



**MANAGEMENT BOARD'S
REPORT
ON THE OPERATIONS OF
MEDICALGORITHMIC S.A.
IN 2016**

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I Characteristics of the Company's operations

I.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. The goal of Medicalgorithmics S.A. is organic development, maintaining a high growth rate by way of acquisitions and care or a high level of customer satisfaction by providing flexible offer of products and services in identified market niches.

The Company employs the most qualified individuals and lays strong emphasis on providing highest quality products and services. The Company's products are patented on the key markets and obtain the key quality and safety certificates. A part of the profit earned is allocated to research and development of technology so that the Company might strengthen its position of an innovative leader on the market.

The Company concentrates on development of equipment and services in cardiological diagnostics - both residential and remote.

Strategic plans involve dynamic development of the following areas of operations:

- Medical diagnostics;
- Cardiological rehabilitation;
- 12-channel ECG system;
- Technological support for the sector of research on cardiac safety of medicines;
- Integration and programming services for cooperating medical facilities.

Currently the Company is working on its territorial expansion and adapting the business model to the requirements of healthcare systems in various countries. In each new market Medicalgorithmics establishes cooperation with at least one strategic sales and operational partner in order to minimise the operating costs and concentrate on technological support to services provided to patients and developing solutions in cardiology.

Fig. 1. Development of mobile electrocardiographic equipment



The unique business model developed by the Management Board of Medicalgorithmics S.A. adapted to the specifics of the Company's operations results in continued profitability. 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 and New Zealand in sales systems tailored to the specifics of each market, which optimised its profitability.

Poland was the first market, on which the Company offered its product. Since the 3rd quarter of 2010 the USA is the primary sales market for Medicalgorithms 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. Initially PocketECG system was sold on the American market in the subscription model, in cooperation with two strategic partners, which provide diagnostic services for hospitals, clinics, cardiologists' offices and other medical facilities. In March 2016 roku Medicalgorithms S.A. took over 75% of one of the business partners' shares through a company established for this purpose. On December 28th 2016 the customer database was purchased from the other business partner. Thereby, starting from the 1st quarter of 2017 PocketECG is going to be sold on the American market in the subscription model only to the affiliated entity that provides medical services to target customers.

The business model of Medicalgorithms S.A. 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 supplementary services supporting use of PocketECG system in the form of programming services (among others, software supporting circulation of information, refunding procedures, integration with EMR systems) and telemedical outsourcing services (ECG output data analysis and processing). 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 diversified, however, 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 total value of revenues obtained from sales to AMI Monitoring, Inc. and Medi-Lynx Cardiac Monitoring, LLC entities was, respectively 51% and 46% of the value of net revenues from sales in 2016.

I.2 List of entities of the Company's Corporate Group of Companies

On October 14th 2015 Medicalgorithms S.A. (hereinafter: the Issuer) set up its subsidiary named Medicalgorithms US Holding Corporation ("MDG HoldCo") seated in Wilmington, Delaware in the USA.

The Issuer holds 100% of shares of Medicalgorithms US Holding Corporation representing 100% of votes at the General Shareholders' Meeting. The subsidiary company's share capital is 1 USD and is divided into 100 shares, each with 0.01 USD nominal value.

On March 30th 2016, Medicalgorithms S.A purchased 75% of shares in Medi-Lynx Cardiac Monitoring, LLC ("Medi- Lynx") seated in Plano, Texas, USA through its subsidiary company, Medicalgorithms US Holding Corporation seated in Delaware.

I.3 Information about the segments

The Company operates mostly outside of Poland, in particular in the USA. The operations are classified as part of one segment that covers both sales of diagnostic and IT services, and sales of equipment related to the offered services.

I.4 Shareholding structure

The chart and table below set out the Company's shareholders holding at least 5% of votes at the Company's General Shareholders' Meeting at the moment of drawing up this report and, to the Company's best knowledge, indicating changes in the ownership structure of significant blocks of shares over the period starting at handing over the previous annual report. The information included in the table is based on current reports handed over to the Warsaw Stock Exchange, reflecting the information received from the shareholders pursuant to article 69 of the *Polish Act on Public Offering, Conditions Governing Introduction of Financial Instruments to Organised Trading and Public Companies*.

Chart 1. Shareholding structure of Medicalgorithms S.A.

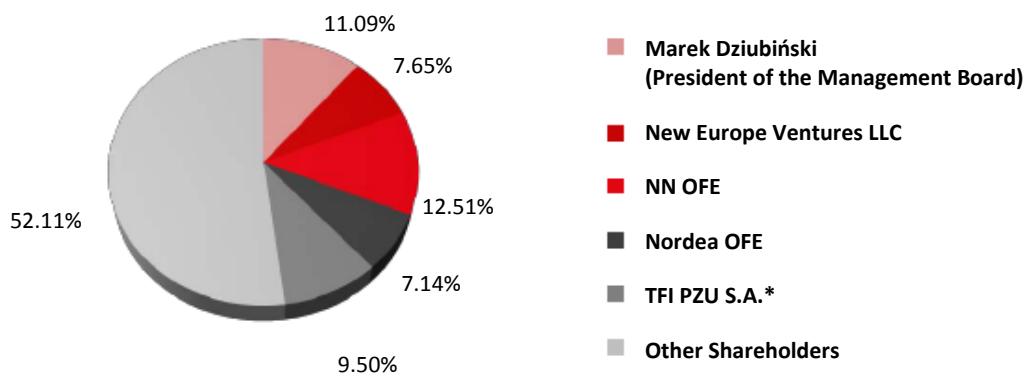


Table 1. Shareholding structure of Medicalgorithms S.A.

Shareholder	Number of shares as at March 30 2017	% of share capital	Number of votes	% of the general number of votes	Change over the period March 11 2016-March 30 2017
Marek Dziubiński (President of the Management Board)	400 000	11.09%	400 000	11.09%	no changes
New Europe Ventures LLC	276 061	7.65%	276 061	7.65%	no changes
NN OFE	451 000	12.51%	451 000	12.51%	no changes
Nordea OFE	257 332	7.14%	257 332	7.14%	no changes
TFI PZU S.A.*	342 792	9.50%	342 792	9.50%	+2 322
Other Shareholders	1 879 341	52.11%	1 879 341	52.11%	+366 800
TOTAL NUMBER OF SHARES	3 606 526				

* information based on the number of shares registered by the entity at the Ordinary Shareholders' Meeting of June 27th 2016

Information about agreements that might result in future changes to proportions of the shares held by current shareholders and bondholders

A detailed description of the adopted incentive program for the senior management and other key employees has been put forward in item I.14.

I.5 Dividend policy

Pursuant to art. 395 of the Commercial Companies Code, the body entitled to make a resolution concerning the distribution of profit (or covering the loss) and payment of dividend is the Ordinary General Shareholders' Meeting, which should be held within 6 months after the end of each financial year. 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.

As regards dividend policy, the Company's Management Board has decided to make payments proportionately to the amount of profit earned and the Company's financial standing. The Company's intention is to regularly pay dividend in the future. Whilst reporting proposals concerning the opportunity of dividend payment, the Management Board takes into account the necessity to ensure the Company's liquidity and a level of capital necessary to develop its activity.

On July 25th 2016, pursuant to resolution No. 31/2016 of the Ordinary General Shareholders' Meeting of June 27th 2016, a dividend was paid as part of the profit earned in financial year 2015 in the aggregate value of PLN 6,392 thousand, which makes PLN 1.85 per share. The dividend applies to the Company's shares in the amount of 3,455,526. The dividend does not apply to F series shares in the amount of 151,000.

