MEDICALgorithmics
INNOVATIVE SOLUTIONS IN MEDICINE

Standalone Annual Report
MEDICALgorithmics

for 2017 year

This report includes:

- Letter from the CEO
- Standalone Financial Statements
- Management Report on the Activities of the Company
- Management Statements
- Report of the Independent Auditor

Dear Shareholders, Colleagues, Clients and Friends,

I would like to encourage you to read the Annual Report of the Medicalgorithmics Capital Group, , summarizing our business activities in 2017. We have remained one of the largest Polish companies in the field of cardiac telemetry and reported the highest consolidated revenues in our history. For the first time, the Group's sales exceeded PLN 200 million, while maintaining high margins on operations. EBITDA stood at PLN 54.3 million and net profit attributable to shareholders of the Parent Company reached PLN 25.5 million. Despite its dynamic growth, the Group reduced its debt and at the end of the year our financial liabilities less cash amounted to PLN 40 million.

A major event affecting the Group's performance in 2017 was the termination of collaboration with one of our trading partners in the United States, AMI/Spectocor, at the end of 2016. Starting from 2017, we have had one business partner in the U.S. market – Medi-Lynx Cardiac Monitoring, LLC – of which we are the majority shareholder. As a result of the termination of collaboration with AMI/Spectocor, Medi-Lynx acquired a database of clients and employees from that company, which posed an operational challenge as regards the consolidation of both companies' sales forces. For us, the past year was also the first full year of consolidation of Medi-Lynx's financial results.

In 2017, we undertook a number of efforts to support the sales process on global markets, including the key U.S. market. Since the second quarter, we have been conducting intense marketing activities aimed at increasing the awareness of selected healthcare professionals and patients about the competitive advantages of the PocketECG technology and strengthening the image of Group members as an expert companies. As part of the expansion of sales on new markets, we have acquired trading partners in Denmark, the Czech Republic and Italy.

The development of new products, in particular the cardiac telerehabilitation system, progressed as planned. In 2017, we completed the procedure for registration of the system in Poland and obtained consent for its commercialization. Owing to that, in 2017 we also launched a pilot implementation of the system at the John Paul II Specialist Hospital in Kraków. Our technology received very positive references from doctors, physiotherapists and patients.

As regards product development, we have also improved our flagship cardiac arrhythmia diagnostic system, PocketECG. Last year, we improved the measurement and interpretation of the patient's physical activity by adding an unrivalled new functionality to the system. Measurement with an accelerometer built into the PocketECG device allows for linking the analysis of ECG signal data, including arrhythmias, with the patient's activity during heart rate monitoring.

In addition, at the end of 2017 we received funding from the National Centre for Research and Development for a project entitled ECG TechBot. It is a dedicated software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods. I am very glad that the Medicalgorithmics' project has been selected from many other ideas.

In the coming years, we will strive to strengthen the Medicalgorithmics Group's position among the leading providers of state-of-the-art cardiac telemetry technologies, not only in the United States, but also in other countries around the world. To achieve our goal, we plan to employ the latest technologies in order to improve the quality of life of cardiology patients and to assist doctors in making accurate diagnoses.

In 2018, we will continue our efforts in Europe to create reimbursement codes for the long-term arrhythmia monitoring service in Germany and the UK. As part of the expansion of our business in the United States, we continue, together with Medi-Lynx, an information and image campaign of the PocketECG system and are planning to launch pilot implementations of the system for hybrid cardiac telerehabilitation.

We continue to believe that investing in research and development and in the sales department is very important for the future growth of our Group. For this reason, we intend to significantly expand our R&D department in Poland in 2018 and employ new sales representatives not only for the US, but also for the European market.

I believe that the initiatives taken will contribute to a systematic increase in the number of services we provide, as well as to an increase in revenue and customer satisfaction in the years to come. Successful delivery of said objectives, combined with effective management of costs, will go a long way toward creating value for our Shareholders.

Business performance is just as important to us as the way it is achieved. The Group would not be one of the market leaders if it had not observed the values it follows in business and in its relations with employees. People centred around a system of values embodied by Medicalgorithmics are our most precious asset. That is why I would like to express my sincere thanks for the work and commitment of all those who contributed to the continued development of a strong and modern company which Medicalgorithmics undoubtedly is.

Marek Dziubiński
President of the Management Board
Medicalgorithmics S.A.

MEDICALgorithmics

INNOVATIVE SOLUTIONS IN MEDICINE

FINANCIAL STATEMENTS OF MEDICALGORITHMICS S.A. FOR 2017

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Statement of financial position	in PLN thousands		in EUR thousands	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Non-current assets	188 858	170 648	45 280	38 573
Current Assets	26 564	87 196	6 369	19 710
Intangible assets	14 581	11 874	3 496	2 684
Short-term receivables	4 278	33 548	1 026	7 583
Equity	161 885	169 786	38 813	38 378
Share capital	361	361	87	82
Short-term liabilities	2 055	35 715	493	8 073
Long-term liabilities	51 482	52 343	12 343	11 832
Number of shares (item)	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	44.89	47.08	10.76	10.64

Total income statement	01.01.2017-31.12.2017	01.01.2016-31.12.2016	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Sales revenue	42 198	54 664	9 941	12 493
Profit on sales	9 817	10 434	2 313	2 385
Operating profit	10 151	39 465	2 391	9 019
Profit/(loss) before tax	(3 601)	45 126	(848)	10 313
Net profit/(loss)	(2 830)	41 634	(667)	9 515
Earnings/(loss) per ordinary share (PLN/EUR)	(0.78)	11.54	(0.18)	2.64

Statement of cash flows	01.01.2017-31.12.2017	01.01.2016-31.12.2016	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net cash flows from operating activities	7 719	19 716	1 819	4 506
Net cash flows from investing activities	(19 330)	(81 850)	(4 554)	(18 706)
Net cash flows from financial activities	(9 964)	73 951	(2 347)	16 900
Total net cash flows	(21 575)	11 817	(5 083)	2 700

Method of conversion of selected figures into EUR:

The selected items of the statement of financial position presented were converted using the average exchange rate announced by the National Bank of Poland ("NBP") as at 29 December 2017, i.e. EUR/PLN 4.1709, and as at 31 December 2016, i.e. EUR/PLN 4.4240.

The presented selected items of the statement of comprehensive income and the statement of cash flows were converted using the exchange rate being the arithmetic mean of average exchange rates set by the National Bank of Poland on the last day of each month of the financial period from 1 January 2017 to 31 December 2017, i.e. EUR/PLN 4.2447, and from 1 January 2016 to 31 December 2016, i.e. EUR/PLN 4.3757.

II Statement of financial position

		31.12.2017	31.12.2016
Intangible assets	12	14 581	11 874
Tangible fixed assets	13	1 301	893
Long-term receivables	17	-	1
Financial Assets	14	74 691	69 386
Shares in subsidiaries	15	94 771	86 720
Deferred income tax assets	11	3 514	1 774
Fixed assets		**188 858**	**170 648**
Inventories	16	7 856	9 710
Receivables under supplies and services and other	17	4 278	33 548
Financial Assets	14	4 226	12 159
Cash and cash equivalents	18	10 204	31 779
Current assets		**26 564**	**87 196**
TOTAL ASSETS		**215 422**	**257 844**

		31.12.2017	31.12.2016
Share capital	19	361	361
Supplementary capital		159 042	124 621
Reserve from the valuation of the incentive scheme	19	5 312	3 170
Retained earnings		(2 830)	41 634
Equity		**161 885**	**169 786**
Provisions	20	573	414
Provision for deferred income tax	11	536	1 562
Liabilities arising from bonds	22	49 938	49 738
Other liabilities		120	-
Accruals and deferred income	21	315	629
Long-term liabilities		**51 482**	**52 343**
Credits and loans		11	9
Liabilities arising from bonds	22	336	335
Liabilities for supplies and services and other	21	1 326	34 505
Income tax liabilities	21	67	357
Accruals and deferred income	21	315	509
Short-term liabilities		**2 055**	**35 715**
Total liabilities		**53 537**	**88 058**
TOTAL EQUITY AND LIABILITIES		**215 422**	**257 844**

II Statement of comprehensive income

		01.01.2017-31.12.2017	01.01.2016-31.12.2016
Sales revenue	5	**42 198**	**54 664**
Raw materials and consumables used		(5 351)	(3 338)
Employee benefits	6	(17 243)	(12 457)
Amortisation and depreciation		(1 267)	(1 832)
Third-party services	7	(6 746)	(25 710)
Other		(1 774)	(893)
Total costs of sales		**(32 381)**	**(44 230)**
Profit/ (loss) on sales		**9 817**	**10 434**
Other operating revenue	8	749	29 587
Other operating expenses		(415)	(556)
Profit / (loss) form operating activity		**10 151**	**39 465**
Finance income	9	3 879	8 025
Finance costs	9	(17 631)	(2 364)
Net financial costs		**(13 752)**	**5 661**
Profit/ (loss) from continued operations		**(3 601)**	**45 126**
Income tax	10	771	(3 492)
Net profit / (loss) from continued operations		**(2 830)**	**41 634**
Other net comprehensive income for the reporting period		-	-
Total comprehensive income for the reporting period		**(2 830)**	**41 634**
Basic profit/(loss) per share in PLN		(0.78)	11.54
Diluted profit/(loss) per share in PLN		(0.78)	11.54

IV Statement of changes in equity

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2017	**361**	**124 621**	**3 170**	**41 634**	**169 786**
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	34 421	-	(34 421)	-
Net loss for the current reporting period	-	-	-	(2 830)	(2 830)
	-	**34 421**	**-**	**(37 251)**	**(2 830)**
Transactions recognised directly in equity					
Dividend payment	-	-	-	(7 213)	(7 213)
Valuation of the Incentive Scheme	-	-	2 142	-	2 142
Total contributions from and distributions to own	**-**	**-**	**2 142**	**(7 213)**	**(5 071)**
Equity as at 31 December 2017	**361**	**159 042**	**5 312**	**(2 830)**	**161 885**

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Total equity
Equity as at 1 January 2016	**346**	**84 917**	**-**	**13 925**	**99 188**
Comprehensive income for the reporting period					
Net profit for the previous reporting period	-	7 533	-	(7 533)	-
Net profit for the current reporting period	-	-	-	41 634	41 634
	-	**7 533**	**-**	**34 101**	**41 634**
Transactions recognised directly in equity					
Issue of F series shares	15	32 171	-	-	32 186
Dividend payment	-	-	-	(6 392)	(6 392)
Valuation of the Incentive Scheme	-	-	3 170	-	3 170
Total contributions from and distributions to own	**15**	**32 171**	**3 170**	**(6 392)**	**28 964**
Equity as at 31 December 2016	**361**	**124 621**	**3 170**	**41 634**	**169 786**

Statement of cash flows

Cash flows from operating activities		01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net (Profit)/loss for the reporting period		**(2 830)**	**41 634**
Depreciation and impairment write-downs on tangible fixed assets	13	336	282
Amortisation of intangible assets	12	931	1 550
Income tax	10	(771)	3 492
Change in inventories	16	1 854	(592)
Change in trade and other receivables	27	797	(55 892)
Change in accruals, prepayments and deferred income		(504)	(1 008)
Change in trade and other liabilities	27	(4 706)	33 935
Change in provisions		159	392
Gain on sale of investments		-	(216)
Net finance (income)/costs		81	-
Valuation of the Incentive Scheme		2 142	3 170
Tax paid		(2 285)	(2 541)
Foreign exchange differences		12 248	(4 227)
Interest		269	194
Other		(2)	(457)
		7 719	**19 716**
Cash flows from investing activities			
Proceeds from sale of investments	14	15 884	19 520
Interest received		5 098	291
Acquisition of subsidiaries		-	(54 169)
Loans granted	14	(27 799)	(44 544)
Purchases of property, plant and equipment, and intangible assets	12,13	(4 382)	(2 948)
Acquisition of other investments		(80)	-
Additional contribution to equity of a subsidiary	15	(8 051)	-
		(19 330)	**(81 850)**
Cash flows from financing activities			
Proceeds from the issue of debt securities	22	-	50 000
Proceeds from the issue of shares		-	32 186
Proceeds from credits taken out		2	-
Dividend payment	19.3	(7 213)	(6 392)
Interest paid on bonds	22	(2 753)	(1 363)
Discount of bonds		-	(480)
		(9 964)	**73 951**
Total net cash flows		**(21 575)**	**11 817**
Cash and cash equivalents at beginning of period		31 779	19 962
Closing balance of cash		**10 204**	**31 779**

1. Company data

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

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

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

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

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

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

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

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

Supervisory Board
Marek Tatar – Chairperson of the Supervisory Board
Marcin Hoffmann – Member of the Supervisory Board
Jan Kunkowski – Member of the Supervisory Board
Piotr Żółkiewicz – Member of the Supervisory Board
Artur Małek – Member of the Supervisory Board

In 2017 and within the period between the balance sheet date and the date of publication of these financial statements, there were no changes in the composition of the Company's Supervisory Board. To ensure the Company's compliance with the new Act on Statutory Auditors, on 6 October 2017 the Supervisory Board appointed the Audit Committee. For more information, see Section IV.7 of the Directors' Report on the operations of Medicalgorithmics S.A. in 2017.

2. Basis for preparation of the financial statements

2.1. Declaration of compliance

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

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

The Company did not elect to apply early new Standards and Interpretations that have been issued and endorsed by the European Union and will become effective after the reporting date. Moreover, as at the reporting date the Company has not yet completed the process of estimating the impact of the new Standards and Interpretations that will become effective after the reporting date.

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

2.2. First-time adoption of standards and interpretations in 2017

The accounting policies applied to prepare these financial statements are consistent with the policies applied to draw up the Entity's financial statements for the year ended 31 December 2016, except for the following amendments do standards and new interpretations published by the International Accounting Standards Board ("IASB") and endorsed by the EU, effective for annual period beginning on or after 1 January 2017:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 "Income tax" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to the IFRS introduced as part of the 2014-2016 improvements cycle (amendments to IFRS 1, IFRS 12 and IAS 28, effective for annual periods beginning on or after 1 January 2017).

The above amendments to existing standards did not have any material impact on the Company's financial statements for 2017.

2.3. Standards and interpretations that have already been issued and endorsed by the EU, but have not yet taken effect

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the standards and interpretations which were not yet approved for application in the EU as at 31 December 2017 (the following effective dates apply to the full versions of standards):

- IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective Date of IFRS 15" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 4 – Applying IFRS 9 "Financial Instruments" in conjunction with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018);
- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);
- Amendments to the IFRS introduced as part of the 2014-2016 improvements cycle (amendments to IFRS 1, IFRS 12 and IAS 28, effective for annual periods beginning on or after 1 January 2018).

The Company has elected not to use the opportunity of early application of the above amendments to existing standards and new standards. The Entity is in the process of analysing the impact of the new standards IFRS 16 "Leases", IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" on its financial statements. As at the date of publication of the financial statements, the analysis has not been completed yet, but the estimates show that the introduction of the new IFRS 16 will result in the recognition in the statement of financial position of fixed assets used under lease agreements, which – until the date of initial application of the standard – were not classified as finance leases but as operating leases. Application of the remaining new standards (IFRS 15, IFRS 9) will not have any significant impact on the financial statements of the Company.

