



Management Board's Report

on the Company's operations in 2014

Warsaw, March 18 2015

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I Summary of the Company's development factors and significant events related to the operations of Medicalgorithmics S.A. in 2014

2014 was another year of impressive financial results for Medicalgorithmics S.A., a rapid growth of its activity, dynamically changing competitive environment and a period of intense geographical development.

In the first quarter of 2014 the Company was conducting further development works on algorithms and IT area of PocketECG and completed development works on the 3rd generation of PocketECG III hardware platform. As the new version of PocketECG system was very well received, a decision was made to transfer the entire Gdańsk production facility to a new, much larger location, which allows to increase the production capacity several times. Moreover, in order to increase its production capacity, the Company established cooperation with a large external company specialised in production of electronic equipment, which produced PocketECG III hardware simultaneously with production carried out at the Company's own facilities. The external supplier has provided the Company with an additional production hall, an assembly line and employees, who keep working under the supervision of several delegated Medicalgorithmics representatives.

In February 2014 the Company entered into a distribution agreement with a partner in Spain and informed about it in ESPI announcement of February 6th 2014. Cooperation with the Spanish partner is carried out under the terms similar to the terms of other distribution agreements on a specific area. The value of the agreement is PLN 13.02 million.

At the beginning of 2014 the Company submitted a prospectus with respect to transferring from NewConnect market to the main market of the Warsaw Stock Exchange. All expectations of the Financial Supervision Authority and the Warsaw Stock Exchange have been met and, consequently, the Company has been transferred to the regulated market on February 3rd 2014.

The Strategic Alliance agreement with AMI Monitoring was terminated and then concluded again in March 2014. As part of the new agreements the Company has entered into an arrangement with two entities: AMI Monitoring and Medi-Lynx. The agreements included all the previous provisions of the strategic alliance agreement - the only difference was that they were concluded with two entities instead of one. It was a significant step on the path to diversification of the Company's revenues. The value of the signed agreements is approximately PLN 181.8 million.

A decision was made on March 26th 2014 to issue an incentive E series shares with exclusion of pre-emptive subscription rights, aimed at the Management Board members of Medicalgorithmics S.A. The Supervisory Board and the Management Board adopted necessary resolutions, pursuant to which the Company's share capital was increased within the target capital by the amount of PLN 3,360.00, by way of issue of 33,600 ordinary bearer shares each with PLN 0.10 nominal value, while depriving the previous shareholders of their pre-emptive rights. On April 30th 2014 the Company informed about completion of private subscription and taking over the shares by three persons. The issue price is PLN 0.10 per share. The shares are covered by a lock-up agreement.

In the second quarter, in June 2014 the Company entered into a distribution agreement with a partner in Australia and informed about it in ESPI announcement of June 16th 2014. Cooperation with the Australian partner is carried out under the terms similar to the terms of other distribution agreements on the specific area (Australia and New Zealand). The value of the agreement is PLN 19.6 million. With respect to the form of the medical services refunding system in Australia the Company expects the margin on sales earned on that market to be higher than the margin obtained on other markets, on which the Company has been operating.

Pursuant to resolution No. 13/06/2014 of the Ordinary General Shareholders' Meeting of June 27th 2014 a decision was taken to pay dividend from the profit earned in financial year 2013. The amount of PLN 4,664.9 thousand (that is, PLN 1.35 (one zloty thirty five grosz) per share) have been allocated to payment of the dividend. The dividend payment date was agreed and implemented on August 19th 2014. All of the Company's shares – a total of 3,455,526 shares of all series - have been covered with dividend.

In July 2014 the Company signed another distribution agreement with a partner from India – Wipro Limited - about which it informed in ESPI announcement of July 4th 2014. Cooperation with the Indian partner is carried out under the terms similar to the terms of other distribution agreements on a specific area (India) and its value is PLN 47.6 million. Moreover, the Company entered into negotiations with Wipro Limited at that time, with an aim to expand the cooperation by the region of Saudi Arabia, Qatar and United Arab Emirates.

At the end of October 2014 the Company completed the process of transferring the entire production department to a new, much larger facility, which helped organise the production processes and gather them in one place. As a consequence of a very high level of demand for the new generation equipment the Company decided to continue the previously established cooperation with a large external company specialising in commissioned manufacture of electronic devices.

In November 2014 the Company signed another distribution agreement, with a Mexican partner – Asociacion Mexicana de Telesalud A.C. - and informed about that agreement with ESPI announcement of November 12th 2014. Cooperation with the Mexican partner is carried out under the terms similar to the terms of other distribution agreements on a specific area. The value of the agreement is PLN 21,0 million. The Management Board expects recording the influence of the agreement on the Company's operating revenues value starting from the third quarter of 2015.

Moreover, the Company continues to strive for introducing PocketECG to another markets, which results in close relations with potential partners and distributors in many countries established by the international sales team – the most advanced negotiations are currently conducted in Brazil and Japan.

As at December 31st 2014 there were 78 persons employed by the Company calculated on a full-time basis, whereas at the date of publishing this report the number was already 84. The high increase in the number of employees is mostly due to the Company's entry into the stage of intensive geographical expansions and to the rapidly growing number of manufactured PocketECG devices, which requires that the Company significantly increases its production capacity.

Significant events occurring after the end of 2014

In January 2015 Medicalgorithmics S.A. received information that the Brazilian Health Surveillance Agency (port. Agência Nacional de Vigilância Sanitária), has allowed for marketing of the latest, third version of PocketECG system in Brazil (the Federative Republic of Brazil).

II Characteristics of the Company's operations

II.1 Strategy and business model

The strategic objective of Medicalgorithmics S.A. is to reach the position of the leading provider of cutting-edge technological solutions for cardiac arrhythmia diagnostics in North and South America, Europe and Asia. The Company is planning to achieve the position of a leader on the global market of cardiological tele-diagnostics and a strong position on the market of clinical research on anti-arrhythmic drugs and therapies within a 5-year perspective. The following development objectives are going to contribute to implementation of the aforementioned strategic objective:

1. Increasing the number of receivable vital signs that can be analysed over a given period by PocketECG system, thus, increasing the system's attractiveness from the doctors' perspective.
2. Use of PocketECG system in clinical research and safety tests of new drugs and substances (Cardiac Safety).
3. Development - both organic and by way of acquisitions.

Pocket ECG is presently the Company's only product that is commercially used. PocketECG is the most technologically advanced remote arrhythmia diagnostics system available on the market. Within the range of currently available heart rate monitoring equipment the benefits of PocketECG system include: the longest time of arrhythmia monitoring in household conditions, remote access to the entire monitoring record and full statistical analysis of arrhythmia, which is not offered by competitors' equipment.

Fig. 1. Development of mobile electrocardiographic equipment

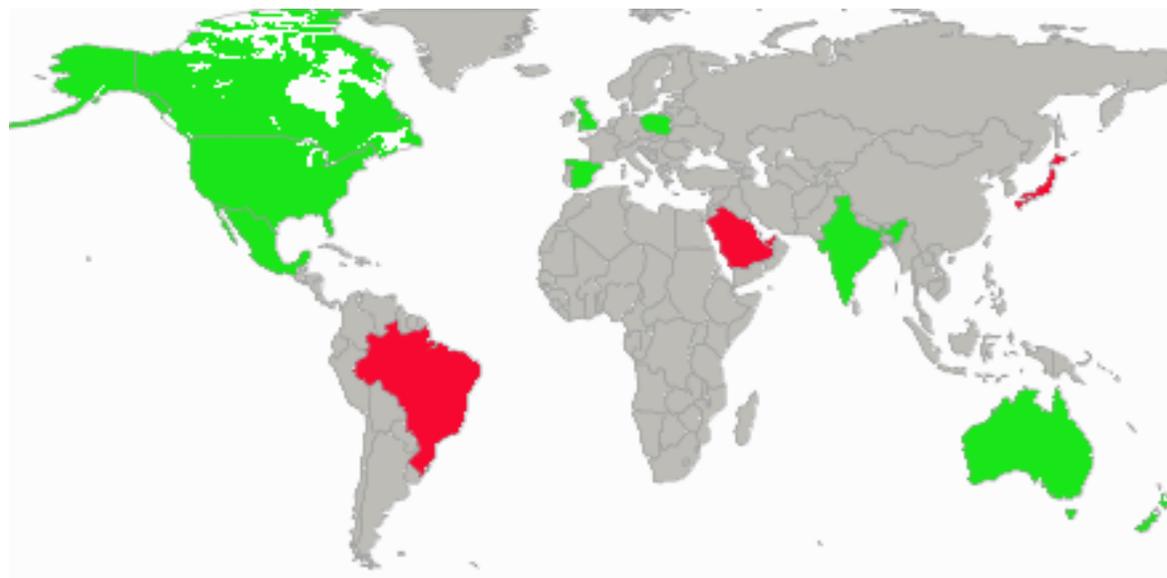


Source: Medicalgorithmics S.A.

The unique business model developed by the Management Board of Medicalgorithmics adapted to the specifics of the Company's operations results in continued, high profitability (48.9% net sales profitability in 2014). The technologically advanced production of PocketECG system located in Poland ensures full control of the quality of the product, relatively low labour costs and protection of technological secrets. In addition to the sale of PocketECG system the Company also provides a range of services supporting use of the system, including programming services and telemedical outsourcing (analysis and preliminary processing of PocketECG system output data). The team of ECG technicians and IT specialists is working in Poland, which is essential for the level of incurred employment costs.

The product's innovativeness and the Company's effective marketing policy made PocketECG system available on the markets of Europe, North and South America, Australia, New Zealand and Asia in sales systems tailored to the specifics of each market, which optimised its profitability.