I.6 Purchase of own shares

Over the period covered by this statement the Company did not purchase its own shares.

I.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:

Marek Dziubiński, PhD – 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 16 years 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 jest również autorem modelu biznesowego Spółki.

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.

No changes occurred in the composition of the Company's Management Board over the accounting period.

Table 2. Information about the Management Board's remuneration in 2016 (in PLN thousand)

Person	Function exercised in the Issuer's bodies	Remuneration
Marek Dziubiński	President of the Management Board	1 911
Tomasz Mularczyk	Vice President of the Management Board in charge of IT	861

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 positions.

I.8 Supervisory Board of Medicalgorithmics S.A

The composition of the Supervisory Board of Medicalgorithmics S.A. as at the date of drawing up this annual 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 and 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).

Prof. Marcin Hoffmann, PhD – Member of the Supervisory Board

Prof. Marcin Hoffmann, PhD 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. Marcin Hoffman has also graduated from MBA studies organised by Poznań Academy of Economics and Georgia State University in Atlanta. He has also won many competitions such as the Promising Scientist Award awarded 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.

Artur Małek – Member of the Supervisory Board

Artur Małek has graduated from the Faculty of Finance and Banking of the Krakow University of Economics. He has held the position of CFO at Calypso Fitness S.A. since 2014. He had previously functioned as CFO at Benefit Systems S.A. and at Noblestar Polska Sp. z o.o. Currently Artur Małek is also the Chairman of the Supervisory Board at EFC Fitness S.A. and a Member of Supervisory Boards of the following companies: Elektrobudowa S.A., Fitness MCG Sp. z o.o. and Vistula Group S.A.

Jan Kunkowski – Member of the Supervisory Board

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. Currently he is working as a Chief Operating Officer at IIBR (IQS Group). He has worked for Gemius S.A., Ipsos Polska, IQd and QUANT Group and for Millward Brown SMG/KRC.

Piotr Żółkiewicz – Member of the Supervisory Board

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. Piotr Żółkiewicz was holding the position of Vice President of the Management Board in charge of financial and operational matters of Medicalgorithms S.A. by June 30th 2015. Currently he is working for Copernicus Capital TFI.

No changes occurred in the composition of the Company's Supervisory Board over the accounting period.

The table below puts forward the Company's shares directly or indirectly held by the Members of the Management Board or the Supervisory Board as at the date of publishing this report and emphasises changes made since the date of publication of the previous annual report. The information included in the table are based on information received from the Management Board and Supervisory Board Members, pursuant to Art. 160 par. 1 of the Act on Trading in Financial Instruments.

Table 3. The Company's shares held by members of the Management Board and the Supervisory Board

Person	Function exercised in the bodies of the Issuer	Number of held shares directly	Number of held shares indirectly ¹	Change over the period March 11 2016-March 30 2017
Marek Dziubiński	President of the Management Board	400 000	-	No changes
Tomasz Mularczyk	Vice President of the Management Board in charge of IT	103 954	-	No changes
Piotr Żółkiewicz	Member of the Supervisory Board	7 469	-	No changes
Marek Tatar	Chairman of the Supervisory Board	-	-	No changes
Jan Kunkowski	Member of the Supervisory Board	100	-	No changes
Artur Małek	Member of the Supervisory Board	-	-	No changes
Marcin Hoffmann	Member of the Supervisory Board	-	148 122 ²	-70 000

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) 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 148,122 - which accounts for 4.11% 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 Marcin Hoffmann (within the meaning of the Public Offering Act).

Table 4. Information about the Supervisory Board's remuneration in 2016 (in PLN thousand)

Person	Function exercised in the Issuer's bodies	Remuneration
Marek Tatar	Chairman of the Supervisory Board	37
Marcin Hoffmann	Member of the Supervisory Board	24
Artur Małek	Member of the Supervisory Board	24
Jan Kunkowski	Member of the Supervisory Board	24
Piotr Żółkiewicz	Member of the Supervisory Board	24

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

I.9 Branches, in which the Company operates

Medicalgorithms S.A. does not have any formal branches. In 2016 the Company operated in two locations: the Company's headquarters was located in Warsaw and its production facilities were located in Gdańsk.

Table 5. 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

I.10 Information on employment

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

Table 6. Employment in the Company

	Dec 31 2016	Dec 31 2015
Number of employed individuals (calculated on a full-time basis)*	87	84

*As at the date of report (March 30th 2017) there were 88 individuals employed by the Company, calculated on a full-time basis

I.11 Significant court matters

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. Over the year 2016 Medicalgorithms was a party to court proceedings pending in the USA related to determining validity of terminating the agreement with AMI/Spectocor and validity of purchasing 75% of shares in Medi-Lynx Cardiac Monitoring, LLC, the process of which was reported by the Company in current reports. Both of the proceedings were completed over the year. Additionally, pursuant to a settlement made by the parties on December 28th 2016, that the Company reported in the current report No. 42/2016, the Parties waived any claims with respect to each other and entities affiliated with them as well as any disputes, litigations, rights or judicial proceedings.

I.12 Information concerning financial statement review agreement

On July 15th 2016 the Company's Supervisory Board adopted a resolution on selection of a statutory auditor authorised to conduct: a) a review of the interim financial statement of Medicalgorithms S.A. for the accounting period ending on June 30th 2016 b) a review of the interim consolidated financial statement of Medicalgorithms Corporate Group of Companies for the accounting period ending on June 30th 2016 c) an examination of the financial statement of Medicalgorithms S.A. for the financial year ending on December 31st 2016 d) an examination of the consolidated financial statement of Medicalgorithms Corporate Group of Companies for the financial year ended on December 31st 2016.

An agreement was signed on July 25th 2016. CSWP Audyt sp. z o.o. sp.k. seated in Warsaw, entered into the list of entities authorised to examine financial statements with register number 3767 is the selected statutory auditor. The selection was made pursuant to the professional standards and provisions of law in force.

Table 7. Remuneration of the entity authorised to examine and review the financial statement (in PLN thousand)

	Jan 01 2016 – Dec 31 2016	Jan 01 2015 – Dec 31 2015*
Examination of the annual separate and consolidated financial statement	100	15
Review of the interim separate and consolidated financial statement	45	10
Other services	3	-

* data for the year ended on December 31st 2015 apply to Crystal Audit & Consulting Mateusz Szafrański - Sałajczyk seated in Warsaw and only to the examination and review of the separate financial statements

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

There were no changes in the Company's basic rules of management over the year ended on December 31st 2016.

I.14 Information on employee shares schemes control system

The Company's Extraordinary General Shareholders' Meeting adopted an incentive program on February 26th 2016 based on options for the shares of Medicalgorithmics S.A. The incentive program came into force on February 26th 2016 and shall remain in force by December 31st 2026. The program applies to financial years 2016 – 2025 and the options shall be granted in six tranches. The program involves 598,000 options divided into a basic tranche for the senior management and an additional tranche for the key employees, as follows:

- 1) tranche I settled following the end of 2018 – a total amount of 60,000 options divided into 53,000 options of the basic tranche and 7,000 options of the additional tranche,
- 2) tranche II settled following the end of 2019 – 58,000 options divided into 51,000 options of the basic tranche and 7,000 options of the additional tranche,
- 3) tranche III settled following the end of 2020 – 120,000 options divided into 106,000 options of the basic tranche and 14,000 options of the additional tranche,
- 4) tranche IV settled following the end of 2021 – 120,000 options divided into 106,000 options of the basic tranche and 14,000 options of the additional tranche,
- 5) tranche V settled following the end of 2022 – 120,000 options divided into 106,000 options of the basic tranche and 14,000 options of the additional tranche,
- 6) tranche VI settled following the end of 2023 at the earliest and following the end of 2025 at the latest – 120,000 options divided into 106,000 options of the basic tranche and 14,000 options of the additional tranche.