2.4. Standards and Interpretations adopted by the IASB, but not yet endorsed in the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 "Share-based Payments" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (work leading to the approval of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period);
- Amendments to IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment properties" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

- Amendments to the IFRS introduced as part of the 2015-2017 improvements cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23, effective for annual periods beginning on or after 1 January 2019);
- Interpretation of the International Financial Reporting Interpretations Committee ("IFRIC") 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

According to the Entity's estimates, the remaining aforementioned standards, interpretations and amendments to standards would not have a material effect on the financial statements if they were applied by the Entity as at the reporting date.

Hedge accounting for a portfolio of financial assets or liabilities is still not covered by EU regulations, as the EU has not endorsed the rules of hedge accounting for use. The Entity estimates that the application of hedge accounting with respect to its portfolio of financial assets or liabilities in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would not have had any material effect on its financial statements if these regulations had been endorsed as at the reporting date.

2.5. Basis of measurement

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

2.6. Presentation and functional currency

The figures contained in the financial statements are presented in Polish zlotys ("PLN"), rounded to the nearest thousands without decimal places. The Polish zloty is the functional currency of Medicalgorithmics S.A.

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

Monetary items of assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period at the relevant closing rate for that date. Foreign exchange differences on measurement of the carrying amounts of monetary assets and liabilities represent the difference between the measurement at amortised cost in the functional currency as at the beginning of the reporting period, adjusted by interest accrued and payments made during the reporting period, and the measurement at amortised cost in the foreign currency converted at the closing rate effective on the end of the reporting period. Non-monetary balance sheet items denominated in a foreign currency and measured at fair value are converted at the spot exchange rate for the functional currency effective on the date of fair value measurement.

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

2.7. Judgments and estimates made

The preparation of financial statements in accordance with the International Financial Reporting Standards of the European Union requires the Management Board to make judgements, estimates and assumptions that affect the application of the adopted accounting principles and the presented amounts of assets, liabilities, revenue and expenses whose actual values may differ from the estimates.The estimates and assumptions associated with them are verified on an ongoing basis.

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

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

- intangible assets (estimates concerning forecasts used in impairment tests and estimates of amortization rates for intangible assets);
- property, plant and equipment (estimates of depreciation rates applied);
- fair value and impairment in relation to financial assets, including shares in subsidiaries;
- trade receivables and other financial assets, including loans granted (at each balance sheet date the Company assesses whether there is any objective evidence that a component of receivables or group of receivables is impaired; if the recoverable amount of an asset is less than its carrying amount, the Company recognises an impairment write-down to the present value of planned cash flows);

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

2.8. Authority approving the financial statements for publication

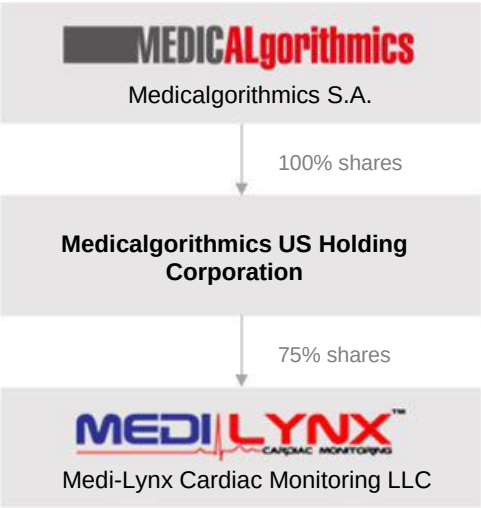
The Management Board of the Company is the authority approving the financial statements for publication.

2.9. Information about the Medicalgorithmics Capital Group

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

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

In the period covered by this report, there were no changes in the organisation of the Capital Group. As at 31 December 2017, the composition of the Medicalgorithmics Capital Group and its organizational and capital relations were as follows:



The Capital Group's principal business activities include:

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

The Group provides services in North and South America, Europe and Australia, with the United States being the Group's largest market. The United States is the largest market.

Key competitive advantages of the Group:

- ground-breaking technology for mobile cardiovascular telemetry;
- flexible business model tailored to the specificity of the market;
- a team of world-class professionals working in the areas of IT systems, programming, medical devices, digital signal processing and project management.

3. Significant accounting policies

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

3.1. Property, plant and equipment

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

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

Buildings and structures: 10 to 50 years;
Technical equipment and machinery: 5 to 25 years;
Vehicles: 3 to 10 years;
Equipment: 5 to 10 years;
Computer hardware: up to 3 years.
Leasehold improvements and fixed assets used under lease agreements: period remaining until the expiry of the contract.

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

3.2. Intangible assets

The Company recognises intangible assets only if:
a) it is probable that future economic benefits that are attributable to the asset will flow to the Company; and
b) the cost of the asset can be measured reliably.
An intangible asset is measured initially at cost. Intangible assets are amortised. Amortisation rates were determined taking into account the assets' useful lives. Intangible assets are amortized on a straight-line basis over the following period:
Completed development work: 2 to 10 years;
Economic copyrights – licences: 2 to 5 years.
Expenditure on research is recognized as an expense when it is incurred. Prior to the commencement of production or use of new technological solutions, development costs are capitalised in intangible assets if the Company can demonstrate the following:

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

Development costs with a pre-defined useful life are amortized. Amortisation commences when an asset is ready for its intended use and ceases when the asset is classified as held for sale or derecognised.
The amortisation period is equal to the useful life of an asset.

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

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

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

3.3. Inventories

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

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

3.4. Financial instruments

Financial instruments are classified in one of the following categories:

a) financial instruments held to maturity;
b) loans and receivables;
c) available-for-sale financial assets;
d) financial instruments at fair value through profit or loss.

On initial recognition, financial instruments are measured at fair value, plus, for investments other than classified as measured at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The Company derecognizes a financial asset when the contractual rights to receive cash flows from the asset expire, or from the moment when the rights to receive cash flows from the asset are transferred in a transaction that transfers substantially all the significant risks and rewards of their ownership. Any interest in the transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

The fair value of financial instruments which are traded on an active market is determined by reference to the closing price on the last day of trading. The fair value of financial instruments which are not traded on an active market is determined, if possible, using valuation techniques that include reference to the market value of another instrument with substantially the same characteristics that is traded on an active market, based on discounted cash flows or option valuation models that take into account entity-specific circumstances. As at the reporting date, the Group determines whether there is objective evidence of impairment of an asset or a group of assets.

a. Financial instruments held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the entity has the positive intention and ability to hold to maturity, other than financial assets classified as financial instruments at fair value through profit or loss, available-for-sale investments as well as loans and receivables. Assets whose terms to maturity are not longer than 12 months from the reporting date are recognised as current assets. After initial recognition, investments held to maturity are measured at amortised cost with the use of the effective interest rate method, less impairment losses, if any.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, resulting from the delivery of cash, supply of goods or provision of services to the debtor, without the intention to classify such receivables as financial assets measured at fair value through profit or loss. They are recognized as current assets except for those whose terms to maturity are longer than 12 months from the reporting date. Trade and other receivables are measured at amortized cost using the effective interest rate, less impairment losses on doubtful receivables.

c. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets classified as available for sale or other than those classified as (a), (b) or (c). They are recognised as current assets if the entity has an intention to sell them within 12 months after the reporting date. Available-for-sale financial assets are measured at fair value except for investments in equity instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured using other valuation techniques. Gains or losses on measurement of available-for-sale financial assets are recognised as a separate component of equity until such financial assets are sold or impaired, at which point the accumulated gains or losses previously disclosed under other comprehensive income are recognised in profit or loss of the current period.

d. Financial instruments at fair value through profit or loss.

An instrument is classifies as an investment measured at fair value through profit or loss if it is held for trading or classified as held for trading after initial recognition. Financial instruments are classified as at fair value through profit or loss if the Company actively manages such investments and makes decisions concerning their purchase or sale based on their fair value. After initial recognition, transaction costs relating to an investment are recognised in profit or loss at the time they are incurred. The fair value of financial instruments classified as at fair value through profit or loss or available for sale is their current bid price as at the reporting date.

3.5. Non-derivative financial liabilities

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

3.6. Measurement of shares in subordinates

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

3.7. Impairment losses on assets

Financial assets (including receivables)

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

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, debt restructuring approved by the Company for economic or legal reasons resulting from the debtor's poor financial condition, which the Company would not otherwise have approved of; circumstances indicating that the debtor or issuer is likely to go bankrupt.

The Company considers evidence of impairment for receivables or investments held to maturity at both a specific asset and collective level. All individually significant receivables and investments held to maturity are tested for specific impairment.

An impairment loss in respect of financial assets measured at amortised cost is calculated as the difference between their carrying amount (amount disclosed in the statement of financial position) and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss for the current period deducted from the carrying amount of receivables. Interest on the impaired asset continues to be recognised. If any subsequent circumstances indicate that the evidence of impairment no longer exists, reversal of impairment losses is recognised in profit or loss for the current period.

Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Company. The recoverable amount of an asset is the greater of its net realisable value and its value in use. An impairment loss is recognised when the carrying amount of an asset is higher than its recoverable amount. Impairment losses are recognised in profit or loss for the current period.

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

3.8. Employee benefits

In the event of termination of employment, the Company's employees are entitled to benefits provided for by the Polish labour law, including, but not limited to, an allowance for unused holiday leave and compensation for the obligation to refrain from engaging in any activity competitive to the employer's business.
Therefore, the Company recognises provisions for future employee benefits on account of unused holidays for previous periods and unpaid allowances. This provision is calculated by multiplying the number of days of unused leaves by the daily cost of remuneration for each employee. Due to their immateriality, the Company does not recognise provisions for retirement severance pays and jubilee awards. Following the introduction of the Company's incentive scheme, it was decided to recognize a provision for future bonuses in the form of equity-settled share-based payments. The amount of the provision results from an actuarial valuation and is recognised in the Company's reserve capital in accordance with IFRS 2 "Share based payments". The amount of the provision is reviewed annually, depending on the progress of the incentive scheme, and recognized in the Company's accounts as per the actual implementation of the scheme. In the event of any change to the terms and conditions of the incentive scheme (including its cancellation) or grant of the remaining entitlements, remeasurement at the date of such change is required in accordance with IFRS 2.

3.9. Provisions

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

3.10. Cash and cash equivalents

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

3.11. Equity

Equity disclosed in the Company's financial statements comprises:

a) The share capital recognized in the amount specified in the Articles of Association and entered in the court register.
b) The share premium is reported as a separate item in equity. Share issue costs decrease the balance of equity.
c) Supplementary capital recognized in accordance with the Commercial Companies Code,
d) Capital reserve from incentive scheme measurement recognized based on an actuarial valuation that is reviewed on an annual basis.
e) Retained earnings comprising retained earnings from previous years and profit or loss for the current financial period.

3.12. Revenue

Revenue from the sale of products in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, discounts and rebates.

Revenue is recognised when there is conclusive evidence, usually at the moment of confirmation of delivery by the buyer, that significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of products or goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from rendering of services is recognized when all the following conditions have been satisfied:

- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Company,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.13. Finance income and costs

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

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

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

3.14. Income tax

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

Deferred tax assets are recognized in respect of tax loss carryforwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Income tax comprises current and deferred tax. Current and deferred income tax is recognized in profit or loss for the period except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

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

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

4. Segment reporting

The core business of the Company comprises:

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

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

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

As there is only one operating segment, the Company does not present separate financial data for this segment.

Accordingly, all its assets and liabilities as well as revenue and expenses are allocated to this segment. At the Company level, the Management Board does not review the results of operations by any other types of activities and does not have separate financial data.
It should be noted, however, that the Company, apart from its operating activities, is the Parent and a holding company of the Medicalgorithmics Capital Group. In view of this function, it can be approximated that the following items in the statement of financial position and the statement of comprehensive income relate mainly to holding activities and other activities (operating activities not related to the provision of services):

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

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

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

5. Sales revenue structure

By type	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Revenue from sales of services	37 388	49 873
Revenue from sales of devices	4 810	4 791
	42 198	**54 664**

By territory	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Domestic sales	394	247
Export sales	41 804	54 417
	42 198	**54 664**

The Company's revenue is generated mainly in the United States. The year-on-year decline in revenue was driven by a lower average USD/PLN exchange rate and a decrease in subscription revenue, the reasons for which are discussed in Section III.1 of the Directors' Report on the Company's activities.

6. Employee benefits

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Remuneration	(13 879)	(8 261)
Incentive scheme	(2 142)	(3 170)
Social insurance and other benefits	(1 222)	(1 026)
	(17 243)	**(12 457)**

Details of the incentive scheme are described in Note 19.6.

7. Third-party services

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Lease and rental	(1 537)	(1 306)
Telecommunication and Internet services	(312)	(432)
Accounting services	(329)	(330)
Advisory services	(1 594)	(22 731)
Transport and courier services	(58)	(44)
Leases	(101)	(123)
Marketing services	(1 954)	-
Other third-party services	(861)	(744)
	(6 746)	**(25 710)**

In the reporting period, the Company recorded a significant decrease in costs of third-party services, as compared to the corresponding period. This decrease results from a decline in advisory costs, mainly legal fees, which were incurred by the Company in 2016 and related to disputes pending at that time. In connection with the signing of the settlement agreement, referred to in more detail in Note 31 to the Company's financial statements for 2016, these costs did not occur in 2017. However, in the reporting period the Company incurred costs of marketing services in the amount of PLN 1,954 thousands, which are related to the extensive marketing and sales campaign launched in 2017.

8. Other operating revenue

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Settlement of subsidies	509	980
Reimbursement of litigation costs and compensation from AMI	-	27 659
Impairment allowances	213	85
Other	27	863
Other operating revenue	**749**	**29 587**

The high level of other operating revenue in 2016 resulted primarily from the court's judgment in the case of court disputes involving the Company and its subsidiaries, pending in 2016. In its judgment, the court awarded the reimbursement of court fees to the Company (USD 6,313 thousands) and a compensation (USD 253 thousands) from AMI Monitoring Inc. and its subsidiary, Spectocor LLC ("AMI/Spectocor") – these companies were the opposite parties in the aforementioned disputes.

9. Finance income and costs

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Interest income	3 279	305
FX gains/ losses from evaluation	-	5 855
Valuation of interest on a loan at amortised cost	-	1 650
Revaluation of investments at fair value through profit or loss	600	215
Financial revenue	**3 879**	**8 025**
FX gains/ losses from evaluation	(14 165)	-
Interest	(2 759)	(1 899)
Discount of own bonds	-	(465)
Other	(707)	-
Financial costs	**(17 631)**	**(2 364)**
Financial revenue / (costs), net	**(13 752)**	**5 661**

In 2017, the foreign exchange losses consisted mainly of unrealized foreign exchange differences from the valuation of loans granted to MDG Holdco in the amount of PLN 12,344 thousands.

