MEDICALgorithmics
INNOVATIVE SOLUTIONS IN MEDICINE

Consolidated Annual Report
MEDICALgorithmics Capital Group

for 2017 year

This report includes:

- Letter from the CEO
- Consolidated Financial Statements
- Management Report on the Activities of the Group
- Management Statements
- Report of the Independent Auditor

Dear Shareholders, Colleagues, Clients and Friends,

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

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

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

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

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

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

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

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

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

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

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

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

MEDICALgorithmics

INNOVATIVE SOLUTIONS IN MEDICINE

CONSOLIDATED FINANCIAL STATEMENTS OF THE MEDICALGORITHMICS CAPITAL GROUP FOR 2017

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	PLN '000		EUR '000	
Consolidated statement of financial position	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Non-current assets	228 573	280 325	54 802	63 365
Intangible assets	196 900	237 383	47 208	53 658
Long-term financial assets	10 910	18 744	2 616	4 237
Current assets	60 708	89 566	14 555	20 245
Short-term receivables	23 951	29 867	5 742	6 751
Long-term liabilities	67 649	81 663	16 219	18 459
Short-term liabilities	17 899	73 282	4 291	16 565
Equity attributable to Shareholders of the Parent Company	168 913	176 970	40 498	40 002
Share capital	361	361	86	82
Non-controlling interests	34 820	37 976	8 348	8 584
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	46.84	49.07	11.23	11.09

Consolidated statement of comprehensive income	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Sales revenue	203 354	127 921	47 908	29 234
Profit on sales	42 305	19 218	9 966	4 392
Operating profit	41 820	46 530	9 852	10 634
Profit before tax	36 592	45 071	8 621	10 300
Net profit	33 653	42 004	7 928	9 599
- attributable to Shareholders of the Parent Company	25 539	40 108	6 017	9 166
- attributable to non-controlling interests	8 114	1 896	1 911	433
Net profit attributable to Shareholders of the Parent Company per share (in PLN) – basic	7.08	11.12	1.67	2.54

Consolidated statement of cash flows	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Net cash flows from operating activities	28 611	35 477	6 741	8 108
Net cash flows from investing activities	(22 026)	(80 702)	(5 189)	(18 443)
Net cash flows from financing activities	(21 594)	72 803	(5 087)	16 638
Total net cash flows	(15 009)	27 578	(3 536)	6 303

Method of conversion of selected figures into EUR:

- The selected items of the statement of financial position presented were converted using the average exchange rate announced by the National Bank of Poland ("NBP") as at 29 December 2017, i.e. EUR/PLN 4.1709, and as at 31 December 2016, i.e. EUR/PLN 4.4240.
- The presented selected items of the statement of comprehensive income and the statement of cash flows were converted using the exchange rate being the arithmetic mean of average exchange rates set by the National Bank of Poland on the last day of each month of the financial period from 1 January 2017 to 31 December 2017, i.e. EUR/PLN 4.2447, and from 1 January 2016 to 31 December 2016, i.e. EUR/PLN 4.3757.

II Consolidated statement of financial position

		31.12.2017	31.12.2016
Intangible assets	15	196 900	237 383
Property, plant and equipment	16	17 249	22 112
Long-term receivables		-	1
Financial assets	17	10 910	18 744
Deferred income tax assets	14	3 514	2 085
Non-current assets		**228 573**	**280 325**
Trade and other receivables	18	23 951	29 867
Financial assets	17	4 226	12 159
Cash and cash equivalents	19	32 531	47 540
Current assets		**60 708**	**89 566**
TOTAL ASSETS		**289 281**	**369 891**

		31.12.2017	31.12.2016
Share capital	20.1	361	361
Supplementary capital		124 622	124 622
Reserve from the valuation of the incentive scheme	20.6	5 312	3 170
Retained earnings		58 434	40 108
Foreign exchange differences	24.4	(19 816)	8 709
Equity attributable to Shareholders of the Parent Company		**168 913**	**176 970**
Non-controlling interests		**34 820**	**37 976**
Provisions	21	1 170	414
Deferred tax provision	14	2 250	3 659
Liabilities in respect of bonds and other financial liabilities	23	63 794	76 961
Other liabilities		120	-
Accruals and deferred income	22	315	629
Long-term liabilities		**67 649**	**81 663**
Credits and loans		873	69
Liabilities in respect of bonds and other financial liabilities	23	7 887	10 511
Trade and other liabilities	22	7 522	61 752
Income tax liabilities	22	311	441
Accruals and deferred income	22	1 306	509
Short-term liabilities		**17 899**	**73 282**
Total liabilities		**85 548**	**154 945**
TOTAL EQUITY AND LIABILITIES		**289 281**	**369 891**