Fig. 2. Scope of PocketECG system worldwide



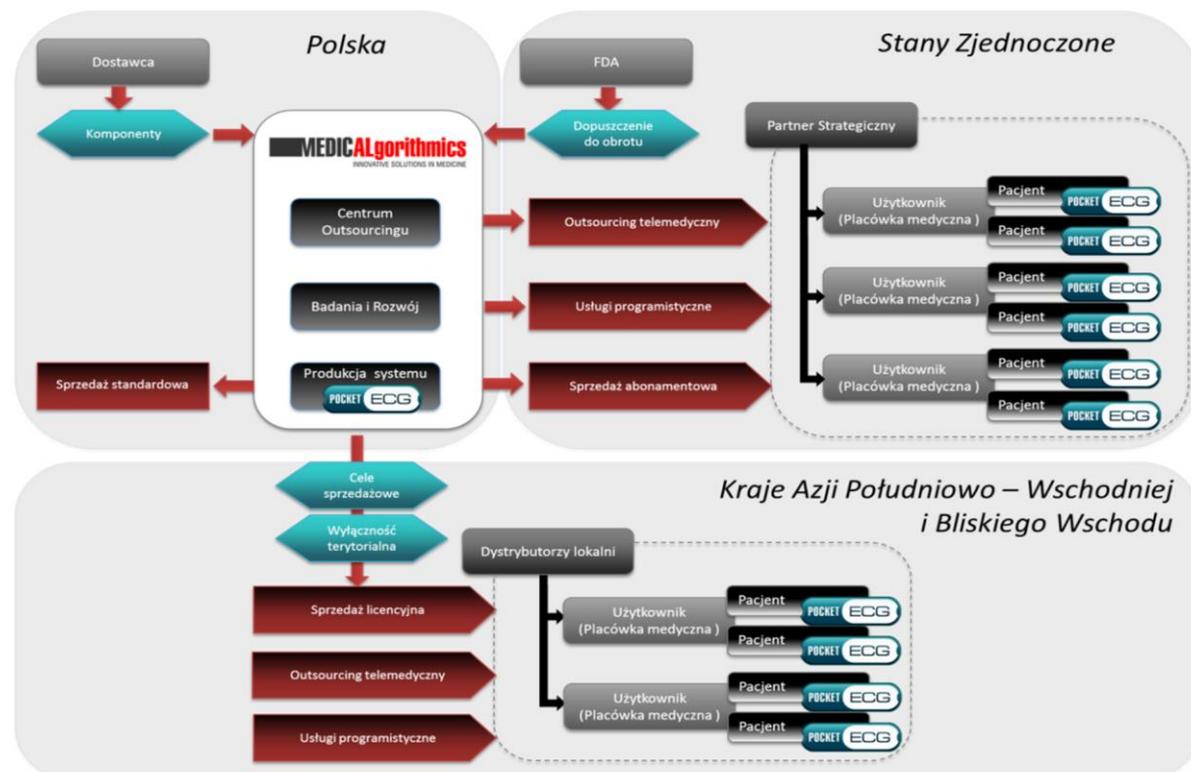
-  **Countries with partnership agreements:** the USA, Canada, the UK, Australia and New Zealand, India
-  **Countries, in which negotiations are in progress:** Brazil, United Arab Emirates, Qatar, Saudi Arabia, Japan

Source: Medicalgorithmics S.A.

Poland was the first market, on which the Company offered its product. Currently PocketECG is used in Poland by, among others, the Primate Stefan Wyszyński Cardiological Institute in Warsaw, the Central Clinical Hospital of the Warsaw Medical University, the Military Medical Institute in Warsaw.

Since the 3rd quarter of 2010 the USA is the primary sales market for Medicalgorithmics S.A. The decision to enter the American market has been dictated by its openness to medical innovations and a high level of refunds of cardiological diagnostics by private and public insurers, which translates into a significant value of the telemedicine market and its perspectives of dynamic development. PocketECG system is sold on the American market in the subscription model, in cooperation with strategic partners, which provide diagnostic services for hospitals, clinics, cardiologists' offices and other medical facilities.

Fig. 3. Diagram showing the simplified business model of Medicalgorithmics



Source: Medicalgorithmics S.A.

The business model assumes focus on sales of the technology to selected, most promising markets pursuant to tailored sales model and comprehensive IT support of the recipient as well as continued development of the product and the provided services related to it.

In addition to the basic product, the Company offers services supporting use of PocketECG system in the form of programming services (e.g. software supporting circulation of information, refunding procedures, integration with EMR systems) and telemedical outsourcing (ECG test output data processing and analysis).

The range of business cooperation between the Company and its customers is expanding due to complex customer service, starting from providing finished product in the form of PocketECG system, to adapting the software to the customer's individual needs, to providing services that support telemedical outsourcing. In the longer run the aforementioned activities have a significant positive influence on longevity of cooperation with customers and stability of customer database.

The Company uses services of a range of electronic component and sub-assembly manufacturers during production of PocketECG system. The supply sources are well diversified, moreover, the Company continues to establish new business contacts with potential suppliers. The value of supplies from each of the contracting parties is lower than 10% of the net sales revenue value. The value of revenues obtained from sales to AMI Monitoring and Medi-Lynx exceeded 10% of the value of net revenues from sales.

II.2 List of entities of the Company's corporate group of companies

Medicalgorithmics S.A. is not a parent or subsidiary company in any corporate group of companies.

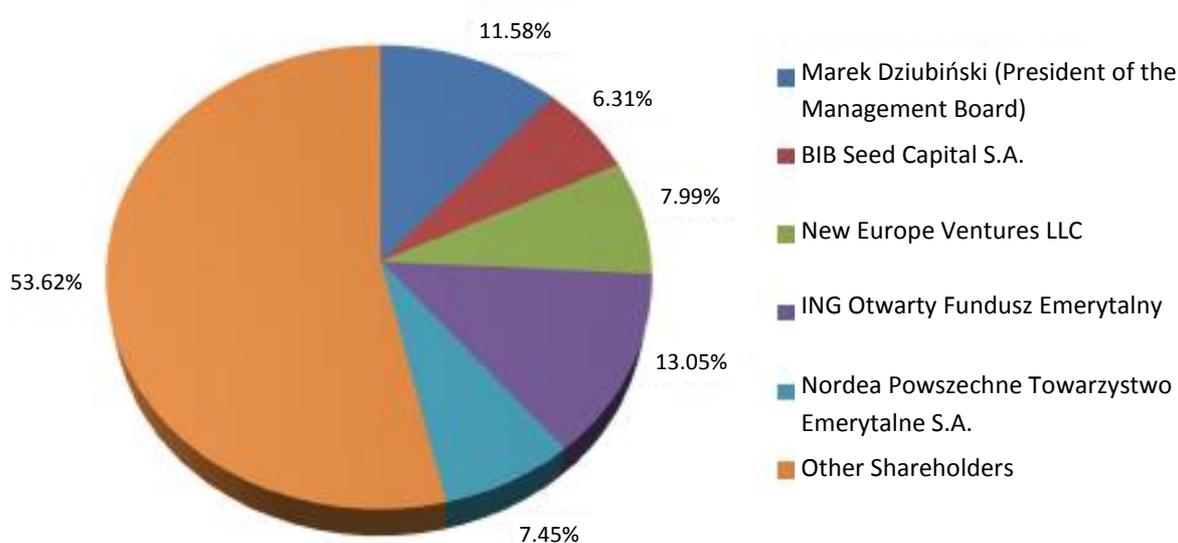
II.3 Information about the segments

There is one separated segment, related to the PocketECG system, in the Company's operations.

II.4 Shareholding structure

As at the date of publishing this statement the shareholding structure (pursuant to the notifications obtained by the Company) was as follows:

Chart 1. Shareholding structure of Medicalgorithmics S.A.



Source: Medicalgorithmics S.A.

Agreements that might result in changes in the shareholding structure

As at the moment of publishing this statement the Company possesses no information concerning any agreements that could influence the shareholding structure.

II.5 Dividend policy

Pursuant to art. 395 of the Commercial Companies Code, the Ordinary General Shareholders' Meeting, which should be held within 6 months after the end of each financial year, is the body entitled to make a resolution concerning the distribution of profit (or covering the loss) and payment of dividend. The Company's Ordinary General Shareholders' Meeting decides on the amount of dividend, the record date and the dividend payment date (art. 348 § 3 of the CCC) as part of the resolution on distribution of profits for the previous financial year. Pursuant to art. 27 section 3 of the Company's Articles of Association, the Company's Management Board is entitled to make an advanced payment to shareholders on account of the expected dividend and such payment requires the Management Board's consent.

The conditions for payment of dividend adopted by the General Shareholders' Meeting shall be determined by the Company's Management Board in consultation with the National Depository for Securities (KDPW). A company, the shares of which are marketed on the stock

exchange, shall be obliged to consult its decisions and inform the stock exchange about its plans to pay dividend in a way and according to the rules set out in the Detailed Exchange Trading Rules.

The Ordinary General Shareholders' Meeting is going to decide each year on distribution of the Company's net profit for subsequent financial years.

II.6 Purchase of own shares

The Company purchased no own shares in 2014.

II.7 The Company's Management Board

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

dr Marek Dziubiński – President of the Management Board

Dr Marek Dziubiński has graduated from inter-department studies at the Warsaw University, at the faculty of Mathematics, Physics and Information Technology. He has also completed PhD studies at the Gdańsk University of Technology, at the faculty of Electronics, Telecommunications and Information Technology. His doctoral thesis was awarded by Gdańsk University of Technology and has been granted a distinction at the national level. Marek Dziubiński is an author of numerous scientific publications, articles in scientific journals and many conference lectures. Over the last 14 years of professional career he was engaging in developing digital signal processing algorithms, particularly concentrating on analysis of periodic and quasi-periodic signals. PocketECG is based on the ECG signal interpretation self-learning algorithm developed by dr Dziubiński, based on a limited number of signals, generating results in real time. Marek Dziubiński is also the author of the Company's business model.

Carreer:

- June 2005 – present: MEDICALGORITHMICS: President of the Management Board, CTO
- March 2005 – January 2006: Aud-X Team : Manager of a team of IT specialists
- June 2003 – August 2005: WAVEFORMATIC: Project manager
- June 2004 – September 2005: PRESTO-SPACE: Project member
- July 2000 – May 2003: Houpert Digital Audio: Software developer

Tomasz Mularczyk – Vice President of the Management Board in charge of IT

Has graduated from MA studies in Information Technology at the faculty of Mathematics, Information Technology and Mechanics of the University of Warsaw. He started his professional career as a 3D application programmer. Later, functioning as a technical project manager at Big Brat, he coordinated work of a nine programmers team and supervised design of the system and technological solutions in the company.

At Medicalgorithmics S.A. he functions as the Company's vice president and engages in initiating and supervising IT projects. Among others, he is responsible for selection of technologies and coordinating the work of C# and C++ programmers as well as testers.

Piotr Żółkiewicz – Vice President of the Management Board in charge of financial and operating matters

Piotr Żółkiewicz has graduated from MA studies in management. His professional experience is related to capital market, consulting in opportunities of raising of capital by companies and financial management of enterprises. He started his career as a private investor at the Warsaw Stock Exchange. He has been a member of the board of directors of Stalica Trading Limited since 2007 and a finance and strategy consultant to the management board of Eko Park Group and affiliated companies operating in the energy sector between 2011 and 2013. He also worked for Kardiosystem Sp. z o.o. performing invasive heart surgery between 2010 and 2013.

His main duties at Medicalgorithmics S.A. include management of the Company's finance, contributing to development of its strategy and responsibility for all operational, recruitment, legal, manufacturing and financial processes. Piotr Żółkiewicz was a director in charge of financial and operational matters at Medicalgorithmics S.A from 2009 to November 2012.

Table 1. Information about the Management Board's remuneration in 2014 (in PLN thousand)

| Individual | Function performed in the Issuer's bodies | Remuneration in 2014 |
|-------------------------|---|----------------------|
| Marek Dziubiński | President of the Management Board | 1 356.8 |
| Tomasz Mularczyk | Vice President of the Management Board in charge of IT | 913.8 |
| Piotr Żółkiewicz | Vice President of the Management Board in charge of financial and operating matters | 742.8 |

Source: Medicalgorithmics S.A.

