is assessed at each balance sheet date.

4.4. Adjustment of error

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

4.5. Changes in accounting principles

The accounting policies applied to prepare these interim condensed consolidated financial statements are consistent with the policies applied to draw up the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the application of new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2020.

- 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,
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7 – amendments to IFRS 9, IAS 39 and IFRS 7 were published on 26 September 2019 and are effective for annual periods beginning on or after 1 January 2020,

The amendments introduced have been analysed by the Management Board of the Parent Company. The Management Board of the Company believes that other changes do not have a material impact on the Group's financial position, results of operations and scope of disclosures in these interim condensed consolidated financial statements.

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

The accounting principles applied are described in the published consolidated financial statements of the Medicalgorithmics Capital Group for 2019.

4.6. Authority approving the financial statements for publication

Interim consolidated financial statements (consolidated financial statements) are not subject to approval by the approving body pursuant to Art. 53 of The Accounting Act of September 29, 1994. The interim condensed consolidated financial statements are signed by the head of the entity, i.e. the Management Board of Medicalgorithmics S.A. and, if appointed, entrusted individual who handles accounting affairs. These interim condensed consolidated financial statements were signed on September 1, 2020.

4.7. Consolidation principles

The principles of consolidation adopted for the preparation of these financial statements have not changed from those applied and described in detail in the explanatory notes to the consolidated financial statements for 2019.

5. Segment reporting

The core business of the Capital Group comprises:

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

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

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

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

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

6. Sales revenue structure

By type	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Revenue from sales of services	21 270	44 729	56 303	92 220
Revenue from sales of devices	1 828	672	2 867	1 878
Total revenue	**23 098**	**45 401**	**59 170**	**94 098**

By territory	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Domestic sales	487	328	633	607
Export sales	22 610	45 073	58 537	93 491
Total revenue	**23 098**	**45 401**	**59 170**	**94 098**

7. Employee benefits

	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Remuneration	(19 675)	(24 488)	(46 573)	(48 646)
Social security and other employee benefits	(297)	(497)	(650)	(1 157)
	(19 972)	**(24 985)**	**(47 223)**	**(49 803)**

8. Amortisation and depreciation

The most significant component of the amortization and depreciation expense is the amortization of client bases held by the Group (the Medi-Lynx client base recognized as a result of the final settlement of the purchase price and AMI/Spectocor client base acquired following the settlement agreement of 28 December 2016). According to the estimates of the Management Board, customer bases will bring economic benefits and will be amortized over a period of 20 years. The cost of amortization in the first half of 2020 amounted to PLN 3.1 million (PLN 3.0 million in first half of 2019).

In addition, due to the fact that from the Group's point of view, PocketECG devices used to provide diagnostic services by the Group companies are fixed assets, the production cost of these devices is not recognized once in the costs of raw materials and consumables, but amortized over a period of 3 years, corresponding to the expected cycle devices life. The total cost in this respect in the first half of 2020 amounted to PLN 0.8 million (in the comparative period PLN 1.3 million).

Following the application of IFRS 16, the Group recognised right-of-use assets. Right-of-use assets for office space are depreciated overt the lease term, and the depreciation expense in first half of 2020 amounted to PLN 2.3 million (in the comparative period PLN 2.6 million).

9. Third-party services

	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Lease and rental	(237)	(716)	(377)	(1 258)
Telecommunication and Internet services	(2 154)	(1 563)	(4 191)	(2 933)
IT services	(635)	(401)	(1 392)	(909)
Accounting and financial audit services	(502)	(609)	(1 033)	(1 001)
Advisory services	(738)	(2 219)	(1 690)	(4 587)
Transport and courier services	(1 419)	(1 678)	(3 294)	(3 128)
Monitoring services	(470)	(580)	(1 039)	(1 154)
Leases	(4)	(11)	(8)	(11)
Maintenance services	(328)	(378)	(718)	(740)
Marketing services	(412)	(1 279)	(843)	(2 022)
Other third-party services	(788)	(1 322)	(1 837)	(2 094)
	(7 687)	**(10 756)**	**(16 291)**	**(19 837)**

Explanations of the main changes in individual categories of third-party services, see the Directors' Report.

In the first half of 2020, as well as in the comparative period, a significant part of the cost of lease and rental was the cloud storage service, which is not subject to transformation in accordance with IFRS 16. In addition, the rent and lease category includes also operating expenses related to the rent of office space and the cost of renting low-value office equipment.

10. Other operating revenues and costs

	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Settlement of subsidies	3	79	3	157
Reversal of impairment losses on inventories	-	-	-	442
Gain on a bargain purchase	-	-	-	139
Support received by Medi-Lynx under the CARES Act	4 212	-	4 212	-
Other	1	12	2	16
Other operating revenue	**4 216**	**91**	**4 216**	**753**
Impairment losses on receivables	-	3	-	(8)
Other	(35)	(206)	(96)	(265)
Other operating expenses	**(35)**	**(203)**	**(96)**	**(273)**

As a result of the SARS-CoV-2 pandemic, Medi-Lynx recorded a significant decrease in revenues in the second quarter of 2020 and qualified for the support program for healthcare companies (HHS). As at the balance sheet date, the Company complied with the terms of the program and recognized the subsidy received (USD 1 million) in other operating income.

11. Financial revenues and costs

	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Interest income	9	17	13	62
Foreign exchange differences	(779)	(103)	66	-
Other	-	-	-	5
Finance income	**(770)**	**(86)**	**79**	**67**
Interest on borrowings contracted	(132)	(372)	(288)	(1 142)
Interest on finance leases	(124)	(149)	(253)	(302)
Foreign exchange differences	-	(213)	-	(213)
Income from the valuation/sale of investment certificates	-	(95)	-	(117,0)
Other	(11)	(29)	(39)	(96)
Finance costs	**(267)**	**(858)**	**(580)**	**(1 870)**
Net finance costs	**(1 037)**	**(944)**	**(501)**	**(1 803)**

12. Effective tax rate

	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Profit before tax	(15 258)	5 811
Tax at the tax rate applicable in Poland	2 899	(1 104)
Non-tax-deductible costs	(534)	(259)
Difference between the tax rate in Poland and USA	(178)	48
Amortization of goodwill for tax purposes	878	828
Tax benefit due to the application of the IP BOX relief	1 520	-
Tax attributable to non-controlling interests	(1 348)	-
Non-taxable revenue	659	115
Other	(76)	89
Tax reported in the statement of comprehensive income	**3 820**	**(283)**

13. Intangible assets

Gross value of intangible assets	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total
Gross value as at 1 January 2020	**85 232**	**120 110**	**9 768**	**18 712**	**2 669**	**236 491**
Increases	-	-	1 630	1 911	36	**3 577**
Decreases	-	-	-	(1 630)	-	**(1 630)**
Foreign exchange differences	4 037	5 785	-	-	33	**9 855**
Gross value as at 30 June 2020	**89 270**	**125 895**	**11 398**	**18 993**	**2 738**	**248 293**
Accumulated amortization and impairment losses						
Accumulated amortization and impairment losses as at 1 January 2020	**-**	**18 016**	**6 735**	**-**	**2 022**	**26 773**
Amortization	-	3 147	570	-	126	**3 844**
Foreign exchange differences	-	868	-	-	29	**896**
Accumulated amortization and impairment losses as at 30 June 2020	**-**	**22 031**	**7 306**	**-**	**2 176**	**31 513**
Net value						
As at 1 January 2020	**85 232**	**102 094**	**3 033**	**18 712**	**647**	**209 718**
As at 30 June 2020	**89 270**	**103 863**	**4 092**	**18 993**	**562**	**216 780**

Gross value of intangible assets	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total
Gross value as at 1 January 2019	**84 393**	**118 908**	**5 937**	**17 788**	**2 493**	**229 519**
Increases	-	-	3 831	4 755	359	**8 945**
Decreases	-	-	-	(3 831)	(191)	**(4 022)**
Foreign exchange differences	839	1 202	-	-	8	**2 049**
Gross value as at 31 December 2019	**85 232**	**120 110**	**9 768**	**18 712**	**2 669**	**236 491**
Accumulated amortization and impairment losses						
Accumulated amortization and impairment losses as at 1 January 2019	**-**	**11 890**	**5 482**	**-**	**1 693**	**19 065**
Amortization	-	6 006	1 253	-	324	**7 583**
Foreign exchange differences	-	120	-	-	5	**125**
Accumulated amortization and impairment losses as at 31 December 2019	**-**	**18 016**	**6 735**	**-**	**2 022**	**26 773**
Net value						
As at 1 January 2019	**84 393**	**107 018**	**455**	**17 788**	**800**	**210 454**
As at 31 December 2019	**85 232**	**102 094**	**3 033**	**18 712**	**647**	**209 717**

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

Goodwill

a. Medi-Lynx Cardiac Monitoring, LLC

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

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

The acquisition of the subsidiary resulted in the creation of a positive goodwill on acquisition of Medi-Lynx in the consolidated financial statements of the Medicalgorithmics Capital Group. A goodwill is the excess of the consideration paid over the fair value of the acquired identifiable net assets of the subsidiary. The goodwill determined as at 31 December 2016 amounted to USD 22,226 thousand.

Goodwill is tested for impairment on an annual basis (or more frequently if there are any indications of impairment). Impairment losses are recognised as an expense in the period and are not reversed in the subsequent period. In the current period, due to the dynamic development of the pandemic situation, its significant negative impact on the business environment and the possibility of implementing the Group's strategy, it was decided to verify and update the assumptions adopted in the test carried out at the end of 2019 and, as a result, to update the impairment test. As a result of the test, the Management Board of the Parent Entity did not find any impairment of goodwill.

Goodwill is amortized for tax purposes at the level of the subsidiary, MDG HoldCo (included in the consolidated financial statements). As at 30 June 2020, the remaining tax value of goodwill to be amortized amounts to USD 22,352 thousand.

Goodwill recognized on acquisition results mainly from the service business model adopted by Medi-Lynx, based primarily on human capital and relations with medical units. These main components enable the provision of top quality medical services in a very prospective US market.

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

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

b. Medicalgorithmics Polska Sp. z o.o.