10. Effective tax rate

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Profit/(loss) before tax	(3 601)	45 126
Tax at the tax rate applicable in Poland	684	(8 574)
Non-tax-deductible costs	(255)	(196)
Non-taxable revenue	102	5 433
Relief for Research and Development	240	-
Other	-	(155)
Tax reported in the statement of comprehensive income	**771**	**(3 492)**

11. Deferred tax assets and provisions

	31.12.2017	31.12.2016
Provision for receivables	-	40
Provision for costs (including valuation of the incentive scheme)	1 210	681
Foreign exchange differences on valuation of cash		-
Foreign exchange differences on valuation of foreign-currency loans to a related entity	1 500	-
Valuation of loans at amortised cost	127	-
Interest on bonds	102	102
Valuation of FIZ certificates	202	559
Costs of acquisition of Medi-Lynx *	339	339
Other	34	53
Gross deferred tax assets	**3 514**	**1 774**

	31.12.2017	31.12.2016
Valuation of loans at amortised cost	-	314
Foreign exchange differences on valuation of cash	-	175
Foreign exchange differences on valuation of foreign-currency loans to a related entity	-	845
Settlement of expenditure on Research and Development	364	-
Other	172	228
Deferred tax provision	**536**	**1 562**

	31.12.2017	31.12.2016
Change in deferred tax reported in the statement of comprehensive income	**2 766**	**(874)**
Net deferred tax asset/provision, of which:	**2 978**	**212**
Deferred tax asset	3 514	1 774
Deferred tax provision	(536)	(1 562)

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

12. Intangible assets

Gross value of intangible assets	Completed R&D costs	Development works in progress	Other	Total
Gross value as at 1 January 2017	**5 937**	**9 723**	**950**	**16 610**
Increases	-	3 425	213	**3 638**
Gross value as at 31 December 2017	**5 937**	**13 148**	**1 163**	**20 248**
Accumulated amortisation and impairment write-downs				
Accumulated amortisation and impairment write-downs as at 1 January 2017	**4 311**	**-**	**425**	**4 736**
Amortisation	716	-	215	**931**
Accumulated amortisation and impairment write-downs as at 31 December 2017	**5 027**	**-**	**640**	**5 667**
Net value				
As at 1 January 2017	**1 626**	**9 723**	**525**	**11 874**
As at 31 December 2017	**910**	**13 148**	**523**	**14 581**

Gross value of intangible assets	Completed R&D costs	Development works in progress	Other	Total
Gross value as at 1 January 2016	**5 937**	**7 380**	**641**	**13 958**
Increases	-	2 343	309	**2 652**
Gross value as at 31 December 2016	**5 937**	**9 723**	**950**	**16 610**
Accumulated amortisation and impairment write-downs				
Accumulated amortisation and impairment write-downs as at 1 January 2016	**2 945**	**-**	**241**	**3 186**
Amortisation	1 366	-	184	**1 550**
Accumulated amortisation and impairment write-downs as at 31 December 2016	**4 311**	**-**	**425**	**4 736**
Net value				
As at 1 January 2016	**2 992**	**7 380**	**400**	**10 772**
As at 31 December 2016	**1 626**	**9 723**	**525**	**11 874**

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. Moreover, the functionality of the device has been extended. Medicalgorithmics was awarded financial support for the implementation work in the project, concerning the development of earlier versions of the system within the framework of the programme of the Foundation for Polish Science – Innovator. The net value of the project is PLN 910 thousands. The project will be amortised until 31 December 2019.

The above development works were carried out in part with co-financing from European Union funds, whose non-amortised value as at 31 December 2017 amounted to PLN 629 thousands (31 December 2016: PLN 1,138 thousands). 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 amortisation of the development expenditure incurred.

Development works in progress

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

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

The projects are financed from own funds.

In the opinion of the Management Board of the Company, development works in progress, recognised as a component of intangible assets, will be completed and will produce the expected economic effects. Key costs capitalized as development works in progress include the costs of salaries of the R&D staff. Moreover, on 22 December 2017 the Company and the National Centre for Research and Development ("NCBiR") signed an agreement on co-financing of a project entitled "ECG TechBot". The co-financed project includes industrial and development work on dedicated software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods. The total cost of project implementation as well as the total amount of eligible costs is PLN 11,188 thousands, with the maximum value of co-financing set at PLN 6,335 thousands. The eligibility period of costs under the ECG TechBot project ends on the date of submission of the final payment request, i.e. 31 December 2022.

13. Property, plant and equipment

	Machinery and equipment including computer hardware	**Vehicles**	**Other fixed assets**	**Leasehold improvements**	**Total**
Gross value of property, plant and equipment					
Gross value as at 1 January 2017	**848**	**-**	**503**	**381**	**1 732**
Increases	230	389	26	99	**744**
Gross value as at 31 December 2017	**1 078**	**389**	**529**	**480**	**2 476**
Accumulated amortisation and impairment write-downs					
Accumulated amortisation and impairment write-downs as at 1 January 2017	**414**	**-**	**323**	**102**	**839**
Amortisation	211	6	77	42	**336**
Accumulated amortisation and impairment write-downs as at 31 December 2017	**625**	**6**	**400**	**144**	**1 175**
Net value					
As at 1 January 2017	**434**	**-**	**180**	**279**	**893**
As at 31 December 2017	**453**	**383**	**129**	**336**	**1 301**

	Machinery and equipment including computer hardware	**Vehicles**	**Other fixed assets**	**Leasehold improvements**	**Total**
Gross value of property, plant and equipment					
Gross value as at 1 January 2016	**650**	**-**	**478**	**308**	**1 436**
Increases	198	-	25	73	**296**
Gross value as at 31 December 2016	**848**	**-**	**503**	**381**	**1 732**
Accumulated amortisation and impairment write-downs					
Accumulated amortisation and impairment write-downs as at 1 January 2016	**243**	**-**	**248**	**66**	**557**
Amortisation	171	-	75	36	**282**
Accumulated amortisation and impairment write-downs as at 31 December 2016	**414**	**-**	**323**	**102**	**839**
Net value					
As at 1 January 2016	**407**	**-**	**230**	**242**	**879**
As at 31 December 2016	**434**	**-**	**180**	**279**	**893**

The Company neither recognized nor reversed any impairment losses. The Company does not use fixed assets under finance lease agreements. However, the Company is a lessee under operating lease agreements. Payments on this account are described in Note 24 to these financial statements. The Company has no liabilities secured on its assets.

14. Financial assets

	31.12.2017	31.12.2016
Investment certificates	14 936	30 902
Loans granted	63 781	50 643
Shares	200	-
	78 917	**81 545**
of which long-term portion	74 691	69 386
of which short-term portion	4 226	12 159

Investment certificates

As at 31 December 2017, the Company holds 150,199 investment certificates of the fund Bezpiecznych Obligacji Fundusz Inwestycyjny Zamknięty (the "Fund") managed by Copernicus Capital TFI S.A. (the "Investment Fund Company"). As at 31 December 2017, the value of a single investment certificate was determined at PLN 99.44. The fair value of a single certificate is measured by the Investment Fund Company. The Fund invests primarily in debt securities quoted on the Catalyst market (level 1 of the fair value hierarchy). Investment certificates are measured at fair value through profit or loss.

On 5 April 2017, 125,000 certificates with the total value of PLN 11.8 million were redeemed. On 4 October 2017, another 42,500 certificates with the total value of PLN 4.1 million were redeemed. Certificates with the total value of PLN 4.2 million, planned to be submitted for redemption by the Company in the first half of 2018, were presented under short-term assets.

Loans granted

The Company granted 5 loans to the subsidiary Medicalgorithmics US Holding Corporation for a total amount of USD 18,513 thousands. The loans granted in 2016 were intended to finance the subsidiary's acquisition of a 75% equity interest in Medi-Lynx and to provide working capital to the subsidiary.

Loans granted in the first quarter of 2017 were used to settle the liabilities towards AMI/Spectocor for the client base acquired from that entity. The fair value of financial assets approximates their book value. Loans are classified as loans and own receivables. They are measured at amortized cost using the effective interest rate.

	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	5 813	30.12.2026	Fixed (4%)

Loan agreements provide for a one-off repayment of principal and interest accrued at maturity.

15. Shares in subsidiaries

	31.12.2017	31.12.2016
Medicalgorithmics US Holding Corporation	94 771	86 720
	94 771	**86 720**

In the second quarter of 2017, the Company increased the share capital of a subsidiary, MDG HoldCo, by PLN 2,015 thousands. These funds were used in full to repay the first part of the liability towards the seller of the shares in Medi-Lynx, i.e. Medi-Lynx Monitoring, Inc. As at 31 December 2017, the Management Board did not find any evidence of impairment of shares in the subsidiary.

Selected financial data of subsidiaries as at 31 December 2017 (in USD '000):

Statement of financial position	**MDG HoldCo**	**Medi-Lynx**
Non-current assets	47 555	19 347
Current Assets	2 179	10 459
Equity	24 727	26 676
Long-term liabilities	22 601	-
Short-term liabilities	2 406	3 130
Total income statement		
Sales revenue	-	52 460

16. Inventories

	31.12.2017	**31.12.2016**
Materials	6 731	6 413
Finished products	1 125	3 297
	7 856	**9 710**

Inventories comprise components, semi-finished products and finished products. Inventories are regularly tested for impairment and disposed of when an impairment is detected. This is recognized in the Company's expenses on an ongoing basis. As at 31 December 2017, the Company did not recognize any impairment on inventories.

17. Receivables

	31.12.2017	**31.12.2016**
Receivables under supplies and services	3 481	4 373
Budgetary receivables	290	186
Other receivables	269	28 748
Prepayments and deferred expenses	238	242
	4 278	**33 549**
Long-term	-	1
Short-term	4 278	33 548

The high balance of other receivables as at 31 December 2016 results from the fact that the Company agreed to pay for the client base acquired by Medi-Lynx. As a result, the Company had a receivable from Medi-Lynx of PLN 28,474 thousands (USD 6,813 thousands). In 2017, in connection with the payment of liability in respect of the aforementioned client base, there was a three-party set-off of settlements between Medicalgorithmics S.A. and its subsidiaries. The fair value of receivables approximates their book value. For information on the Company's exposure to credit and currency risk on receivables, see Note 23.

	31.12.2017	**31.12.2016**
Trade receivables from related parties	2 833	3 498
Trade receivables from third parties	648	1 088
Revaluation write-down on receivables from other entities	-	(213)
Total net trade receivables	**3 481**	**4 373**

	31.12.2017	**31.12.2016**
Insurance policies and deposits	67	42
Trade fairs	114	120
Subscriptions	23	-
Advisory services	19	62
Other	15	18
Total prepayments and deferred expenses	**238**	**242**
Long-term portion	-	1
Short-term portion	238	241

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

	Gross value as at 31 December 2017	Revaluation write-down as at 31 December 2016	Gross value as at 31 December 2016	Revaluation write-down as at 31 December 2016
Non-matured	3 173	-	3 781	-
Overdue from 0 to 30 days	140	-	188	-
Overdue from 31 to 60 days	8	-	70	-
Overdue of more than 61 days	160	-	547	213
	3 481	**-**	**4 586**	**213**

18. Cash and cash equivalents

	31.12.2017	31.12.2016
Cash	11	13
Cash in bank	511	2 129
Short-term deposits	9 682	29 637
	10 204	**31 779**

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

The Company invests surplus funds in short-term deposits. The maturity of deposits usually fluctuates around one month. The interest rate is fixed and negotiated each time the funds are invested.

19. Equity

19.1. Share capital

	Ordinary shares ('000)	
	31.12.2017	31.12.2016
Number of shares at beginning of period	3 607	3 456
Issue of F series shares	-	151
Number of fully-paid shares at end of period	**3 607**	**3 607**

19.2. Ordinary shares

As at 31 December 2017, the registered share capital was divided into 3,607 thousands ordinary shares with the nominal value of PLN 0.10 each. No shares were issued in 2017.

19.3. Dividends paid

Pursuant to resolution of the Ordniary Shareholders' Meeting of Medicalgorithmics S.A. of 20 June 2017, on 16 October 2017 the Parent Company paid out a dividend to shareholders in the aggregate amount of PLN 7,213 thousands, i.e. PLN 2.00 per share. The dividend was paid for 3,607 thousands shares in the Company.

Pursuant to resolution of the Ordniary Shareholders' Meeting of Medicalgorithmics S.A. of 27 June 2016, on 25 July 2016 the Parent Company paid out a dividend to shareholders in the aggregate amount of PLN 6,392 thousands, i.e. PLN 1.85 per share. The dividend was paid for 3,456 thousands shares in the Company. No dividend was paid for 151 thousands series F shares.

19.4. Basic and diluted earnings per share

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Profit/(loss) for the period (PLN '000)	(2 830)	41 634
Weighted average number of ordinary shares (in thousands of shares)	3 607	3 607
Effect of dilution of the potential number of ordinary shares (in thousands of shares)	-	-
Basic profit/(loss) per share in PLN (net profit/(loss) / weighted average number of shares)	(0.78)	11.54
Diluted profit/(loss) per share in PLN (net profit/(loss) / weighted average number of diluted shares)	(0.78)	11.54

* The subscription warrants issued referred to in Note 19.6 have no dilutive effect because the average market value of ordinary shares in a particular period did not exceed the exercise price of warrants (the warrants are not "in the money").

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

Shareholding structure as at 21 March 2018

Shareholder	Number of shares	% of shares
Aegon OFE	193 863	5.4%
Marek Dziubiński (President of the Management Board)	400 000	11.1%
NN OFE	451 000	12.5%
TFI PZU	189 045	5.2%
Other shareholders	2 372 618	65.8%
Number of shares	**3 606 526**	**100.0%**

In the period from 1 January 2017 to 31 December 2017, the Company did not acquire any treasury shares and does not hold any treasury shares.

19.6. Incentive scheme

On 26 February 2016, the Extraordinary General Meeting adopted an incentive scheme (equity-settled share-based payments) for management staff and key employees of the Company as well as key individuals providing services to the Company, covering the years 2016–2025. Details of the incentive scheme and conditions of its introduction are described in Section I.14 of the Directors' Report on the Company's operations in 2017.

As at 31 December 2017, the Company recognised a provision in the amount of PLN 5,312 thousands for future bonuses in the form of equity-settled share-based payments. The amount of the provision was based on actuarial calculations of 16 October 2017 and recognised in the Company's equity in accordance with IFRS 2 "Share based payments".

20. Provisions

	31.12.2017	31.12.2016
Holiday pay accrual	485	330
Other	88	84
	573	**414**

21. Trade and other liabilities, accruals and deferred income

	31.12.2017	31.12.2016
Liabilities for supplies and services from other entities	529	968
Budgetary liabilities	311	300
Payroll liabilities	484	-
Income tax liabilities	67	357
Other liabilities	2	33 237
Short-term accruals and deferred income	315	509
Long-term accruals and deferred income	315	629
	2 023	**36 000**

The high balance of other liabilities as at 31 December 2016 resulted from the Company's obligation to pay cash in the amount of USD 6,813 thousands for the acquisition of a client base by Medi-Lynx. In addition, other liabilities included remuneration for services provided to AMI in January and February 2017 in the amount of USD 1,140 thousands (prepayment), which was set off against the payment for the aforementioned client base. In 2017, there was a three-party set-off of settlements between Medicalgorithmics S.A. and its subsidiaries in connection with the payment of liability in respect of the aforementioned client base. As a result, the Company's other liabilities have declined as at 31 December 2017.

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

For information on the exposure to currency risk and liquidity risk associated with liabilities, see note 23. The fair value of liabilities approximates their book value.

22. Liabilities in respect of bonds

	Long-term	Short-term	Total
Value as at 1 January 2017	**49 738**	**335**	**50 073**
Interest accrued	-	2 754	2 754
Settlement of issue costs	200	-	200
Interest paid	-	(2 753)	(2 753)
Value as at 31 December 2017	**49 938**	**336**	**50 274**

Issue and redemption of bonds

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

23. Financial risk management

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

- Operational risks;
- Credit risk;
- Liquidity risk;
- Market risk.

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

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

Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

23.1. Operational risk

Operational risk is the risk of direct or indirect losses, which various causes are related to the processes, staff, technology and infrastructure of the Company as well as are caused by external factors, other than credit risk, market risk and liquidity risk, such as e.g. legal requirements or other regulations or generally accepted standards of corporate behaviour. Operational risks result from all operations of the Company.