III Consolidated statement of comprehensive income

		01.01.2017-31.12.2017	01.01.2016-31.12.2016
Sales revenue	7	**203 354**	**127 921**
Raw materials and consumables used		(6 250)	(3 328)
Employee benefits	8	(106 581)	(55 267)
Amortization and depreciation	9	(12 470)	(4 594)
Third-party services	10	(30 411)	(41 443)
Other		(5 337)	(4 071)
Total costs of sales		**(161 049)**	**(108 703)**
Profit/ (loss) on sales		**42 305**	**19 218**
Other operating revenue	11	748	29 587
Other operating expenses		(1 233)	(2 275)
Profit / (loss) form operating activity		**41 820**	**46 530**
Finance income	12	614	1 828
Finance costs	12	(5 842)	(3 287)
Net financial costs		**(5 228)**	**(1 459)**
Profit/ (loss) from continued operations		**36 592**	**45 071**
Income tax	13	(2 939)	(3 067)
Net profit / (loss) from continued operations		**33 653**	**42 004**
Net profit for the reporting period attributable to Shareholders of the Parent Company		25 539	40 108
Net profit for the reporting period attributable to non-controlling interests		8 114	1 896
		33 653	**42 004**
Other comprehensive income			
Currency translation differences		(24 979)	5 462
Exchange differences on loans constituting a part of net investments in subsidiaries		(12 809)	4 449
Deferred tax on valuation of exchange differences on loans		2 345	(845)
Other comprehensive income		**(35 443)**	**9 066**
Other comprehensive income attributable to Shareholders of the Parent Company		(28 525)	8 709
Other comprehensive income attributable to non-controlling interests		(6 918)	357
Total comprehensive income for the reporting period			
Comprehensive income for the reporting period attributable to Shareholders of the Parent Company		(2 986)	48 817
Comprehensive income for the reporting period attributable to non-controlling interests		1 196	2 253
Total comprehensive income for the reporting period		**(1 790)**	**51 070**
Net profit attributable to Shareholders of the Parent Company per share (in PLN)			
- basic		7.08	11.12
- diluted		7.08	11.12

IV Consolidated statement of changes in equity

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2017	**361**	**124 622**	**3 170**	**40 108**	**8 709**	**176 970**	**37 976**
Comprehensive income for the reporting period							
Net profit for the current reporting period	-	-	-	25 539	-	25 539	8 114
Other comprehensive income	-	-	-	-	(28 525)	(28 525)	(6 918)
	-	**-**	**-**	**25 539**	**(28 525)**	**(2 986)**	**1 196**
Transactions recognised directly in equity							
Dividend payment	-	-	-	(7 213)	-	(7 213)	(4 352)
Valuation of the incentive scheme	-	-	2 142	-	-	2 142	-
Total contributions from and distributions to owners	**-**	**-**	**2 142**	**(7 213)**	**-**	**(5 071)**	**(4 352)**
Equity as at 31 December 2017	**361**	**124 622**	**5 312**	**58 434**	**(19 816)**	**168 913**	**34 820**

	Share capital	Supplementary capital	Incentive scheme valuation reserve	Retained earnings	Foreign exchange differences	Equity attributable to Shareholders of the Parent Company	Non-controlling interests
Equity as at 1 January 2016	**346**	**84 917**	**-**	**13 925**	**-**	**99 188**	**-**
Comprehensive income for the reporting period							
Net profit of the Parent Company for the previous reporting period	-	7 533	-	(7 533)	-	-	-
Net profit for the current reporting period	-	-	-	40 108	-	40 108	1 896
Other comprehensive income	-	-	-	-	8 709	8 709	357
	-	**7 533**	**-**	**32 575**	**8 709**	**48 817**	**2 253**
Transactions recognised directly in equity							
Minority interest from the acquisition of shares in a subsidiary	-	-	-	-	-	-	16 921
Additional contribution to capital of minority shareholders	-	-	-	-	-	-	18 802
Issue of series F shares in the Parent Company	15	32 172	-	-	-	32 187	-
Dividend payment	-	-	-	(6 392)	-	(6 392)	-
Valuation of the incentive scheme	-	-	3 170	-	-	3 170	-
Total contributions from and distributions to owners	**15**	**32 172**	**3 170**	**(6 392)**	**-**	**28 965**	**35 723**
Equity as at 31 December 2016	**361**	**124 622**	**3 170**	**40 108**	**8 709**	**176 970**	**37 976**

V Consolidated statement of cash flows

Cash flows from operating activities		01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net profit for the reporting period		**33 653**	**42 004**
Depreciation of property, plant and equipment		5 481	2 932
Amortization of intangible assets		6 989	1 662
Income tax		(594)	3 912
Change in trade and other receivables	28	(5 725)	(16 033)
Change in accruals, prepayments and deferred income		483	(1 008)
Change in trade and other liabilities	28	(14 265)	(1 171)
Change in provisions		756	392
Valuation of the incentive scheme	20.6	2 142	3 170
Gain on sale of investments		-	(215)
Net finance (income)/costs		82	-
Tax paid		(3 608)	(3 272)
Foreign exchange differences		(863)	-
Interest		3 940	3 287
Other		140	(183)
		28 611	**35 477**
Cash flows from investing activities			
Proceeds from sale of investments	17	15 885	19 520
Acquisition of subsidiaries		-	(97 143)
Cash acquired as a result of acquisition of shares in Medi-Lynx		-	5 409
Expenditure on purchases of intangible assets		(35 652)	(3 108)
Acquisition of property, plant and equipment		(2 179)	(5 380)
Acquisition of other investments		(80)	-
		(22 026)	**(80 702)**
Cash flows from financing activities			
Proceeds from the issue of debt securities		-	50 000
Proceeds from the issue of shares		-	32 186
Proceeds from credits taken out		804	-
Repayment of credit card debt		-	(1 148)
Repayment of financial liabilities		(8 080)	-
Dividend payment	28	(11 565)	(6 392)
Interest paid on bonds		(2 753)	(1 363)
Discount of bonds		-	(480)
		(21 594)	**72 803**
Total net cash flows		**(15 009)**	**27 578**
Opening balance of cash and cash equivalents		47 540	19 962
Closing balance of cash		**32 531**	**47 540**