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

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

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

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

Goodwill is tested for impairment on an annual basis (or more frequently if there are any indications of impairment). Impairment losses are recognised as an expense in the period and are not reversed in the subsequent period. In 2019 and first half of 2020 the Parent Company's Management Board did not find any impairment of goodwill.

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

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

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

Following the accounting for the acquisition, in the first quarter of 2019 a gain on a bargain purchase of PLN 139 thousand was recognised in the statement of comprehensive income under other operating revenue. The gain on a bargain purchase was recognized due to the fact that MDG India is at the early stage of its development and requires the operational support of the Parent Company in order to achieve business growth.

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

Client bases

a. Medi-Lynx's client base (net value at the balance sheet date: USD 10,421 thousand)

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

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

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

b. AMI client base (net value at the balance sheet date USD 15,671 thousand)

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

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

Impairment tests

As at 30 June 2019, the Group updated the impairment test on goodwill recognized on acquisition of subsidiaries and Medi-Lynx and AMI client bases. The tests indicated no need to recognize any impairment losses. The Management Board believes that no reasonably possible change of any of the key assumptions referred to below could result in the carrying amount of the CGUs exceeding their recoverable amount.

The impairment test was carried out on the basis of calculation of expected cash flows, estimated based on historical performance and expectations concerning the future growth of the market. Cash flow projections for identified cash generating units have been prepared on the basis of assumptions derived from historical experience adjusted to the plans in progress.

Main assumptions underlying the computation of the value in use are as follows:

- Due to the SARS-CoV-2 pandemic, a significant decrease in the number of patients using ECG tests using PocketECG technology is expected in 2020, which will result in a decrease in the number of applications for payment from insurers (by 15% compared to 2019) and a decrease in Medi-Lynx's revenues in 2020.

- In the long term, the Group assumes that the implementation of the change in the business model will secure access to new clients and, as a consequence, significantly increase the sales volume which will offset lower levels of refunds for a single service. The Group is of the opinion that this strategy, after a pandemic period, 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 the Group's revenue. The Group assumes:
    - further gradual signing of long-term contracts. By the end of 2020, 54% of applications will be settled under contracts signed, and by the end of 2023 – 73%,
    - by the end of 2020, the Group intends to have contracts covering 90% of the insured persons,
    - year-on-year increase in the volume of examinations in 2021-2023 as a result of increased share of long-term contracts.

  According to the Group's best estimates, the growth will be generated primarily by new customers. At the same time, the cash flows generated from the recognized client bases will remain at a similar level.

- Discount rate based on the weighted average cost of capital and reflecting the current market assessment of the time value of money and the risk related to the business object of the cash-generating unit. For the purpose of the test, the WACC of **7.59%** (8.81% in 2019- change due to the lower risk free rate) was applied as the discount rate. The WACC calculation is based on the risk-free rate, equity risk premium and Group-specific risk premiums.
- Growth rate after the forecast period at the level of 1%.
- In order to implement the change in the business model, the Management Board estimates the annual increase in operating costs at an average level of approx. 8%. This increase will be related to the intensification of sales activities and will primarily concern the costs of sales department remuneration, marketing and business travel expenses.

The values assigned to the above assumptions and other variables reflect the Group's experience adjusted for expected changes in the period covered by the business plan; however, they may be affected by unforeseeable economic, political or legal developments.

In addition, the Group carried out a sensitivity analysis of the test outcome to changes in the discount rate and sensitivity analysis of the assumptions underlying the change in the business model with respect to the increase in the volume of examinations and the rate for examinations. The sensitivity analysis did not indicate that a change in assumptions would lead to the recognition of impairment losses, i.e. the carrying amount would not be higher than the recoverable amount.

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. The project 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. 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 Group conducts a number of 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 Group 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 provides a solution which is reimbursed on the US market. The Management expects that the product will be completed in the first quarter of 2021.

- PocketECG IV – fourth generation Pocket ECG system

In 2020, the Group 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. According to recent estimates, PocketECG IV will be launched in the fourth quarter of 2020.

- PocketECG CRS – device and system for cardiac rehabilitation;

In 2020, the Group continued works on the functional development of the PocketECG CRS remote cardio rehabilitation system. In 2019, the Group received the approval of the Canadian governmental institution for public health care, Health Canada, for the PocketECG CRS system. With the approval, the Group 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).

As regards PocketECG 12Ch, the work 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, 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. In first quarter of 2020 the Group continued 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 new service was launched at the beginning of the second quarter of 2020.

14. Property, plant and equipment

	Buildings and structures	Machinery and equipment, including computer hardware	Other fixed assets	Leasehold improvements	Rights-of-use (IFRS 16)*	Total
Gross value of property plant and equipment						
Gross value as at 1 January 2020	**2 470**	**27 280**	**2 188**	**653**	**24 374**	**56 966**
Increases	-	101	-	-	-	**101**
Decreases	(6)	(60)	(32)	-	(114)	**(212)**
Change in inventories	-	(634)	-	-	-	**(634)**
Foreign exchange differences	101	863	99	-	981	**2 044**
Gross value as at 30 June 2019	**2 565**	**27 549**	**2 256**	**653**	**25 241**	**58 264**
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as at 1 January 2020	**877**	**15 819**	**1 992**	**266**	**6 305**	**25 259**
Depreciation	145	1 567	149	32	2 456	**4 349**
Decreases	(2)	(42)	(30)	-	-	**(74)**
Foreign exchange differences	35	674	66	-	289	**1 065**
Accumulated depreciation and impairment losses as at 30 June 2020	**1 055**	**18 018**	**2 178**	**298**	**9 050**	**30 599**
Net value						
As at 1 January 2020	**1 593**	**11 461**	**196**	**387**	**18 069**	**31 707**
As at 30 June 2020	**1 509**	**9 532**	**78**	**355**	**16 191**	**27 665**

	Buildings and structures	Machinery and equipment, including computer hardware	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	**2 338**	**25 364**	**2 135**	**632**	**24 922**	**55 391**
Increases	278	2 516	337	21	-	**3 152**
Decreases	(165)	(1 441)	(305)	-	(751)	**(2 662)**
Change in inventories	-	670	-	-	-	**670**
Foreign exchange differences	19	171	21	-	203	**414**
Gross value as at 31 December 2019	**2 470**	**27 280**	**2 188**	**653**	**24 374**	**56 965**
Accumulated depreciation and impairment losses						
Accumulated depreciation and impairment losses as at 1 January 2019	**655**	**13 114**	**1 815**	**200**	**-**	**15 784**
Depreciation	250	4 001	441	66	6 305	**11 063**
Decreases	(33)	(1 415)	(277)	-	-	**(1 725)**
Foreign exchange differences	5	119	13	-	-	**137**
Accumulated depreciation and impairment losses as at 31 December 2019	**877**	**15 819**	**1 992**	**266**	**6 305**	**25 259**
Net value						
As at 1 January 2019	**1 683**	**12 250**	**320**	**432**	**24 922**	**39 607**
As at 31 December 2019	**1 593**	**11 460**	**196**	**387**	**18 069**	**31 705**

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

Recognition of PocketECG devices at the consolidated level

From the Group's point of view, PocketECG devices used to provide diagnostic services by the Group companies meet the definition of fixed assets and are presented in the consolidated financial statements in fixed assets (in the category Machinery and equipment). Components for the production of these devices, which at the Parent Entity level are recognized as inventories, from the point of view of the Capital Group are fixed assets under construction and are recognized in the Machinery and equipment category. The value of fixed assets under construction was PLN 5,123 thousand as at 30 June 2020 (PLN 5,758 thousand as at 31 December 2019 and PLN 6,767 thousand as at 30 June 2019).

15. Financial assets

	30.06.2020	31.12.2019	30.06.2019
Investment certificates	-	-	-
Shares	200	200	200
Financial assets	**200**	**200**	**200**
of which long-term portion	200	200	200
of which short-term portion	-	-	-

16. Trade and other receivables

	30.06.2020	31.12.2019	30.06.2019
Trade receivables	19 459	21 303	19 267
Budgetary receivables	1 096	1 236	763
Other receivables	173	100	72
Prepayments and deferred expenses	2 584	2 611	2 184
	23 311	**25 250**	**22 286**
Long-term	-	-	-
Short-term	23 311	25 250	22 286

The fair value of receivables approximates their book value. As at 30 June 2020, the total value of past due trade receivables for which no impairment losses were recognized amounts to PLN 12,430 thousand.

Nearly 100% of receivables are receivables denominated in foreign currencies, mainly in USD. The age structure of trade receivables at the end of the reporting period is as follows:

	Gross value	Impairment writedown	Net value
Non-matured	8 549	-	8 549
Past due 1-30 days	1 074	-	1 074
Past due 31-60 days	1 813	-	1 813
Past due more than 61 days	9 979	1 956	8 023
	21 415	**1 956**	**19 459**

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

17. Cash and cash equivalents

	30.06.2020	31.12.2019	30.06.2019
Cash in hand	7	8	9
Cash at banks	33 600	10 721	20 462
Cash in transit	-	1	-
Short-term deposits	7 368	420	416
	40 975	**11 150**	**20 887**

18. Basic and diluted earnings per share

	01.01.2020-30.06.2020	01.01.2019-31.12.2019	01.01.2019-30.06.2019
Profit for the reporting period attributable to shareholders of the Parent Company (in PLN '000)	(4 457)	4 279	5 870
Weighted average number of ordinary shares (in thousands of shares)	4 328	3 607	3 607
Basic profit per share in PLN (net profit/weighted average number of shares)	**(1,03)**	**1,19**	**1,63**
Diluted profit per share in PLN (net profit/weighted average number of diluted shares)	**(1,03)**	**1,19**	**1,63**

19. Trade and other liabilities, accruals and deferred income

	30.06.2020	31.12.2019	30.06.2019
Trade liabilities to other entities	2 206	2 061	175
Salaries and wages payable	8 445	5 663	6 936
Budgetary liabilities	1 783	1 442	1 151
Other liabilities	170	278	271
	12 604	**9 444**	**8 533**
Income tax liabilities	29	54	159

	30.06.2020	31.12.2019	30.06.2019
Subsidies	1 210	1 026	844
Advance payment from Medicare	10 934	-	-
Other	2 923	2 339	2 762
	15 067	**3 365**	**3 606**
of which long-term	1 210	1 026	687
of which short-term	13 857	2 339	2 919

In the first half of 2020, in order to support Medi-Lynx's current liquidity, the public insurer Medicare paid USD 2.7 million in advance for services. This amount is intended to be offset against receivables from Medicare for services rendered over a 210-day period.