There are no agreements concluded between the Company and the Management Board members that would provide for compensation in case of their resignation or dismissal from the held position.

II.8 The Company's Supervisory Board

A decision was made, pursuant to resolutions No. 15/06/2014, 16/06/2014, 17/06/2014, 18/06/2014 and 19/06/2014 of the Company's Ordinary General Shareholders' Meeting of June 27th 2014, to appoint the following members of the Company's Supervisory Board for the subsequent term: Mr Marek Tatar as the Chairman of the Supervisory Board and Mr Jan Henryk Kunkowski, Mr Martin Jasinski, Mr Marcin Maciej Hoffmann and Mr Ronald Gale Landes as Supervisory Board Members.

The composition of the Supervisory board Board of Medicalgorithmics S.A. as at the date of drawing up this report is as follows:

Marek Tatar – Chairman of the Supervisory Board

Marek Tatar has graduated from MA and PhD studies at the Jagiellonian University's Faculty of Law and Administration. He is a Legal Counsel. He is also a Managing Partner of Tatar i Wspólnicy Sp. K. law firm. He had worked for Elektromontaż nr 2 Kraków S.A., Dom Maklerski PENETRATOR S.A. brokerage house (1998-2009) and at Trigon Dom Maklerski S.A. brokerage house (2009).

Marcin Hoffmann, PhD – Member of the Supervisory Board

Dr Marcin Hoffmann has graduated from the Faculty of Chemistry and the Faculty of Biotechnology of Adam Mickiewicz University in Poznań. He obtained his post-doctoral degree in 2009. Mr Hoffman has also graduated from MBA studies organised by Poznań Academy of Economics and Georgia State University in Atlanta. Mr Marcin Hoffmann has won numerous competition such as the Promising Scientist Award granted in 2002. He has received grants from the Foundation for Polish Science, the Ministry of National Education, Stefan Batory Foundation and Adam Mickiewicz University in Poznań. Since 2007 he has been the president of the management board at BIB Seed Capital S.A. He has also worked as a consultant for McKinsey & Co. and a team manager at BioInfoBank Institute.

Martin Jasinski – Member of the Supervisory Board

Martin Jasinski has graduated from Columbia University (MBA) in New York and SUNY Buffalo University (USA). Mr Martin Jasinski has more than twenty years' international experience in marketing, sales and implementation of new technological products and services. He has been

a managing partner at New Europe Ventures since 2006 and a vice president of the management board of Aricent corporation for two years.

Roland Gale Landes – Member of the Supervisory Board

Roland Gale Landes has graduated from the University of Chicago, in which he completed the curriculum of Biotechnology. He has also graduated from the Medical College of Wisconsin. He is author of numerous scientific articles in medicine. He has been the president of the management board at Landes Bioscience, a medical publishing house, since 1990.

Jan Kunkowski – Member of the Supervisory Board

Mr Jan Kunkowski has graduated from Inter-Faculty Individual Studies in Mathematics and Natural Sciences at the University of Warsaw, where he earned a MA degree in Psychology. He has also completed one-year Postgraduate Managerial Studies at the Warsaw School of Economics. He has more than 15 years' experience in quantitative research. At present he is working as a Chief Operating Officer at IIBR (Gemius Group). He has worked for Gemius S.A., Ipsos Polska, IQd and QUANT Group and for Millward Brown SMG/KRC.

Table 2. The Company's shares held by members of the Management Board and the Supervisory Board

| Individual | Function performed at the Issuer's bodies | Number of shares held directly | Number of shares held indirectly ¹ | Change over the period Apr 25 2014 - Mar 18 2015 |
|---------------------------|---|--------------------------------|---|--|
| Marek Dziubiński | President of the Management Board | 400 000 | 0 | -104 000 |
| Tomasz Mularczyk | Vice President of the Management Board in charge of IT | 103 954 | 0 | +10 080 |
| Piotr Żółkiewicz | Vice President of the Management Board in charge of financial and operating matters | 7 469 | 0 | -34 531 |
| Marek Tatar | Chairman of the Supervisory Board | 0 | 0 | No changes |
| Martin Jasiński | Member of the Supervisory Board | 0 | 276 061 ² | -214 510 |
| Jan Kunkowski | Member of the Supervisory Board | 100 | 0 | +100 |
| Marcin Hoffmann | Member of the Supervisory Board | 0 | 218 122 ³ | -169 490 |
| Ronald Gale Landes | Member of the Supervisory Board | 10 200 | 0 | -15 000 |

1) Direct ownership of Shares by a given person shall be deemed as the person's involvement in the entity directly holding the Shares - such involvement is not equal to the parent entity's status with respect to the entity directly holding the Shares. Detailed information concerning the relations between individuals and entities holding shares have been put forward in further notes to the table.

2) Mr Martin Jasiński is a partner at New Europe Ventures LLC seated in New York, the USA, which owns 276,061 Shares, which accounts for 7.99% of the Issuer's share capital and in the general number of votes at the Issuer's General Shareholders' Meeting. New Europe Ventures LLC is not an entity (within the meaning of the Act on public Offering) subsidiary to Mr Martin Jasiński.

3) Mr Marcin Hoffmann is the president of the management board of BIB Seed Capital S.A. seated in Poznań and owns 40% of the entity's shares, the total number of which is 218,122 - which accounts for 6.31% share in the Issuer's share capital and in the general number of votes at the Issuer's General Shareholder's Meeting, BIB Seed Capital S.A. is not a company subsidiary to Mr Marcin Hoffmann (within the meaning of the Public Offering Act).

Source: Medicalgorithmics S.A.

The Members of the Supervisory Board of Medicalgorithmics S.A. received no remuneration other than dividends from held shares in 2014.

There are no agreements concluded between the Company and the Management Board members that would provide for compensation in case of their resignation or dismissal from the held position.

II.9 Branches, in which the Company operates

Medicalgorithmics S.A. does not have any formal branches. In 2014 it operated in two locations: the Company's headquarters was located in Warsaw and the production facility was located in Gdańsk.

Table 3. The Company's branches and their locations

| Location name | City | Address |
|--|----------|---|
| Headquarters - head office of the Management Board | Warszawa | Al. Jerozolimskie 81, 02-001 Warszawa |
| Production facility | Gdańsk | Ul. Marynarki Polskiej 100, 80-557 Gdańsk |

Source: Medicalgorithmics S.A.

II.10 Information on employment

Information concerning the number of employees is put forward in the table below.

Table 4. Employment in the Company

| | Dec 31 2014 | Dec 31 2013 |
|---|-------------|-------------|
| Number of employed individuals (calculated on a full-time basis)* | 78 | 36 |

*As at the date of report (March 18th 2015) there were 84 individuals employed by the company, calculated on a full-time basis

Source: Medicalgorithmics S.A.

II.11 Significant court proceedings

Over the period to which this statement applies there were no proceedings pending before a court, an arbitration authority or a public administration body with respect to the Company's liabilities or debts, the value of which would account for at least 10% of the Company's equity.

II.12 Information concerning the financial statement review agreement

On December 17th 2014 the Company's Supervisory Board adopted a resolution on selection of the statutory auditor authorised to examine the Company's financial statement for the financial year 2014 and the Management Board on the Company's operations for the year 2014. An agreement was signed on January 2nd 2015 and the selected statutory auditor is Crystal Audit & Consulting Mateusz Szafrąński - Sałajczyk - a company seated in Warsaw, entered into the list of entities authorised to examine financial statements with register number 3835. The selection was made pursuant to the professional standards and provisions of law in force.

Table 5. Remuneration of the entity authorised to examine the financial statement (in PLN thousand)

| The entity authorised to examine financial statements | For the period | | |
|--|------------------------------|------------------------------|---------------------------------------|
| | Jan 01 2014 - Dec 31 2014 | Jan 01 2013 - Dec 31 2013 | Jan 01 2012 - Dec 31 2012 (PSR) |
| Che Consulting Sp. z o.o. | - | 11.0 | 8.5 |
| Crystal Audit & Consulting Mateusz Szafrąński - Sałajczyk | 11.0 | - | - |

Source: Medicalgorithmics S.A.

II.13 Information on changes in the basic rules of the Company's management

None.

II.14 Information on employee shares schemes control system

None.

III The Company's property and financial condition and a comment on the achieved results

III.1 The Company's property and financial condition

The amount of assets as at December 31st 2014 was PLN 94,891.9 thousand, which means an increase by PLN 11,384.5 thousand (14%) as compared to the end of 2013. The tables below set out the Company's key categories of assets and their sources of financing as well as their changes over the last financial year.

Table 6. The key asset categories at the end of 2014 and 2013, and their changes over the last financial year

| ASSETS (in thousand PLN) | 2014 | 2013 | Difference | Difference in % |
|-----------------------------------|-----------------|-----------------|------------------|-----------------|
| Fixed assets. including: | 51 524.8 | 36 413.1 | 15 111.7 | 42% |
| Intangible assets | 9 344.4 | 5 174.2 | 4 170.2 | 81% |
| Property, plant and equipment | 960.4 | 345.0 | 615.4 | 178% |
| Long-term financial assets | 41 206.4 | 30 874.0 | 10 332.4 | 33% |
| Current assets. including: | 43 367.1 | 47 094.3 | (3 727.2) | (8%) |
| Stocks | 7 941.3 | 1 593.4 | 6 347.9 | 398% |
| Trade and other receivables | 10 897.2 | 1 369.9 | 9 527.3 | 695% |
| Short-term financial assets | 328.4 | 5 725.9 | (5 397.5) | (94%) |
| Cash and cash equivalents | 24 200.2 | 38 405.1 | (14 204.9) | (37%) |
| TOTAL ASSETS | 94 891.9 | 83 507.4 | 11 384.5 | 14% |

Source: Medicalgorithmics S.A.

As at December 31st 2014 the amount of fixed assets was PLN 51,524.8 thousand and their share in total assets was 54.3%. As at December 31st 2013 fixed assets amounted to PLN 36,413.1 thousand and accounted for 43.6% of the balance sheet total. This significant change is mostly caused by the increase in long-term financial assets, which in turn was caused by investing unengaged funds in long-term securities. Over the past year the Company recorded an increase in intangible assets as well, which was caused by expenses incurred on development works.

At the end of 2014 current assets amounted to PLN 43,467.1 thousand and accounted for 45.7% of total assets. At the end of 2013 current assets amounted to PLN 47,094.3 thousand, which accounted for 56.4% of the balance sheet total. The nominal decrease in

current assets was mostly due to the previously invested unengaged funds in long-term financial assets, which pay higher interest than short-term deposits. Thereby, the share of cash in total assets dropped from 46.0% to 25.5%. Short-term financial assets, the share of which in total assets decreased from 6.9% to 0.3% compared to the previous year experienced a significant drop compared to the previous year, for the same reason. The aforementioned decrease in current assets was partly offset by the increase in inventories and short-term receivables, resulting only from an increase in the scale of operations.