1. General information

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

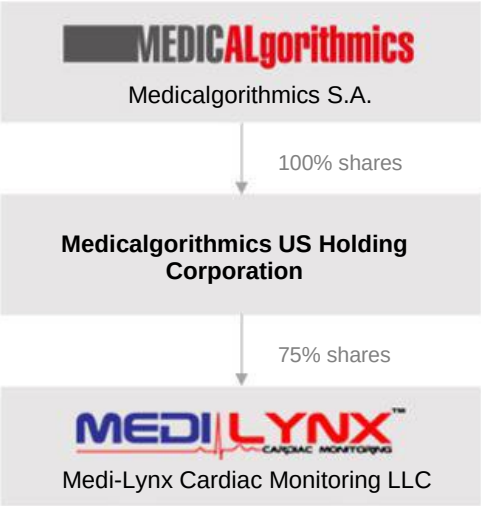
The term "Consolidated financial statements" means the consolidated financial statements of the Medicalgorithmics Capital Group prepared as at 31 December 2017, covering the period from 1 January 2017 to 31 December 2017 and containing relevant comparative figures for the corresponding period of 2016.

2. Information about the Capital Group

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

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

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



Business

Medicalgorithmics S.A. is a Polish company operating in the segment of innovative medical devices. It is a provider of cardiac diagnostic solutions, particularly in the field of ECG analysis. The major source of the Group's revenue are sales of diagnostic services provided based on the PocketECG system.

PocketECG is the world's most technologically advanced system for remote monitoring of heart disorders. Among the available devices for monitoring heart work, the PocketECG system stands out by, among others, the longest time of home arrhythmia monitoring, remote online access to complete monitoring records and full statistical analysis of cardiac arrhythmias, which is not offered by competitive devices.

In particular, the system serves to diagnose and detect the following arrhythmias: asymptotic, rare and irregular arrhythmias, and atrial fibrillation leading to stroke.

In addition to cardiac telemetric, the PocketECG system is used in the cardiac safety industry, i.e. in clinical trials of drugs for cardiac safety. Moreover, the Company collaborates closely with cardiovascular diagnostic and monitoring centres which provide cardiac diagnostic services based on the PocketECG system.

PocketECG is the only technology in the world that has got CE mark and has been approved by the Food and Drug Administration (FDA) as a concept that combines all other commercially available arrhythmia diagnostics in one piece.

The Capital Group's principal business activities include:

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

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

Key competitive advantages of the Group:

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

3. Information about the Parent Company

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

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

The Parent Company was assigned a Statistical ID No (REGON) 140186973 and a Tax ID No (NIP) 5213361457.
The Parent Company has its registered office in Warsaw at Al. Jerozolimskie 81, 02-001 Warsaw.
As at the balance sheet date and as at the date of preparation and publication of these consolidated financial statements, the Management Board and Supervisory Board of the Parent Company were composed of the following persons:

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

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

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

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

4. Basis for preparation of the consolidated financial statements

4.1. Declaration of compliance

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

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

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

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

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

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

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

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

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

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

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

The Capital Group has elected not to use the opportunity of early application of the above amendments to existing standards and new standards.

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

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

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

- Amendments to IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment properties" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to the IFRS introduced as part of the 2015-2017 improvements cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23, effective for annual periods beginning on or after 1 January 2019);
- Interpretation of the International Financial Reporting Interpretations Committee ("IFRIC") 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

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

Hedge accounting for a portfolio of financial assets or liabilities is still not covered by EU regulations, as the EU has not endorsed the rules of hedge accounting for use.

The Group estimates that the application of hedge accounting with respect to its portfolio of financial assets or liabilities in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would not have had any material effect on its financial statements if these regulations had been endorsed as at the reporting date.

4.5. Basis of measurement

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

4.6. Presentation and functional currency

The figures contained in the financial statements are presented in Polish zlotys ("PLN"), rounded to the nearest thousands without decimal places. The Polish zloty is the functional currency of Medicalgorithmics S.A. The functional currency of subsidiaries, Medi-Lynx and MDG HoldCo, is the US dollar ("USD").

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

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

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

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

4.7. Judgments and estimates made

The financial statements of the Parent Company and all its subsidiaries were included in the consolidated financial statements using the full method. In order to prepare financial statements in accordance with the EU-IFRS, the Management Board is required to rely on judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs, whose actual values may differ from these estimates.