20. Credits and loans

	30.06.2020	31.12.2019	30.06.2019
Zadłużenie z tytułu kart kredytowych	(24)	12	14
Kredyty i pożyczki	11 135	12 890	17 673
Loan received under "Cares Act"	12 719		
	23 829	**12 902**	**17 687**

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 loan agreement was signed, according to which the final repayment date is 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.

Due to the expected decline in revenues, Medi-Lynx has applied for a preferential loan under the support of the CARES Act established by the US Congress. As part of the loan, in April 2020, Medi-Lynx obtained funds in the amount of USD 3.2 million, which, in accordance with the provisions of the "CARES Act", are used to finance selected areas of operating activities, including mainly payroll. Pursuant to the provisions of the CARES Act, part of the loan, spent under certain conditions on employee salaries, is non-refundable. The remainder of the loan will be repaid within 24 months and bears an interest rate of 0.98% per annum.

21. Liabilities in respect of bonds and other financial liabilities

	30.06.2020	31.12.2019	30.06.2019
Liabilities in respect of bonds	-	-	-
Liabilities arising from acquisition of shares in Medi-Lynx	8 316	7 783	7 500
Finance lease liabilities	17 824	19 626	22 564
Financial liabilities	**26 140**	**27 409**	**30 064**
of which long-term	12 289	14 394	17 728
of which short-term	13 851	13 015	12 336

Liabilities arising from acquisition of shares in Medi-Lynx

Other financial liabilities also include a promissory note against the seller of Medi-Lynx Cardiac Monitoring, LLC shares, i.e. Medi-Lynx Monitoring. As at 30 June 2020, the outstanding amount is USD 1,990 thousand. On 13 January 2020, an annex changing the date of repayment of the final instalment of the liability towards the seller of shares in Medi-Lynx Cardiac Monitoring, LLC to 30 September 2020 was signed. As at the balance sheet date, interest accrued amounts to USD 100 thousand. Liabilities bear interest at a fixed interest rate.

Financial liabilities are measured at amortized cost using the effective interest rate method. The amount presented in short-term financial liabilities corresponds to the last instalment of liability arising from the acquisition of Medi-Lynx, payable on 30 September 2020.

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

Following the application of the IFRS 16, the Group, as a lessee, recognised lease liabilities measured at the present value of the outstanding lease payments and recognised the right-of-use assets at the amount equal to the lease liabilities.

22. Seasonal and cyclical changes

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

23. Issue of securities

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 book building 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 13,2 million. The capital increase was registered by the District Court for the capital city Warsaw in Warsaw on 6 April 2020. The issue costs amounted to PLN 585 thousand and were charged directly to the supplementary capital of Medicalgorithmics S.A. The funds from the issue were wired to the Company at the beginning of April 2020. For more information on the share issue, see current reports 7/2020–15/2020, 22/2020 and 29/2020.

24. Information on net profit allocation

On 12 August 2020, the General Meeting of Shareholders, after considering the Management Board's motion regarding the distribution of profit for 2019, decided to allocate the net profit of Medicalgorithmics S.A. entirely for reserve capital.

On 26 June 2019, the General Meeting of Shareholders, after considering the Management Board's motion regarding the distribution of profit for 2018, decided to allocate the net profit of Medicalgorithmics S.A. entirely for reserve capital.

25. 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 19 to this report.

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

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

As disclosed in the consolidated financial statements of the Medicalgorithmics Capital Group for 2019, in 2018 a tax audit was carried out by the Office of Audit of Public Accounts in Texas, which resulted in a potential liability on the part of Medi-Lynx for sales taxes and excise duty for the period from 1 July 2014 to 31 December 2017 in the amount of USD 1.9 million.

The Group received the opinion of tax advisers, which pointed to significant irregularities in the office's findings regarding a significant part of potential tax liability (USD 1.5 million). Based on the opinions of tax advisers, the Company's Management Board decided to recognize in the 2018 financial result the cost of the part of the tax liability that is unquestioned by the Group amounting to USD 0.4 million. This obligation was settled by Medi-Lynx in the third quarter of 2018. Due to significant doubts as to the correctness of the office's findings, the Management Board decided to submit a request for reconsideration of the case regarding the challenged part of the liability and not to create a provision regarding this part (more information on this subject is included in current reports no. 30/2018 and 31/2018 of 21 August 2018). Appeal proceedings are still pending before public administration bodies.

In the opinion of the Management Board, there were no circumstances that could lead to significant liabilities in this respect.

26. Transactions with executives

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

	01.01.2020-30.06.2020	**01.01.2019-30.06.2019**
Remuneration of the Management Board Members	425	295
Remuneration of the Supervisory Board	223	195

27. Information about significant legal proceedings

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

28. Events after the balance sheet date

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

	PLN '000		EUR '000	
Statement of financial position	**30.06.2020**	**31.12.2019**	**30.06.2020**	**31.12.2019**
Non-current assets	193 624	188 684	43 355	44 308
Current assets	40 747	17 429	9 124	4 093
Intangible assets	23 548	22 287	5 273	5 234
Long-term financial assets	67 972	64 021	15 220	15 034
Short-term receivables	25 807	9 684	5 779	2 274
Short-term financial assets	-	-	-	-
Cash and cash equivalents	9 817	1 987	2 198	467
Equity	212 302	183 674	47 537	43 131
Share capital	433	361	97	85
Short-term liabilities	7 725	5 934	1 730	1 393
Long-term liabilities	14 344	16 505	3 212	3 876
Number of shares	4 327 829	3 606 526	4 327 829	3 606 526
Book value per ordinary share (PLN/EUR)	49,06	50,93	10,98	11,96

Statement of comprehensive income	**01.01.2020-30.06.2020**	**01.01.2019-30.06.2019**	**01.01.2020-30.06.2020**	**01.01.2019-30.06.2019**
Sales revenue	25 947	24 718	5 842	5 765
Profit on sales	13 177	8 401	2 967	1 959
Operating profit	13 158	8 834	2 963	2 060
Profit before tax	17 703	8 837	3 986	2 061
Net profit	16 050	6 934	3 614	1 617
Earnings per ordinary share (PLN/EUR)	3,71	1,92	0,83	0,45

Statement of cash flows	**01.01.2020-30.06.2020**	**01.01.2019-30.06.2019**	**01.01.2020-30.06.2020**	**01.01.2019-30.06.2019**
Net cash flows from operating activities	(1 190)	6 517	(268)	1 520
Net cash flows from investing activities	(1 281)	14 601	(289)	3 405
Net cash flows from financing activities	10 300	(34 349)	2 319	(8 011)
Total net cash flows	7 828	(13 231)	1 763	(3 086)

Method of conversion of selected figures into EUR:

- The presented selected items of the statement of financial position presented were converted using the mid-rate quoted by the National Bank of Poland (NBP) for 30 June 2020, i.e. EUR/PLN 4.4660, and for 31 December 2019, i.e. EUR/PLN 4.2585;
- 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 2020 to 30 June 2020, i.e. EUR/PLN 4.413, and from 1 January 2019 to 30 June 2019, i.e. EUR/PLN 4.2880.

		30.06.2020 *(unaudited)*	31.12.2019 *(audited)*	30.06.2019 *(unaudited)*
Intangible assets		23 548	22 287	20 862
Property plant and equipment		4 499	5 327	6 205
Financial assets	30	67 972	64 021	61 483
Shares in subsidiaries	31	96 221	96 221	96 221
Deferred income tax assets		1 385	828	1 121
Non-current assets		**193 624**	**188 684**	**185 891**
Inventories		5 123	5 758	6 767
Trade and other receivables	32	25 807	9 684	6 747
Financial assets	30	-	-	-
Cash and cash equivalents		9 817	1 987	2 519
Current assets		**40 747**	**17 429**	**16 033**
TOTAL ASSETS		**234 372**	**206 113**	**201 924**

		30.06.2020 *(unaudited)*	31.12.2019 *(audited)*	30.06.2019 *(unaudited)*
Share capital		433	361	361
Supplementary capital		179 226	166 719	166 719
Retained earnings		32 643	16 594	6 934
Equity		**212 302**	**183 674**	**174 014**
Provisions		863	716	886
Deferred tax liabilities		3 136	2 409	1 906
Credits and loans		6 861	9 698	7 916
Liabilities in respect of bonds and other financial liabilities	35	2 274	2 656	3 197
Other liabilities		-	-	40
Accruals and deferred income		1 210	1 026	686
Long-term liabilities		**14 344**	**16 505**	**14 631**
Credits and loans		4 000	2 981	9 514
Liabilities in respect of bonds and other financial liabilities		991	1 042	1 006
Trade and other liabilities		2 735	1 911	2 601
Income tax liabilities		-	-	-
Accruals and deferred income		-	-	158
Short-term liabilities		**7 725**	**5 934**	**13 279**
Total liabilities		**22 069**	**22 439**	**27 910**
TOTAL EQUITY AND LIABILITIES		**234 371**	**206 113**	**201 924**