The Extraordinary General Shareholders' Meeting has granted the Supervisory Board with the authority to supervise implementation of the incentive program, including, among others, verifying compliance with the conditions of allocation of the options and allocating them pursuant to the rules set out in the regulations. The Company's Management Board has been authorised to undertake necessary executive duties aiming at implementation of the incentive program as supervised by the Supervisory Board.

II Review of the Company's development factors and summary of significant events related to the operations of Medicalgorithms S.A. in 2016

On March 30th 2016, Medicalgorithms S.A purchased 75% of shares in Medi-Lynx seated in Plano, Texas, USA through its subsidiary company, Medicalgorithms US Holding Corporation seated in Delaware. The seller and the buyer agreed on the final purchase price amounting to USD 34,058 thousand. The value of the shares has been calculated based on the financial results of Medi-Lynx for the previous twelve months back from June 30th 2015 verified by CBIZ, Inc., an audit and consulting company, based on a due diligence analysis of Medi-Lynx commissioned by the Issuer.

The aforementioned transaction resulted in a change of the composition of Medicalgorithms Corporate Group of Companies, which has also influenced its financial results. Based on the aforementioned changes the Parent Company's Management Board decided to compile a consolidated financial statement for the first time, for the period from January 1st 2016 to March 31st 2016.

Additionally, over the accounting period the Company was a part to court proceedings pending in the USA and reported them in its current reports. These proceedings resulted in significant costs incurred as part of legal disputes with AMI Monitoring, Inc. and Spectocor, LLC ("AMI/Spectocor") as well as transaction costs related to purchase of shares in a subsidiary company, Medi-Lynx.

With respect to the won case in court in Delaware (current report No. 35/2016) and the granted compensation amounting to USD 253 thousand as well as reimbursed judicial costs amounting to USD 6,313 thousand (current report No. 38/2016) Medicalgorithms S.A. recorded receivables from AMI/Spectocor and a one-off revenue amounting to PLN 27,659 thousand in the books in 2016.

At the same time, negotiations were started on August 30th 2016 on a potential takeover of all or a part of assets of AMI/Spectocor (current report No. 36/2016). A settlement and a release from obligations were made on December 28th 2016 between the Company, MDG HoldCo, Medi-Lynx Monitoring, Inc., Medi- Lynx, Andrew J. Bogdan (applying to a part of the provisions) and Marek Dziubiński (applying to a part of the provisions) on the one side (hereinafter jointly referred to as the "MDG/ML parties") and AMI Monitoring, Inc. ("AMI"), Spectocor, LLC ("Spectocor") and Joseph H. Bogdan on the other. Pursuant to the settlement the Parties waived any claims with respect to each other and entities affiliated with them as well as any disputes, litigations, rights or judicial proceedings. MDG/ML parties purchased the right to take over AMI employees and Customers. The amount of compensation and reimbursement of judicial costs from AMI/Spectocor have been settled as part of this transaction.

The Company expects that ending the court disputes that were engaging its capital and assets in the previous years is going to have a positive effect on its operations and further development in 2017.

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 2016 was PLN 257,844 thousand, which means an increase by PLN 155,578 thousand (152%) as compared to 2015. 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 8. The key asset categories at the end of 2016 and 2015, and their changes over the last financial year

ASSETS (in PLN thousand)	2016	2015	Difference	Difference %
Fixed assets, including:				
Intangible assets	11 874	10 772	1 102	10%
Property, plant and equipment	893	879	14	2%
Financial assets	69 386	34 823	34 563	99%
Shares in subsidiaries	86 720	-	86 720	-
Current assets, including:				
Stocks	9 710	9 118	592	6%
Trade and other receivables	33 548	10 207	23 341	229%
Short-term financial assets	12 159	15 384	(3 225)	(21%)
Cash and cash equivalents	31 779	19 962	11 817	59%
TOTAL ASSETS	257 844	102 266	155 578	152%

As at December 31st 2016 the amount of fixed assets was PLN 170,648 thousand and their share in total assets was 66%. As at December 31st 2015 fixed assets amounted to PLN 47,595 thousand and accounted for 47% of the balance sheet total. The greater share of fixed assets is a consequence of the increased value of shares in subsidiary companies resulting from an increase in capital of MDG HoldCo subsidiary company with respect to its purchase of 75% of shares in Medi-Lynx and a purchase of AMI's customer database. Both of these transactions were described in detail in item II above. A growth in the value of fixed assets has also been influenced by the credits granted to the subsidiary company to finance its purchase of shares in Medi-Lynx and to subsidize its operations. This growth has been partly compensated by sale of a part of the held certificates of Bezpieczne Obligacje FIZ with a total value amounting to PLN 19 million. The funds received have been allocated to financing purchase of shares in the subsidiary company. The increase in intangible assets results mostly from the development costs.

At the end of 2016 current assets amounted to PLN 87,196 thousand and accounted for 34% of total assets. At the end of 2015 current assets amounted to PLN 54,671 thousand, which accounted for 53% of the balance sheet total. The nominal increase in the value of current assets results mostly from recognizing other receivables from Medi-Lynx subsidiary company in the amount of PLN 28,474 thousand (USD 6,813 thousand) at the balance sheet date. This amount constitutes a part of payment for the AMI customer database purchased by Medi-Lynx that the Company has undertaken to incur. The moment of payment shall constitute a tripartite offset between Medicalgorithms S.A. and its subsidiaries. More detailed information concerning the settlement can be found in note 31 of the financial statement. The change in Short-term and other receivables is also influenced by the lower level of short-term prepayments and accruals (the Dec 31 2015 balance of which included PLN 3.5 million costs of taking over the company in the USA).

Table 9. The key liabilities and equity categories at the end of 2016 and 2015, and their changes over the last financial year

LIABILITIES AND EQUITY (in PLN thousand)	Difference		
	2016	2015	in %
Equity	169 786	99 188	70 598
Long-term liabilities	52 343	51	52 292
Short-term liabilities, including	35 715	3 027	32 688
Trade and other liabilities	34 505	570	33 935
Accruals and prepayments	509	2 146	(1 637)
Total liabilities	88 058	3 078	84 980
TOTAL LIABILITIES AND EQUITY	257 844	102 266	155 578
			152%

The change in the Company's equity as compared to the end of 2015 results from accumulation of profit earned in 2016 and issue of the F series shares. The issue of 151 thousand ordinary bearer shares was related to the purchase of shares in the subsidiary company and was only offered to Medi-Lynx Monitoring, Inc., which has undertaken to acquiring them. The equity decreased by the amount of the dividend paid from the profit earned in 2015. The share of equity in the structure of financing was 66% (97% at the end of 2015). The

structure of financing changed as a result of the bonds issued with respect to acquisition of shares in the subsidiary company.

More detailed information concerning the issue of bonds can be found in note 22 of the financial statement for the year 2016. Additionally, as at December 31st 2016 short-term liabilities include liabilities to AMI on account of payment for the customer database acquired by Medi-Lynx, the subsidiary company (USD 6,813 thousand) as well as estimated remuneration for the services rendered to AMI for January and February of 2017 (USD 1,140 thousand) that has also been set off against the price, pursuant to the settlement described in more detail in note 31 of the financial statement.