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

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

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

- intangible assets (estimates concerning forecasts used in impairment tests and estimates of amortization rates for intangible assets);
- property, plant and equipment (estimates of depreciation rates applied);
- fair value and impairment in relation to financial assets, including shares in subsidiaries;
- trade receivables and other financial assets, including loans granted (at each balance sheet date the Capital Group assesses whether there is any objective evidence that a component of receivables or group of receivables is impaired; if the recoverable amount of an asset is less than its carrying amount, the Capital Group recognizes an impairment write-down to the present value of planned cash flows);
- sales revenue generated by Medi-Lynx (revenue estimates based on historical cash inflows for the provided services);
- provisions for liabilities and trade liabilities;
- inventories (assessment of the likelihood that inventories are impaired; the determination of impairment requires estimating the net realizable values);
- deferred tax assets (assessment of recoverability of assets and estimates of potential impairment write-downs);
- deferred tax provisions.

4.8. Authority approving the financial statements for publication

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

5. Significant accounting policies

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

5.1. Consolidation principles

a. Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power to manage directly or indirectly the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing the degree of control the existing and potential voting rights are taken into account that may be exercised or converted as at the reporting date. Financial statements of subsidiaries are consolidated from the date of assuming control over subsidiaries to the date on which such control ceases to exist.

b. Consolidation adjustments

Balances of settlements between the Group's entities, transactions concluded within the Group and any resulting unrealized gains or losses, as well as revenues and costs of the Group are eliminated at consolidation. Unrealized gains arising from transactions with associates are eliminated from the consolidated financial statements to the extent of the Group's interest in the entity. Unrealized losses are eliminated from the consolidated financial statements according to the same rule as unrealized gains, until there are indications of impairment.

c. Comparative figures

Given the significant changes in the composition of the Capital Group which took place on 30 March 2016 (acquisition of shares in Medi-Lynx), the Management Board of the Parent Company decided to commence the preparation of the consolidated financial statements. Therefore, Medi-Lynx's results for the period from the date of acquisition of the shares to the balance sheet date were consolidated in the consolidated financial statements for 2016.

5.2. Goodwill

Goodwill arising on acquisition of subsidiaries is recognized as an intangible asset. The fair value of consideration transferred does not include amounts related to the settlement of earlier links. As a rule, such amounts are recognized in profit or loss for the current period. Acquisition costs (other than costs of issuing debt or equity instruments) which the Group incurs in connection with a business combination are accounted for as costs of the period in which the costs are incurred.

Following the initial recognition, goodwill is recognized at acquisition cost, less cumulative impairment losses. Acquisition of non-controlling interests is disclosed as a transaction with owners. Accordingly, no goodwill is recognized for such transaction. Adjustments to non-controlling interests are performed based on the pro-rata value of acquired net assets of a given subsidiary.

5.3. Property, plant and equipment

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

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

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

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

5.4. Intangible assets

The Capital Group recognizes intangible assets only if:

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

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

Client bases: 20 years
Completed development work: 2 to 10 years;
Economic copyrights – licences: 2 to 5 years.

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;

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

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

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

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

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

5.5. Financial instruments

Financial instruments are classified in one of the following categories:

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

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

The Capital Group derecognizes a financial asset upon the expiry of its contractual rights to cash flows from that asset or upon transfer of those rights in a transaction transferring substantially all material risks and rewards of ownership of the asset. Any interest in the transferred financial asset which is created or retained by the Parent Company is disclosed as an asset or liability.

The fair value of financial instruments which are traded on an active market is determined by reference to the closing price on the last day of trading. The fair value of financial instruments which are not traded on an active market is determined, if possible, using valuation techniques that include reference to the market value of another instrument with substantially the same characteristics that is traded on an active market, based on discounted cash flows or option valuation models that take into account Group-specific circumstances.

As at the reporting date, the Group determines whether there is objective evidence of impairment of an asset or a group of assets.

a. Financial instruments held to maturity

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

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, resulting from the delivery of cash, supply of goods or provision of services to the debtor, without the intention to

classify such receivables as financial assets measured at fair value through profit or loss. They are recognized as current assets except for those whose terms to maturity are longer than 12 months from the reporting date. Trade and other receivables are measured at amortized cost using the effective interest rate, less impairment losses on doubtful receivables.

c. Available-for-sale financial assets

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

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

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

5.6. Non-derivative financial liabilities

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

5.7. Impairment losses on assets

Financial assets (including receivables)

Financial assets not classified as at fair value through profit or loss are assessed at the end of each reporting period to determine whether there is objective evidence that they are impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

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

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

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

Non-financial assets

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

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

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

5.8. Employee benefits

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

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

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

Following the introduction of the Parent Company's incentive scheme, it was decided to recognize a provision for future bonuses in the form of equity-settled share-based payments. The amount of the provision results from an actuarial valuation and is recognized in the Parent Company's reserve capital in accordance with IFRS 2 "Share based payments".

The amount of the provision is reviewed annually, depending on the progress of the incentive scheme, and recognized in the Parent Company's accounts as per the actual implementation of the scheme. In the event of any change to the terms and conditions of the incentive scheme (including its cancellation) or grant of the remaining entitlements, remeasurement at the date of such change is required in accordance with IFRS 2.