		01.04.2020-30.06.2020 *(unaudited)*	01.04.2019-30.06.2019 *(unaudited)*	01.01.2020-30.06.2020 *(unaudited)*	01.01.2019-30.06.2019 *(unaudited)*
Sales revenue	29	**12 498**	**11 345**	**25 947**	**24 718**
Raw materials and consumables used		(806)	(1 049)	(2 786)	(4 062)
Employee benefits		(2 015)	(2 686)	(4 957)	(6 354)
Amortization and depreciation		(692)	(785)	(1 308)	(1 395)
Third-party services		(1 817)	(2 000)	(3 542)	(3 864)
Other		(64)	(375)	(177)	(642)
Total costs of sales		**(5 394)**	**(6 895)**	**(12 770)**	**(16 317)**
Profit on sales		**7 104**	**4 450**	**13 177**	**8 401**
Other operating revenue		4	81	5	605
Other operating expenses		(11)	(141)	(24)	(172)
Operating profit		**7 097**	**4 390**	**13 158**	**8 834**
Finance income		(2 776)	(807)	4 753	1 797
Finance costs		(85)	(1 035)	(208)	(1 764)
Net finance (costs)/income		**(2 862)**	**(1 842)**	**4 545**	**3**
Profit before tax		**4 235**	**2 548**	**17 703**	**8 837**
Income tax		811	(652)	(1 654)	(1 903)
Net profit from continuing operations		**5 046**	**1 896**	**16 050**	**6 934**
Other net comprehensive income for the reporting period		-	-	-	-
Total comprehensive income for the reporting period		**5 046**	**1 896**	**16 050**	**6 934**
Basic profit per share in PLN		1,17	0,53	3,71	1,92
Diluted profit per share in PLN		1,17	0,53	3,71	1,92

	Share capital	Supplementary capital	Retained earnings	Total equity
Equity as at 1 January 2020 *(audited)*	**361**	**166 719**	**16 594**	**183 674**
Comprehensive income for the reporting period				
Net profit for the current reporting period	-	-	16 050	16 050
	-	**-**	**16 050**	**16 050**
Transactions recognized directly in equity				
Issue of G series shares	72	12 507	-	12 579
Total contributions from and distributions to owners	**72**	**12 507**	**-**	**12 579**
Equity as at 30 June 2020 *(unaudited)*	**433**	**179 226**	**32 643**	**212 302**

	Share capital	Supplementary capital	Retained earnings	Total equity
Equity as at 1 January 2019 *(audited)*	**361**	**155 394**	**11 325**	**167 080**
Comprehensive income for the reporting period				
Net profit for the previous reporting period	-	11 325	(11 325)	-
Net profit for the current reporting period	-	-	16 594	16 594
	361	**166 719**	**16 594**	**183 674**
Total contributions from and distributions to owners	**-**	**-**	**-**	**-**
Equity as at 31 December 2019 *(audited)*	**361**	**166 719**	**16 594**	**183 674**

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

	01.01.2020-30.06.2020 *(unaudited)*	01.01.2019-30.06.2019 *(unaudited)*
Cash flows from operating activities		
Net profit for the reporting period	**16 050**	**6 934**
Depreciation of property, plant and equipment	623	694
Amortization of intangible assets	685	701
Income tax	1 655	1 904
Change in inventories	635	(1 679)
Change in trade and other receivables	(16 348)	150
Change in accruals, prepayments and deferred income	-	(158)
Change in trade and other liabilities	226	(1 355)
Change in provisions	147	89
Net finance costs	-	179
Tax paid	(661)	(800)
Foreign exchange differences	(2 933)	413
Interest	(1 423)	(709)
Other	155	154
	(1 190)	**6 517**
Cash flows from investing activities		
Proceeds from sale of investments	-	5 825
Repayment of loans granted with interest	730	19 721
Loans granted	-	(7 673)
Acquisition of subsidiaries	-	(183)
Purchase of property plant and equipment and intangible assets	(2 011)	(2 982)
Acquisition of other investments	-	(40)
Other cash used in investing activities	-	(67)
	(1 281)	**14 601**
Cash flows from financing activities		
Income from issue of shares	12 579	-
Repayment of credit card debt	(37)	-
Inflows from credits taken out	-	19 000
Repayment debt on account of credits taken out with interest	(1 909)	(1 677)
Repayment of bonds with interest	-	(51 369)
Payments of finance lease liabilities	(472)	(547)
Interest on finance leases	(45)	(57)
Other inflows from financing activities	184	301
	10 300	**(34 349)**
Total net cash flows	**7 828**	**(13 231)**
Opening balance of cash and cash equivalents	1 987	15 750
Closing balance of cash	**9 816**	**2 519**

29. Sales revenue structure

By type	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Revenue from sales of services	10 992	10 358	23 080	20 646
Revenue from sales of devices	1 506	987	2 867	4 072
	12 498	**11 345**	**25 947**	**24 718**

By territory	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Domestic sales	15	104	179	124
Export sales	12 483	11 241	25 768	24 594
	12 498	**11 345**	**25 947**	**24 718**

30. Financial assets

	30.06.2020	31.12.2019	30.06.2019
Loans granted	67 772	63 821	61 283
Shares	200	200	200
	67 972	**64 021**	**61 483**
of which long-term portion	67 972	64 021	61 483
of which short-term portion	-	-	-

Loans granted

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

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

In the first half of 2020, a portion of interest on loans in the amount of USD 189 thousand was repaid. The interest accrued as at 30 June 2020 was USD 1,807 thousand.

The loans are measured at amortized cost using the effective interest rate.

31. Shares in subsidiaries

	30.06.2020	31.12.2019	30.06.2019
Medicalgorithmics US Holding Corporation	94 771	94 771	94 771
Medicalgorithmics Polska Sp. z o.o. (formerly: Kardiosystem Monitoring Sp. z o.o.)	1 267	1 267	1 267
Medicalgorithmics India Pvt. Ltd (formerly: Algotel Solutions Pvt. Ltd)	183	183	183
	96 221	**96 221**	**96 221**

32. Trade and other receivables

	30.06.2020	31.12.2019	30.06.2019
Trade receivables	25 303	8 759	5 919
Budgetary receivables	132	723	597
Other receivables	172	98	71
Prepayments and deferred expenses	200	104	160
	25 807	**9 684**	**6 747**
Long-term	-	-	-
Short-term	25 807	9 684	6 747

Trade receivables

Trade receivables from related entities	23 604	7 680	4 291
Trade receivables from other entities	1 699	1 079	1 727
Impairment loss on receivables from other entities	-	-	(99)
Total net trade receivables	**25 303**	**8 759**	**5 919**

Prepayments and deferred expenses

	30.06.2020	31.12.2019	30.06.2019
Insurance policies and deposits	9	46	49
Subscriptions	10	1	4
Fee for the listing of shares on the WSE	6	-	10
Advisory services	19	20	19
Other	156	37	78
Total prepayments and deferred expenses	**200**	**104**	**160**
Long-term portion	-	-	-
Short-term portion	200	104	160

33. Basic and diluted earnings per share

	Ordinary shares ('000)		
	30.06.2020	31.12.2019	30.06.2019
Number of shares at beginning of period	3 607	3 607	3 607
Issue of G series shares	721	-	-
Number of fully-paid shares at end of period	**4 328**	**3 607**	**3 607**

Podstawowy i rozwodniony zysk na akcję

	01.01.2020-30.06.2020	01.01.2019-31.12.2019	01.01.2019-30.06.2019
Profit for the period (PLN '000)	16 050	16 594	6 934
Weighted average number of ordinary shares (in thousands of	4 328	3 607	3 607
Effect of dilution of the potential number of ordinary shares (in	-	-	-
Basic profit per share in PLN (net profit weighted average number of shares)	**3,71**	**4,60**	**1,92**
Diluted profit per share in PLN (net profit weighted average number of diluted shares)	**3,71**	**4,60**	**1,92**

34. Credits and loans

Information on credits and loans taken by the Parent Entity is provided in Note 20 to these financial statements.

35. Liabilities in respect of bonds and other financial liabilities

Information on bonds and other financial liabilities taken by the Parent Entity is provided in Note 21 to these financial statements.

36. Trade and other liabilities, accruals and deferred income

	30.06.2020	31.12.2019	30.06.2019
Trade liabilities to other entities	1 164	987	971
Budgetary liabilities	1 093	459	767
Salaries and wages payable	308	215	592
Other liabilities	170	250	271
Short-term accruals and deferred income	-	-	158
Long-term accruals and deferred income	1 210	1 026	686
	3 945	**2 937**	**3 445**

37. 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 19 to this report.

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

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

38. Transactions with related parties

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

Medicalgorithmics US Holding Corporation

Statement of financial position (in PLN '000) — as at	30.06.2020	31.12.2019	30.06.2019
Loans granted	67 772	63 821	61 283
Contribution to the supplementary capital	94 771	94 771	94 771

Statement of comprehensive income (in PLN '000)	01.01.2020-30.06.2020	01.01.2019-31.12.2019	01.01.2019-30.06.2019
Interest on loans	1 744	3 429	1 761

Medi-Lynx Cardiac Monitoring LLC

Statement of financial position (in PLN '000) — as at	30.06.2020	31.12.2019	30.06.2019
Trade receivables	23 426	7 506	4 182

Statement of comprehensive income (in PLN '000)	01.01.2020-30.06.2020	01.01.2019-31.12.2019	01.01.2019-30.06.2019
Revenue from sales of goods and services	19 967	40 851	20 979

Medicalgorithmics Polska Sp. z o.o.

Statement of financial position (in PLN '000) — as at	30.06.2020	31.12.2019	30.06.2019
Trade receivables	119	119	76
Contribution to equity	1 267	1 267	1 267

Statement of comprehensive income (in PLN '000)	01.01.2020-30.06.2020	01.01.2019-31.12.2019	01.01.2019-30.06.2019
Revenue from sales of goods and services	25	78	15

Medicalgorithmics India Pvt. Ltd

Statement of financial position (in PLN '000) — as at	30.06.2020	31.12.2019	30.06.2019
Trade receivables	59	55	33
Contribution to the supplementary capital	183	183	183

Statement of comprehensive income (in PLN '000)	01.01.2020-30.06.2020	01.01.2019-31.12.2019	01.01.2019-30.06.2019
Revenue from sales of goods and services	121	314	165

39. Transactions with executives

Transactions with executives were disclosed in Note 26 to these financial statements.

40. Information about significant legal proceedings

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

41. Events after the balance sheet date

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

This report was approved for publication on 1 September 2020

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Peter G. Pellerito
Member of the Management Board

Warsaw, 1 September 2020

DIRECTORS' REPORT
ON THE OPERATIONS OF
MEDICALGORITHMICS
IN THE FIRST HALF OF 2020

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;
- 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, Asia 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.