Table 7. The key categories of liabilities and equity at the end of 2014 and 2013, and their changes over the last financial year

| LIABILITIES AND EQUITY (in thousand PLN) | 2014 | 2013 | Difference | Difference in % |
|--|-----------------|-----------------|-----------------|--------------------|
| Equity | 90 791.5 | 80 926.8 | 9 864.7 | 12% |
| Long-term liabilities | 246.8 | 239.8 | 7.0 | 3% |
| Short-term liabilities. including | 3 853.6 | 2 340.9 | 1 512.7 | 65% |
| Trade and other liabilities | 1072.8 | 194.4 | 878.4 | 452% |
| Accruals and prepayments | 2 778.1 | 1 774.5 | 1 003.6 | 57% |
| Total liabilities | 4 100.4 | 2 580.7 | 1 519.7 | 59% |
| TOTAL LIABILITIES AND EQUITY | 94 891.9 | 83 507.4 | 11 384.5 | 14% |

Source: Medicalgorithmics S.A.

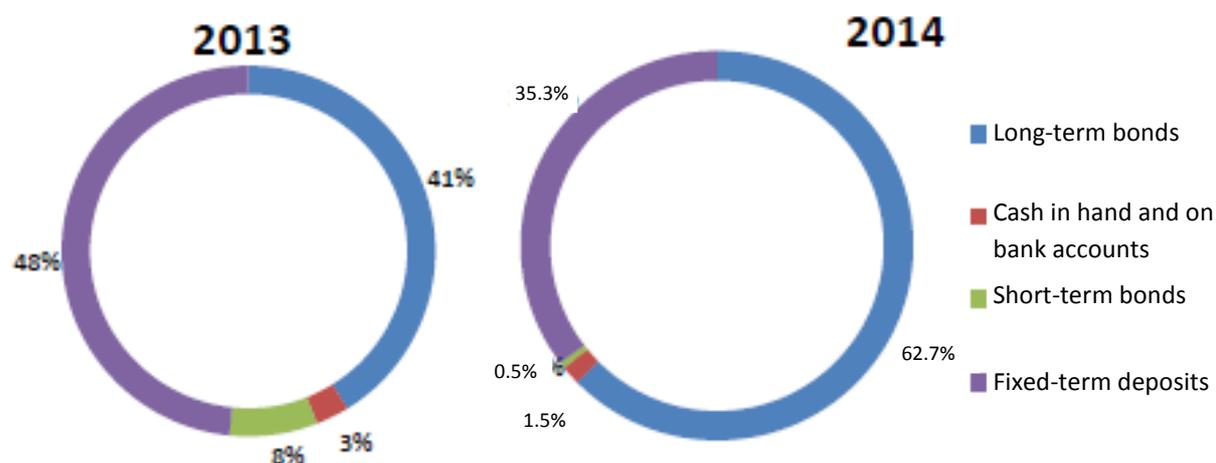
An increase in equity resulting from the profit gained in 2014 was the only significant change in the Company's liabilities and equity compared to the end of 2013. The share of equity in the structure of financing remained on the similar, very high level and amounted to 95.7% (96.9% at the end of 2013). As regards external financing, an increase was noted in short-term trade and other liabilities and deferred income, which, however, did not influence the Company's general structure of financing.

III.2 Financial resources

Medicalgorithmics S.A. possesses significant financial surpluses that it allocates so as to maximise the rate of return, while maintaining a low level of risk. The Company diversifies the unengaged funds that it invests between short-term assets (fixed-term deposits and bonds) and long-term corporate bonds. The Company's portfolio only includes bonds of economic entities and banks with a high credit rating (as set by an internal specialised unit in the Company's financial department) as it values security more than high profitability. The average interest rate of the held bonds at the end of 2014 was approx. 5.9% and, for bank deposits, 3.1%. On the last day of 2014 the vast majority of funds were invested in fixed-term bank deposits (35.3%) or long-term corporate bonds (62.7%).

As a consequence of considerable financial surpluses and an exceptionally low level of liabilities the Company's current financial condition is strong and stable.

Chart 2. Structure of the Company's financial resources in 2013 and 2014



Source: Medicalgorithmics S.A.

Table 8. Structure of the Company's financial resources at the end of 2013 and 2014

| Financial resources (in PLN thousand) | Dec 31 2014 | Dec 31 2013 |
|---------------------------------------|-------------|-------------|
| Long-term corporate bonds | 41 206.4 | 30 874.0 |
| Cash in hand | 18.2 | 16.3 |
| Cash on bank accounts | 1 001.0 | 2 145.8 |
| Short-term corporate bonds | 328.4 | 5 725.9 |
| Fixed term deposits | 23 181.0 | 36 243.0 |

Source: Medicalgorithmics S.A.

Obtained loans and credits

At the end of 2014 Medicalgorithmics S.A. recognised liabilities on account of loans amounting to PLN 2.7 thousand. It was entirely a result of credit card balance. Aside from that item, the Company incurred no loans or credits.

Credits provided

At the end of 2014 the Company had no credits granted.

Granted and obtained financial guarantees and sureties

The Company is a party to agreements on financing investment projects with EU funds aimed at development of the offered products and services. In case of a failure to meet the conditions of development works completion there is a risk of recovery of the granted subsidies. The granted subsidies are secured with bills of exchange.

As at the balance sheet date the aforementioned risk has been assessed as doubtful. The Company is completing the works in compliance with the schedule.

The table below sets out all warranties granted to the Company over the previous years. The Company received no warranties in 2014.

Table 9. Current warranties granted to the Company

| No. | Purpose | Value |
|-----|---|----------------|
| 1. | Deposit in office space rental agreement PLN 120 000.00 | 120 000.00 PLN |
| 2. | Deposit in office space rental agreement EUR 12 000.00 | 12 000.00 EUR |

Source: Medicalgorithmics S.A.

III.3 Conducted R&D projects

As at the date of drawing up this financial statement the Company had the following development projects:

- **Initech** - a project financed by MNiSW (the Ministry of Science and Higher Education) under the title of "A new method of multi-day, telemetric measurement of significant cardiological parameters of ST segment tilt and changes in QT/QTc interval". The project involves development of a new method of telemetric measurement of ST segment tilt and changes in QT/QTc interval. It introduces a diagnostic system module for remote multi-day monitoring of patients from high risk groups. The project involves drawing up algorithms for analysis of ST segment tilt and changes in QT/QTc interval, drawing up algorithms for analysis and development of a new structure of data and management management of their transmission, development of interactive statistical analysis tools as well as interactive motion detector data visualisation tools. Functional tests were conducted for the implemented algorithms and a prototype non-commercial diagnostic system for medicine tests was developed using the ST/QT module as part of PocketECG infrastructure.
- **PocketECG** - PocketECG III is the most technologically advanced solution currently offered by the Issuer. The basic technological advantage of the new solution consists in integration of a device that previously consisted of two elements into one specifically designed smartphone-type recorder operating based on Android OS. Moreover, functionality of the

device was extended. PocketECG category also involves capitalisation of development costs of products based on PocketECG as described in other parts of the report.

- **eHealthMonitor** - an international project of technological support for elderly persons, which reduces social exclusion related to the ageing society, implemented as part of the seventh framework programme (in action ICT-7-5.3 - Patient Guidance Services), Intelligent Knowledge Platform for Personal Health Monitoring Services, application No. 287509. The scope of the project applies to new information and communication technologies offering the opportunity to monitor patients' vital signs to doctors. The project received EU funding in the area of research on "personal healthcare systems". As part of the project the Issuer provides remote cardiological monitoring equipment in the form of PocketECG system adapted to the requirements of the project.

The aforementioned conducted research and development works are co-financed by the EU funds. According to the Company's rules, value of the received subsidies is recognised as accruals and amortised over time according to the amortisation period of the incurred research and development costs.

The Company is also running 3 other projects that have not yet reached a patent stage - that's why details of these solutions are not disclosed. The following projects are currently key to the company:

- **Project 1:** Cardiac tele-rehabilitation equipment
- **Project 2:** Software optimising repetitive tasks in hospital IT networks in the USA
- **Project 3:** Instant remote ECG description equipment and system

The Company is satisfied with the progress of individual teams' works based on the solutions developed for PocketECG system, which makes the total cost of developing the new technologies relatively low and decreases its duration to several quarters of a year.

By the time of completing the projects all expenses related to them are recognised as development works in progress. Any potential subsidies to these projects are recognised under accruals. At the moment of completing any of the projects the expenses incurred as part of it are going to be reclassified under completed intangible assets and any subsidies obtained are going to increase other operating revenues proportionally to the amortisation rate of new intangible assets. The following tables set out the Company's intangible assets and prepayments and accruals divided into individual projects and types of costs.

Table 10. Structure of development works in progress

| Development works in progress - costs structure (in PLN thousand) | Dec 31 2014 | Dec 31 2013 |
|---|----------------|----------------|
| Salaries and overheads | 3 371.0 | 2 086.3 |
| Other | 3 169.8 | 2 199.7 |
| TOTAL: | 6 540.7 | 4 286.0 |

Source: Medicalgorithmics S.A.

Table 11. Accruals at the end of 2013 and 2014

| Accruals (in PLN thousand) | Dec 31 2014 | Dec 31 2013 |
|--------------------------------------|----------------|----------------|
| Non-invoiced services | 21.1 | 26.9 |
| Deferred income - received subsidies | 2 778.1 | 1 723.3 |
| POIG 1.4 (PocketECG III) | 1 572.8 | 409.1 |
| eHealth Monitor project | 977.7 | 942.9 |
| Initech project | 227.5 | 371.2 |
| TOTAL: | 2 799.2 | 1 750.2 |

Source: Medicalgorithmics S.A.

III.4 Other domestic and international investments

Medicalgorithmics S.A. is currently not making investments other than the ones described in the previous sections.

III.5 Comment on the achieved results

In 2014 the Company continued its strategy and based its operations on the subscription business model, which consists in sales of equipment and collecting monthly subscription for using it and its software and server infrastructure. Consistency in implementing the Company's strategy allowed it to earn record-breaking financial results yet again. The table below sets out the most important items of the Company's statement of results for years 2013 and 2014.