5.9. Provisions

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

5.10. Cash and cash equivalents

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

5.11. Equity

Equity disclosed in the Parent Company's financial statements comprises:

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

5.12. Revenue

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

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

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

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

5.13. Finance income and costs

Finance income comprises interest income on funds invested by the Capital Group, fair value gains on financial instruments at fair value and realized differences between the purchase price and the price at which financial assets measured at fair value through profit or loss are sold or exchanged.

Interest income is recognized in profit or loss of the period on the accrual basis using the effective interest rate method. Income from fair value measurement (including of transactions completed) is recognized in profit or loss of the period on the accrual basis, using the fair value measurement methods.

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

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

5.14. Income tax

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

Deferred tax assets are recognized in respect of tax loss carryforwards, tax credits and deductible temporary differences only to the extent that it is expected that taxable income will be generated against which such assets can be realized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

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

6. Segment reporting

The core business of the Capital Group comprises:

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

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

The Capital Group identifies its operating segments in accordance with IFRS 8 "Operating segments".

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

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

7. Sales revenue structure

By type	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Revenue from sales of services	202 609	124 921
Revenue from sales of devices	745	3 000
Total revenue	**203 354**	**127 921**

By territory	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Domestic sales	394	247
Export sales	202 960	127 674
Total revenue	**203 354**	**127 921**

The year-on-year increase in revenue is mainly due to the consolidation of Medi-Lynx's financial results for the entire audited period. In the comparative period, due to the fact that the acquisition of shares in Medi-Lynx took place on 30 March 2016, figures reported by Medi-Lynx for the period of 9 months – from the date of acquisition to the reporting date – were included in the consolidation. The level of revenue was also driven by a significant increase in the scale of Medi-Lynx's operations following the acquisition of the client base from AMI Monitoring Inc. and its subsidiary, Spectocor LLC ("AMI/Spectocor"). For detailed information, see Section III.1 of the Directors' Report on the operations of the Medicalgorithmics Capital Group in 2017.

8. Employee benefits

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Remuneration	(103 092)	(50 996)
Incentive scheme	(2 142)	(3 170)
Social security and other employee benefits	(1 347)	(1 101)
	(106 581)	**(55 267)**

The recorded increase in salary costs results from the consolidation of figures reported by the subsidiary, Medi-Lynx, for the entire reporting period. Additionally, the increase in costs of employee benefits was caused by a significant increase in the headcount due to the need to handle an increased volume of patients after the acquisition of AMI/Spectocor's client base. For detailed information, see Section III.1 of the Directors' Report on the operations of the Capital Group in 2017.

9. Amortization and depreciation

A significant year-on-year increase in depreciation and amortization costs was recorded, resulting mainly from the charging of amortization on PocketECG equipment used by Medi-Lynx and the commencement of amortization of client bases acquired by the Group in 2017. Due to the fact that the Group classifies the PocketECG devices as fixed assets, the value of the equipment used by Medi-Lynx to provide diagnostic services is depreciated over a period of 3 years. In 2017, the total cost resulting from the above amounted to PLN 3,694 thousands (PLN 1,830 in 2016). At the beginning of 2017, the Group started to amortize the value of the Medi-Lynx's client base (recognized as a result of the final settlement of the purchase price of shares in Medi-Lynx) and the AMI/Spectocor's client base (acquired following the settlement with AMI Monitoring Inc. and its subsidiary, Spectocor, LLC, of 28 December 2016). The client bases will be amortized over a period of 20 years, and the cost of amortization in 2017 amounted to PLN 5,921 thousands.

10. Third-party services

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Lease and rental	(4 376)	(3 252)
Telecommunication and Internet services	(5 945)	(3 121)
Accounting services	(1 667)	(943)
Advisory services	(4 741)	(28 989)
Transport and courier services	(4 681)	(1 280)
Monitoring services	(1 994)	
Leases	(101)	(123)
Maintenance services	(2 065)	(536)
Marketing services	(1 954)	-
Other third-party services	(2 887)	(3 199)
	(30 411)	**(41 443)**

In the reporting period, the Group recorded a significant decrease in costs of third-party services, as compared to the corresponding period. This decrease results primarily from a decline in advisory costs, mainly legal fees, which were incurred by the Company in 2016 and related to disputes pending at that time. Following the settlement signed, these costs do not occur as of 2017. However, in the reporting period the Group incurred costs of marketing services in the amount of PLN 1,954 thousands, which are related to the extensive marketing and sales campaign on the US market launched in 2017. For more information, see Section III.1 of the Directors' Report on the operations of the Capital Group in 2017.