III.2 Financial resources

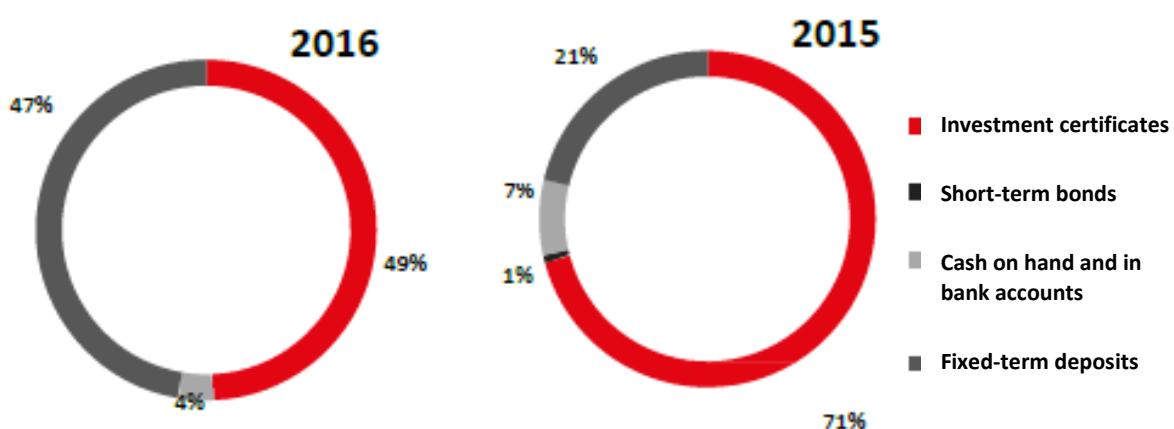
As at December 31st 2016 Medicalgorithms S.A. possesses significant financial surpluses that it allocates so as to maximise the rate of return, while maintaining a low level of risk.

As at December 31st 2016 the Company only holds investment certificates of Bezpieczne Obligacje FIZ as well as funds held on current accounts and fixed-term deposits. Over 2016, pursuant to the Management Board's decision on ceasing to allocate financial surpluses in debt instruments and on redemption of the held certificates in stages, the Company sold a part of the held investment certificates, the total value of which amounted to PLN 19 million. More detailed information concerning this matter can be found in note 14 of the financial statement for the year 2016.

Additionally, in order to increase its current liquidity, the Company obtained additional funding in February 2017 in the form of a credit line in the current account up to PLN 8 million.

The Company's current financial standing is good. The Company's capital management policy is to maintain a strong capital base so as to retain market trust and ensure future development of business operations.

Chart 2. Structure of the Company's financial resources in 2016 and 2015



*Table 10. Structure of the Company's financial resources in 2016 and 2015
(in PLN thousand)*

Financial resources	Dec 31 2016	Dec 31 2015
Long-term investment certificates	18 743	34 823
Short-term investment certificates	12 159	14 826
Short-term corporate bonds	-	558
Cash in hand	13	11
Cash on bank accounts	2 129	5 068
Fixed-term deposits	29 637	14 883

Obtained loans and credits

At the end of 2016 Medicalgorithms S.A. recognised liabilities on account of loans amounting to PLN 9 thousand. It was entirely a result of credit card balance. Aside from this item, the Company incurred no loans or credits.

Issue of bonds

In 2016 the Company issued bonds with nominal value amounting to PLN 50,000 thousand and maturity date on April 21st 2019. The objective of the issue was to fund the investment in Medi-Lynx subsidiary company. More detailed information concerning the issue can be found in note 22 of the financial statement for the year 2016.

Credits provided

In 2016 the Company granted credits to MDG HoldCo subsidiary company in the total amount of USD 11.7 million. The objective of the credits was to fund the acquisition of shares in Medi-Lynx and finance the operations of the subsidiary company. More detailed information concerning the credits can be found in note 14 of the financial statement.

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.

Spółka secures an interest-bearing promissory note of MDG HoldCo subsidiary company issued in favour of Medi-Lynx Monitoring, Inc. as payment for the purchase of shares in Medi-Lynx. The amount of the promissory note is USD 8,685 thousand. Its maturity date falls within the subsequent four years from the date of acquisition of shares, that is, March 30th 2017, March 30th 2018, March 30th 2019 and March 30th 2020. The guarantee has been issued by Medicalgorithms S.A. up to the amount of USD 20,000 thousand.

III.3 Conducted R&D projects

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

- **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. Medicalgorithms S.A. obtained financial support for implementation works as part of the project, for developing previous versions of the system, as part of a program by the Foundation for the Polish Science.
- **eHealth Monitor project** - The company developed a platform allowing both patients and doctors use personalised medical services, as part of a consortium including companies and research entities from EU member states. The role of Medicalgorithms S.A. in the project co-financed by the European Committee was to integrate PocketECG system with a platform designed for end-users.

The aforementioned development works are conducted partly based on EU funds, the non-amortised value of which was PLN 1,138 thousand as at December 31st 2016 (2 118 thousand as at December 31st 2015).

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 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. These are projects that 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 (12-channel ECG).

The projects are financed by own resources.

The Company is satisfied with the progress of individual teams' works based on the solutions and experience gained during work on PocketECG system. By the time of completing the projects all expenses related to them are capitalised as development works in progress under intangible assets. In the Management Board's opinion the conducted development works are going to be completed and provide the expected economic benefits. At the moment of completing any of the projects the expenses incurred with respect to it are going to be activated as part of completed intangible assets and amortised over the expected period of revenues from sales of the given product. The tables below set out the intangible assets and the Company's prepayments divided into individual projects and types of expenses incurred.

Table 11. Structure of expenditure on development works in progress (in PLN thousand)

	Dec 31 2016	Dec 31 2015
Salaries and overheads	5 790	4 234
Other	3 933	3 146
TOTAL:	9 723	7 380

Table 12. Accruals at the end of 2016 and 2015 (in PLN thousand)

	Dec 31 2016	Dec 31 2015
Non-invoiced services	-	28
Accruals - including received subsidies	1 138	2 118
POIG 1.4 (PocketECG III)	944	1 258
eHealth Monitor project	194	776
Initech project	-	84
TOTAL:	1 138	2 146

III.4 Other domestic and international investments

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

III.5 Comment on the achieved results

In 2016 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 them and their software and server infrastructure. Consistency in implementing the strategy allowed the Company to further increase its scale of operations, which has given it the highest level of revenues from sales in the Company's history. The table below sets out the most important items of the Company's statement of comprehensive income for 2016 and 2015.

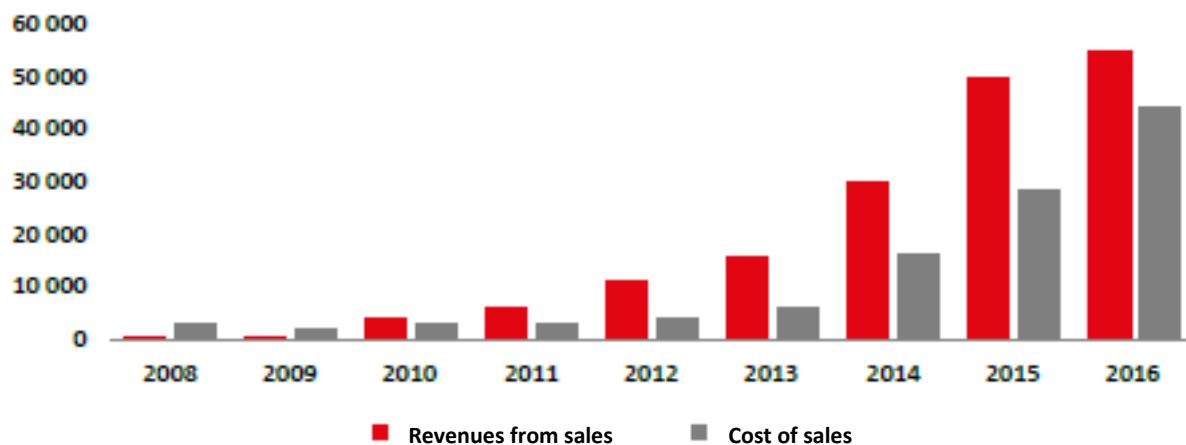
Table 13. The most important items of the statement of comprehensive income for years 2016 and 2015 and the dynamics of changes over the previous financial year (in PLN thousand)