Table 12. The most important items of the Company's statement of results for years 2013 and 2014 and dynamics of changes over the previous financial year

| in PLN thousand | 2014 | 2013 | Difference | Difference in % |
|--|----------|----------|------------|-----------------|
| Revenues from sales | 29 714.1 | 15 697.4 | 14 016.7 | 89% |
| Operating costs | 15 946.4 | 5 833.9 | 10 112.5 | 173% |
| Profit from sales | 13 767.7 | 9 863.4 | 3 904.3 | 40% |
| EBITDA (operating result + amortisation) | 14 496.2 | 10 483.5 | 4 012.7 | 38% |
| Net financial revenues | 4 108.4 | 3 468.9 | 639.5 | 18% |
| Profit before taxation | 18 000.8 | 13 474.7 | 4 526.1 | 34% |
| Net profit | 14 526.3 | 10 874.1 | 3 652.2 | 34% |

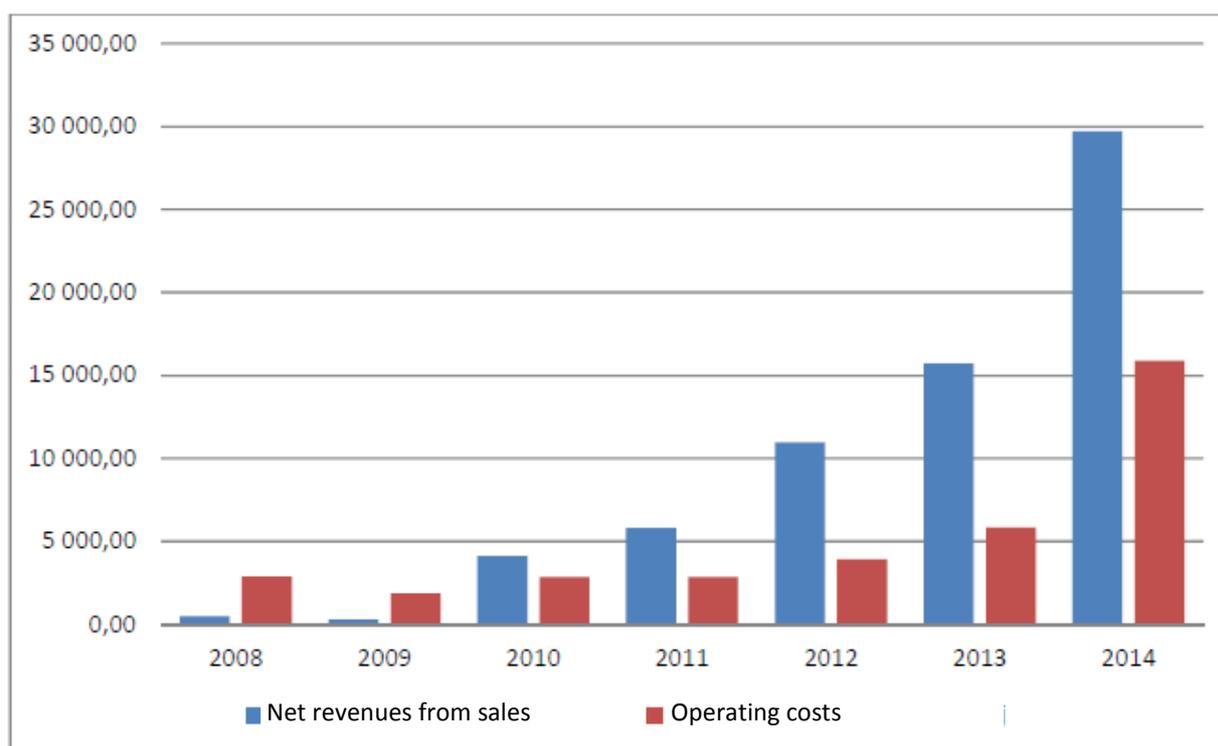
Source: Medicalgorithmics S.A.

Revenues from sales

In 2014 the revenues of Medicalgorithmics S.A. amounted to PLN 29,714.1 thousand, which makes an increase by 89.3% compared to 2013. The increased revenues are a direct result of the increasing number of the Company's active devices, which in turn is related to the distribution agreements, under which the Company's partners have undertaken to increase their sales and orders over time. The increase is indirectly related to difficulties of the main competitors and a significant increase of the market in the USA, resulting mostly from the decision of several major insurers to start refunding telemetric heart tests. The vast majority of the revenues was denominated in U.S. dollars, like in the previous years. Diversification of the currency structure of revenues from sales is expected in the following years on account of the Company's geographical expansion.

In 2014 the Company's entire income came from sales of Pocket ECG system, which included sales of hardware amounting to PLN 11,931.2 thousand, which accounted for 40.2% of the entire revenue and revenues from sales of IT services amounting to PLN 17,782.9 thousand, which accounted for 59.8% of the entire revenue.

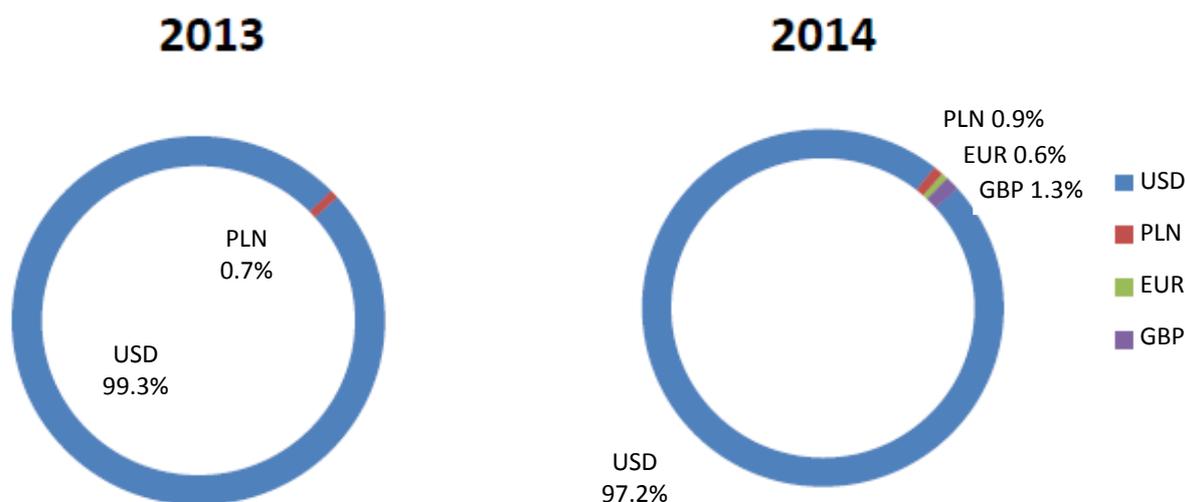
Chart 3. The Company's net revenues from sales and operating costs in individual years (in PLN thousand)



* Data for the years 2008 - 2010 are presented according to the old accounting policy, data for the years 2011-2014 are presented according to IAS.

Source: Medicalgorithmics S.A.

Chart 4. Currency structure of net revenues from sales in 2013 and 2014

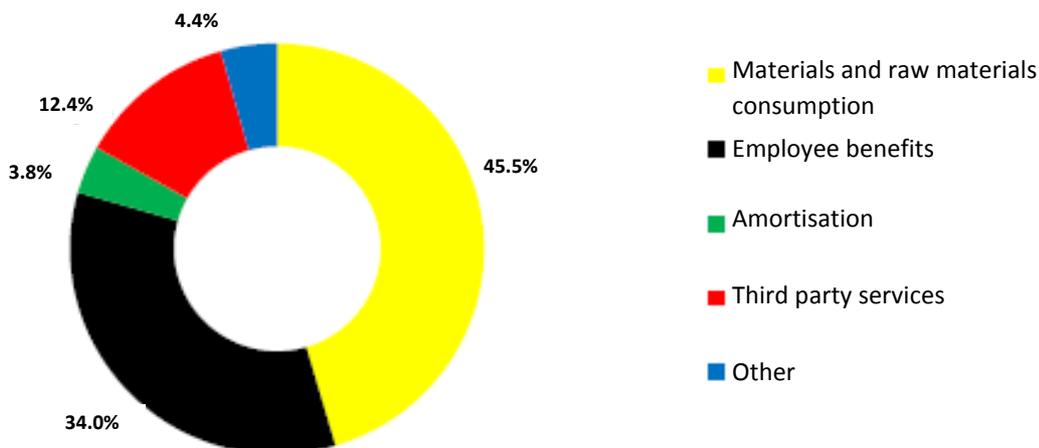


Source: Medicalgorithmics S.A.

Operating costs

Consumption of materials and energy related to the increased volume of manufacturing third generation equipment, which is characterised by a significantly higher unit production cost was the largest component of operating costs in 2014. Costs of employee benefits, including remuneration and overheads, were another very significant item in the Company's costs structure. The high share of this item in the costs structure results from the nature of the Company's operations as they are based on human capital. Moreover, during the past year the Company recorded a considerable increase in employment throughout its entire organisational section - for instance, the product development department, the software developers' team and the production department have been expanded. The high proportion of third party services in the cost structure, on the other hand, results from the fact that a significant part of production, bookkeeping and legal processes is commissioned by the Company, thus limiting its employees' team to individuals holding the highest professional competences. The outsourcing involves processes that are not of key importance to the Company and do not entail increasing the level of knowledge within the organisation. It should also be remembered that currently a part of the remuneration and third party services are recognised under prepayments and accruals. When the given project is completed, they are going to be reclassified as intangible assets. Revenues related to subsidies for the said projects are recognised under prepayments and accruals as well.