11. Other operating revenue

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Settlement of subsidies	509	980
Reimbursement of litigation costs and compensation from AMI/Spectocor	-	27 659
Impairment losses on receivables	213	85
Other	26	863
Other operating revenue	**748**	**29 587**

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

12. Finance income and costs

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Interest income	14	305
Foreign exchange differences	-	1 308
Revaluation of investments measured at fair value through profit or loss	600	215
Finance income	**614**	**1 828**
Interest	(4 107)	(2 822)
Foreign exchange differences	(1 356)	-
Discount of own bonds	-	(465)
Other	(379)	-
Finance costs	**(5 842)**	**(3 287)**
Net finance costs	**(5 228)**	**(1 459)**

13. Effective tax rate

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Profit before tax	36 592	45 071
Tax at the tax rate applicable in Poland	(6 952)	(8 563)
Non-tax-deductible costs	(342)	(902)
Difference between the tax rate in Poland (19%) and USA (34%)	(1 004)	(887)
Amortisation of goodwill for tax purposes	2 044	2 044
Other tax-deductible costs (including DOJ)	1 870	-
Compensation	-	5 272
Effect of US tax rate change	862	-
Relief for Research and Development	240	-
Non-taxable revenue	102	-
Other	241	(31)
Tax reported in the statement of comprehensive income	**(2 939)**	**(3 067)**

Following the change in the tax rate in the United States from 34% to 21%, which came into force on 1 January 2018, the Group remeasured its deferred tax provisions. As a result of this change, in the reporting period the Group obtained a tax benefit of approximately PLN 862 thousands.

14. Deferred tax assets and provisions

	31.12.2017	31.12.2016
Provision for receivables	-	40
Exchange differences on investments in subsidiaries	1 500	-
Provision for costs (including valuation of the incentive scheme)	1 210	681
Interest on bonds	102	102
Valuation of FIZ certificates	202	559
Unused tax losses	-	351
Costs of acquisition of Medi-Lynx *	339	339
Other	161	13
Gross deferred tax assets	**3 514**	**2 085**

	31.12.2017	31.12.2016
Foreign exchange differences on valuation of cash	-	175
Difference between the tax value and book value of intangible assets and property, plant and equipment	1 573	2 429
Exchange differences on investments in subsidiaries	-	785
Settlement of expenditure on Research and Development	364	-
Other	313	270
Deferred tax provision	**2 250**	**3 659**

	31.12.2017	31.12.2016
Change in deferred tax reported in the statement of comprehensive income	**2 838**	**(1,209)****
Net deferred tax assets/provision, of which:	**1 264**	**(1 574)**
Deferred tax assets	3 514	2 085
Deferred tax provision	(2 250)	(3 659)

* Included in the acquisition price of the Company for tax purposes and in current expenses for accounting purposes.
** The difference between the change in deferred tax assets and provisions and other comprehensive income results from the acquisition of interests in Medi-Lynx during the reporting period and the resulting acquisition of its deferred tax assets and provisions (accounted for through goodwill).

15. Intangible assets

	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total
Gross value of intangible assets						
Gross value as at 1 January 2017	**92 890**	**132 179**	**5 937**	**9 723**	**1 791**	**242 520**
Increases	-	-	-	3 425	213	**3 638**
Decreases	-	-	-	-	-	**-**
Foreign exchange differences	(15 408)	(22 076)	-	-	(140)	**(37 624)**
Gross value as at 31 December 2017	**77 482**	**110 103**	**5 937**	**13 148**	**1 864**	**208 534**
Accumulated amortization and impairment write-downs						
Accumulated amortization and impairment write-downs	**-**	**-**	**4 311**	**-**	**826**	**5 137**
Amortization	-	5 505	716	-	343	**6 564**
Foreign exchange differences	-	-	-	-	(67)	**(67)**
Accumulated amortization and impairment write-downs	**-**	**5 505**	**5 027**	**-**	**1 102**	**11 634**
Net value						
As at 1 January 2017	**92 890**	**132 179**	**1 626**	**9 723**	**965**	**237 383**
As at 31 December 2017	**77 482**	**104 598**	**910**	**13 148**	**762**	**196 900**

Gross value of intangible assets	Goodwill	Client bases	Costs of completed development works	Development works in progress	Other	Total
Gross value as at 1 January 2016	**-**	**-**	**5 937**	**7 380**	**641**	**13 958**
Increases	92 890	132 179	-	2 343	1 150	**228 562** *
Decreases	-	-	-	-	-	**-**
Gross value as at 31 December 2016	**92 890**	**132 179**	**5 937**	**9 723**	**1 791**	**242 520**
Accumulated amortization and impairment write-downs						
Accumulated amortization and impairment write-downs	**-**	**-**	**2 945**	**-**	**241**	**3 186**
Amortization	-	-	1 366	-	585	**1 951** *
Accumulated amortization and impairment write-downs	**-**	**-**	**4 311**	**-**	**826**	**5 137**
Net value						
As at 1 January 2016	**-**	**-**	**2 992**	**7 380**	**400**	**10 772**
As at 31 December 2016	**92 890**	**132 179**	**1 626**	**9 723**	**965**	**237 383** *

* the increases in the gross value, accumulated amortization and net value relate to, among others, intangible assets acquired as a result of the acquisition of shares in Medi-Lynx.

Goodwill

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

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

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

Goodwill is tested for impairment on an annual basis (or more frequently if there are any indications of impairment). Impairment losses are recognized as an expense in the period and are not reversed in the subsequent period. As a result of the test, the Parent Company's Management Board did not find any indications of impairment of goodwill.