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

The 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 Company's proprietary solution, used for remote monitoring of heart disorders. Among the available devices for monitoring heart work, the PocketECG system stands out by, among others, the longest time of home arrhythmia monitoring, remote online access to complete monitoring records and full statistical analysis of cardiac arrhythmias. In particular, the system serves to diagnose and detect the following arrhythmias: asymptotic, rare and irregular arrhythmias, and atrial fibrillation leading to stroke.

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

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

I. 2. Composition of the Capital Group

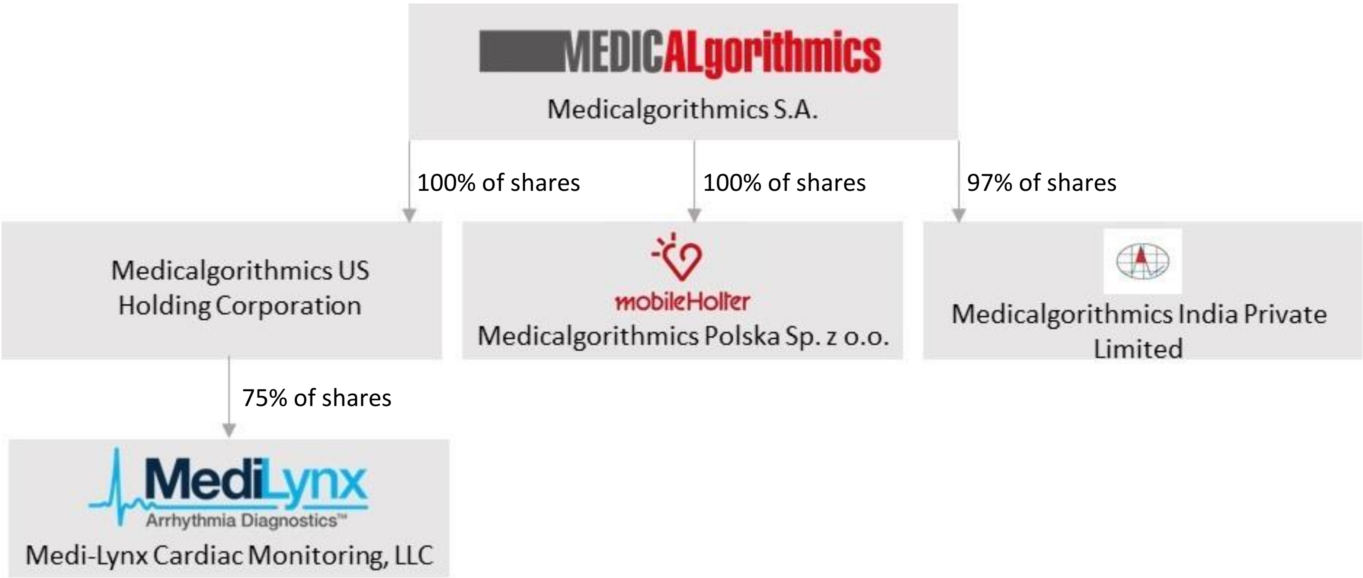
The Parent Company of the Group is Medicalgorithmics S.A. (the "Parent Company", "Company", "Issuer"), a joint-stock company registered in Poland, established in 2005. In 2011, the Company's shares made their debut on the NewConnect market, an alternative system of trading outside a regulated market 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 shares in Medicalgorithmics Polska Sp. z o.o. ("Medicalgorithmics Polska", "MDG Polska");
- 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 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 30 June 2020 are presented below:

Figure 1. Structure of Medicalgorithmics Capital Group during the reporting period.



The structure of the Capital Group did not change after balance sheet date.

I. 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.

Currently, the Group is working to strengthen its position in the US healthcare market, expand its operations in other countries, and further expand its territory mainly to European countries. On every new market, Medicalgorithmics is working with a minimum of one strategic sales and operational partner to minimize its operating costs and focus on technological support for patient care and the development of cardiology solutions. In the US 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, 22/2020 and 29/2020.

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.

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

- 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, tailored to the specific character of the Group operations, after the medium-term strategic goals will have been achived, in the opinion of the Management Board, will be 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's. And on in December 2016 it purchased a client database from another of the trading partners. Thus, since 2017, in the US market, the Group has been the exclusive provider of services provided by the PocketECG system to its target clients.

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

Medi-Lynx provides diagnostic services to patients in more than 35 states and earns revenue from the entities, in which the patients using the PocketECG system are insured. Services provided by Medi-Lynx are divided into four main categories, i.e. Telemetry, Event Monitoring, Extended Holter 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 centres.

In addition to the flagship PocketECG system, the Company also develops other innovative solutions for heart rate monitoring. The most advanced is the development of the PocketECG CRS system 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 Note 13 of the semi-annual condensed consolidated financial statements for the 1st half of 2020.

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 interim 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.

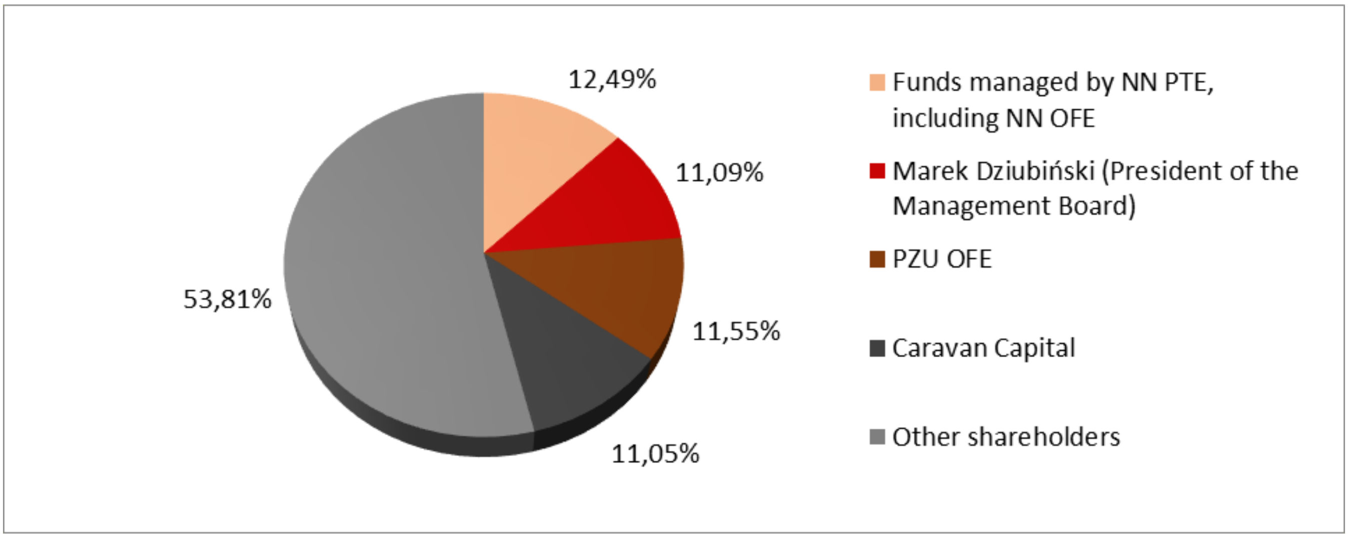


Table 1. Shareholding structure of Medicalgorithmics S.A.

Shareholder	Number of shares as at 1 September 2020	% ownership interest	Number of votes	% of total voting rights	Change in the period of 26 May 2020 - 1 September 2020
Funds managed by NN PTE, including NN OFE	540 586	12,49%	540 586	12,49%	unchanged
Marek Dziubiński (President of the Management Board)	480 000	11,09%	480 000	11,09%	unchanged
PZU OFE	500 000	11,55%	500 000	11,55%	+28 000
Caravan Capital	478 438	11,05%	478 438	11,05%	unchanged
Other shareholders	2 328 805	53,81%	2 328 805	53,81%	-28 000
TOTAL NUMBER OF SHARES	4 327 829				

1) information based on the number of shares registered by the entity at the Ordinary General Meeting of 12 August 2020.

I. 6. Management Board of the Parent Company

On 21 January 2020, the Supervisory Board of the Company resolved to appoint Mr Peter G. Pellerito to the Management Board, entrusting him with the function of the Management Board Member.

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 G. Pellerito – Management Board Member (since 21 January 2020)

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

During the first half of 2020 there were no changes in the composition of the Parent Company's Supervisory Board. As at the date of publication of this report, the Company's Supervisory Board consisted of:

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

Mariusz Matuszewski – Member of the Supervisory Board
Marcin Gołębicki – Member of the Supervisory Board

The table below presents shares in the 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 interim report of the Parent Company. The information contained in the table is based on notifications received from shareholders in accordance with Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Table 2. Medicalgorithmics S.A.'s 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 of 26 May 2020 – 1 September 2020
Marek Dziubiński	President of the Management Board	480,000	-	Unchanged
Maksymilian Sztandera	Chief Financial Officer	-	-	Unchanged
Peter G. Pellerito	Management Board Member	-	-	Unchanged
Michał Wnorowski	Chairman of the Supervisory Board	-	-	Unchanged
Artur Małek	Member of the Supervisory Board	-	-	Unchanged
Marek Tatar	Member of the Supervisory Board	-	-	Unchanged
Krzysztof Urbanowicz	Member of the Supervisory Board	-	-	Unchanged
Mariusz Matuszewski	Member of the Supervisory Board	-	-	Unchanged
Marcin Gołębicki	Member of the Supervisory Board	-	-	Unchanged

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

I. 8. Information on changes in the key rules of managing the Company and its Capital Group

In the six-month period ended 30 June 2020, there were no significant changes in the key rules of managing the Parent Company. The Management Board of the Parent Company strives to harmonise the management principles in the Medicalgorithmics Group companies by implementing appropriate procedures and standards of ownership control.

II. Overview of factors determining the Group's development and summary of material events related to operations of the Group in the 1st half of 2020

In the first half of 2020, activities related to the implementation of the medium-term strategic goal of changing the business model were continued. In line with the assumptions regarding the change in the business model, following a temporary decline in sales revenues and cash flows from operating activities, the Group expect an increase in the volume of research and improvement in cash flows.