The Company's objective is to manage operational risk in order to balance the avoidance of financial losses and damages to the Company's reputation with overall cost effectiveness, while avoiding control procedures that limit initiative and creativity.

The primary responsibility for the development and implementation of operational risk audits is attributed to the senior management of each of the organisationally distinct economic activities. Performing the duties in this area is assisted by the development of the Company's overall operational risk management standards, which include:

- requirements for proper allocation of responsibilities, including the performance of independent transaction authorisation;
- requirements for transactions reconciling and monitoring;
- compliance with the legal requirements and other regulations;
- documenting controls and procedures;
- requirements for periodic assessment of operational risks that have occurred, as well as for assessment of adequacy of existing controls and procedures for identified risks;
- reporting requirements for operational losses and suggested preventive measures;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- minimising risk, including through insurance, if it is effective.

23.2. Credit risk

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

The Company's exposure to credit risk results mainly from individual characteristics of each customer. There was no concentration of credit risk in 2017. Two largest counterparties generated jointly approx. 95% of the Company's sales revenue in 2017 (including the related entity Medi-Lynx).

As at 31 December 2017, receivables from the largest counterparty accounted for about 81% of total trade receivables, while receivables from the two largest debtors accounted for approx. 90% of the balance of receivables.

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

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

	31.12.2017	31.12.2016
Investment certificates	14 936	30 902
Loans and receivables	67 821	83 950
Cash and cash equivalents	10 204	31 779
	92 961	**146 631**

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

	31.12.2017	31.12.2016
Domestic	63	158
United States of America	2 869	3 565
Other regions	549	650
	3 481	**4 373**
Institutional clients	3 481	4 373

23.3. Liquidity risk

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

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

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

	Carrying value	Contractual cash flows	Less than 12 months	More than 12 months
31.12.2017				
Credit card debt	11	11	11	-
Liabilities for supplies and services and other	1 393	1 393	1 393	-
Bonds	50 274	50 274	336	49 938
	51 678	**51 678**	**1 740**	**49 938**
31.12.2016				
Credit card debt	9	9	9	-
Liabilities for supplies and services and other	34 862	34 862	34 862	-
Bonds	50 073	50 073	335	49 738
	84 994	**84 994**	**35 206**	**49 738**

23.4. Market risk

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

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

Currency risk

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

	31.12.2017			31.12.2016		
Values in PLN '000	EUR	USD	GBP	EUR	USD	GBP
Trade receivables	447	2 971	-	191	4 023	-
Other receivables	-	-	-	-	28 474	-
Loans granted	-	63 781	-	-	50 643	-
Other liabilities	-	-	-	-	(33 234)	-
Trade liabilities	(32)	(305)	-	(1)	(466)	(12)
Gross balance sheet exposure	**415**	**66 447**	**-**	**190**	**49 440**	**(12)**

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

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

	01.01.2017-31.12.2017	01.01.2016-31.12.2016	01.01.2017-31.12.2017	01.01.2016-31.12.2016
EUR	4.2447	4.3757	4.1709	4.424
USD	3.7439	3.968	3.4813	4.1793
GBP	4.8457	5.3355	4.7001	5.1445

Sensitivity analysis

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

Effect in PLN '000	Equity	Profit or loss of current period
31.12.2017		
EUR (appreciation of EUR by 5%)	5	5
USD (appreciation of USD by 5%)	3 322	3 322
GBP (appreciation of GBP by 5%)	-	-
31.12.2016		
EUR (appreciation of EUR by 5%)	10	10
USD (appreciation of USD by 5%)	2 472	2 472
GBP (appreciation of GBP by 5%)	(1)	(1)

Depreciation of the złoty against the EUR and USD and GBP as at 31 December 2017, all other factors being equal, would result in an increase in profit for the current period.

Interest rate risk

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

	31.12.2017	31.12.2016
Financial Assets	-	-
Financial liabilities	50 274	50 073
	50 274	**50 073**

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

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

	Profit or loss of current period		Equity	
Effect in PLN '000	Increase by 100 bps	Decrease by 100 bps	Increase by 100 bps	Decrease by 100 bps
31.12.2017				
Floating-rate financial instruments	(503)	503	(503)	503
Sensitivity of cash flows (net)	**(503)**	**503**	**(503)**	**503**
31.12.2016				
Floating-rate financial instruments	(501)	501	(501)	501
Sensitivity of cash flows (net)	**(501)**	**501**	**(501)**	**501**

Comparison between fair values and carrying amounts

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

		31.12.2017		31.12.2016	
	Category according to IAS	Carrying value	Fair value	Carrying value	Fair value
Loans granted	Loans and receivables	63 781	63 781	50 643	50 643
Trade and other receivables	Loans and receivables	4 278	4 278	33 548	33 548
Investment certificates	Financial assets at fair value through profit or loss	14 936	14 936	30 902	30 902
Cash and cash equivalents	Loans and receivables	10 204	10 204	31 779	31 779
Trade and other liabilities	Other financial liabilities	1 326	1 326	34 505	34 505
Liabilities arising from bonds	Other financial liabilities	50 274	50 274	50 073	50 073

23.5. Capital management

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

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

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

Specification	31.12.2017	31.12.2016
Interest-bearing credits, loans and bonds	50 285	50 082
Trading and other liabilities	1 326	34 505
Less cash and cash equivalents	(10 204)	(31 779)
Net debt	**41 407**	**52 808**
Equity	**161 885**	**169 786**
Equity and net debt	**203 292**	**222 594**
Leverage ratio	**20.4%**	**23.7%**

24. Operating leases

Below are detailed minimum lease payments under irrevocable operating lease agreements:

	31.12.2017	31.12.2016
up to 1 year	610	582
1–5 years	305	805
	915	**1 387**

In August 2012, the Company signed an agreement to lease office space in Warsaw with the lease period commencing on 1 October 2012. The agreement was amended on 23 August 2013 and 17 March 2015 to include additional office space. The current lease period runs from 1 July 2013 to 30 June 2019 and cannot be shortened.

25. Contractual obligations to acquire property, plant and equipment

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

26. 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 Company carries out its works in accordance with the schedule.

The Company also endorses an interest-bearing promissory note issued by a subsidiary, Medicalgorithmics US Holding Corporation with its registered office in the US to Medi-Lynx Monitoring, Inc. as a payment for the purchase of shares in Medi-Lynx. As at 31 December 2017, the outstanding amount was USD 5,970 thousands. Payments are spread over three equal instalments amounting to USD 1,990 thousands, payable on 30 March 2018, 30 March 2019 and 30 March 2020. Liabilities bear interest at a fixed interest rate.

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 declarations and other settlements (e.g. customs or foreign exchange) may be audited by authorities which are authorised to impose significant fines, and the additional liabilities arising from such audits have to be paid including 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 Company 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.

27. Explanatory notes to items of the Statement of cash flows

	31.12.2017	31.12.2016
Change in trade and other receivables	29 270	(23 341)
Claims for reimbursement of court fees from AMI and estimated receivables from AMI contributed to MDG US Holding	-	(32 551)
Receivables from Medi-Lynx arising from acquisition of the client base	(28 473)	-
Change in trade and other receivables	**797**	**(55 892)**

	31.12.2017	31.12.2016
Change in trade and other liabilities	(33 179)	33 935
Liability to AMI on account of acquisition of the client base by Medi-Lynx	28 473	-
Change in trade and other liabilities	**(4 706)**	**33 935**

28. Transactions with related parties

Medicalgorithmics US Holding Corporation	**31.12.2017**	**31.12.2016**
Statement of financial position (in PLN '000) — as at		
Loans granted	63 781	50 643
Contribution to the supplementary capital	94 771	86 720

Statement of comprehensive income (in PLN '000)	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Interest on loans	3 475	1 746

In the reporting period, the Company increased the share capital of a subsidiary, MDG HoldCo, by PLN 2,015 thousands. For more information, see Note 15 to these financial statements.

Medi-Lynx Cardiac Monitoring LLC	31.12.2017	31.12.2016
Statement of financial position (in PLN '000) — as at		
Receivables under supplies and services	2 833	3 498
Other receivables	-	28 474

Statement of comprehensive income (in PLN '000)	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Revenue from sales of goods and services	35 250	19 564*

* from the date of acquisition of control

29. Transactions with executives

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

	31.12.2017	31.12.2016
Remuneration of the Management Board Members	7 445	2 772
Remuneration of the Supervisory Board	171	133

The remuneration costs of the Company in 2017 also include the costs of the incentive scheme described in section 19.6 of the explanatory notes to the financial statements. Costs in this respect amounted to PLN 2,142 thousands in the reporting period. Valuation of the incentive scheme was reclassified to the incentive scheme valuation reserve.

30. Employment structure

	31.12.2017	31.12.2016
Number of employees (in full-time equivalent units)	86	87

As at the report date (21 March 2018), the Company had 95 employees (in FTEs).

31. Information about significant legal proceedings

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

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

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

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

32. Information on the entity authorised to audit financial statements

On 1 June 2017, at a meeting of the Supervisory Board of the Company, CSWP Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa with a registered office in Warsaw, ul. Kopernika 34, 00-336 Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No 0000402544 and entered in the list of audit firms maintained by the National Council of Statutory Auditors under No 3767, was appointed as the entity authorised to audit the Company's financial statements for 2017 and to review the Company's interim separate financial statements for the first half of 2017.

The audit firm's remuneration for the audit of the annual separate financial statements amounted to PLN 42 thousands, while for the review of the separate interim financial statements – to PLN 21 thousands.

33. Events after the balance sheet date

There were no other events which have not been disclosed in these financial statements but may have a material effect on the Company's future financial performance.

34. Consolidated financial statements

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

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

WysoccyZaborowscy Partners Sp. z o.o. Sp.k.
Entity responsible for maintaining accounting records
for and on behalf of Piotr Wysocki

Warsaw, 21 March 2018

MEDICALgorithmics

INNOVATIVE SOLUTIONS IN MEDICINE

DIRECTORS' REPORT
ON THE ACTIVITIES OF
MEDICALGORITHMICS S.A.
IN 2017

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I. Overview of the Company's operations

I. 1. Strategy and business model

Medicalgorithmics S.A. (the "Company", "Medicalgorithmics S.A.", "Medicalgorithmics") operates in the field of advanced telemedicine technologies. The company started its operations in 2005, and in 2011 the shares of Medicalgorithmics debuted on the NewConnect market. Since February 2014, the Company has been listed on the regulated market of the Warsaw Stock Exchange ("WSE").

Medicalgorithmics is a provider of cardiac telemetry solutions, especially in the area of ECG analysis. The company, either directly or through commercial partners, provides services in over a dozen countries on several continents, including North and South America, Europe and Australia. The product sold is the Company's proprietary solution, the PocketECG system, which is the world's most technologically advanced system for remote monitoring of heart disorders. The PocketECG system is produced in Poland, which ensures full control over the quality of the product, relatively low labour costs and protection of technological secrets. The Company's products are patented in key markets and obtain the necessary quality and safety certificates.

The United States is the primary sales market for Medicalgorithmics. 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 cardiovascular diagnostic services by private and public insurers. On the American market, the PocketECG system is sold in the subscription model only to a related entity which provides medical services to the target customers.

In addition to cardiac telemetry, Medicalgorithmics'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.

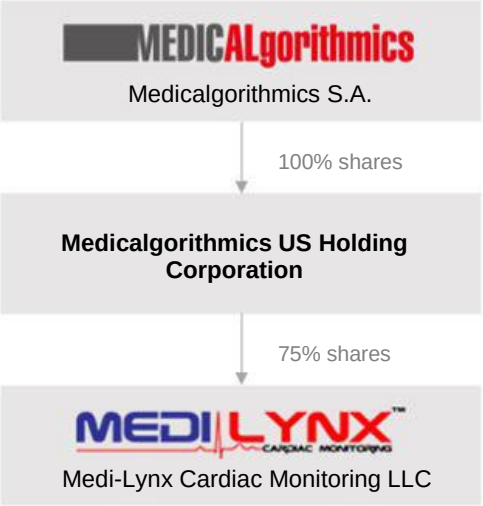
I. 2. List of entities forming the Company's Capital Group

The Medicalgorithmics Capital Group (the "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"), representing 100% of votes at the Shareholders' Meeting;
- 75% of shares in Medi-Lynx Cardiac Monitoring, LLC ("Medi-Lynx") with its registered office in Plano, Texas, USA, through MDG HoldCo.

In the period covered by this report, there were no changes in the organisation of the Capital Group. As at 31 December 2017, the composition of the Medicalgorithmics Capital Group and its organizational and capital relations were as follows:



I. 3. Information on the segments

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

I. 4. Shareholding structure

The chart and the table below present the shareholders of the Company holding at least 5% of votes at the General Meeting of Shareholders at the moment of submitting this report (i.e. as at 21 March 2018) based on the Company's best knowledge, including changes in major holdings of shares after the issue of the previous quarterly report. The information included in the table is based on current reports submitted to the Warsaw Stock Exchange, which reflect the information received from the shareholders in accordance with Article 69 of the Act on public offering and on conditions for the introduction of financial instruments to the organised trading system, and on public companies.

Chart 1. Shareholding structure of Medicalgorithmics S.A.

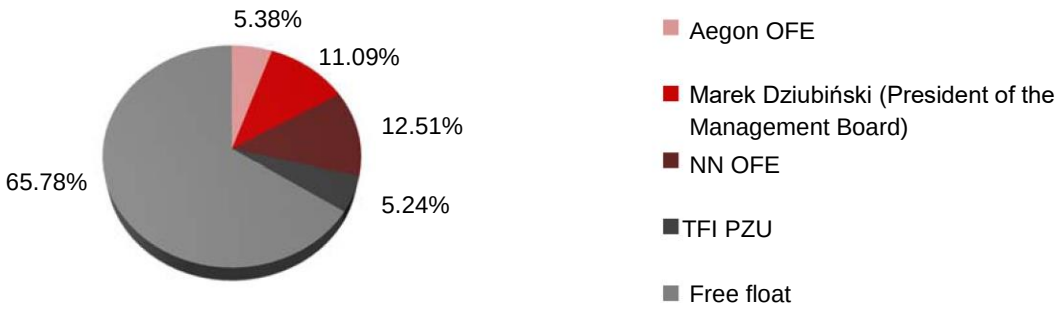


Table 1. Shareholding structure of Medicalgorithmics S.A.

Shareholder	Number of shares as at 21 March 2018	% of share capital	Number of votes	% share in the overall number of votes	Change in the period of 22 November 2017 – 21 March 2018
Aegon OFE	193,863	5.38%	193,863	5.38%	unchanged
Marek Dziubiński (President of the Management Board)	400,000	11.09%	400,000	11.09%	unchanged
NN OFE	451,000	12.51%	451,000	12.51%	unchanged
TFI PZU	189,045	5.24%	189,045	5.24%	unchanged
Free float	2,372,618	65.78%	2,372,618	65.78%	+ 276,061
TOTAL NUMBER OF SHARES	**3,606,526**				

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

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

I. 5. Dividend policy

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

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

On 29 May 2017, the Management Board adopted Resolution No 03/05/2017 on the adoption of a recommendation concerning the policy for payment of dividend from the profit earned by the Company in the financial year 2016 and thereafter. It is the Management Board's intention that the payment of dividend from the profit earned by the Company for financial years following the financial year 2016 be set at the level of up to 50% of the Medicalgorithmics Capital Group's consolidated net profit attributable to shareholders of the parent company for a given financial year based on the consolidated financial statements and that the remaining portion of profit be allocated to supplementary capital. In the event of actual or anticipated capital needs of the Company of significant value, the Management Board's recommendations regarding the payment of dividend from the profit earned by the Company for the financial years 2017, 2018 or 2019 may be set at the level of 20% of the consolidated net profit of the Medicalgorithmics Capital Group attributable to shareholders of the parent company for a given financial year on the basis of the consolidated financial statements and the remaining part of profit may be allocated to the supplementary capital.