Goodwill is amortized for tax purposes at the level of the subsidiary, MDG HoldCo (included in the consolidated financial statements). As at 31 December, the remaining tax value of goodwill to be amortized amounts to USD 27,654 thousands.

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

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

Client bases

a. Medi-Lynx's client base (net value at the balance sheet date: USD 12,000 thousands)

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

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

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

b. AMI client base (net value at the balance sheet date USD 18,046 thousands)

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

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

Costs of completed development works

As at the balance sheet date, expenditure on development works was capitalised by the Capital Group as intangible assets. The object of the development works is the PocketECG system. It is currently the most technologically advanced solution offered by the Group. The basic technological advantage of the solution is the integration of the device, which previously consisted of two separate components, into a specially developed recorder of a smartphone type based on the Android operating system. Moreover, the functionality of the device has been extended. Medicalgorithmics was awarded financial support for the implementation work in the project, concerning the development of earlier versions of the system within the framework of the Innovator program of the Foundation for Polish Science. The net value of the project is PLN 910 thousands. The project will be amortized until 31 December 2019.

The above development works were carried out in part with co-financing from European Union funds, whose non-amortized value as at 31 December 2017 amounted to PLN 629 thousands (31 December 2016: PLN 1,138 thousands). According to the rules adopted by the Capital Group, the value of subsidies received is recorded under deferred income and recognized over time in accordance with the period of amortization of the development expenditure incurred.

Development works in progress

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

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

The projects are financed from own funds. In the opinion of the Management Board of the Parent Company, development works in progress, recognized as a component of intangible assets, will be completed and will produce the expected economic effects. Key costs capitalized as development works in progress include the costs of salaries of the R&D staff.

Moreover, on 22 December 2017 the Parent Company and the National Centre for Research and Development ("NCBiR") signed an agreement on co-financing of a project entitled "ECG TechBot". The co-financed project includes industrial and development work on dedicated software using a set of algorithms for automatic analysis and interpretation of the ECG signal based on deep learning methods. The total cost of project implementation as well as the total amount of eligible costs is PLN 11,188 thousands, with the maximum value of co-financing set at PLN 6,335 thousands. The eligibility period of costs under the ECG TechBot project ends on the date of submission of the final payment request, i.e. 31 December 2022.

16. Property, plant and equipment

Gross value of property, plant and equipment	Buildings and structures	Machinery and equipment including computer hardware	Other fixed assets	Leasehold improvements	Total
Gross value as at 1 January 2017	**1 501**	**23 189**	**2 340**	**381**	**27 411**
Increases	566	3 475	415	99	**4 555**
Decreases	-	-	(522)	-	**(522)**
Change in inventories	-	(1 854)	-	-	**(1 854)**
Foreign exchange differences	(251)	(2 005)	(412)	-	**(2 668)**
Gross value as at 31 December 2017	**1 816**	**22 805**	**1 821**	**480**	**26 922**
Accumulated depreciation and impairment write-downs					
Accumulated depreciation and impairment write-downs	**129**	**3 922**	**1 145**	**103**	**5 299**
Depreciation	306	4 524	248	42	**5 120**
Foreign exchange differences	(22)	(586)	(138)	-	**(746)**
Accumulated depreciation and impairment write-downs	**413**	**7 860**	**1 255**	**145**	**9 673**
Net value					
As at 1 January 2017	**1 372**	**19 267**	**1 195**	**278**	**22 112**
As at 31 December 2017	**1 403**	**14 945**	**566**	**335**	**17 249**

Gross value of property, plant and equipment	Buildings and structures	Machinery and equipment including computer	Other fixed assets	Leasehold improvements	Total
Gross value as at 1 January 2016	**-**	**650**	**478**	**308**	**1 436**
Increases	1 501	22 539	1 862	73	**25 975** *
Gross value as at 31 December 2016	**1 501**	**23 189**	**2 340**	**381**	**27 411**
Accumulated depreciation and impairment write-downs					
Accumulated depreciation and impairment write-downs	-	**243**	**248**	**66**	**557**
Depreciation	129	3 679	897	37	**4 742** *
Accumulated depreciation and impairment write-downs	**129**	**3 922**	**1 145**	**103**	**5 299**
Net value					
As at 1 January 2016	**-**	**407**	**230**	**242**	**879**
As at 31 December 2016	**1 372**	**19 267**	**1 195**	**278**	**22 112** *

* the increases in the gross value, accumulated amortization and net value relate to, among others, fixed assets acquired as a result of the acquisition of shares in Medi-Lynx.

The Capital Group neither recognized nor reversed any impairment losses. The Capital Group does not use fixed assets under finance lease agreements. However, the Company is a lessee under operating lease agreements. Payments on this account are disclosed in Note 26 to these financial statements. The Capital Group has no liabilities secured on its assets.

Recognition of PocketECG devices at the consolidated level in 2017

From the Group's perspective, PocketECG devices meet the definition of fixed assets. Therefore, they are disclosed as non-current assets in the consolidated financial statements, whereas at the Parent Entity level they are disclosed as inventories.