In order to ensure adequate funds for the Group's development and current operating activities in the transitional period, a decision was made to obtain additional financing by issuing new ordinary series G bearer shares. The total value of the issue in Q1 2020 was PLN 13.2 million.

However, due to the onset of the pandemic, the Group's results and situation deteriorated significantly. In the second quarter of 2020, measures were taken to reduce the business risk related to the global SARS-Cov-2 pandemic and to ensure financial liquidity in the context of reducing the volume of services provided and loss of revenues.

Expansion of operations outside the United States

Despite the state of the pandemic and the decline in the dynamics of the implementation of business initiatives in many countries, the Parent Entity achieved satisfactory sales results of the PocketECG system in markets outside the United States, selling a total of 1,162 new devices. The largest recipient is still a strategic partner from Canada, m-Health Solutions Inc. As a result of the pandemic, in the second quarter of 2020, a visible decrease in the number of tests with other partners was observed. However, nowadays, the sales trend and the number of tests are improving significantly each month. If this trend continues, the Company forecasts to achieve the assumed sales results for 2020.

In the first half of 2020, the Company continued activities aimed at expansion into new foreign markets. As a result, letters of intent were signed with companies from the Netherlands, Austria, Spain and Switzerland, and with a large group of companies with offices in the countries of Southeast Asia. Technology pilots are currently being prepared in Singapore and the Philippines. In the fourth quarter of 2020, the pilot projects are to cover more countries of the region. As a result of the pandemic, activities related to entering the market of Saudi Arabia and South Korea were postponed. The pandemic also affected the delay or slower development of the commercialization of PocketECG in Sweden, Finland and Norway, as well as in the Arab Emirates, where the Company has new business partner. The first revenues from Scandinavia and the Middle East are expected in the fourth quarter of 2020.

Significant events at Medi-Lynx

The Management Board has taken a number of measures to mitigate the impact of the pandemic on the Group's operations. Under the "Cares Act" adopted by the US Congress in response to the negative effects of the SARS-Cov-2 pandemic, funds in the amount of USD 3.2 million were obtained, which, in accordance with the provisions of the act, are used to finance selected areas of operating activities. Under “Cares Act” Medi-Lynx received also non-returnable support for health care companies in the amount of USD 1 million. In addition, to support the current liquidity of Medi-Lynx, the Medicare public insurer paid USD 2.7 million in the form of an advance payment on services. This amount is to be settled with the amounts due for tests rendered to Medicare over a period of 210 days. After this date, the remaining balance will be refunded to Medicare. Additionally, in order to reduce the costs of employee benefits, a decision was also made to reduce the working time of employees.

Parallel to the ad hoc anti-crisis measures, work continued on meeting the mid-term goal of changing the business model and negotiating further contracts directly with federal and local private insurers (in-network).

Marketing initiatives

In the first half of 2020, the Group carried out a number of marketing activities aimed at supporting sales in the face of the prevailing pandemic. The focus was on building and strengthening the image of the PocketECG brand and Medi-Lynx as a company that is ready to support and help customers during a pandemic. An offer was prepared under the "TeleHealth" service based on shipping PocketECG devices directly to the patient's home. As part of clinical marketing, a webinar entitled "Outpatient Arrhythmia Management in a Post Virus World" was organized for potential and existing customers with the participation of opinion leaders in the electrophysiology and cardiology industry as well as users of the PocketECG system.

Cooperation with leading US medical centers was initiated conducting research projects aimed at monitoring the negative effects of pharmacotherapy on patients infected with COVID-19. The ZOHO CRM tools introduced were also improved, as well as the educational platform, including for the Brainshark sales force in order to further professionalize and increase the effectiveness of sales representatives.

Product development and R&D activities

In 2020, the Company continued its research and development activities. Intensive work is underway on PocketECG IV, a new version of the existing system. The fourth generation will primarily enable the PocketECG to be connected over the LTE band for more efficient continuous ECG signal transmission. Another product under development is PatchECG, which is expected to be launched in the first quarter of 2021. 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.

In 2020, 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 to the products described above, continuous work is being carried out on new functionalities of the current PocketECG system, which will allow to maintain a technological advantage over competitive solutions. In the first quarter of 2020, the Group conducted development work to expand the offer of services offered on the US market with the "Extended Holter" functionality, while integrating all the offered types of tests in one PocketECG system. The new service was launched at the beginning of the second quarter of 2020.

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

III. 1. Discussion of the Group's performance

In the 1st half of 2020, 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 in the US market generated by Medi-Lynx, MDG Poland 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.

The table below presents the key items of the Group's statement of comprehensive income for the 1st half of 2020 and 2019.

Table 3. Key items of the statement of comprehensive income for 1st half 2020 and 2019, and changes over the period in question (PLN '000)

	01.01.2020-30.06.2020	**01.01.2019-30.06.2019**	**Change**	**Change %**
Sales revenue	59 170	94 098	(34 928)	(37%)
Operating expenses	78 048	86 964	(8 916)	(10%)
Profit/(loss) on sales	(18 878)	7 134	(26 012)	(365%)
Other operating revenue, net	4 120	480	3 640	758%
Operating profit/(loss)	(14 758)	7 614	(22 372)	(294%)
Net finance costs	(500)	(1 803)	1 303	(72%)
Profit/(loss) before tax	(15 258)	5 811	(21 070)	(363%)
Net profit/(loss), *of which*:	**(11 438)**	**5 528**	**(16 966)**	**(307%)**
Net profit/(loss) attributable to Shareholders of the Parent Company	(4 457)	5 870	(10 327)	(176%)
Net profit/(loss) attributable to non-controlling interests	(6 981)	(342)	(6 639)	1 941%
EBITDA	(6 660)	16 214	(22 874)	(141%)

Sales revenue

In the 1st half of 2020, the Capital Group's revenue amounted to PLN 59.2 million, down by 37% year on year. The decrease in revenue was largely attributable to worse sales results of Medi-Lynx, resulting from the decrease in the volume of services sold, a decrease in average rates for tests performed and their unfavorable structure.

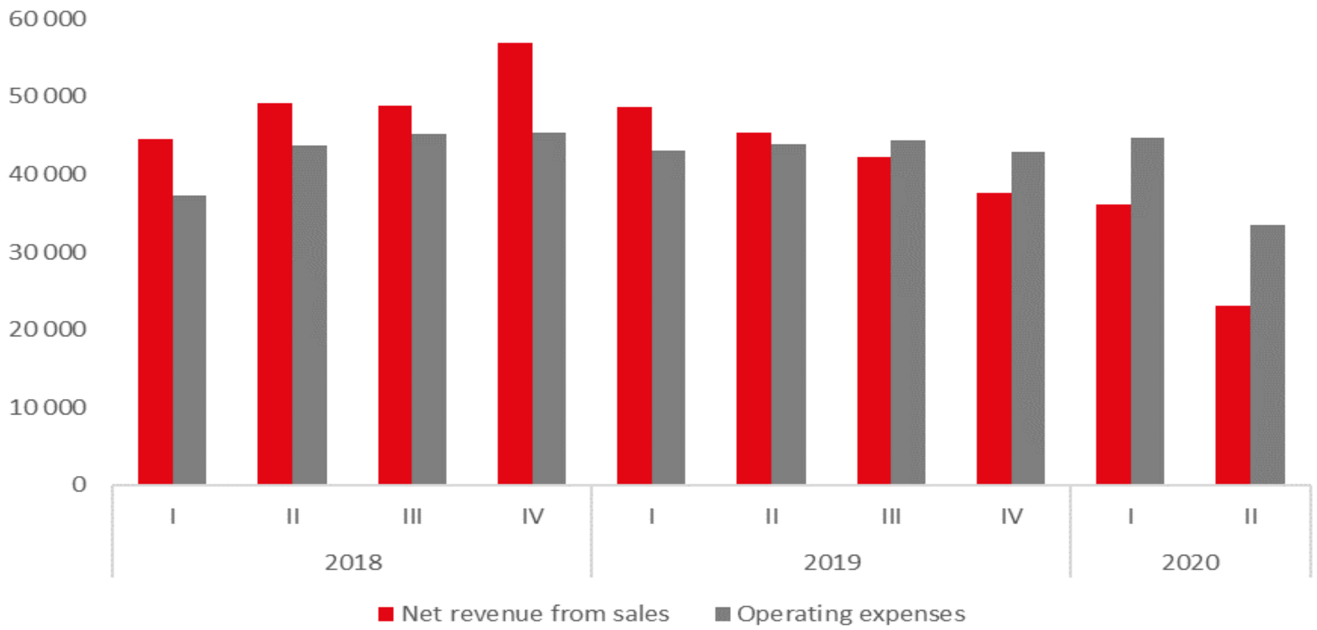
As a result of the SARS-COV-2 pandemic, significant decrease in the number of patients undergoing ECG tests using PocketECG technology was noted which will consequently reduce the number of applications for payment from insurer and negatively impact Medi-Lynx revenues in second quarter of 2020. The biggest drop in the number of procedures sold on US market was noted in April 2020. Beginning May 2020 the Group records an increase in volumes as a result of the process of gradual defrosting of the economy and actions taken by Medi-Lynx. In total in the 1st half of 2020 the number of procedures sold decreased by 16% compared to same period last year.

The decrease in average rates compared to the first half of 2019 is due to a decrease in reimbursement rates for Medi-Lynx services used for settlements with the clients of some insurers using the Multiplan network (more details in Current Report No. 5/2019), and to a large extent due to a change in the business model, under which long-term contracts with insurers are signed and fixed rates are contracted. In line with previous assumptions, the process of changing the business model from "out-of network" to "in-network" translates into lower rates for research, but it is expected that it will significantly increase the volume of research in the long run.

Simultaneously in second quarter of 2020 there was an unfavorable change in the sales product mix compared to same period last year. The share of high-paid tests decrease in favor of tests with a lower refund level, which consequently had a negative impact on the level of revenues.

The total impact of the factors described above translated into a decrease in the Group's revenues in real terms (without the impact of the USD/PLN exchange rate) by PLN 40.3 million compared to the first half of 2019. As a result of the increase in the USD/PLN exchange rate, this decrease was offset by PLN 3.0 million. Additionally, an increase in revenues from unrelated entities in the Parent Entity (PLN +2.3 million) and in Medicalgorithmics India (PLN +0.1 million PLN) was recorded. Sales revenues of Medicalgorithmics Polska Sp. z o.o. remained at a similar level compared to the first half of 2019.