Chart 5. Operating costs structure in 2014

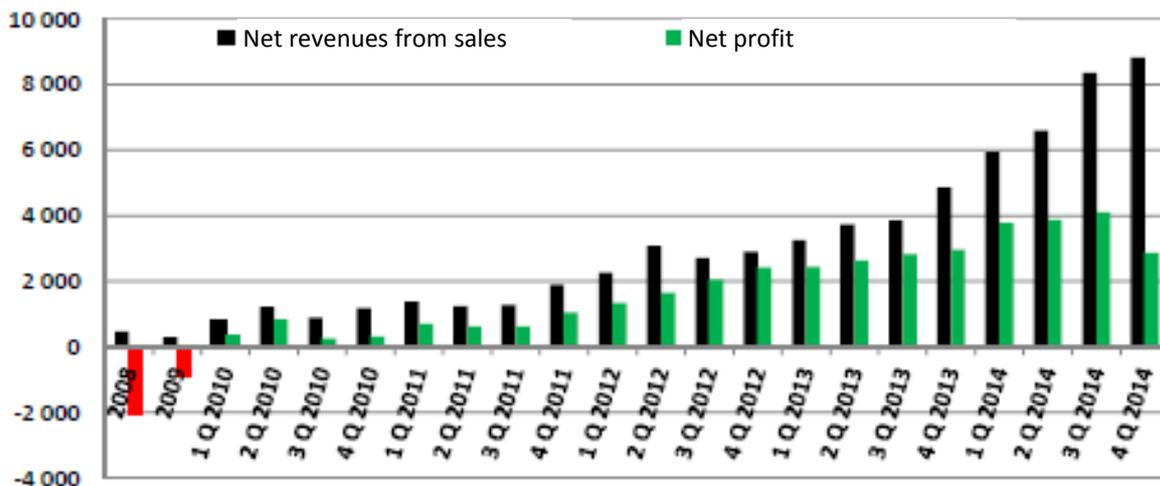


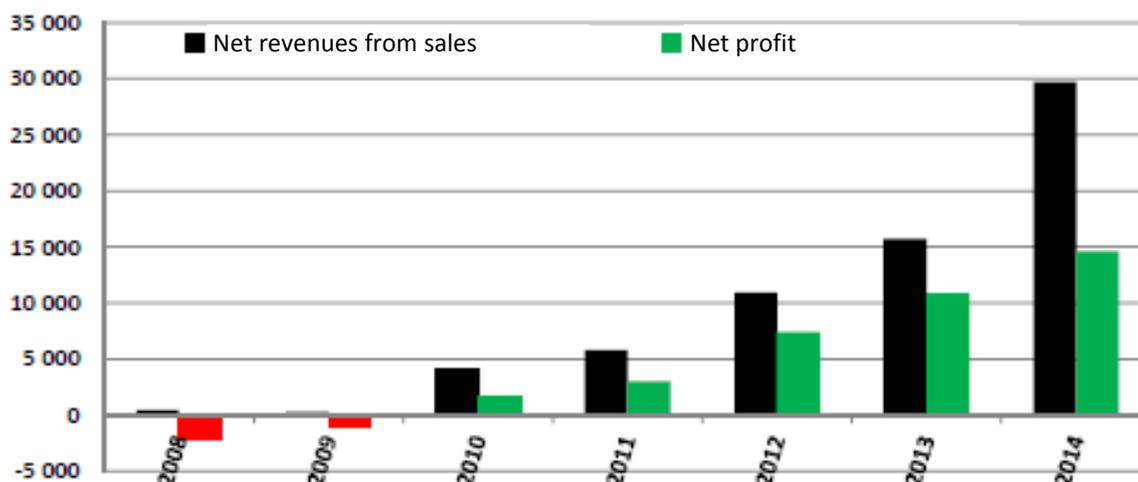
Source: Medicalgorithmics S.A.

Profit and profitability

In 2014 Medicalgorithmics S.A. generated a record-breaking net profit again, amounting to PLN 14,526.3 thousand. It is a result nearly 34% higher than the profit earned in 2013. The increased profit results from development in the Company's scale of operation, increased sales of products and services.

Chart 6. Net revenues from sales and net profit in PLN thousand in individual periods *





* Data for the year 2010 are presented according to the old accounting policy, data for the year 2011 are presented according to the new accounting policy, under the Accounting Act (the interim report for the 4th quarter of 2011 sets out more information concerning the change of accounting policy). Data for the years 2012-2014 are presented according to the International Accounting Standards.

Source: Medicalgorithmics S.A.

In 2014 the Company also recorded a very high level of net margin on its operations - it amounted to 48.9%. Also, margin on sales and EBITDA margin both remained on very high levels and were, respectively, 46.3% and 48.8%. It was possible due to the Company's focus on the most profitable services and a high operating leverage resulting from the business model. The high level of net margin was also influenced by the positive result from investment activity caused by investing the Company's financial surpluses. Although they remain on a high level, the margins received over the analysed period are lower compared to the results for the comparable period of the previous year (in 2013 they were, respectively, 69.3%, 62.8% and 66.8%) on account of increased costs resulting mostly from initiating and development of manufacture of PocketECG III, which is characterised by a more complex production process than the previous version. Additionally, a part of the new devices has not been activated yet and subscription revenues (which earn more profit than sales of equipment) on account of their use have not yet been recorded.

Return on assets (ROA) and return on equity (ROE) improved. Return on assets amounted to 15.3% in 2014, compared to 13.0% in 2013. Return on equity, on the other hand, was 16.0% in 2014, compared to 13.4% in 2013.

Table 13. The Company's ROA and ROE indicators for years 2014 and 2013, and their changes over the last financial year

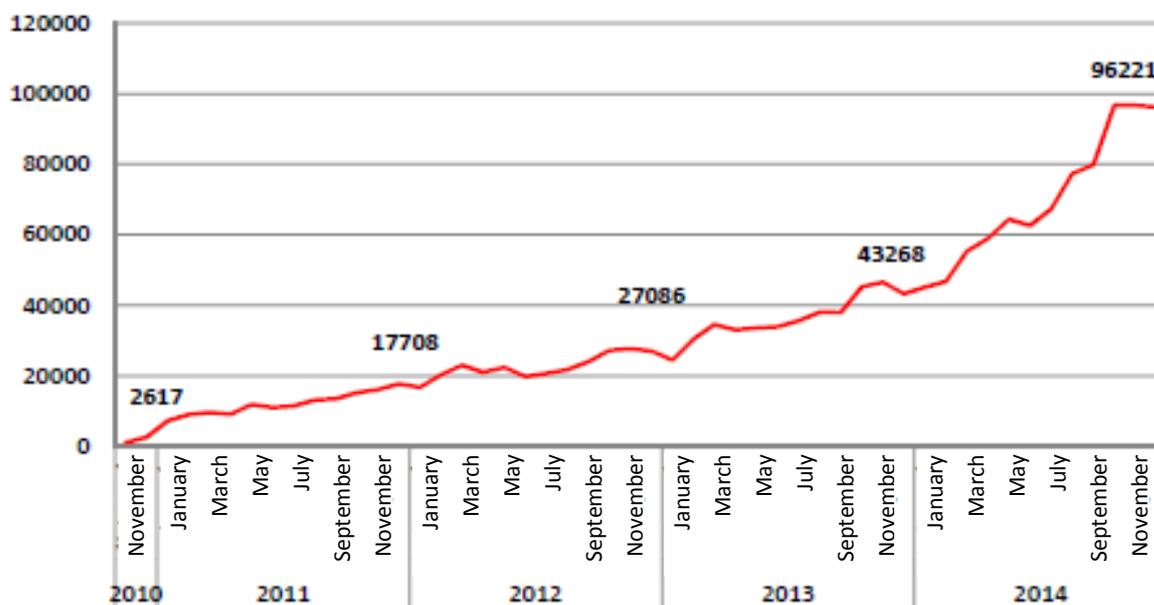
| | 2014 | 2013 | Change (p.p.) |
|------------|-------|-------|---------------|
| ROA | 15.3% | 13.0% | 2.3% |
| ROE | 16.0% | 13.4% | 2.6% |

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

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

Source: Medicalgorithmics S.A.

Chart 7. The number of PocketECG system tests made monthly expressed in patient days*



**It is worth noting that the chart of completed patient days only presents the general trends and the increase in popularity of PocketECG system. Medicalgorithmics S.A. collects monthly fixed subscription fees from every device and, due to variations in the average length of a test and rotation of devices, there are periods, in which revenues of Medicalgorithmics S.A. grow in spite of a stabilised number of processed patient days as well as periods, in which the number of processed patient days increases far more quickly than the revenues.*

Source: Medicalgorithmics S.A.

III.6 Transactions with affiliated entities

Medicalgorithmics S.A. had no affiliated entities in the past accounting year.

III.7 Perspectives of development of the Company's operations in the year to come

With respect to subsequent PocketECG III system distribution agreements (described in item I) a further growth in the scale of operations of Medicalgorithmics S.A. is expected for the subsequent financial year as well as increased revenues and profits.

Aside from the agreements signed in 2014 the Company seeks actively to introduce PocketECG system to new markets. Over the past few months the international sales team established close relations with potential partners and distributors in several countries – the negotiations are currently most advanced in Japan and Brazil, where PocketECG system has already been certified.

Moreover, the product development department is carrying out extensive research on increasing functionality of the currently offered PocketECG system, which is going to allow to additionally expand the range of provided services and diversify the Company's sources of income as well as on completely new products offered to the Company's customers.

IV Description of significant risk management methods and factors

Credit risk

Exposure to credit risk

Balance sheet values of financial assets correspond to maximum exposure to credit risk. Maximum exposure to credit risk at the end of the accounting period is as follows:

| | Note | Dec 31 2014 | Dec 31 2013 |
|--------------------------------------|------|-----------------|-----------------|
| Own receivables and credits | 22 | 10 769.2 | 1 348.3 |
| Cash and cash equivalents | | 24 200.2 | 38 405.1 |
| Total exposure to credit risk | | 34 969.4 | 39 753.4 |

Maximum exposure to credit risk for trade receivables and credits at the end of the accounting period by geographic areas is as follows:

| | Dec 31 2014 | Dec 31 2013 |
|--------------------|-----------------|----------------|
| Domestic | 7.8 | 143.3 |
| Euro payments area | 9.1 | 2.3 |
| Other regions | 10 090.2 | 1 042.0 |
| Total | 10 107.1 | 1 187.6 |

Maximum exposure to credit risk for trade receivables and credits at the end of the accounting period by types of recipients is as follows:

| | Dec 31 2014 | Dec 31 2013 |
|-------------------------|-----------------|----------------|
| Institutional customers | 10 107.1 | 1 187.6 |
| Individual recipients | 0.0 | 0.0 |
| Total | 10 107.1 | 1 187.6 |

Impairment write-offs

The age structure of trade receivables and credits at the end of the accounting period is as follows:

| | Gross value as at Dec 31 2014 | Impairment write- off as at Dec 31 2014 | Gross value as at Dec 31 2013 | Impairment write- off as at Dec 31 2013 |
|---|----------------------------------|--|----------------------------------|--|
| Not due | 4 694.8 | 0.0 | 1 187.6 | 0.0 |
| Past due for 0 to 30 days * | 2 614.9 | 0.0 | 0.0 | 0.0 |
| Past due for 31 to 60 days * | 1 506.7 | 0.0 | 0.0 | 0.0 |
| Past due for more than 61 days * | 1 290.7 | 0.0 | 0.0 | 0.0 |
| Total | 10 107.1 | 0.0 | 1 187.6 | 0.0 |

* From among the general amount of overdue receivables amounting to PLN 5,412.3 thousand, the contracting parties have paid the total amount of PLN 2,705.3 thousand as at the date of publishing this report.

Risk of change in prices

The Company sells its products based on concluded long-term contracts, which guarantee a fixed level of prices. Moreover, the market of production components shows little fluctuations in purchase prices. Consequently, there is no risk in price terms.