In addition, the possibility of dividend payment from the Company's net profit disclosed in the Company's financial statements for the financial year 2017, 2018 or 2019 may be excluded or limited due to the provisions of the terms of issue of securities (in particular bonds) issued by the Company. The ultimate recommendation of the Management Board concerning the distribution of profit generated in the Capital Group will be based on the market, financial and liquidity position of the Group, existing and future liabilities and provisions related thereto, determining the maximum level of debt. The Management Board's proposals concerning dividend payment take into account the capital required to support the Company's growth. The Management Board will recommend days on which the list of shareholders entitled to receive dividends and the dividend payment dates will be determined, with due regard for the need to carry out this process in an efficient manner. The ultimate decision on the distribution of the Company's net profit for subsequent financial years will be made by the Ordinary General Meeting of Shareholders. Pursuant to resolution No 14/06/2017 of the Ordinary Shareholders'

Meeting of Medicalgorithmics S.A., on 16 October 2017 a dividend was paid out to the Company's shareholders in the aggregate amount of PLN 7,213 thousands, i.e. PLN 2.00 per share. The dividend was paid for all 3,607 thousands shares in the Company.

I. 6. Purchase of treasury shares

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

I. 7. Management Board of the Company

On 6 September 2017, the Vice-president of the Management Board and Chief Technology Office, Tomasz Mularczyk, tendered his resignation from the Management Board. On 7 September 2017, the Company's Supervisory Board adopted a resolution appointing Maksymilian Sztandera (the Company's Chief Financial Officer since August 2015) as a new Member of the Company's Management Board. The composition of the Medicalgorithmics S.A. Management Board as at the date of these report was as follows:

dr Marek Dziubiński – President of the Management Board, CEO, CTO

Dr Marek Dziubiński is a graduate of interdisciplinary studies at the University of Warsaw, specialising in the Faculty of Physics, Mathematics and Computer Science. He also completed doctoral studies at the Gdańsk University of Technology in the Department of Multimedia Systems at the Faculty of Electronics, Telecommunications and Computer Science. Dr Dziubiński's PhD thesis was awarded by the Gdańsk University of Technology and received a national distinction. Marek Dziubiński is the author of numerous scientific publications, articles in scientific journals and conference papers. For the last 17 years of his career he has been involved in the development of digital signal processing algorithms, in particular concentrating his activity on the analysis of periodic and quasi-periodic signals. The PocketECG technology is based on a self-learning algorithm developed by Mr Dziubiński for the interpretation of ECG signals based on a limited number of signal leads, generating real-time results. Marek Dziubiński is also the author of the Company's business model.

Career:

- June 2005 – present: MEDICALGORITHMICS: CEO, CTO
- March 2005 – January 2006: Aud-X Team: Head of IT team
- June 2003 – August 2005: WAVEFORMATIC: Project Manager
- June 2004 – September 2005: PRESTO-SPACE: Project participant
- July 2000 – May 2003: Houpert Digital Audio: Programmer

Maksymilian Sztandera – Chief Financial Officer

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

Table 2. Information on remuneration of the Management Board in 2017 (PLN '000)

Person	Function held in the Issuer's governing bodies	Remuneration
Marek Dziubiński	President of the Management Board	5,203
Tomasz Mularczyk	Vice-President of the Management Board, Chief Technology Officer (until 6 September 2017)	2,113
Maksymilian Sztandera	Member of the Management Board, Chief Financial Officer (since 7 September 2017)	129

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

I. 8. Supervisory Board of Medicalgorithmics S.A.

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

Marek Tatar – Chairperson of the Supervisory Board

Marek Tatar is a graduate and a doctoral student in the Faculty of Law and Administration at the Jagiellonian University. He is a Legal Advisor and a Managing Partner of Tatar i Wspólnicy Sp. k. Previously he worked at Elektromontaż nr 2 Kraków S.A., Dom Maklerski PENETRATOR S.A. (1998–2009) and Trigon Dom Maklerski S.A. (2009).

Prof. dr hab. Marcin Hoffmann – Member of the Supervisory Board

Prof. dr hab. Marcin Hoffman is a graduate of the Faculty of Chemistry and the Faculty of Biotechnology at the Adam Mickiewicz University in Poznań. In 2009 he was awarded the title of habilitated doctor. Marcin Hoffman is also a graduate of MBA studies organised by Poznań Economics Academy and Georgia State University in Atlanta. He is also a laureate of numerous competitions, among others, Promising Scientist Award awarded in 2002. He has also received fellowships from the Foundation for Polish Science, the Ministry of National Education, the Stefan Batory Foundation and the Adam Mickiewicz University in Poznań. Since 2007 he has been the President of the Management Board of BIB Seed Capital S.A. He also worked as a consultant at McKinsey & Co. and a team leader at BioInfoBank Institute.

Artur Małek – Member of the Supervisory Board

Artur Małek is a graduate of the Faculty of Finance and Banking at the Cracow University of Economics. Since 2014 he has been a Financial Director at Calypso Fitness S.A. Previously, he held the position of a Financial Director at Benefit Systems S.A. and Noblestar Polska Sp. z o.o. Currently Artur Małek is also a Chairperson of the Supervisory Board of EFC Fitness S.A. and a Member of the Supervisory Board of Elektrobudowa S.A., Fitness MCG Sp. z o.o. and Vistula Group S.A.

Jan Kunkowski – Member of the Supervisory Board

Jan Kunkowski is a graduate of the Inter-Faculty Individual Studies in Mathematics and Natural Sciences at the University of Warsaw, where he received a Master's degree in Psychology. He also completed the annual Post-Graduate Management Studies at the SGH Warsaw School of Economics. He has got more than 15 years of experience in quantitative research. Currently he works as a Chief Operating Officer at IIBR (IQS Group). Previously he worked at Gemius S.A., Ipsos Polska, IQd and QUANT Group and at Millward Brown SMG/KRC.

Piotr Żółkiewicz – Member of the Supervisory Board

Piotr Żółkiewicz is a graduate of management studies. His professional experience is connected with the capital market, advice on capital raising by companies and corporate finance management. He started his career as a private investor at the Warsaw Stock Exchange. Since 2007, he has been a member of the board of directors of Stalica Trading Limited, and in the years 2011–2013 he advised the management of the Eko Park Group and related companies operating in the energy sector on the financial and strategy matters. In the years 2010–2013 he also worked for Kardiosystem Sp. z o.o., performing invasive procedures on a heart. Until 30 June 2015, Piotr Żółkiewicz held a position of a Vice President of the Management Board for Financial and Operational issues at Medicalgorithmics S.A., currently he works for Copernicus Capital TFI.

During the reporting period, there were no personal changes in the Company Supervisory Board. Due to changes in the law regarding the appointment and functioning of audit committees in the so-called public-interest entities, the Audit Committee composed of elected members of the Supervisory Board was appointed in 2017 For details, see Section IV. 7 of this report.

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

Table 3. Company shares held by members of the 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 22 November 2017 – 21 March 2018
Marek Dziubiński	President of the Management Board	400,000	-	Unchanged
Maksymilian Sztandera	Chief Financial Officer	-	-	Unchanged
Marek Tatar	Chairman of the Supervisory Board	-	-	Unchanged
Piotr Żółkiewicz	Member of the Supervisory Board	7,469	-	Unchanged
Jan Kunkowski	Member of the Supervisory Board	100	-	Unchanged
Artur Małek	Member of the Supervisory Board	-	-	Unchanged
Marcin Hoffmann	Member of the Supervisory Board	-	148 1222	Unchanged

1) Indirect ownership of shares by a person is understood as the involvement of such a person in the entity holding the shares directly, this involvement is not equivalent to the status of the dominant entity towards the entity holding the shares directly. Detailed information on the relationship between individuals and entities holding shares is presented in the following footnotes to the table.
2) Marcin Hoffmann is the President of the Management Board of BIB Seed Capital S.A. with its registered office in Poznań and holds 40% of shares in this entity that holds 148,122 Shares, which represents 4.11% of the Issuer's share capital and the total number of votes at the Issuer's General Meeting, BIB Seed Capital S.A. is not a subsidiary (within the meaning of the Act on offering) of Marcin Hoffmann.

Table 4. Information on remuneration of the Supervisory Board in 2017 (PLN '000)

Person	Function held in the Issuer's governing bodies	Remuneration
Marek Tatar	Chairman of the Supervisory Board and the Audit Committee	49
Marcin Hoffmann	Member of the Supervisory Board	28
Artur Małek	Member of the Supervisory Board	28
Jan Kunkowski	Member of the Supervisory Board and the Audit Committee	33
Piotr Żółkiewicz	Member of the Supervisory Board and the Audit Committee	33

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

I. 9. Branches operated by the Company

Medicalgorithmics S. A. has no formal branches. In 2017, however, it operated in two locations: at the Company's head office was in Warsaw and in the production plant in Gdańsk.

Table 5. Branches of the Company and their locations

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

I. 10. Headcount

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

Table 6. Headcount in the Company

	31.12.2017	31.12.2016
Number of employees (in FTE)*	86	87

*As at the report date (21 March 2018), the Company had 95 employees (in FTEs).

I. 11. Significant court proceedings

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

The Company, together with its subsidiary, Medi-Lynx, was party to negotiations with the US Department of Justice, concluded with a settlement on 26 June 2017. For more information, see Note 31 to the Company's financial statements for 2017.

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

On 1 June 2017, at a meeting of the Supervisory Board of the Company, CSWP Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa with a registered office in Warsaw, ul. Kopernika 34, 00-336 Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No 0000402544 and entered in the list of audit firms maintained by the National Council of Statutory Auditors under No 3767, was appointed as the audit firm authorised to:

a) Review the Company's interim financial statements for the reporting period ended 30 June 2017;
b) Review the Capital Group's interim consolidated financial statements for the reporting period ended 30 June 2017;
c) Audit the Company's financial statements for the financial year ended 31 December 2017;
d) Audit the Capital Group's consolidated financial statements for the financial year ended 31 December 2017.

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

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Audit of the annual separate and consolidated financial statements	104	100
Review of the interim separate and consolidated financial statements	47	45
Other services	4	3

I. 13. Information on changes in the key rules of managing the Company

In the year ended 31 December 2017, there were no changes in the key rules of managing the Company.

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

On 26 February 2016, the Company's Extraordinary General Meeting adopted an incentive scheme based on shares in Medicalgorithmics S.A., effective from 26 February 2016 to 31 December 2026. Stock options under the scheme, covering the financial years 2016–2025, will be granted in six tranches. A total of 598,000 options will be granted, broken down into the main tranche for management and additional tranche for key employees, in the following manner:

1) tranche I settled after the end of 2018 – a total of 60,000 options divided into 53,000 options in the main tranche and 7,000 options in the additional tranche,
2) tranche II settled after the end of 2019 – 58,000 options divided into 51,000 options in the main tranche and 7,000 options in the additional tranche,
3) tranche III settled after the end of 2020 – 120,000 options divided into 106,000 options in the main tranche and 14,000 options in the additional tranche,
4) tranche IV settled after the end of 2021 – 120,000 options divided into 106,000 options in the main tranche and 14,000 options in the additional tranche,
5) tranche V settled after the end of 2022 – 120,000 options divided into 106,000 options in the main tranche and 14,000 options in the additional tranche,
6) tranche VI settled no earlier than after the end of 2023, and no later than after the end of 2025 – 120,000 options divided into 106,000 options in the main tranche and 14,000 options in the additional tranche.

The Extraordinary General Meeting entrusted the Supervisory Board with oversight of the scheme's implementation, including verification of the fulfillment of grant conditions for the options and their allotment as per the adopted rules. The

Company's Management Board was authorized to take all actions as may be necessary to implement the scheme under the oversight of the Supervisory Board. Following the resignation of a person who was previously a beneficiary of the scheme from the Company's Management Board, the Company commissioned an actuarial revaluation. Valuation of the incentive scheme is recognised under the Revaluation reserve and amounted to PLN 5,312 thousands as at 31 December 2017. Costs in this respect amounted to PLN 2,142 thousands in the reporting period.

II. Overview of factors determining the Company's development and summary of material events related to operations of Medicalgorithmics S.A. in 2017

In 2017, a number of significant events took place which affected the operations and development of Medicalgorithmics. In December 2016, the Company terminated its cooperation with one of its commercial partners in the United States, AMI Monitoring Inc., and its subsidiary, Spectocor LLC ("AMI/Spectocor"). Since 2017, Medicalgorithmics has had one business partner in the U.S. market, namely Medi-Lynx, a subsidiary of the Company. As a result of the termination of cooperation with AMI/Spectocor, Medi-Lynx acquired a database of clients and employees from that company. The event described had a significant impact on the decrease in the Company's revenue in 2017, which was further explained in section III. 1 of this document.

In 2017, the Company undertook many efforts to support the sales process on global markets, including the key U.S. market, and continued its research and development activities.

Since the second quarter of 2017, the Company has conducted comprehensive marketing activities aimed at increasing the awareness of selected healthcare professionals and patients about the competitive advantages of the Company's technologies and strengthening the image of Medicalgorithmics as an expert company. These efforts included, among others: launch of the PocketECG product website and a blog with information on industry novelties, image and information campaigns targeted at electro-physiologists and nurses, publication of specialist articles in the medical press and websites, as well as implementation of a system for marketing automation, including a CRM system for sales management.

As part of the expansion of sales of the PocketECG system on new markets, in 2017 the Company acquired new commercial partners by signing agreements with companies from the Czech Republic, Italy and Denmark.

In terms of product development, the Company continued to improve its PocketECG system for diagnosing cardiac arrhythmia. In the past year, the Company improved its devices by adding an accelerometer. Thus, it has incorporated a new unrivalled functionality into the system. Measurement with an accelerometer allows for linking the analysis of ECG signal data, including arrhythmias, with the patient's activity during heart rate monitoring. In addition, the Company continued the previously initiated research and development projects on new products and worked on obtaining the necessary registrations to enter new markets. The company has completed the process of registration of its proprietary system for hybrid cardiovascular rehabilitation in Poland and has received permission for its commercialization from the Office for Registration of Medicinal Products, Medical Devices and Biocidal Products (Urząd Rejestracji Produktów Leczniczych, Wyrobów Medycznych i Produktów Biobójczych). As a result, in 2017 the Company started piloting the system at the John Paul II Specialist Hospital in Kraków.

In addition, at the end of 2017 the Company received funding from the National Centre for Research and Development for a project entitled ECG TechBot. It is a dedicated software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods. The project developed by Medicalgorithmics was selected as part of the Smart Growth Operational Programme 2014-2020 co-financed by the European Regional Development Fund.

For more information on ongoing research and development projects, see section III.4 of this document.

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

III. 1. Commentary to the achieved results

In 2017, the Company continued its strategy and operated on the basis of the subscription model according to which it sells the devices and then charges monthly subscription fees for their use and for the use of the related software and server infrastructure. The table below presents the key items of the Company's statement of comprehensive income for 2017 and 2016.