Chart 2. The Group's revenue from sales and cost of sales in particular quarters of 2018–2020 (PLN '000)



In the reporting period, the Group earned all of its revenue from the sales of PocketECG system that comprised of the revenue from sales of services in the amount of PLN 56.3 million (PLN 92.2 million in first half of 2019) representing 95% of total revenue and revenue from sales of devices to not-related companies in the amount of PLN 2.9 million (PLN 1.9 million in first half of 2019). The vast majority of revenue, as in the previous years, was denominated in US dollars.

Operating expenses

Table 4. Structure of operating expenses in the 1st half of 2020 and 2019

	01.01.2020-30.06.2020	01.01.2019-30.06.2019	Change	Change %
Raw materials and consumables used	4 333	4 586	(253)	(6%)
Employee benefits	47 223	49 803	(2 580)	(5%)
Amortization and depreciation	8 098	8 600	(502)	(6%)
External services	16 291	19 837	(3 546)	(18%)
Other	2 103	4 138	(2 034)	(49%)
TOTAL:	**78 048**	**86 964**	**(8 916)**	**(10%)**

Raw materials and consumables used

The cost of raw materials and consumables used slightly (-6%) decreased as compared to first half of 2019, mainly due to cost saving initiatives initiated by Medi-Lynx. The increase in number of devices sold to not-related parties, combined with the increase in costs of materials used for maintenance services, translated into an increase in costs of raw materials and consumables in Parent entity level (not eliminated in consolidation). In the 1st half of 2020, the Group sold 1102 devices (770 devices in the corresponding period of the previous year). The costs of raw materials and consumables MDG India and MDG Poland remained at a similar level as compared to the same period of the previous year.

Employee benefits

Costs of employee benefits decreased by approximately PLN 2.6 million (-5%) as compared to first half of 2019. The change is primarily attributable to the following factors:

(1) decrease in working time in Medi-Lynx. Because of SARS-COV-2 pandemic in order to optimally use the working time of persons employed, in March 2020 a decision was made to reduce working time of employees. As a result an average number of FTE decreased by 36% (as compared to first quarter of 2020) and costs of employee benefits decreased by PLN 3.7 million as compared to the first half of 2019. However, comparing only the second quarter of 2020 to the corresponding period of the previous year, the costs decreased in nominal terms by USD 1.5 million (25%; PLN 5.9 million).

(2) a change in the average USD exchange rate which translated into an increase in costs by approximately PLN 2.4 million.

(3) decrease is costs of employee benefits at the Parent Company by PLN 0.8 million, due to reduced working time of employees in second quarter of 2020, connected with SARS-COV-2 pandemic and lower headcount as compared to the first half of 2019.

The costs of employee benefits represent the most significant item in the structure of the Group's operating expenses (60%). The high share of costs of employee benefits results from the nature of the Group's operations, whose main resource is the people. Both at the level of the Parent Company, where the majority of employees are IT specialists and production engineers, and at the level of subsidiaries, where, among others, ECG technicians and sales and customer service specialists are employed, the operations are based on human capital.

Amortisation and depreciation

In the 1st half of 2020, depreciation and amortization expenses decreased by PLN 0.5 million (-6%) as compared to the first half of 2019. Currently they represent nearly 10% of total operating expenses.

The most significant component of the amortization and depreciation expense is the amortization of client bases held by the Group (the Medi-Lynx client base recognized as a result of the final settlement of the purchase price and AMI/Spectocor client base acquired following the settlement agreement of 28 December 2016). According to the Management Board's estimates, the client bases will bring economic benefits and will be amortized over a period of 20 years. The total amortization expense for both client bases amounted to PLN 3.1 million in the 1st half of 2020 and increased by about PLN 0.1 million year on year. The change is attributable exclusively to an increase in the average USD exchange rate.

In addition, due to the fact that the Group classifies the PocketECG devices as fixed assets, the manufacturing cost of PocketECG sold to Medi-Lynx is not charged on a one-off basis to costs of raw materials and consumables used, but it is amortized over a period of 3 years, corresponding to the expected life cycle of the devices. The total cost on that account in the first half of 2020 amounted to PLN 0.8 million (PLN 1.3 million in first half of 2019).

Following the application of IFRS 16, the Group recognised right-of-use assets. Right-of-use assets are depreciated overt the lease term, and the depreciation expense in the 1st half of 2020 amounted to PLN 2.3 million (PLN 2.6 million in first half of 2019).

Third-party services

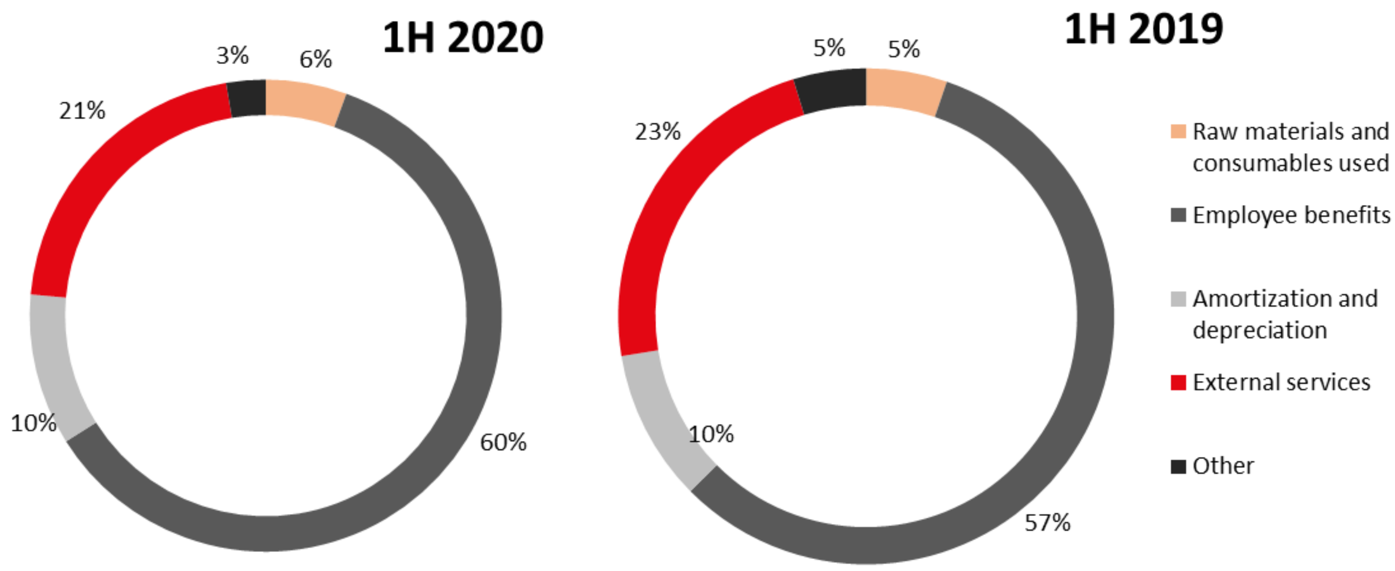
Third-party services account for 21% of the Group's operating expenses, and their amount decreased by 18% year on year to PLN 16.3 million. The key items of costs of third-party services include: telecommunications and Internet services, courier and transport services, as well as advisory and marketing services. The table in Note 9 hereto presents in detail the structure of costs of third-party services in the reporting period and in the corresponding period

Comparing the first half of 2020 with the corresponding period of 2019, a significant decrease in advisory and legal costs is visible. In 2019 Group incurred significant costs in connection with cooperation with external consultants and law firms with respect to the implementation of the new business model. Due to the pandemic situation, the annual scientific conference organized by the Heart Rhythm Society (HRS) was canceled, therefore the marketing costs incurred by the Group decreased in the analyzed period.

On the other hand, in the first half of 2020, the Group continued the implementation of the new IT system (XiFin), which was started in the second half of 2019. This translated into an increase in the costs of telecommunications and Internet services compared to the first half of 2019. Furthermore, the Group incurred higher costs of IT services related to the computing services for the needs of ongoing research projects. The cost level was negatively affected by an increase in the average USD/PLN exchange rate.

In the first half of 2020, as well as in the comparative period, a significant part of the cost of lease and rental was the cloud storage service, which is not subject to recognition in accordance with IFRS 16. In addition, the rent and lease category presented in Note 9 includes also operating expenses related to the rent of office space and the cost of renting low-value office equipment.

Chart 3. Structure of the Group's operating expenses in the 1st half of 2020 and 2019

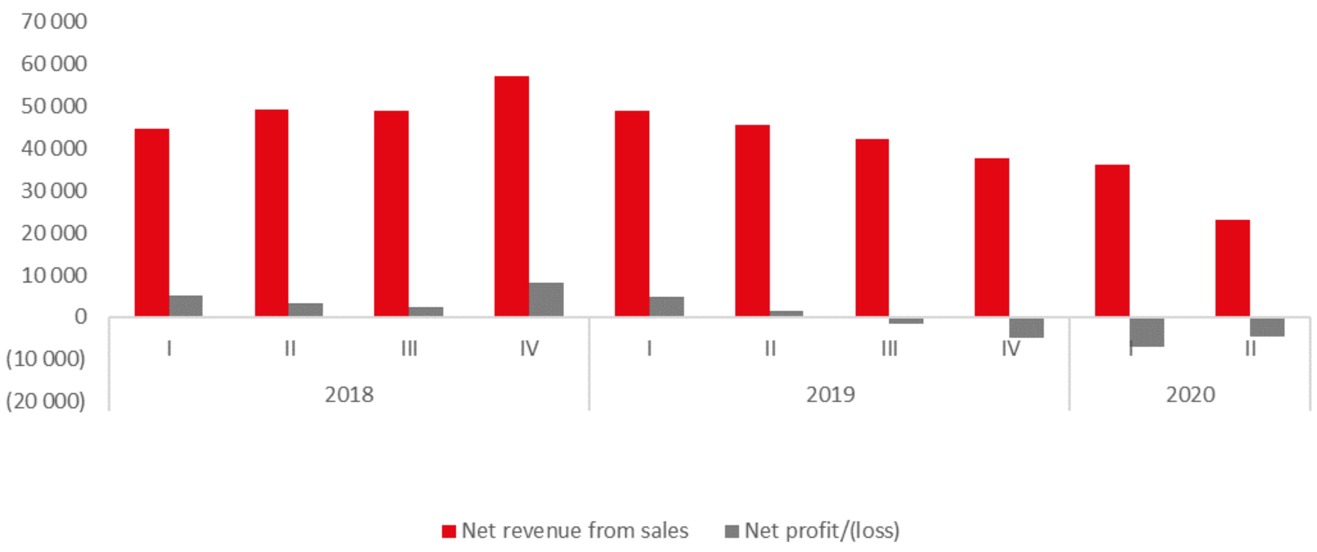


Profit and profitability

Net loss generated in the 1st half of 2020 amounted to PLN 11.4 million and loss attributable to Shareholders of the Parent Company amounted to PLN 4.5 million. Under the influence of factors affecting revenues and operating costs, which were described in the previous sections, Group recorded negative sales margin (-32% in the 1st half of 2020 in comparison to 8% in the 1st half of 2019) and negative EBITDA margin (-11% in the 1st half of 2020 in comparison to 17% in 1st half of 2019). Recognition of support received directed at companies from the healthcare sector (HHS) in other operating income (PLN 4.2 million) had positive impact on profit.