	2016	2015	Difference	Difference in %
Revenues from sales	54 664	49 331	5 333	11%
Cost of sales	(44 230)	(28 446)	15 784	55%
Profit from sales	10 434	20 885	(10 451)	(50%)
Profit from other operations	29 031	243	28 788	11 847%
EBITDA (operating result + amortisation)	41 297	22 739	18 558	82%
Net financial revenues/(costs)	5 661	(3 839)	9 500	(247%)
Profit before taxation	45 126	17 289	27 837	161%
Net profit	41 634	13 925	27 709	199%

Revenues from sales

In 2016 the revenues of Medicalgorithms S.A. amounted to PLN 54,664 thousand, which makes an increase by 11% compared to 2015. The increase of sales is a direct result of the increased 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 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.

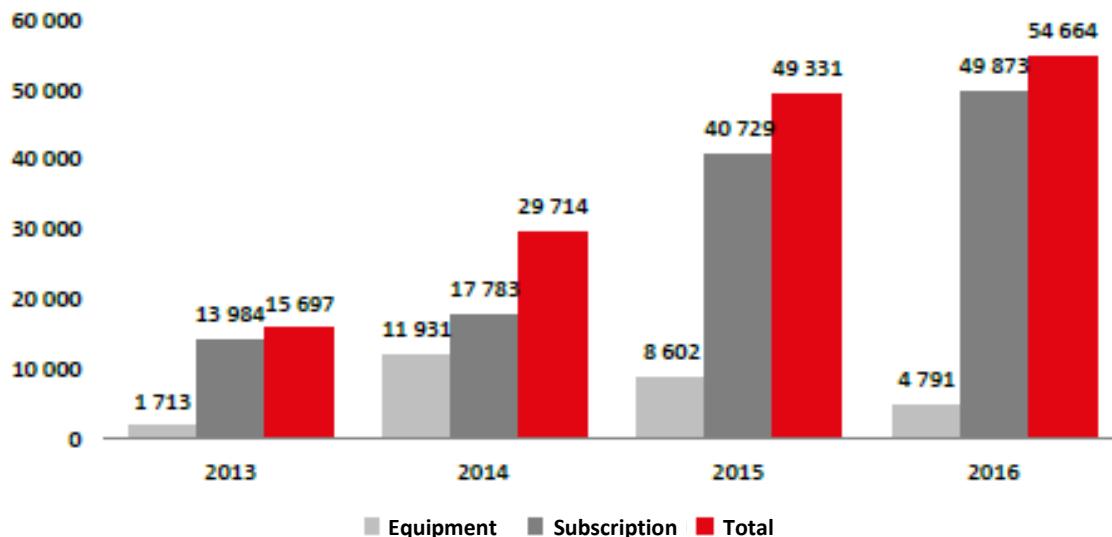
Chart 3. The Company's revenues from sales and operating costs in individual years (in PLN thousand)



* Data for the years 2008 - 2010 presented according to the old accounting policy, data for the years 2011-2016 are presented according to IAS.

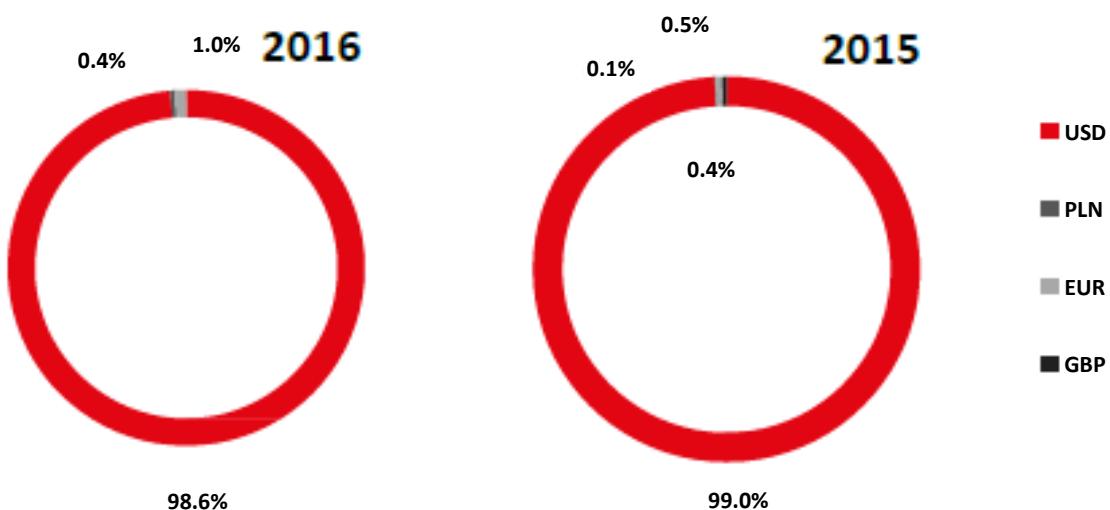
In 2016 all of the Company's revenues came from sales of the PocketECG system and included revenues from sales of equipment amounting to PLN 4,791 thousand (PLN 8,602 thousand in 2015), which makes 9% (17% in 2015) of the entire income and income from sales of IT services amounting to PLN 49,873 thousand (PLN 40,729 thousand in 2015), which makes 91% of the entire income (83% in 2015).

Chart 4. Structure of revenues from sales by category in individual years (in PLN thousand)



The nearly 11% increase in the Company's income compared to the year 2015 is mostly due to the significantly higher level of revenues from subscriptions sales (an increase by 22% compared to 2015) as the revenues from sales of equipment decreased by 44%. Given the business model adopted by the Company, it is the revenues from subscriptions that best reflect the current increase in the scale of its operations. The decrease in revenues from sales of equipment results from the aforementioned court case with one of the Company's strategic partners, AMI Monitoring, Inc., which resulted in the partner's cessation to order new devices and a lesser volume of sales to other partners, under a decision of court in the USA. It is worth noting that over 2016 AMI Monitoring, Inc. was using and paying the subscription for the previously purchased PocketECG equipment.