Liquidity risk

| Dec 31 2014 | Balance sheet | Cash flows resulting from the agreement | Less than 6 | | 1-2 years | More than | | |
|--|----------------|---|----------------|-------------|------------|------------|------------|------------|
| | | | months | 6-12 months | | 2-5 years | 5 years | |
| Financial liabilities other than derivative instruments | | | | | | | | |
| Secured bank loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unsecured bank loans | 2.7 | 2.7 | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade and other liabilities | 1 072.8 | 1 072.8 | 1 072.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 1 075.5 | 1 075.5 | 1 075.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dec 31 2013 | | | | | | | | |
| Financial liabilities other than derivative instruments | | | | | | | | |
| Secured bank loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unsecured bank loans | 31.4 | 31.4 | 31.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade and other liabilities | 535.0 | 535.0 | 535.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 566.4 | 566.4 | 566.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Currency risk

Exposure to foreign exchange risk

The Company's exposure to foreign exchange risk according to the exchange rate at the end of the accounting period is as follows:

| | Dec 31 2014 | | | Dec 31 2013 | | |
|---------------------------|-------------|----------------|---------------|-------------|--------------|------------|
| | EUR | USD | GBP | EUR | USD | GBP |
| Trade receivables | 9.1 | 10 042.8 | 47.4 | 2.3 | 1 035.9 | 6.2 |
| Secured bank loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unsecured bank loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade liabilities | (0.4) | (118.1) | (80.6) | (2.0) | (84.2) | 0.0 |
| Gross on-balance exposure | 8.7 | 9 924.7 | (33.2) | 0.3 | 951.7 | 6.2 |

The following foreign exchange rates were applied for the most important foreign currencies over the year:

| Values expressed in PLN | Average exchange rates | | End of the reporting period - spot rate | |
|-------------------------|-----------------------------|-----------------------------|--|-----------------------------|
| | Jan 01 2014- Dec 31 2014 | Jan 01 2013- Dec 31 2013 | Jan 01 2014- Dec 31 2014 | Jan 01 2013- Dec 31 2013 |
| | EUR | 4.1893 | 4.2110 | 4.2623 |
| USD | 3.1784 | 3.1653 | 3.5072 | 3.0120 |
| GBP | 5.2225 | 4.9532 | 5.4648 | 4.9828 |

Sensitivity analysis

The assumption of the analysis is that changes of foreign exchange rates remain at a reasonable level at the end of the accounting period. The analysis also assumes that other variables, in particular interest rates, remain unchanged.

The following table includes example currencies and percentage changes:

| Values expressed after conversion into PLN thousand | Equity | Profit or loss of the current period |
|--|--------|--------------------------------------|
| Dec 31 2014 | | |
| EUR (strengthening by 5%) | 0.4 | 0.4 |
| USD (strengthening by 5%) | 496.2 | 496.2 |
| GBP (strengthening by 5%) | (1.7) | (1.7) |
| Dec 31 2013 | | |
| EUR (strengthening by 5%) | 0.0 | 0.0 |
| USD (strengthening by 5%) | 47.6 | 47.6 |
| GBP (strengthening by 5%) | 0.3 | 0.3 |

Weakening of zloty in relation to EUR and USD as at December 31st 2014, assuming stability of other variables would result in an increase in profit of the current period. In case of GBP the effect would be reverse - a weakening of PLN would result in decreasing profit of the current period.

The Company does not apply hedge accounting.

V Corporate governance statement

The corporate governance statement of Medicalgorithmics S.A. complies with the requirements set out in §91 section 5 item 4 of the Regulation of the Minister of Finance of February 19th 2009 on current and periodic information submitted by issuers of securities and terms of regarding information required by the provisions of law of a non-member state as equivalent (Journal of Laws of 2009, No. 33, item 259 as amended). Transferring this statement is also equivalent to transferring a report on application of corporate governance rules in the Company to the Warsaw Stock Exchange, as per in §29 section 5 of the Stock Exchange Regulations.

From the moment of introducing the shares of Medicalgorithmics S.A. on the regulated market of the Warsaw Stock Exchange the Company adheres to corporate governance rules in the form of "Good Practices of Companies Listed on the Stock Exchange", which constitute an appendix to resolution No. 19/1307/2012 of the Stock Exchange Board of November 21st 2012. Contents of the rules are available on the official website of the Warsaw Stock Exchange dedicated to this issue (www.corp-gov.gpw.pl).

Medicalgorithmics S.A., the shares of which are listed on the Warsaw Stock Exchange, observes the set of corporate governance rules except for the following ones, from which it has withdrawn:

In part I "Recommendations on good practices of companies listed on the stock market":

Principle 5) "A company should have a remuneration policy and principles of setting it. A remuneration policy should primarily determine the form, structure and level of remuneration of members of managing and supervisory bodies. The European Committee's recommendation of December 14th 2004 on supporting the appropriate system of remuneration for directors of companies listed on the stock exchange (2004/913/WE), supplemented with EC recommendation of April 30th 2009 (2009/385/WE) should apply at determining the policy of remuneration of the company's supervisory and management bodies." The Issuer has not drawn up a remuneration policy or the principles for determining it, however, it is planning to implement this principle.

Principle 9) "The Stock Exchange recommends that public companies and their shareholders ensure a correct proportion of men and women in exercising management and supervisory functions in companies, thereby contributing to creativity and innovativeness in economic activity of the companies." The Supervisory Board members shall only be appointed and dismissed by the Issuer's General Shareholders' Meeting and the Management Board members might only be appointed and dismissed by the Supervisory Board. The Issuer's Management Board does not have any influence on the candidacies to the Supervisory Board submitted by the shareholders or on candidacies to the Management Board submitted by the Supervisory Board members. Consequently, taking into account the current composition of the Management Board and Supervisory Board, the Management Board cannot ensure that this principle is observed.

Principle 12) "A company should ensure shareholders' opportunity to exercise their voting rights in person or through a proxy at a General Shareholders' Meeting outside of the location of the Meeting, using electronic means of communication". The Issuer is not planning to adhere to this rule on account of high costs related to the technical infrastructure which allows for it to make a General Shareholders' Meeting secure.

In part II, "Good practices implemented by management boards of listed companies":

I.Z.1. "The Company operates a corporate website, which includes, aside from the information required by the law: (...)":

point 1) "(...) basic corporate documents, in particular the articles of association and regulations of the company's bodies, (...)” – regulations of the General Shareholders' Meeting and the Supervisory Board have not been adopted by the Company, therefore such regulations shall be placed on the Issuer's website from the moment of adopting them,

point 5) "(...) in case the members of a Company's body are selected by the General Shareholders' Meeting - justifications of the candidacies submitted to the Management Board and the Supervisory Board made available to the Company along with professional biographies, within the term that allows getting acquainted with them and adopting a resolution with due discernment". Full compliance with this principle depends on readiness of the shareholders entitled to participate in a general shareholders' meeting to voluntarily undertake to inform the Company about their intentions as regards submitting candidates to the company's Supervisory Board before the meeting,

point 6) "(...) annual reports the Supervisory Board's activity, taking into account the activity of its committees, along with assessment of the internal control system and the system of management of the risk significant to the Company, submitted by the Supervisory Board". There are no committees as part of the Supervisory Board's activity. Moreover, the Company is

not planning to disclose such information to an extent broader than required by the law, for reasons of company secrecy,

point 7) "(...) shareholders' questions concerning the issues covered by the meeting agenda, asked before and during the General Shareholders' Meeting along with answers to them". The Company is not planning to disclose such information to an extent broader than required by the law, for reasons of the company secret, The Company believes that the principles set out in the commercial companies' code are sufficient to ensure transparency of general shareholders' meeting sessions, point 9a) "(...) recording of General Shareholders' Meeting session, in audio or video format". Starting from the first General Shareholders' Meeting after being transferred to the Main Market of the Warsaw Stock Exchange the Issuer publishes the course of its General Shareholders' Meetings in audio format on the Company's website. On account of the legal framework concerning the issue of use of the image and other characteristics of the General Shareholders' Meeting participants as well as other information that would have been recorded in a video recording of the meeting session, by way of publishing this content on the Company's website, the Company is not planning to publish video recordings of its General Shareholders' Meetings on its website,

point 11) "(...) information concerning relationships of a supervisory board member with a shareholder holding shares that represent not less than 5% of the general number of votes at the company's general shareholders' meeting, obtained by the management board based on a supervisory board member's representation". The Management Board is not planning to observe this principle on account of protecting the privacy of the Supervisory Board members.

Principle 2. "The Company guarantees that its website is also available in English language, at least to the extent indicated in part II item 1". On account of the associated costs and responsibility for correct and reliable contents of its website (in particular correctness of translations) the Company is not planning to offer such functionality as part of its website in a situation, in which this is not required by law or economically rational.

Principle 3. "Before the company enters into an agreement with an affiliated entity, the Management Board shall request the supervisory board to approve the given transaction/agreement. This requirement does not apply to typical transactions concluded at arm's length as part of the company's operations with a subsidiary entity, in which the company has controlling interest. A definition of an affiliated entity is adopted for the purposes of this set of rules, within the meaning of the regulation of the Minister of Finance issued pursuant to art. 60 section 2 of the act of July 29th 2005 on public offering, conditions of introducing financial instruments into organized trading and public companies (Journal of Laws No. 184, item 1539 as amended)". The Company is not planning to implement such mechanism with respect to significant transactions with affiliated entities wherever it is not required by the law or the Articles of Association. In the opinion of the Company's

Management Board functioning of such mechanism is not justified and a clear declaration in that regard makes it impossible for investors to take it into account while making investment decisions related to the Company's financial instruments, in particular shares.

In part III, "Good practices applied by supervisory board members":

Principle 1), section 1) "Aside from the activities set out in the provisions of law, the supervisory board should: 1) draw up a brief assessment of the company's condition taking into account assessment of material risk management and internal control systems annually and submit it to the ordinary general shareholders' meeting, (...)". The Company's Management Board cannot assure that the Supervisory Board is going to draw up and submit the aforementioned assessment.

Principle 5) "A management board member should not withdraw from exercising their function in a situation, in which it would have a negative influence on functioning of the supervisory board, including its capability of adopting resolutions". The Company's Management Board cannot guarantee that the Supervisory Board members adhere to this principle.

Principle 8) "As regards the duties and operations of committees functioning in the Supervisory Board, Appendix I to the Recommendation of the European Committee of February 15th 2005 on the duties of non-executive directors (...) shall be applied. There is no audit committee, nomination committee or remuneration committee established in the Company. By the moment of establishing an audit committee, a remuneration committee and a nomination committee in the Company pursuant to Appendix I to the said Recommendation of the European Committee, the principle shall not be observed to that extent.

In part IV, "Good practices applied by shareholders":

Principle 10) "The company should ensure the opportunity of its shareholders' participation in a general shareholders' meeting using electronic means of communication consisting in: 1) transmission of General Shareholders' Meeting sessions in real time, 2) bilateral communication in real time, as part of which shareholders might express their opinions at the General Shareholders' Meeting sessions staying at a location other than the session location". The Company's articles of association do not provide for using the said type of transmission or bilateral communication for the Company. The Company is not planning to adhere to this rule, also on account of high costs related to the technical infrastructure which allows for it to make a General Shareholders' Meeting secure. Moreover, the Company cannot guarantee that a given principle is observed given the legal context related to the issue of using the image and other characteristics of the General Shareholders' Meeting participants as well as other information related to them that would be transferred, by way of transmission (including mechanisms allowing for bilateral communication) in real time. According to the Company it is

not possible to restrict the opportunity of participation in General Shareholders' Meetings with respect to individuals who do not consent to such use of their image, other characteristics or information pertaining to them in a situation when an opportunity of such transmission is not provided for in the Company's articles of association.