Result before tax for the 1st half of 2020 was encumbered with net finance costs of PLN 0.5 million, comprising mainly interest on the Group's financial liabilities (PLN 0.3 million) and interest recognized following the application of IFRS 16 (PLN 0.3 million). Following the repayment of subsequent instalments of the liability on account of the acquisition of shares in Medi-Lynx and refinancing the bonds with a credit facility, followed by lower interest rate due to the change in WIBOR, interest expenses in the 1st half of 2020 declined by approximately PLN 0.8 million year on year.

Chart 4. Revenue from sales and net profit/(loss) of the Group in PLN '000 in particular quarters of the years 2018-2020



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

As at 30 June 2020, total assets amounted to PLN 320.5 million which represents an increase by PLN 37.3 million (or +13%) from 31 December 2019. The significant increase in the balance sheet value is primarily due to recognition of funds received under the support of the Cares Act and Medicare (+ 8%) and the increase of USD/PLN exchange rate compared to 31 December 2019 (+5%).

As at the balance sheet date, total non-current assets amounted to PLN 256.2 million and accounted for 80% of total assets. The most significant item of non-current assets were intangible assets, including client bases (PLN 103.9 million), goodwill recognized on the acquisition of related entities (PLN 89.3 million) and expenditure on research activities (PLN 23.1 million). Non-current assets increased by PLN 9.4 million (+4%) as compared to 31 December 2019 what resulted mainly from increase in intangible assets value caused by an increase in the average USD/PLN exchange rate (+9.8 million) and expenditure on research activities incurred (+1.9 million).

As at 30 June 2020, current assets amounted to PLN 64.3 million which represents an increase by PLN 27.9 million (or +77%) from 31 December 2019. The significant increase is the effect of high, positive net cash flows, the most important of which is the inflow of cash under the "Cares Act" support program (+ PLN 17.0 million), an advance payment for services received from Medicare (+ PLN 11.0 million) and the proceeds from the issue of series G shares (+ PLN 12.6 million). Current assets accounted for 20% of total assets. Current assets comprise cash (64%) and trade receivables (36%).

As at 30 June 2020, equity attributable to Shareholders of the Parent Company amounted to PLN 211.7 million, having increased by PLN 15.9 million (or +8%) from 31 December 2019. Equity account for 66% of total assets. The change in equity attributable to Shareholders of the Parent Company was driven by the net loss incurred in the current reporting period (PLN -4.5 million), foreign exchange gains resulting from an increase in the USD exchange rate (PLN +7.8 million) and recognition of the issue of series G shares in the share and supplementary capital (PLN +12.6 million). The equity of minority shareholders decreased by PLN 7.0 million mainly as a result of the loss suffered by Medi-Lynx attributable to non-controlling interests, partly offset by exchange differences resulting from the increase in USD/PLN exchange rate.

As at the balance sheet date, long-term liabilities stood at PLN 41.0 million (13% of total assets), and comprised mainly credits and loans (PLN 19.7 million) and other financial liabilities (PLN 12.3 million). Long-term liabilities increased by PLN 10.4 million (+34%) as compared to 31 December 2019, mainly due to recognition of the loan received under the "Cares Act" adopted by the US Congress (USD +3.2 million).

As at the balance sheet date, short-term liabilities amounted to PLN 44.5 million (14% of total assets). The most significant components of short-term liabilities were accruals and deferred income (PLN 13.9 million) where advance payment for services received from Medicare to support the current liquidity of Medi-Lynx was recognised. Financial liabilities include liabilities arising from the acquisition of shares in Medi-Lynx (PLN 8.3 million) and finance lease liabilities (PLN 5.5 million). Short-term liabilities increased by PLN 16.5 million (+59%) from 31 December 2019 mainly as a result of aforementioned advance payment from Medicare.

III. 3. Proceedings pending before a court, arbitration body or public administration authority

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

III. 4. Related party transactions

In the discussed period, there were no transactions with related parties concluded on terms other than arm's length terms. For a summary of related-party transactions, see Note 38 to the Financial statements.

Shareholders (as related entities)

On 12 August 2020, the Ordinary General Meeting of Shareholders of the Parent Company passed a resolution to allocate the entire net profit reported in the Company’s Financial statements for the financial year ended 31 December 2019 to the supplementary capital of Medicalgorithmics S.A.

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

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

III. 6. Information on factors which, in the Issuer's opinion, will affect its performance during at least the next six months

The most important factor that will affect the Group's results in the next six months is the SARS-CoV-2 pandemic. 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. In the United States significant decrease in the number of patients undergoing ECG tests using PocketECG technology was noted, which will consequently reduce the number of applications for payment from insurers. In total in second quarter of 2020 the number of procedures sold decreased by 22% compared to same period last year.

The biggest drop in the number of procedures sold on US market was noted in April 2020. Beginning May 2020 the Group records an increase in volumes as a result of the process of gradual defrosting of the economy and actions taken by Medi-Lynx. The PocketECG system is promoted as a comprehensive telemedicine platform enabling fully remote diagnostics, without the need for a physical visit to a doctor. Currently, a large part of tests is carried out in a fully remote form - i.e. the device is delivered directly to the patient's home. The data currently held by the Company indicate an upward trend in the number of medical procedures performed, but it is still difficult to predict what the further course of the pandemic will be and whether this trend will continue in the second half of 2020.

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. Since April 14, 2020, when the Company informed in the current report No. 27/2020 about a significant decrease in the number of monitoring sessions started, thanks to the effects of management actions taken to adjust the operating activities of the Capital Group companies to the current situation related to the development of the pandemic and thanks to gradual unfreezing of the economy, the Company has observed a gradual increase in the number of initiated ECG monitoring sessions. The improvement in this area was reflected in the reported number of payment applications where, compared to the data for April 2020, in May, June and July 2020, the Company recorded an increase of 32%, 36% and 50%, respectively, per working day. 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, 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 and its future financial results and cash flow position in next 12 months.

In the opinion of the Management Board, another important factor contributing to the Group's performance over the next six months 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.

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 refund fees and payments for the procedure received from private 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.

III. 7. Key threats and risks related to the remaining months of the financial year

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

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

The Management Board of the Parent Company is responsible for establishing and supervising the risk management by the Capital Group. The Capital Group’s risk management policy is to identify and analyses 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 results of a loss of the competitive advantage enjoyed by the Group's technology, a downturn on the cardio diagnostics market or as a consequence of other adverse external or internal events, the Group is exposed to a risk of a significant decrease of revenues on sales, and as a consequence a deterioration of financial results and loss of financial liquidity.

Risk associated with key employees

The Group's operations are based on top managers and professionals in the areas of IT systems, programming, medical devices, digital signal processing, project management, cardio diagnostics, electrophysiology and sale of medical services. The fierce competition on the demand side of the labour market and a limited number of specialized 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 working-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 4 to the semi-annual condensed consolidated financial statements for the 1st half of 2020.

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 2019 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 service the credit facility in a timely manner.

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 84% 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 also remains a risk factor. As described in Section II hereof, the Management Board has been implementing the objectives concerning the change of the business model and aims at signing long-term service contracts. As at the balance sheet date, however, most of the cooperation with insurers is carried out without any contracts (the out-of-network model). 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.

IV. Basic information about the Parent Company

Medicalgorithmics S.A. is a joint-stock company registered in Poland. The Parent Company was established on the basis of a notarial deed registered in Repertory A No 1327/2005 of 23 June 2005. In 2011, the Company's shares 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.

Principal business activities of Medicalgorithmics S.A. are as follows:

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

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

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

V. 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 433 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	Maksymilian Sztandera	Peter G. Pellerito
President of the Management Board	Chief Financial Officer	Member of the Management Board

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

The Management Board of the Parent Company of the Medicalgorithmics Capital Group hereby represents that, to the best of its knowledge, the semi-annual condensed consolidated financial statements for the 1st half of 2020 and the comparative data have been prepared in compliance with the applicable accounting policies, and give a true, fair and clear view of the Medicalgorithmics Capital Group's assets, its financial condition and results of operations, and that the Directors' Report on the operations of the Medicalgorithmics Capital Group in the 1st half of 2020 gives a true picture of the Group'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, 1 September 2020

Based on the representation of the Supervisory Board of Medicalgorithmics S.A. on the selection of the audit firm to review the interim condensed consolidated financial statements of the Medicalgorithmics Capital Group for the 1st half of 2020 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 reviewing the interim condensed consolidated financial statements of the Medicalgorithmics Capital Group for the 1st half of 2020 met the conditions required to issue an impartial and independent audit opinion, in accordance with the applicable laws and regulations, professional standards, and principles 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, 1 September 2020

MEDICALgorithmics
INNOVATIVE SOLUTIONS IN MEDICINE

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

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