Chart 5. The currency structure of revenues from sales in 2016 and 2015 (as a %)



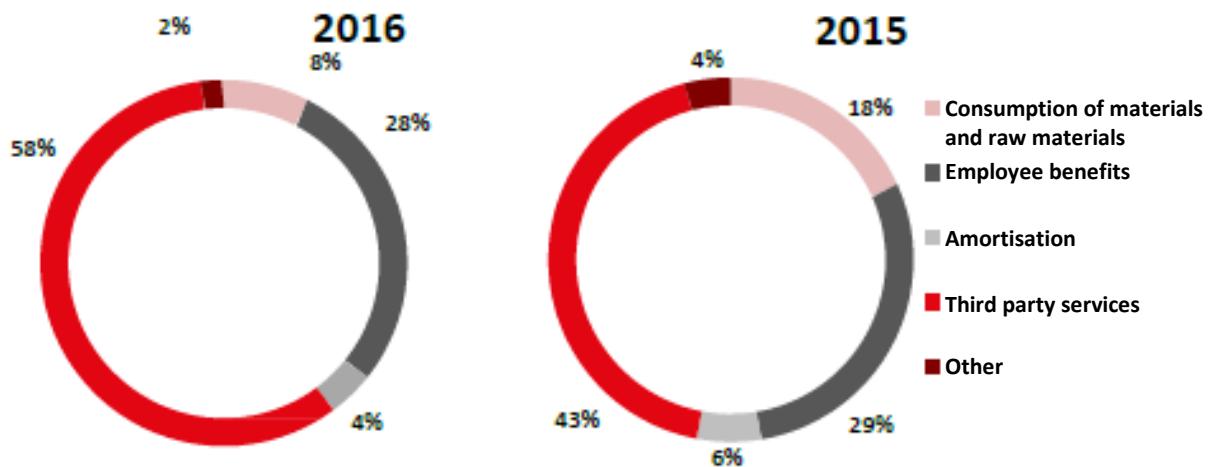
Operating costs

Costs of third party services and employee benefits, which included remuneration and overheads were the most significant operating costs in 2016. The high level of third party services in the costs structure results from the fact that the Company incurred significant costs of advisory and legal services, mostly attributable to the increasing rate of third party services compared to 2015. The incurred costs are attributable to the aforementioned litigations and proceedings with respect to the purchase of customer database from AMI/Spectocor (amounting to PLN 19,773 thousand) and purchase of shares in Medi-Lynx (amounting to PLN 1,785 thousand).

It should be noted that the costs incurred with respect to the dispute with AMI/Spectocor at court in Delaware were awarded to the Company by Court decision of August 18th 2016. The Company recognised a one-off revenue under other operating revenues on that account, amounting to PLN 27,659 thousand.

On the other hand, the high share of employee benefits in the costs structure results from the nature of the Company's operations as they are based on human capital. It should also be remembered that currently a part of the remuneration and third party services are recognised as expenditure on development works in progress and recognised under intangible assets. The increased labour costs as compared to 2015 result mostly from recognising 2016 costs of the incentive program amounting to PLN 3,170 thousand and an increase in employment due to the Company's development.

Chart 6. Operating costs structure in 2016 and 2015 (in %)



Result from financial activity

Table 14. Financial revenues and costs in 2016 and 2015 (in PLN thousand)

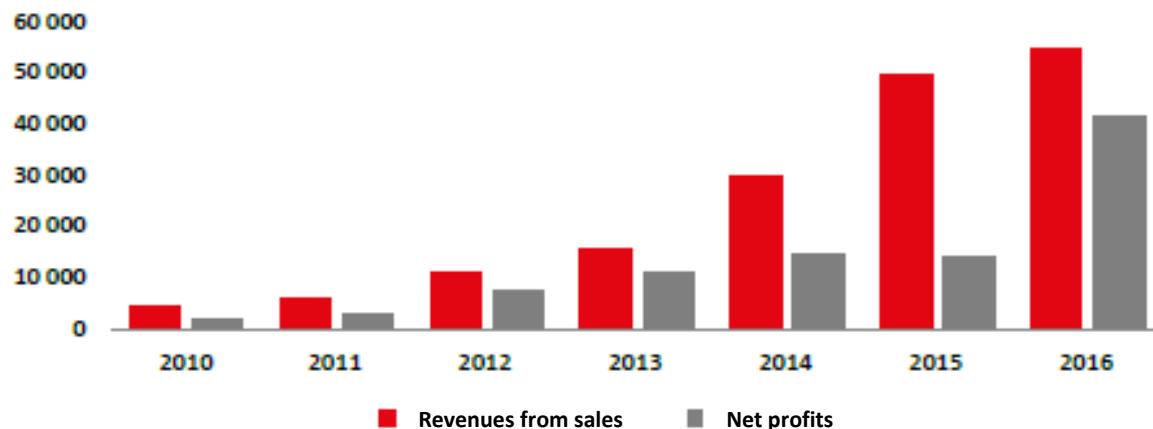
	2016	2015
Financial revenues	8 025	2 390
Financial costs	(2 364)	(6 229)
Net financial revenues/(costs)	5 661	(3 839)

The Company's financial revenues amounted to PLN 5,661 thousand in 2016. Financial revenues mostly include exchange rate differences related to valuation of credits for affiliated entities and interest on these credits. Financial costs mostly include interest on bonds and short-term discounting bonds. The Company's net profit for the year 2015, on the other hand, was significantly influenced by the financial costs incurred in 2015, mostly due to the negative adjustment of the investment certificates held by the Company. The Company recognised revenues from positive adjustment of the certificates in the current accounting period.

Profit and profitability

In 2016 Medicalgorithms S.A. generated a net profit amounting to PLN 41.634 thousand. It is a result 199% higher than the profit earned in 2015. The increased profit resulted from a record-breaking level of revenues from sales as well as the aforementioned return of legal costs and the compensation due from AMI/Spectocor.

Chart 7. 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 2012-2016 are presented according to the International Accounting Standards.

In 2016 the Company achieved 76% net margin from its operations, which is much higher than the net margin achieved in 2015 (28%). However, both of these results were heavily influenced by significant exceptional events. After clearing the result the net margin for 2016 and 2015 would be respectively 57% and 43%.

Margin on sales and EBITDA margin both remained on very high levels and were, respectively, 19% and 76% (42% and 46% in 2015). EBITDA margin adjusted by the effect of exceptional circumstances (the incurred legal costs and the adjudged reimbursement and compensation from AMI/Spectocor) would be 64% and would remain on the same level as the adjusted EBITDA margin in 2015.

Return on Assets (ROA) was only 16% in 2016, which is 2 percentage points higher than the level achieved in 2015. Return on Equity (ROE), on the other hand, was 25% in 2016, compared to 14% in 2015. The higher level of both indicators was influenced by the increase in net profit, the grounds of which have already been discussed.

Table 15. The Company's ROA and ROE indicators for years 2016 and 2015 and their changes over the last financial year

	2016	2015	Change (pp.)
ROA	16%	14%	+2
ROE	25%	14%	+11

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

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

In 2016 Medicalgorithms S.A. achieved a positive cash flow balance from its operations, mostly due to the surplus on account of net profit and amortisation. Changes in working capital resulting from recognising the settlements related to the purchase of customers from AMI had a significant influence, too. Credits and contributions to equity of MDG HoldCo subsidiary company related to its purchase of shares in Medi-Lynx had the highest influence on the negative cash flow balance from investment activity. Positive cash flow balance from investment activity, on the other hand, resulted from obtaining funds for the aforementioned purchase of shares in the subsidiary company by way of issuing shares and bonds.

Table 16. Selected items of cash flow statement for financial years 2016 and 2015 (in PLN thousand)

	Jan 01 2016-	Jan 01 2015-	Difference
	Dec 31 2016	Dec 31 2015	
Net cash from operating activity	19 716	17 347	2 369
Net cash from investment activity	(81 850)	(16 056)	(65 794)
Net cash from financial activity	73 951	(5 529)	79 480
Total net cash flows	11 817	(4 238)	16 055
Cash at the end of the period	31 779	19 962	11 817

III.6 Factors and events, in particular of an extraordinary nature, with significant influence on the achieved financial results

In 2016 the Company was a party to proceedings held before Courts in Delaware and Texas, which had a significant influence on the operating costs. As a consequence of the Company's win at Court in Delaware, it recognised the compensation awarded to it as well as the reimbursed litigation costs in the books. The Company's financial results were also influenced by costs of legal services related to purchase of shares in Medi-Lynx and negotiations concerning the takeover of assets from AMI/Spectocor. The table below sets out the influence of the described events on the Company's statement of comprehensive income in detail.