V.1 Description of the main characteristics of risk management and internal control systems applied by the Company with respect to the process of drawing up financial statements and consolidated financial statements

Medicalgorithmics S.A. has adopted a risk management and internal control system. The Company's Management Board is responsible for their correct and effective operation in the process of drawing up separate financial statements of Medicalgorithmics S.A. The risk management and internal control system in this respect are based on identification and assessment of risk areas, while defining and undertaking actions aiming at minimising or completely eliminating it.

The internal control system of Medicalgorithmics S.A. helps in pursuit of the Company's goals as well as in achieving long-term profitability and maintaining financial reporting reliability. It includes a range of controlling activities, distribution of tasks as well as identification and assessment of risk that might have a negative influence on attaining of the Company's goals. As regards the organisational aspect, the internal control system of Medicalgorithmics S.A. involves functional control carried out by the Company's Management Board, managers of its organisational units and employees within the scope of their duties.

In order to ensure an effective internal control system in the Company and risk management in the process of financial reporting the Management Board adopted and approved an accountancy policy for Medicalgorithmics S.A. compliant with the International Financial Reporting Standards and constantly updated in line with new regulations.

The circulation of information within the Company, the aim of which is to prepare up-to-date, reliable and complete financial statements drawn up pursuant to the provisions and accountancy policy adopted by the Management Board, is also subject to thorough control. An experienced accountancy office using its own systems of controlling the process of drawing up statements kept the Company's books in 2014 and drew up financial statements.

The accounting books are kept in an integrated IT system that guarantees a clear division of responsibilities, coherent entries in the books and ongoing control between the books. Access to data in various sections and arrangements is possible due to the extensive

reporting system. The IT system is adapted to the changing accounting rules or other legal standards on an ongoing basis due to high flexibility of its functionality.

The system offers password protection against unauthorised persons' access and functional access restrictions. Access is controlled at every stage of drawing up the financial statement, starting from entering source data, to processing them, to generating output data.

The Company's financial statements are drawn up in close cooperation with the financial department of Medicalgorithmics S.A, which reports directly to the Company's vice president in charge of financial and administrative affairs. Both Medicalgorithmics S.A. and the accountancy office that the Company cooperates with adhere to a set of rules concerning the system of controlling and identification of risk resulting from the Company's operations, including: making accounting records based solely on correctly drawn up and approved documents, or controlling these documents from a formal, accounting and substantive perspective. Circulation of information between the Company and the accountancy office is also controlled. The Management Board controls the contents of the financial statement. It approves quarterly, semi-annual and annual financial statements before their publication.

Examination of the annual financial statement of Medicalgorithmics S.A. by an independent statutory auditor is another element of internal control. The procedures of drawing up financial statements adopted by the Company and the accountancy office are also subject to the auditor's assessment and audit.

V.2 Shareholders and their powers

The ownership structure of significant blocks of shares of Medicalgorithmics S.A. as at the date of publishing this report was as follows:

Table 14. Shareholding structure of Medicalgorithmics S.A.

| Shareholder | Number of shares | % shares | % of votes |
|--|------------------|----------------|----------------|
| Marek Dziubiński (President of the Management Board) | 400 000 | 11.58% | 11.58% |
| BIB Seed Capital S.A. | 218 122 | 6.31% | 6.31% |
| New Europe Ventures LLC | 276 061 | 7.99% | 7.99% |
| ING Otwarty Fundusz Emerytalny | 451 000 | 13.05% | 13.05% |
| Nordea Powszechne Towarzystwo Emerytalne S.A. | 257 332 | 7.45% | 7.45% |
| Other Shareholders | 1 853 011 | 53.62% | 53.62% |
| TOTAL NUMBER OF SHARES | 3 455 526 | 100.00% | 100.00% |

Source: Medicalgorithmics S.A.

All of the shares of Medicalgorithmics S.A. are ordinary bearer shares and there are no

special controlling rights related to them. The Company's Articles of Association do not introduce any restrictions as to exercising the right to vote, such as the restriction of exercising voting rights of holders of a certain part or number of votes or any time constraints on exercising the right to vote, nor does it include any provisions, according to which capital rights related to the securities are separated from ownership of the securities. There are also no restrictions as to transfer of ownership of the Company's shares, aside from lock-up agreements concluded with selected shareholders. The list of shareholders covered by such agreements is presented by the table below.

Table 15. List of Shareholders covered by lock-up agreements as at the date of this statement

| No. | Shareholder | Number of shares covered by lock-up | Lock-up completion date |
|---------------|-------------------------|-------------------------------------|-------------------------|
| 1 | Marek Dziubiński | 400 000 | July 10 2016 |
| 2 | New Europe Ventures LLC | 276 061 | March 16th 2016 |
| 3 | BIB Seed Capital S.A. | 218 122 | March 16th 2016 |
| 4 | Tomasz Mularczyk | 103 954 | April 30th 2016 |
| 5 | Maciej Kulesza | 30 624 | July 10 2016 |
| 6 | Ronald Gale Landes | 10 200 | July 11 2016 |
| 7 | Piotr Żółkiewicz | 7 469 | July 10 2016 |
| 8 | Joanna Kobylińska | 2 154 | July 10 2016 |
| Total: | | 1 048 584 | |

Source: Medicalgorithmics S.A.

V.3 General Shareholders' Meeting

The General Shareholders' Meeting of Medicalgorithmics S.A. is the Company's highest governing body. It may be may be Ordinary or Extraordinary and is held pursuant to the generally applicable provisions of law and the Company's Articles of Association available on the Company's website.

- The competences of the General Shareholders' Meeting include, in particular:
- Examining and approving the Management Board's reports on the Company's operations and financial statements for previous financial years,
- Appointing and dismissing the Supervisory Board Chairman, Deputy Chairman and members,
- Discharging the Members of the Management Board and Supervisory Board from their duties,
- Increasing and decreasing the share capital,
- Adopting resolutions concerning distribution of profits or covering losses,
- Creating and cancelling reserve capitals,

- Determining the principles of remuneration paid to the Supervisory Board Members,
- Introducing changes to the Company's Articles of Association,
- Examining matters submitted by the Supervisory Board, the Management Board and the shareholders,
- Adopting resolutions concerning the Company's liquidation, dissolution or merger,
- Selection of liquidators,
- Issue of bonds convertible into shares and bonds with priority right,
- Issue of subscription warrants,
- Adopting Regulations of the Company's Supervisory Board,
- Determining the day, by which the list of shareholders entitled to dividend for a given accounting year and the dividend payment date are determined.

The Company's Shareholders shall exercise their rights pursuant to the generally applicable provisions of law and the Articles of Association.

Introducing changes to the Company's Articles of Association requires a resolution by the General Shareholders' Meeting adopted by a three-fourths majority and a constitutive entry in the National Court Register. Changes are introduced to the Company's Articles of Association by the General Shareholders' Meeting pursuant to the obligatory provisions of law, in a way and in the mode resulting from the Commercial Companies Code.

V.4 Management Board

The Management Board, chaired by the President, manages the Company and represents it in external relations. Each of the Management Board Members shall be entitled to independently represent the Company with no limitations. Moreover, the Management Board reserves the right to grant a power of attorney. The body functions pursuant to generally applicable provisions of law and the Company's Articles of Association. Its competences include any matters related to governing of the Company that are not reserved by the law or provisions of the Articles of Association for the General Shareholders' Meeting or the Supervisory Board. The Management Board's competences as regards the decision of issue or purchase of shares shall be statutorily limited. Pursuant to §14 item 5 of the Company's Articles of Association, an increase of capital and issuing of shares shall require a resolution from the General Shareholders' Meeting. Subject to the mandatory provisions of law, the Management Board shall decide on any matters related to an increase of the share capital within the framework of the target capital.

The Company's Management Board shall consist of 1 to 3 persons appointed for a 5-year term. The composition of the Management Board shall be determined by the Supervisory

Board, which appoints and dismisses its individual Members.

As at the date of publishing this report the Management Board consists of the following persons:

- Marek Dziubiński – President of the Management Board
- Tomasz Mularczyk – Vice President of the Management Board in charge of IT
- Piotr Żółkiewicz – Vice President of the Management Board in charge of financial and operating matters

There were no changes to the Management Board's composition over the previous year.

V.5 Supervisory Board

The Supervisory Board of Medicalgorithmics S.A. is continuously supervising the Company's operations. The body functions pursuant to generally applicable provisions of law and the Company's Articles of Association. Pursuant to the Articles of Association, the Supervisory Board consists of 5 to 9 members appointed and dismissed by the General Shareholders' Meeting, according to the mode laid down in the Articles of Association. The Supervisory Board Members are appointed for a mutual term of office, which lasts three years.

As at the date of publishing this report the composition of the Supervisory Board is as follows:

- Marek Tatar – Chairman of the Supervisory Board
- Marcin Hoffmann, PhD – Supervisory Board Member,
- Martin Jasinski – Supervisory Board Member,
- Jan Kunkowski – Supervisory Board Member,
- Ronald Landes – Supervisory Board Member

The changes to the composition of the supervisory board made during the financial year have been described in item II.8.

VI Basic information about the Company

Medicalgorithmics S.A. is:

- An innovative cutting edge technology company operating in the sector of non-invasive medical equipment since 2005.
- Owner and manufacturer of the most advanced heart rate analysis system in the world - PocketECG. A leader working on several new methods and products in the segment of cardiological diagnostics.
- Owner of patents and patent applications in the USA and the EU.

The core business of Medicalgorithmics S.A. is:

1. Sale of PocketECG equipment and software to monitoring centres, hospitals and other cardiological diagnostics facilities.
2. Sale of subscriptions to use PocketECG system and IT infrastructure for arrhythmia diagnostics.
3. Sale of data analysis and processing services in the telemedical sector.
4. Sale of programming services related to use of PocketECG system

The Company operates on the largest and most promising markets - in the USA, Asia, the UK, Canada, Brazil, Spain, Australia and New Zealand.

| | |
|--|--|
| Registered seat: | Aleje Jerozolimskie 81, 02-001 Warszawa |
| E-mail address: | finanse@medicalgorithmics.com |
| Company website: Investor Relations Website: | www.medicalgorithmics.com www.medicalgorithmics.pl |
| Contact person for the media: | Anna Dziuban Telephone number: +48 22 292 83 69 e-mail: a.dziuban@medicalgorithmics.com |
| Contact e-mail for the investors: | finanse@medicalgorithmics.com |

Registry data

District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register

KRS 0000372848

NIP 5213361457

REGON 140186973

Share capital

The amount of share capital (registered in KRS) as at the date of drawing up this annual report is PLN 345,552.60 and is divided into 3,455,526 ordinary bearer shares with 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



Marek Dziubiński

President of the
Management Board



Piotr Żółkiewicz

Vice President of the Management
Board in charge of financial and
operational matters



Tomasz Mularczyk

Vice President of the
Management Board in charge
of IT