Table 8. Key items of the statement of comprehensive income for 2017 and 2016, and changes over the last financial year (in PLN '000)

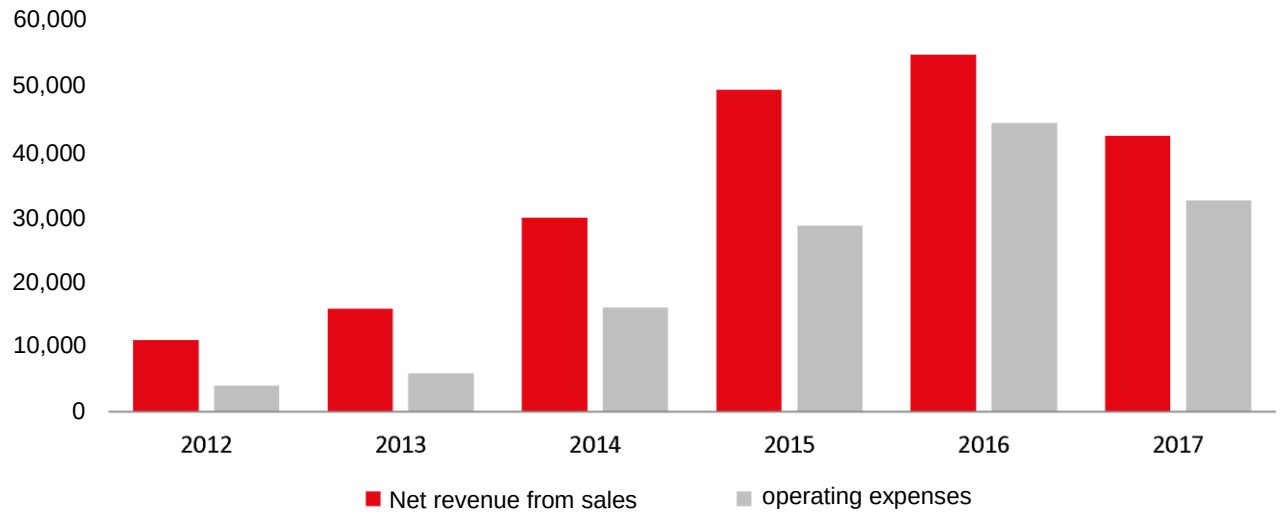
	2017	2016	Change	Change %
Sales revenue	42,198	54,664	(12,466)	(23%)
Operating expenses	32,381	44,230	(11,849)	(27%)
Profit on sales	9,817	10,434	(617)	(6%)
Other operating revenue, net	334	29,031	(28,697)	(99%)
Financial revenue / (costs), net	(13,752)	5,661	(19,413)	(343%)
Profit/(loss) before tax	(3,601)	45,126	(48,727)	(108%)
Net profit/(loss)	**(2,830)**	**41,634**	**(44,464)**	**(107%)**
EBITDA	11,418	41,297	(29,879)	(72%)

Sales revenue

In 2017, the revenue of Medicalgorithmics S.A. amounted to PLN 42,198 thousands, which represents a decrease by 23% as compared to 2016. This is mainly due to the decrease in subscription revenue from AMI/Spectocor, which were generated only until the end of February 2017. After this date, in accordance with the settlement agreement, AMI/Spectocor's customers were transferred to Medi-Lynx. Due to improved utilization of PocketECG devices in Medi-Lynx, it is now possible to handle the increased number of patients with a lower total number of active devices. Thus, as Medicalgorithmics' revenue is determined by the number of active devices, the increase in subscription revenue from Medi-Lynx only partially offset the decrease in subscription revenue from AMI/Spectocor.

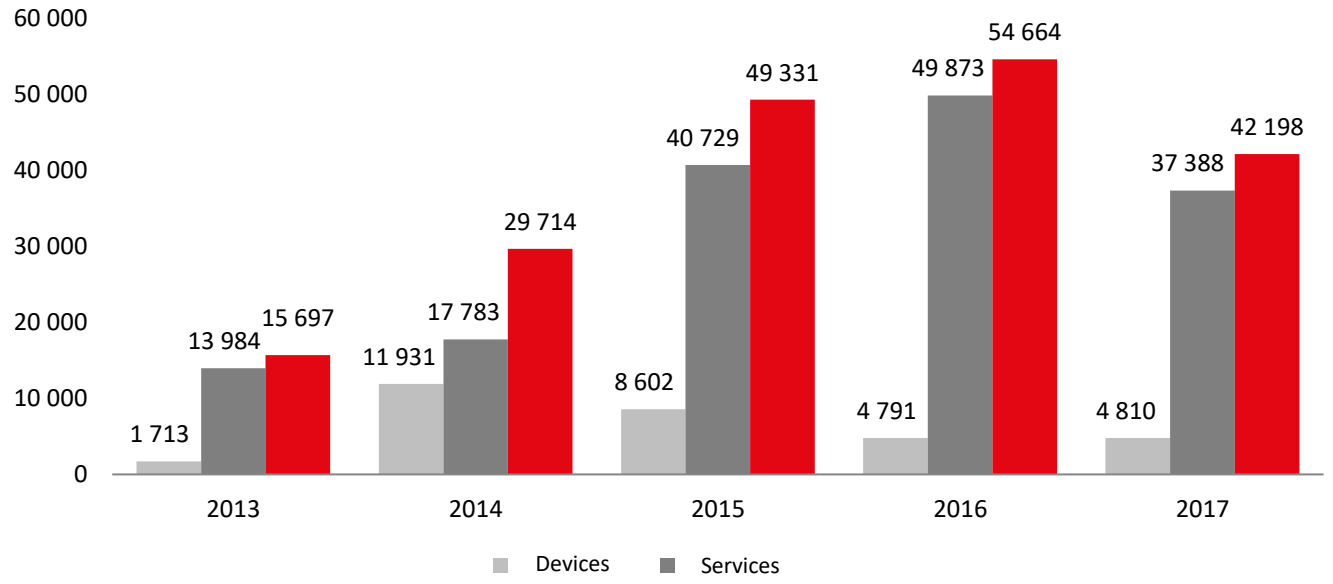
The lower average USD/PLN exchange rate compared to the corresponding period also had a significant impact on the year-on-year decline in revenue. The lower USD exchange rate translated into a decrease in revenue by approx. 2.5 million as compared to the corresponding period.

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



In 2017, the Company earned all of its revenue from the sales of PocketECG system. This revenue comprised the revenue from sales of devices in the amount of PLN 4,810 thousands (PLN 4,791 thousands in 2016), representing 11% of total revenue (9% in 2016), and revenue from sales of services in the amount of PLN 37,388 thousands (PLN 49,873 thousands in 2016), representing 89% of total revenue (91% in 2016).

Chart 3. Sales revenue by type in particular years (PLN '000)



The Company earns the vast majority of its sales revenue in USD. In 2017, revenue in USD accounted for 92% of total sales revenue (98.6% in 2016). The gradual decrease in the share of USD in the revenue currency structure is a result of the increasing geographical diversification of the Company's sales and an increase in the volume of sales to current customers in other currencies.

Operating expenses

Table 9. Structure of operating expenses in 2017 and 2016 (PLN '000)

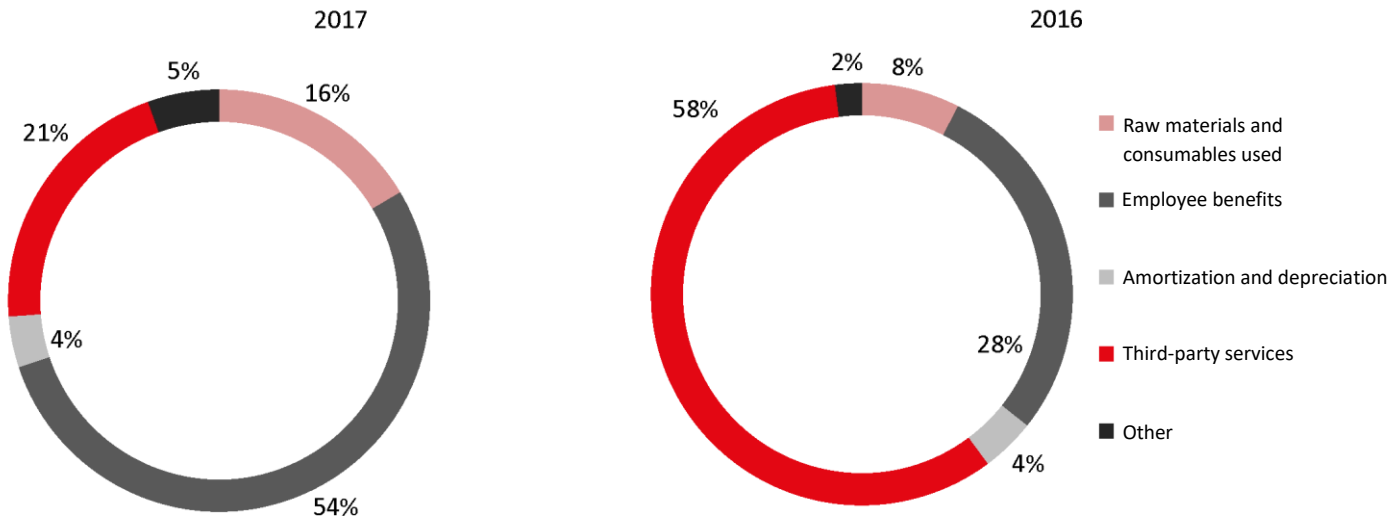
	2017	2016	Change	Change %
Consumption of raw materials and materials	5,351	3,338	2,013	60%
Employee benefits	17,243	12,457	4,786	38%
Amortization and depreciation	1,267	1,832	(565)	(31%)
Third-party services	6,746	25,710	(18,964)	(74%)
Other	1,774	893	881	99%
TOTAL:	**32,381**	**44,230**	**(11,849)**	**(27%)**

In 2017, employee benefits, comprising salaries and salary surcharges, were the most significant component of operating expenses. A high share of such expenses in the structure of expenses (53% of total operating expenses) results from the business profile of Medicalgorithmics S.A., which is mainly based on the development of new technologies in the area of manufacturing and software. The Company builds its competitive advantage on the basis of a highly qualified team. The increase in personnel costs as compared to 2016 resulted mainly from higher performance-based bonuses.

The second largest item of operating expenses in 2017 were costs of third-party services (21%). Marketing costs, costs of lease of production and office space as well as costs of advisory services were the most important components of costs of third-party services. Marketing costs included an extensive marketing and sales campaign launched in 2017. As compared to 2016, the share of costs of advisory services in the cost structure declined significantly. These costs decreased in 2017 by 93% as compared to the corresponding period, which results mainly from the costs of litigation and negotiations on the acquisition of the client base from AMI/Spectocor incurred in 2016 (in the total amount of PLN 19,773 thousands) and from the acquisition of shares in Medi-Lynx (in the amount of PLN 1,785 thousands).

Due to the sale of an increased number of devices in 2017, the Company incurred higher total production and servicing costs, which drove the increase in the item "Raw materials and consumables used". On the other hand, a significant decrease in depreciation and amortization costs in comparison to the corresponding period results mainly from the completion of amortization of the eHealth Monitor project.

Chart 4. Structure of operating expenses in 2017 and 2016 (in %)



Net finance income

Table 10. Finance income and costs in 2017 and 2016

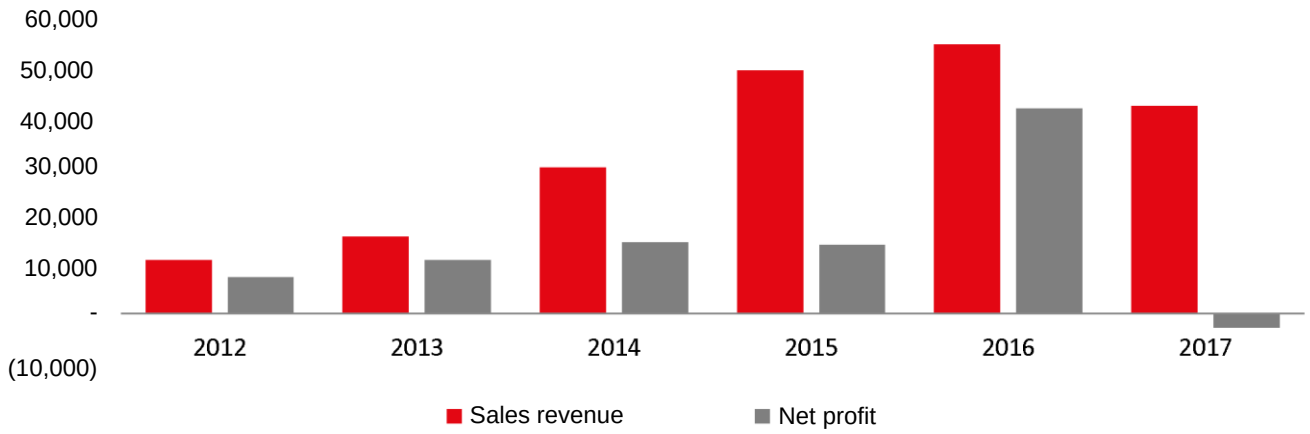
	2017	2016	Change	Change %
Financial revenue	3,879	8,025	(4,146)	(52%)
Financial costs	(17,631)	(2,364)	(15,267)	646%
Net finance income	**(13,752)**	**5,661**	**(19,413)**	**(343%)**

In 2017, the Company reported a loss on financing activities of PLN 13,752 thousands. Finance income comprised mainly interest on loans to related parties, while finance costs included primarily foreign exchange losses of PLN 14,165 thousands resulting from a significant drop in the USD/PLN exchange rate in 2017, as compared to the corresponding period. A significant part of this amount (PLN 12,344 thousands) relates to unrealised foreign exchange differences from the valuation of loans granted to a subsidiary. Finance costs also include costs of interest on bonds in the amount of PLN 2,754 thousands.

Profit and profitability

In 2017, Medicalgorithmics S.A. reported a net loss of PLN 2,830 thousands (compared to a profit of PLN 41,634 thousands in the corresponding period of the previous year). However, the loss for 2017 is attributable, to a large extent, to foreign exchange losses included in finance costs in the reporting period. On the other hand, the profit for 2016 was driven by significant one-off events (legal costs incurred as well as adjudged reimbursement and compensation from AMI/Spectocor). In 2017, there were no significant one-off events.

Chart 5. Net sales and net profit in PLN '000 in particular periods



The sales margin and EBITDA margin were 23% and 27%, respectively (19% and 76% in 2016). Despite a decrease in revenue as compared to the corresponding period, the margin on sales for 2017 was higher, which was attributable in particular to lower costs of third-party services (mainly advisory services) as compared to 2016. The EBIDTA margin for 2016, adjusted for the effect of one-off events related to court disputes conducted in 2016, would be at the level of 64%.

Cash flows

In 2017, Medicalgorithmics S.A. achieved a positive balance of cash flows from operating activities, mainly due to the adjustment of the net profit/loss by unrealized foreign exchange losses. Loans and additional contributions to the share capital of a subsidiary, MDG HoldCo, had the most significant impact on the negative balance of cash flows from investing activities. These factors were partially offset by proceeds from the sale of a part of investment certificates and interest received on loans granted. Negative cash flows from financing activities resulted from payment of dividend for 2016 and interest on bonds issued by the Company.