Table 17. Influence of extraordinary events on individual items of the statement of comprehensive income for the years 2016 and 2015 (in USD thousand)

		2016	2015
Costs of legal services incurred with respect to purchase of 75% shares in Medi-Lynx	Third party services	613	-
Costs of legal services incurred with respect to disputes with AMI/Spectocor held at courts in Delaware and Texas	Third party services	4 368	2 385
Costs of legal services incurred with respect to taking over the assets of AMI/Spectocor	Third party services	693	-
Reimbursement of legal costs and compensation awarded to Medicalgorithms S.A. with respect to the win at court in Delaware	Other operating revenues (reimbursement of legal costs)	6 313	-
	Other operating revenues (compensation)	253	-
	Financial revenues (interest)	22	-

Aside from the aforementioned matters, no other factors and events (in particular extraordinary ones) that would have a significant impact on the presented financial results occurred in the Company in 2016.

III.7 Transactions with affiliated entities

Over the discussed period there were no transactions with affiliated entities concluded on different terms than at arm's length. Transactions with affiliated entities have been described in detail in note 28 to the financial statement for the year 2016.

Transactions with Members of the Management Board and the Supervisory Board have been described in items I.7 and I.8 of this statement.

Shareholders (as affiliated entities)

On July 25th 2016, pursuant to resolution No. 31/2016 of the Ordinary General Shareholders' Meeting of June 27th 2016, a dividend was paid as part of the profit earned in financial year 2015 in the aggregate value of PLN 6,392 thousand, which makes PLN 1.85 per share. The dividend applies to the Company's shares in the amount of 3,455,526. The dividend does not apply to F series shares in the amount of 151,000.

III.8 The Management Board's position on the probability of forecasts

The Company has not published financial projections for the period that this report applies to, or for future periods.

III.9 Indicating the factors that, in the issuer's opinion, have an influence on the results achieved by it over at least the following 12 months

In the Management Board's opinion, the Company's present financial condition and its development prospects pose no material threats to its operations in the future. There are, however, factors, both internal and external, that might have a direct or indirect impact on its future financial results. The most important ones include:

- making settlements with AMI/Spectocor and taking over the assets that are most important from the perspective of Medicalgorithms S.A.;
- an increase in sales to partners, with which the Company has concluded agreements, that might contribute to diversification and an increase of its revenues;
- development of the cardiological diagnostics sector in the countries, in which the Company's products are already present and the level of refunds for services rendered using PocketECG equipment;
- fluctuations in currencies of the countries, in which the Company operates.

III.10 Perspectives of development of the Company's operations in the year to come

The Company expects that completing the litigation and making settlements with AMI/Spectocor is going to have a positive effect on the operations and business development prospects in 2017. The Management Board assumes that full adherence to all terms of settlement and integration of newly acquired assets in a subsidiary company is going to take up to several months. Further organic development of the activity is going to be possible after completing the integration process.

Further dynamic development of the scale of operations on the markets, on which Medicalgorithms S.A. has signed distribution agreements is going to be another factor determining the Company's prospects.

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.

III.11 Assessment of capability to realise investment plans

Medicalgorithms S.A. is fully capable of financing the conducted investment projects and assumes funding them from its own resources or, if it is necessary, from debt finance as well. Wherever it is justified, the Company is going to apply for subsidies for its development works on new products.

III.12 Description of significant risk management methods and factors

The description of risk management methods has been put forward in note 23 of the financial statement for the year 2016.

IV Corporate governance statement

IV.1 Corporate governance rules

From the date of marketing the shares of Medicalgorithms S.A. on the regulated market the Company adopted the corporate governance rules set out in the document "Good Practices of Companies Listed on the WSE" (Pol. "DPSN") adopted by the Exchange Supervisory Board on October 13th 2015 by Resolution No. 26/1413/2015. The document is available on the website of the Stock Exchange (<http://www.gpw.pl>), in the section dedicated to corporate governance rules of listed companies.

Over 2016 Medicalgorithms S.A. observed all of the provisions covered by this set aside from the following recommendations: II.R.2., IV.R.2., IV.R.3., VI.R.3. and individual detailed provisions, from which it has withdrawn. The list of the detailed provisions and justification of non-application of these with respect to individual recommendations are set out below:

I.Z.1. The Company operates a corporate website, which includes, in a legible form and in a separate location, aside from the information required by the law:

I.Z.1.3. a chart presenting division of tasks and responsibilities of Management Board Members drawn up according to rule II.Z.1,

There is no formal division of tasks and responsibilities of individual management board members in the Company within the functions held by them, consequently, there is no separate chart for these. According to the Company, this solution guarantees effective and dynamic management.

I.Z.1.10. financial projections - if the company has decided to publish them - published for a period of at least 5 previous years, along with the information concerning their status,

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

I.Z.1.11. information on the contents of the company's principle of change of the entity authorised to examine financial statements, or lack of such principle,

There is no formal principle regarding change of the entity authorised to examine financial statements in the Company. Pursuant to the provisions of the Company's articles of association, the Supervisory Board selects such entity among organisations that guarantee a high level of the completed examination and adherence to the rule of independence.

I.Z.1.15. description of the diversity policy applied by the company with respect to the company's officers and key managers; the description should take into account elements of diversity policy such as: gender, educational background, age and professional experience and indicate the objectives of diversity policy and the way of its implementation over the given accounting period; if the company has not drawn up a diversity policy and does not implement it, it should provide a justification of this decision on its website,

The Company has not drawn up a diversity policy document. The Members of the Management Board and the Supervisory Board are selected, respectively, by the Supervisory Board and the General Shareholders' Meeting, based on the candidates' qualifications to perform specific functions. Information concerning the individuals in the Company's bodies is published in appropriate current reports informing about the selection of the bodies and on the Company's website. Moreover, the Company adheres to the rules of equal treatment as regards establishing and termination of employment, labour conditions, promotion and access to training aiming at development of professional qualifications. Key managers are employed based on their qualifications and experience necessary in the Company's operations.

I.Z.1.16. information concerning the planned transmission of the agenda of the general shareholders' meeting - not later than 7 days before the date of the meeting,

The rule is not used because the Company does not observe IV.Z.2 principle of Good Practice.

I.Z.1.18. information concerning the reasons of cancelling a general shareholders' meeting, change of its date or agenda as well as information concerning a break in the session and the reasons behind ordering it.

The principle is going to be applied starting from the date of publishing this current report and to the extent, in which the information is transferred to the Company by the decision-making authority of the Company or the applicant.

I.Z.2. A company, the shares of which are classified in WIG20 or mWIG40 stock market indices shall make its website available in English language as well, at least to the extent indicated in principle I.Z.1. This principle should also be applied by companies outside the aforementioned groups, if it is justified by the shareholding structure or the nature and scope of their operations.

The Company operates its website in English language to an extent narrower than the one indicated in principle

I.Z.1. The Company is planning to implement the said principle to the full extent in the current financial year.

II.Z.1. Internal distribution of responsibilities for individual scopes of duties between the management board member should be worded clearly and unambiguously and the distribution scheme should be available on the company's website.

There is no formal detailed division of tasks and responsibilities of individual management board members in the Company within the functions held by them, consequently, there is no separate chart for these. According to the Company, this solution guarantees effective and dynamic management.

II.Z.2. Service of the company's management board's members in management boards or supervisory boards of companies outside the corporate group of companies requires the supervisory board's consent.

The principle shall be used to a limited extent - that is, taking into account the criterion of competitiveness of companies not included in the Corporate Group of Companies. The Company is planning to implement this principle fully in the future.