Table 11. Selected items of the cash flow statement for the financial years 2017 and 2016 (PLN '000)

	01.01.2017-31.12.2017	01.01.2016-31.12.2016	Change	Change %
Net cash from operating activities	7,719	19,716	(11,997)	(61%)
Net cash from investing activities	(19,330)	(81,850)	62,520	(76%)
Net cash from financing activities	(9,964)	73,951	(83,915)	(113%)
Total net cash flows	**(21,575)**	**11,817**	**(33,392)**	(283%)
Closing balance of cash	**10,204**	**31,779**	**(21,575)**	**(68%)**

III. 2. Asset and financial position of the Company

As at 31 December 2017, total assets amounted to PLN 215,422 thousands which represents a decrease by PLN 42,422 thousands (or 16%) compared to the balance as at the end of 2016. The tables below present the key assets the Company and sources of their financing, as well as changes in these assets during the last financial year.

Table 12. Key assets as at the end of 2017 and 2016 and changes in these assets during the last financial year

FIXED ASSETS (PLN '000)	2017	2016	Change	Change %
Fixed assets, *including:*	**188,858**	**170,648**	**18,210**	**11%**
Intangible assets	14,581	11,874	2,707	23%
Property, plant and equipment	1,301	893	408	46%
Long-term financial assets	74,691	69,386	5,305	8%
Shares in subsidiaries	94,771	86,720	8,051	9%
Current assets, *including:*	**26,564**	**87,196**	**(60,632)**	**(70%)**
Inventories	7,856	9,710	(1,854)	(19%)
Trade receivables and others	4,278	33,548	(29,270)	(87%)
Short-term financial assets	4,226	12,159	(7,933)	(65%)
Cash and cash equivalents	10,204	31,779	(21,575)	(68%)
TOTAL ASSETS	**215,422**	**257,844**	**(42,422)**	**(16%)**

As at 31 December 2017, total non-current assets amounted to PLN 188,858 thousands and accounted for 88% of total assets (PLN 170,648 thousands and 66%, respectively, as at 31 December 2016). The increase in non-current assets was primarily driven by the increased value of shares in subsidiaries resulting from the increase of the share capital of a subsidiary, MDG HoldCo, by USD 2,015 thousands. These funds were used in full to repay the first part of the liability towards the seller of the shares in Medi-Lynx, i.e. Medi-Lynx Monitoring, Inc. In addition, the increase in non-current assets is also significantly attributable to the higher value of financial assets, resulting from a loan granted to the subsidiary, MDG HoldCo, in the amount of USD 6,813 thousands in the first quarter of 2017, partially offset by the sale in 2017 of a part of investment certificates of the fund Bezpiecznych Obligacji Fundusz Inwestycyjny Zamknięty with the total value of PLN 15,884 thousands. The increase in intangible assets results mainly from expenditure on development works.

As at the end of 2017, current assets amounted to PLN 26,564 thousands and accounted for 12% of total assets. As at the end of 2016, current assets amounted to PLN 87,196 thousands and accounted for 34% of total assets. The decrease in current assets is mainly due to a three-party set-off of settlements between Medicalgorithmics S.A. and its subsidiaries in connection with the payment of the liability resulting from the acquisition of AMI/Spectocor client base by Medi-Lynx. The Company was obliged to repay this liability under the settlement agreement.

Movements within current and non-current assets also result from plans to sell investment certificates and from the resulting classification of these certificates as current or non-current assets. In 2017, 42,500 certificates classified for redemption in the first quarter of 2018 (PLN 4,226 thousands) were presented in the short-term portion, as compared to 125,000 certificates (PLN 12,159 thousands) presented in the short-term portion at the end of 2016.

Table 13. Key items of equity and liabilities as at the end of 2017 and 2016 and changes in these items during the last financial year

EQUITY AND LIABILITIES (PLN '000)	2017	2016	Change	Change %
Equity	**161,885**	**169,786**	**(7,901)**	**(5%)**
Long-term liabilities	**51,482**	**52,343**	**(861)**	**(2%)**
Short-term liabilities, *including:*	**2,055**	**35,715**	**(33,660)**	**(94%)**
Trade and other liabilities	1,326	34,505	(33,179)	(96%)
Prepayments and deferred expenses	315	509	(194)	(38%)
Total liabilities	53,537	88,058	(34,521)	(39%)
TOTAL EQUITY AND LIABILITIES	**215,422**	**257,844**	**(42,422)**	**(16%)**

Changes in equity are mainly due to the distribution of dividend from the profit for 2016 in the amount of PLN 7,213 thousands. The decrease in short-term liabilities results mainly from the final settlement of the acquisition of the AMI/Spectocor client base. As at 31 December 2016, the Company carried a liability towards AMI/Spectocor for the acquisition of its client base (USD 6,813 thousands) and estimated consideration for services provided to AMI/Spectocor for January and February 2017 (USD 1,140 thousands), which – according to the agreement – were recognised as part of the purchase price of the base.

III. 3. Cash and financial assets

Medicalgorithmics S.A. has significant financial surpluses which it tries to invest in such a way as to maximize the rate of return on investment while maintaining a low level of risk.

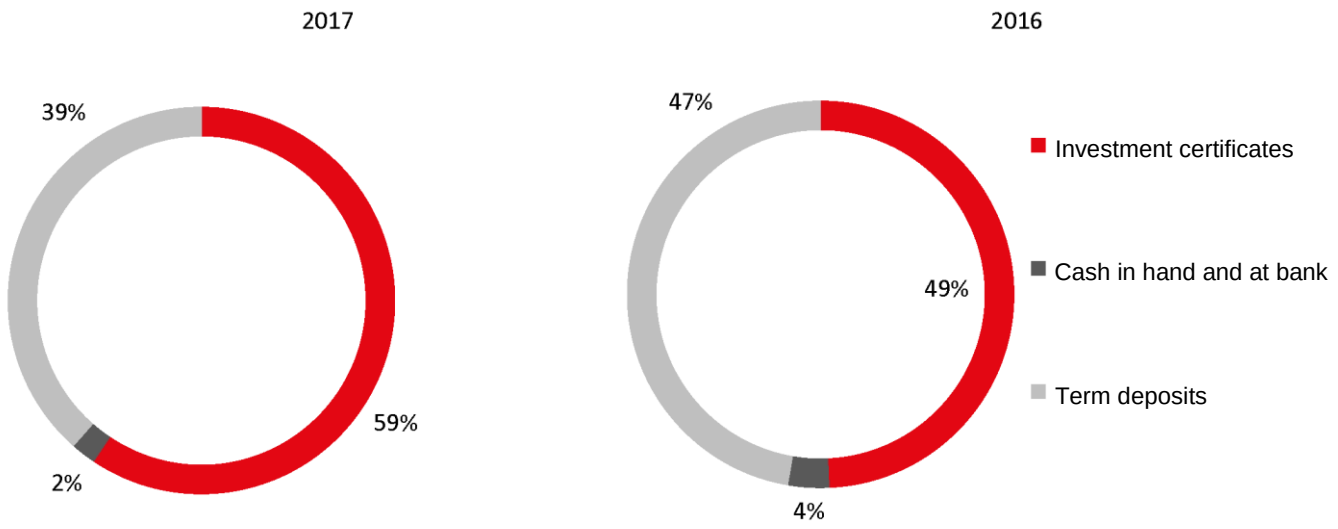
As at 31 December 2017, the Company held only investment certificates of the fund Bezpiecznych Obligacji Fundusz Inwestycyjny Zamknięty and cash in current accounts and term deposits. During 2017, in accordance with the Management Board's decision to discontinue investing cash surpluses in debt instruments and to submit, in stages, the certificates held for redemption, the Company sold a part of the investment certificates held with a total value of PLN 15,884 thousands. For more information, see Note 14 to the financial statements for 2017.

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

Table 14. Structure of the Company's cash and financial assets as at the end of 2017 and 2016 (PLN '000)

Funds	31.12.2017	31.12.2016	Change	Change %
Investment certificates – long-term	10,710	18,743	(8,033)	(43%)
Investment certificates – short-term	4,226	12,159	(7,933)	(65%)
Cash in hand	11	13	(2)	(15%)
Cash in bank accounts	511	2,129	(1,618)	(76%)
Term deposits	9,682	29,637	(19,955)	(67%)

Chart 6. Structure of cash and financial assets as at the end of 2017 and 2016



Credits and loans received

As at the end of 2017, Medicalgorithmics S.A. reported a liability on account of credits in the amount of PLN 11 thousands, resulting entirely from the credit card debt balance. During the reporting period, the Company utilised a credit line in its current account. After the balance sheet date, due to cash surpluses held, the credit line was closed.

Issue of bonds

In 2016, the Company issued bonds with a nominal value of PLN 50,000 thousands and a maturity date of 21 April 2019. The purpose of the issue was to finance an investment in a subsidiary, Medi-Lynx. For more information on the issue, see Note 22 to the separate financial statements for 2017.

Loans granted

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

Sureties and financial guarantees granted and received

The Company is a party to agreements for the EU co-financing of investment projects aimed at the development of the products and services offered. If the conditions for the implementation of development works are not met, there may be a risk of necessity to return the subsidies received. The subsidies granted are secured with promissory notes.

As at the balance sheet date, the risk described above was assessed as doubtful. The Company carries out its works in accordance with the schedule.

The Company endorses an interest-bearing promissory note issued by a subsidiary, MDG HoldCo with its registered office in the US to Medi-Lynx Monitoring, Inc. as a payment for the purchase of shares in Medi-Lynx. As at 31 December 2017, the outstanding amount was USD 5,970 thousands. Payments are spread over three equal instalments amounting to USD 1,990 thousands, payable on 30 March 2018, 30 March 2019 and 30 March 2020. Liabilities bear interest at a fixed interest rate.

III. 4. Ongoing research and development projects

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

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

Work on these projects is at a very advanced stage, however, as the products have not yet entered the patent phase, details of these solutions are not disclosed.

The projects are financed from own funds. In the opinion of the Management Board of the Company, development works in progress, recognised as a component of intangible assets, will be completed and will produce the expected economic effects. Key costs capitalised as development works in progress include the costs of salaries of employees engaged in research and development activities.

Table 15. Structure of expenditure on development works in progress at the end of 2017 and 2016 (PLN '000)

	31.12.2017	31.12.2016	Change	Change %
Salaries and contributions	8,420	5,790	2,630	45%
Other	4,728	3,933	795	20%
TOTAL:	**13,148**	**9,723**	**3,425**	**35%**

Moreover, on 22 December 2017 the Company and the National Centre for Research and Development ("NCBiR") signed an agreement on co-financing of a project entitled "ECG TechBot". The co-financed project includes industrial and development work on dedicated software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods.

The total cost of project implementation as well as the total amount of eligible costs is PLN 11,188 thousands, with the maximum value of co-financing set at PLN 6,335 thousands. The eligibility period of costs under the ECG TechBot project started on 1 July 2017 and ends on the date of submission of the final payment request, i.e. 31 December 2022.

III. 5. Other domestic and foreign investment projects

Medicalgorithmics S.A. is currently not engaged in any investment projects other than those described in the two preceding subsections.

III. 6. Factors and events, especially non-recurring ones, with material bearing on financial performance

In 2017, there were no events, other than those described in Sections III.1–III.5, which had a material bearing on operations of Medicalgorithmics S.A. and the Company's separate financial statements for 2017.

III. 7. Related party transactions

In the discussed period, there were no related party transactions concluded under non-market conditions. Related party transactions have been discussed in detail in Note 28 to the financial statements for 2017.

Transactions with Members of the Management Board and Supervisory Board are described in Sections I.7 and I.8 of this report.

Shareholders (as related entities)

Pursuant to resolution No 14/06/2017 of the Ordiniary Shareholders' Meeting of Medicalgorithmics S.A., on 16 October 2017 the Company paid out a dividend to shareholders in the aggregate amount of PLN 7,213 thousands, i.e. PLN 2.00 per share. The dividend was paid for all 3,607 thousands shares in the Company.

III. 8. The Management Board's position regarding the possibility of achieving forecasts

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

III. 9. Information on factors which, in the Issuer's opinion, will affect its performance during at least the next year

According to the Management Board, the Company's current financial condition and growth prospects do not involve any significant threats to its ability to continue as a going concern in the foreseeable future. However, there are certain 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:

- Developments on the US medical services market, where the Company generates the vast majority of its revenue;
- Growing sales to commercial partners with whom the Company has signed contracts, which will help diversify and boost revenue;
- Growth of cardiac diagnostics sector in countries where the Company's products and services are sold and level of reimbursement for services provided with PocketECG devices;
- Fluctuations in exchange rates of currencies of the countries where the Company operates.

III. 10. Prospects for the development of the Company's operations in the upcoming year

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

In the coming year, in order to achieve this objective, the Company intends to continue to support its subsidiary, Medi-Lynx, in optimising its operations and in its sales initiatives, which will translate into increased revenue of the Company from the sale of equipment and subscriptions to Medi-Lynx in the long term.

In order to expand and strengthen its position in other markets, the Company plans to conclude agreements with new business partners and further expand its cooperation with existing customers. In 2018, the Company also intends to continue its efforts to create reimbursement codes for the long-term arrhythmia monitoring service in Germany and the UK.

In 2018, the Company plans to initiate pilot implementations of a new product – PocketECG CRS, a system for hybrid cardiovascular rehabilitation – in the United States and to start commercial sales of the system in Poland.

III. 11. Assessment of the feasibility of investment plans

Medicalgorithmics S. A. is fully capable of financing its investment projects and assumes that they are financed from equity or, if necessary, debt. Where appropriate, the Company applies for grants for development work on new products.

III. 12. Description of material risk factors and risk management methods

Risk management methods have been described in Note 23 to the financial statements for 2017.

III. 13. Information on sources of supply and and markets

When manufacturing the PocketECG system, the Company uses a number of suppliers of electronic components and sub-assemblies. Sources of supply are diversified, but the Company is constantly establishing new business contacts with potential suppliers. There was no single counterparty whose supplies accounted from more than 10% of the Company's net sales revenue. Total revenue from sales to the subsidiary, Medi-Lynx, accounted for 84% of net sales revenue in 2017.

IV. Statement of compliance with corporate governance standards

IV. 1. Corporate governance rules

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

In 2017, Medicalgorithmics S.A. complied with all provisions contained in this set, except for recommendations II.R.2., IV.R.2., IV.R.3. (not applicable), VI.R.3. (not applicable) and individual detailed rules which the Company has chosen not to apply. The list of detailed rules and the justification for non-compliance, which also applies to particular recommendations, are presented below:

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.3. a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1;

There is no formal division of duties and responsibilities among members of the management board within the scope of their functions, and consequently there is no such chart. In the Company's opinion, this ensures effective and dynamic management of the enterprise.

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation;

Not applicable. The Company has not decided to publish financial projections.

I.Z.1.11. information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule;

Pursuant to Resolution No 1 of 20 October 2017, the Audit Committee of the Company adopted the Policy and procedure for appointing an audit firm to conduct statutory audit/review of the Company's and the Capital Group's financial statements, as required by the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision. The provisions of this document will apply for the first time to the appointment of an audit firm to conduct a statutory audit of the Company's and the Capital Group's financial statements for the financial year 2018 and to review the financial statements for the first half of 2018, so the Company will publish the document on its website at the end of the first half of 2018

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

The Company has not developed a diversity policy. Members of the Management Board and Supervisory Board of the Company are appointed by the Supervisory Board and the General Meeting, respectively, on the basis of their qualifications to perform certain functions. Information concerning members of the Company's governing bodies is published in relevant current reports notifying about the appointment of the governing bodies and on the Company's website. In addition, the Company observes the principles of equal treatment with respect to the establishment and termination of employment conditions, promotion and access to training in order to improve professional qualifications. Key managers are employed on the basis of their qualifications and experience necessary for the Company's operations.

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

This principle is not applied because the Company does not comply with principle IV.Z.2 of the Code of Best Practice for WSE Listed Companies.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

The Company does not operate a website in English to the extent described in principle I.Z.1. The Company planned to fully implement this principle in the financial year 2017, however, the implementation date was postponed to 2018. Work on the new website, including the full version in English, is at an advanced stage.

II.Z.1. The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

There is no formal and detailed division of duties and responsibilities among members of the management board within the scope of their functions, and consequently there is no such chart. In the Company's opinion, this ensures effective and dynamic management of the enterprise.

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

The principle is applied to a limited extent, i. e. taking into account the criterion of competitiveness of companies other than members of the Capital Group. The Company intends to implement this principle fully in the future.

II.Z.11. The supervisory board should review and issue opinions on matters to be decided in resolutions of the general meeting.

To ensure flexibility of operations of the Company's Supervisory Board, the decision to review and issue an opinion on a given matter, which is the subject of a resolution of the General Meeting, is in the competence of the Company's Supervisory Board.

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

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

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Due to the current shareholding structure and for economic reasons, the Company does not ensure real-time broadcasts of general meetings. To the best of the Company's knowledge, the current formula of organization of the General Meeting meets the Shareholders' expectations and enables proper and effective execution of rights attached to shares. If the Company becomes aware of the expectations of a wider group of Shareholders with respect to the real-time broadcast of meetings, it will consider implementing such broadcasts.

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise.

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

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

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

In the Directors' Report, the Company publishes information on the amount of remuneration received by the Management Board and Supervisory Board during the reporting periods and on the incentive scheme adopted by the Company. At present, however, the Company does not publish a report on the applied remuneration policy to the extent specified in this principle.

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

Medicalgorithmics S.A. has an internal control and risk management system in place, whose proper and effective functioning in the process of preparing financial statements of Medicalgorithmics S.A. is the responsibility of the Company's Management Board. The internal control system and risk management in this respect is based on the identification and assessment of risk areas accompanied by defining and taking actions aimed at minimising or eliminating them.

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

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

The flow of information within the Company is strictly controlled in order to prepare up-to-date, reliable and complete financial statements drawn up in a reliable manner, on the basis of accounting regulations and policies adopted by the Management Board. The keeping of the Company's accounting books in 2017 and preparation of the financial statements was entrusted to an experienced accounting firm, which applies its own control systems for the process of preparing financial statements.

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

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

The process of preparing the Company's financial statements is carried out in close cooperation with the financial department of Medicalgorithmics S.A. which reports directly to the Management Board of the Company. Both in Medicalgorithmics S.A. and in the entity responsible for keeping the Company's accounting books, with whom the Company cooperates, there are a number of principles concerning the system of control, identification and assessment of risk inherent in the Company's operations, including the principle of making accounting records based only on properly drawn up and accepted documents, or checking these documents in formal, accounting and substantive terms. The information flow between the Company and the entity responsible for keeping the accounting books is also controlled. Substantive control over the preparation of financial statements is exercised by the Management Board which approves quarterly, semi-annual and annual financial statements before their publication.

IV. 3. Shareholders and their rights

The ownership structure of major holdings of shares in Medicalgorithmics S.A. as at the date of publication of this report is presented in Section I.4.

All shares in Medicalgorithmics S.A. ordinary, bearer shares with no special control rights. The Company's Articles of Association do not provide for any limitations on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, time limits for exercising voting rights or provisions according to which the rights attaching to securities are separated from the holding of such securities As at the date of this report, there are no restrictions on the transferability of ownership rights to the Company's shares, except for lock-up clauses entered into with an entity that

acquired 151 thousands series F shares issued in 2016, i.e. Medi-Lynx Monitoring, Inc. Until 30 March 2018, these shares may not be disposed of, including through sale, pledge, swaps or other similar transactions. This restriction applies to a block of 50% of shares covered by the lock-up agreement until 30 March 2019, and to 25% of those shares until 30 March 2020.

IV. 4. General Meeting

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

In particular, the General Meeting has the authority to:

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

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

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

IV. 5. Management Board

The Management Board, chaired by the President of the Management Board, manages the Company and represents it before third parties. Each member of the Management Board has the right to represent the Company independently and without any limitations. The Management Board has the right to appoint commercial proxies. The Management Board operates pursuant to generally applicable laws, and the Company's Articles of Association. All matters relating to the management of the Company's affairs which are not reserved under the law or the Articles of Association for the General Meeting or the Supervisory Board, fall within the scope of powers and responsibilities of the Management Board. The power of the Management Board to make decisions to issue or buy back shares is limited by virtue of the Articles of Association. Pursuant to § 14(5) of the Company's Articles of Association, a resolution of the General Meeting is required to increase the share capital and issue shares. Unless stipulated otherwise in mandatory provisions of law, the Management Board decides on all matters connected with a share capital increase within the limits of the authorised share capital.

The Company's Management Board is composed of 1–3 members appointed for a five-year term of office. The composition of the Management Board is determined by the Supervisory Board which appoints and dismisses its Members.

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

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

IV. 6. Supervisory Board

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

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

Marek Tatar	-	Chairman of the Supervisory Board
Prof. Marcin Hoffmann, Ph.D.	-	Member of the Supervisory Board
Artur Małek	-	Member of the Supervisory Board
Jan Kunkowski	-	Member of the Supervisory Board
Piotr Żółkiewicz	-	Member of the Supervisory Board

There were no changes in the composition of the Supervisory Board during the reporting period.

IV. 7. Audit Committee

In 2017, some legislative changes were introduced in relation to the appointment and functioning of audit committees in the so-called public-interest entities. These changes applied to the Company. As of 21 June 2017, the Act of 11 May 2017 on Statutory Auditors, Audit Firms, and Public Supervision superseded the previous Act of 7 May 2009 on Statutory Auditors and their Self-Government, Entities Authorised to Audit Financial Statements and on Public Supervision under which the tasks of the Audit Committee were performed by the Supervisory Board.

To ensure the Company's compliance with the new Act on Statutory Auditors, on 6 October 2017 the Extraordinary General Meeting of the Company adopted resolution No 3/10/2017 on an amendment to § 20(11) of the Company's Articles of Association that regulates the principles of appointing and operation of the Audit Committee at the Company. Pursuant to the amended provisions of the Company's Articles of Association, members of the Audit Committee, including the Chairman, is appointed by the Supervisory Board from among the Supervisory Board members for the term of office of the Supervisory Board. The Audit Committee is composed of 3 members, including the Chairman, and acts as a collective body. Where permitted by generally applicable law, the Audit Committee's tasks are performed collectively by the Supervisory Board.

On 6 October 2017, pursuant to the amended § 20(11) of the Company's Articles of Association and the provisions of new Act on Statutory Auditors, the Supervisory Board adopted resolutions No 1–3, appointing the following members of the Audit Committee:

Marek Tatar	-	Chairman of the Audit Committee
Jan Kunkowski	-	Member of the Audit Committee
Piotr Żółkiewicz	-	Member of the Audit Committee

There have been no changes in the composition of the Audit Committee since its appointment.

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

The Audit Committee is responsible for the supervision of financial reporting in the Company. Pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, the Audit Committee adopted the following documents by way of Resolution No 1 of 20 October 2017:

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

V. General information about the Company

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

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

VI. Information about the operations of the Issuer

Registered data

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

Share capital

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

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

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

VII. Other Representations of the Management Board

The Management Board of Medicalgorithmics S.A. (the "Company") represents that, to the best of its knowledge, the annual financial statements for 2017 and the comparative data for 2016 have been prepared in accordance with the applicable accounting policies and give a true and fair view of the Company's assets, financial position and performance, and that the Directors' Report for 2017 gives a true picture of the Company's development, achievements and position, including a description of key risks and threats.

On behalf of the Management Board of Medicalgorithmics:

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

The Management Board of Medicalgorithmics S.A. hereby represents that the entity authorised to audit financial statements, i.e. CSWP Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, entered in the list of audit firms under No 3767, which audited the annual financial statements of Medicalgorithmics S.A for 2017, was appointed in compliance with applicable laws. Furthermore, the Management Board represents that the audit firm who performed the audit of the financial statements meets the criteria for issuing an objective and independent auditor's opinion on the annual financial statements, in accordance with the applicable laws and professional standards.

On behalf of the Company's Management Board:

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Medicalgorithmics S.A.

Report of the Independent Auditor on Yearly Financial Statements

Financial Year ended

31 December 2017

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.
ul. Kopernika 34
00-336 Warszawa
tel.: +48 22 101 20 01
faks: +48 22 100 59 94
www.cswp.pl

REPORT OF THE INDEPENDENT AUDITOR ON YEARLY FINANCIAL STATEMENTS

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

Report on Yearly Financial Statements

We have audited the attached financial statements of Medicalgorithmics S.A. with its registered office in Warsaw, Al. Jerozolimskie 81 Street ("the Company"), including statement of financial position prepared as of 31 December 2017, statement of comprehensive income, statement of changes in equity, cash flow statement for the year from 1 January 2017 to 31 December 2017 and explanatory information ("the financial statements").

Management's and Supervisory Board's Responsibility for the Financial Statements

Management of the Company is responsible for preparation of the financial statements based on properly maintained accounting records and fair presentation of these financial statements in accordance with the International Accounting Standards, International Financial Reporting Standards, and related interpretations published in form of decrees of the European Committee and related bylaws, and other applicable regulations, and the articles of association of the Company. The Management of the Company is also responsible for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2018, item 395 with later amendments) ("the Accounting Act") the Management of the Company and members of the Supervisory Board are obliged to ensure that the financial statements comply with requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion whether the financial statements give a true and fair view of the economic and financial position and financial result of the Company in accordance with the International Accounting Standards, International Financial Reporting Standards, and related interpretations published in form of decrees of the European Committee and the accounting principles determined by the Company's accounting policy.

Our audit was performed in accordance with:

1. Act on Statutory Auditors, Audit Firms and on Public Oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with later amendments) ("the Act on Statutory Auditors"),
2. National Standards on Auditing in form of International Standards on Auditing issued by International Auditing and Assurance Standards Board (IAASB), and adopted by the National Council of Statutory Auditors by the resolution dated 10 February 2015, and
3. Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal EU L 158 from 27 May 2014, page 77, and Official Journal EU L 170 from 11 June 2014, page 66) ("the Regulation 537/2014").

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the mentioned above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control, and may relate to any area of laws and regulations, not only those having direct impact on the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The scope of audit does not include assurance as to future profitability of the Company, nor efficiency and effectiveness of managing the Company by its Management either now or in the future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report to the Audit Committee issued at the date of this report.

Independence

During performing our audit the certified auditor responsible for audit and the audit firm remained independent from the Company as required by the Regulation 537/2014 and ethical rules for professional accountants adopted by the National Council of Statutory Auditors.

In accordance with our best knowledge and belief we confirm that we did not provide non-audit services, which are specified as prohibited based on Article 136 of the Act on Statutory Auditors and Article 5 point 1 of the Regulation 537/2014.

The certified auditor responsible for audit and the audit firm provided to the Company or its subsidiaries the following non-audit service, which has not been disclosed in the financial statements or the report on the Company's activities.

- Agreed Upon Procedures concerning calculation of an EBITDA margin due to issuance of bonds by the Company.

Appointment of audit firm

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. was approved as the auditor based on Resolution No. 1 of Supervisory Board dated 1 June 2017. We have been continuously involved in auditing of the Company's financial statements since the financial year ended 31 December 2016, i.e. for the period of two subsequent financial years.

Significant risks

During our audit we identified main risks of significant misstatements described below, including the risks of material misstatement of the financial statements, whether due to fraud or error, and we designed appropriate audit procedures to address those risks. In cases we considered relevant to understand an identified risk and audit procedures performed to address this risk, we also included important remarks relating to such risks.

Description of risk of significant misstatement	Audit procedures addressing the identified risks
Impairment of financial assets in subsidiaries (loans granted and shares). As of 31 December 2017, the Company presented in the statement of financial position: shares of PLN 94,771 thousand and loans of PLN 63,781 thousand. Both balances related to subsidiaries and together amounted to 73.6% of Company's total assets. The Management of the Company is obliged to assess the impairment of financial assets at the end of the reporting period. As a result of internal analysis, the Management did not identify any impairment indicators of assets in subsidiaries. The analysis of financial assets impairment was considered by us as crucial due to a) significant amounts involved b) judgemental nature of the estimates made by the Management. *A reference to disclosure in the financial statement* Disclosures related to financial assets in subsidiaries were presented in notes 3.7, 14 and 15 of explanatory information to the financial statements.	Our audit procedures included in particular: • understanding of a process of identification of impairment related to loans granted and shares, • verification of subsidiaries' financial results and analysis of budgets for the next year, • an interview with the Management regarding the industry situation on the markets where subsidiaries operate, market growth perspectives and legal regulations, • review of impairment tests (goodwill and intangible assets) prepared from the consolidated financial statements perspective.

Opinion

In our opinion, the audited financial statements:

a) give a true and fair view of the financial position of the Company as of 31 December 2017 and its financial result for the year from 1 January 2017 to 31 December 2017 in accordance with applicable International Accounting Standards, International Financial Reporting Standards, and related interpretations published in form of decrees of the European Committee, and adopted accounting principles,
b) were prepared based on accounting records maintained properly, i.e. in compliance with chapter 2 of the Accounting Act, and
c) were prepared in form and content complying with the applicable law requirements, including Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by public-interest entities and conditions for recognising as equivalent information required by the laws of a non-member state (Official Journal from 2014, item 133 with later amendments), and the articles of association of the Company.

Report on Other Legal and Regulatory Requirements

Opinion on Report on the Company's Activities

Our opinion on the financial statements does not cover the report on the Company's activities.

The Management of the Company and members of the Supervisory Board are responsible for preparation of the report on the Company's activities in compliance with applicable laws and regulations.

In our opinion the report on the Company's activities comply with applicable laws and regulations, and is consistent with the underlying information disclosed in the audited financial statements. Furthermore, we inform that based on our knowledge about the Company and its environment gained during our audit we have not identified material misstatements in the report on the Company's activities.

Opinion on Statement of Corporate Governance

The Management of the Company and members of the Supervisory Board are responsible for preparation of the statement of corporate governance in compliance with applicable laws and regulations.

Based on requirements of the Act on Statutory Auditors, in connection with our audit, we are also obliged to express an opinion on whether the statement of corporate governance, representing a separate part of the report on the Company's activities, includes information required based on applicable laws and regulations, and in relation to specific information defined in those laws and regulations, to confirm that this information has been prepared in accordance with those applicable laws and regulations, and is consistent with the information presented in the audited financial statements.

In our opinion the statement of corporate governance includes information required based on Article 91 par. 5 point 4 letter a, b, g, j, k, and l of Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by public-interest entities and conditions for recognising as equivalent information required by the laws of a non-member state (Official Journal from 2014, item 133 with later amendments) ("the Decree"). We also confirm that information specified in Article 91 par. 5 point 4 letter c-f, h, and i of this Decree and included in the statement of corporate governance has been prepared in accordance with applicable laws and regulations, and is consistent with the information presented in the audited financial statements.

Signed on the Polish original

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Certified auditor 11505
Jędrzej Szalacha
Key Auditor on behalf of

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

Entity entered under number 3767
on the list of audit firms kept by the
National Board of Statutory Auditors

Warsaw, 21 March 2018

MEDICALgorithmics
INNOVATIVE SOLUTIONS IN MEDICINE

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