II.Z.11. The supervisory board examines and gives its opinion on issues subject to resolutions of the general shareholders' meeting.

On account of the necessary flexibility of the Company's Supervisory Board's actions, the decision concerning a given issue subject to resolutions of the General Shareholders' Meeting shall rest with the Company's Supervisory Board.

III.Z.4. The person responsible for internal audit (in case there is such function separated in the company) and the management board shall submit their assessment of efficiency of the systems and functions referred to in principle III.Z.1, along with an appropriate report, to the supervisory board at least annually.

The function of a person responsible for internal auditing is not separated in the Company. The Management Board submits an appropriate assessment to the Supervisory Board on an ongoing basis, however, this does not have the nature of a formal report.

IV.Z.2. If it is justified by the company's shareholding structure, the company offers a generally available transmission of the session in real time.

The Company does not offer transmission of the sessions in real time on account of its current shareholding structure and economic considerations. To the Company's best knowledge, the present formula of organising General Shareholders' Meetings corresponds to the Shareholders' expectations and allows for correct and effective execution of rights resulting from their shares. In case the Company becomes aware of expectations of a broader group of Shareholders as regards transmissions of sessions in real time, it shall consider offering such transmissions.

IV.Z.7. A break in sessions of the general shareholders' meeting might occur only in special circumstances, indicated from time to time in rationale of the resolution concerning the break, drawn up based on the reasons set out by a shareholder applying for the break.

The rule shall be applied starting from the date of publishing this current report.

V.Z.6. As part of its internal regulations the company determines the criteria and circumstances, in which a conflict of interest in the company might occur, as well as the rules of conduct in case of a conflict of interest or possibilities of its occurrence.

The Company's internal regulations take into account, among others, the methods of preventing, identifying and managing conflicts of interest as well as principles of excluding a member of the Management Board or the Supervisory Board from participation in examining a case covered or threatened with a conflict of interest.

The Company has not introduced any special internal regulations concerning managing conflicts of interest - it regards the generally applicable provisions of law as sufficient in this respect.

VI.Z.4. As part of its activity report the company shall report its remuneration policy in a document setting out at least:

- 1) general information concerning the remuneration system adopted by the company,
- 2) information concerning the terms and amount of remuneration of each management board member, divided into fixed and variable components, indicating the key parameters of setting variable components of remuneration and the terms of payment of severance pay as well as other payments on account of termination of employment, a mandate contract or any other similar legal relationship - separate for the company and any other entity included in the corporate group of companies,
- 3) information concerning any non-financial components of remuneration granted to individual management board members and key managers,
- 4) indicating any significant changes that occurred in remuneration policy over the previous year, or information concerning lack of them,
- 5) an assessment of implementation of the remuneration policy from the perspective of meeting its goals, in particular long-term increase of shareholder value and stability of the company's operations.

As part of its report on activities the Company makes the information on the amount of the Management Board's and Supervisory Board's remuneration over the accounting period and on the adopted incentive program available to the public. However, currently the Company does not submit a report on the applied remuneration policy to the extent set out by this principle.

IV.2 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 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 risk identification and assessment, which 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 is subject to thorough control with an aim to prepare up-to-date, reliable and complete financial statements drawn up pursuant to the provisions and accountancy policy adopted by the Management Board. An experienced accountancy office using its own systems of controlling the process of drawing up statements kept the Company's books in 2016 and drew up financial statements.

The accounting books are kept in the 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 Medicalgorithms S.A., which reports directly to the Company's Management Board. Both Medicalgorithms S.A. and the entity responsible for keeping the Company's books 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 entity responsible for keeping its books is subject to control as well. The Management Board controls the contents of the financial statement. It approves quarterly, semi-annual and annual financial statements before their publication.

IV.3 Shareholders and their powers

The ownership structure of significant blocks of shares of Medicalgorithms S.A. as at the date of publishing this report is put forward in item I.4.

All of the shares of Medicalgorithms 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, 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. As at the date of this statement there are no restrictions on transfer of ownership of the Company's shares, except for the lock-up arrangements made with the entity, which took up 151 thousand F series shares issued in 2016, that is, Medi-Lynx Monitoring, Inc. By March 30th 2018 the shares cannot be subject to disposal, including sale, pledge, swap or other similar transactions. By March 30th 2019 the said restriction applies to the block of up to 50% of shares covered by the lock-up agreement, a do dnia 30 marca 2020 roku pakietu do 25% tych akcji.

IV.4 General Shareholders' Meeting

The General Shareholders' Meeting of Medicalgorithms S.A. is the Company's highest governing body. It 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 of 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 as well as the dividend payment date is determined.

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

IV.5 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 frames 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 is 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

There were no changes in the Management Board's composition in 2016.

IV.6 Supervisory Board

The Supervisory Board of Medicalgorithms 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

Prof. Marcin Hoffmann, PhD - Supervisory Board Member, Artur Matek - Supervisory Board Member, Jan Kunkowski - Supervisory Board Member, Piotr Żółkiewicz - Supervisory Board Member

No changes occurred in the composition of the Supervisory Board over the accounting period.

V Basic information about the Company

Medicalgorithmics S.A. is a Polish cutting-edge technology company established in 2005, striving to reach the position of the leading provider of systemic and algorithmic solutions in cardiological diagnostics, in particular in analysis of ECG signal. Medicalgorithmics S.A. started its operations as a limited liability company with a purpose to commercialise the Polish engineering solutions. Currently the Company, being quoted on the Stock Exchange, is one of the few largest players on the global market of cardiological telemetry.

The core business of Medicalgorithmics S.A. is:

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

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

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:	Katarzyna Sadowska telephone number: +48 22 440 14 40 medicalgorithmics@ccgroup.pl

VI Information on the Issuer's operations

Registry data

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

KRS No. 0000372848; NIP (tax identification No.) 5213361457; REGON statistical No. 140186973.

Share capital

The amount of share capital (registered in KRS) as at the date of drawing up this annual report is PLN 361 thousand and is divided into 3 606 526 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
- 151 000 F series ordinary bearer shares

Marek Dziubiński

President of the Management Board

Tomasz Mularczyk

Vice President of the Management Board
in charge of IT

VII Other statements of the Management Board

The Management Board of Medicalgorithms S.A. (hereinafter referred to as the Company) hereby declares that, to its best knowledge, the annual financial statement for the financial year 2016 and comparative data for the year 2015 have been drawn up pursuant to the provisions binding to the Company and reflect a clear, true and fair view of the property and financial condition of Medicalgorithms S.A. as well as its financial result. It also declares that the Management Board's report on the Company's operations for the financial year 2016 reflects the true image of the Company's conditions, including a description of the basic threats and risks.

On behalf of the Company's Management Board:

Marek Dziubiński

President of the Management Board

Tomasz Mularczyk

Vice President of the Management Board
in charge of IT

The Management Board of Medicalgorithms SA (hereinafter referred to as the Company) hereby declares that the entity authorised to examine financial statements, that is, CSWP Audit spółka z ograniczoną odpowiedzialnością spółka komandytowa seated in Warsaw, entered into the list of entities authorised to audit financial statements with register number 3767, which has completed the review of the annual financial statement of Medicalgorithms S.A. for the financial year 2016, has been selected pursuant to the provisions of law. Moreover, the Management Board declares that the statutory auditor drawing up the annual financial statement meets the requirements for expressing an impartial and independent opinion on the audit, pursuant to the national provisions of law in force.

On behalf of the Company's Management Board:

Marek Dziubiński

President of the Management Board

Tomasz Mularczyk

Vice President of the Management Board
in charge of IT