17. Financial assets

	31.12.2017	31.12.2016
Investment certificates	14 936	30 903
Shares	200	-
Financial assets	**15 136**	**30 903**
of which long-term portion	10 910	18 744
of which short-term portion	4 226	12 159

Investment certificates

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

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

18. Receivables

	31.12.2017	31.12.2016
Trade receivables	19 612	15 619
Receivables from minority shareholders	-	11 677
Budgetary receivables	1 058	918
Other receivables	269	272
Prepayments and deferred expenses	3 012	1 382
	23 951	**29 868**
Long-term	-	1
Short-term	23 951	29 867

As at 31 December 2016, the balance of receivables from minority shareholders comprises receivables from Medi-Lynx Monitoring, Inc. in relation to the resolution on the increase of the share capital of the subsidiary, Medi-Lynx, adopted on 28 December 2016. These receivables were settled in 2017.

The fair value of receivables approximates their book value.

For information on the Capital Group's exposure to credit and currency risk on receivables, see Note 24.

	31.12.2017	31.12.2016
Insurance policies and deposits	665	70
Trade fairs	114	120
Subscriptions	23	-
Advisory services	19	62
Prepaid employee benefits	859	597
IT costs – licenses, software	280	192
Prepaid rental costs	163	-
Other	889	341
Prepayments and deferred expenses	**3 012**	**1 382**
Long-term portion	-	1
Short-term portion	3 012	1 381

The ageing structure of trade receivables as at the end of the reporting period was as follows:

	Gross value	Impairment write-down	Net value
non-matured	14 759	-	14 759
overdue from 0 to 30 days	2 691	-	2 691
overdue from 31 to 60 days	1 687	-	1 687
overdue of more than 61 days	808	333	475
	19 945	**333**	**19 612**

Receivables recognized by the Group in the US in relation to insurers who reimburse service fees are estimated based on the Group's actual cash inflow. Historical analyses of payments for services enabled the estimation that the average payment period for services provided is up to 9 months. After this period, all outstanding receivables are subject to a revaluation write-down. According to the accounting policy, the write-down on estimated payments from insurers amounting to PLN 333 thousands as at the reporting date, is deducted directly from the amount of revenue from sales of medical services.

19. Cash and cash equivalents

	31.12.2017	31.12.2016
Cash in hand	11	13
Cash at banks	22 838	17 890
Short-term deposits	9 682	29 637
	32 531	**47 540**

For information on the Capital Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities, see Note 24 of explanatory notes to the financial statements.

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

20. Equity

20.1. Share capital of the Parent Company

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

20.2. Ordinary shares

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

20.3. Dividends paid

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

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

20.4. Basic and diluted earnings per share

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Profit for the reporting period attributable to shareholders of the Parent Company (in PLN '000)	25 539	40 108
Weighted average number of ordinary shares (in thousands of shares)	3 607	3 607
Basic profit per share in PLN (net profit / weighted average number of shares)	**7.08**	**11.12**
Diluted profit per share in PLN (net profit / weighted average number of diluted shares)	**7.08**	**11.12**

The subscription warrants issued referred to in Note 20.6 have no dilutive effect because the average market value of ordinary shares in a particular period does not exceed the exercise price of warrants (the warrants are not "in the money").

20.5. Shareholding structure of the Parent Company as at the date of publication of the financial statements

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

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

20.6. Incentive scheme

On 26 February 2016, the Extraordinary General Meeting adopted an incentive scheme (equity-settled share-based payments) for management staff and key employees of the Parent Company as well as key individuals providing services to the Parent Company, covering the years 2016–2025. Details of the incentive scheme and conditions of its introduction are described in Section I.12 of the Directors' Report on the Capital Group's operations in 2017.

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

21. Provisions

	31.12.2017	31.12.2016
Holiday pay accrual	1 082	330
Other	88	84
	1 170	**414**

22. Trade and other liabilities, accruals and deferred income

	31.12.2017	31.12.2016
Trade liabilities	2 207	14 651
Liabilities arising from acquisition of the client base	-	39 976
Salaries and wages payable	5 002	1 144
Budgetary liabilities	311	1 228
Other liabilities	2	4 753
	7 522	**61 752**
Income tax liabilities	311	441

Accruals and deferred income

	31.12.2017	31.12.2016
Subsidies	630	1 138
Other	991	-
	1 621	**1 138**
of which long-term	315	629
of which short-term	1 306	509

As at 31 December 2016, liabilities on account of the acquisition of the client base related to the obligation to pay cash to AMI/Spectocor in exchange for the acquired client base (USD 9,563 thousands). This amount is a part of the purchase price of AMI/Spectocor's client base, settled in cash. The liability was settled between January and March 2017.

The amount of other liabilities as at 31 December 2016 comprises estimated remuneration for services provided to AMI for January and February 2017. Pursuant to the Settlement Agreement, the remuneration due to the Group constituted a part of the payment for the client base of AMI/Spectocor acquired by the Capital Group. For information on the acquired database, see Note 15. Accruals and deferred income include the value of subsidies received by the Capital Group from the European Union funds for development works. For more detail on the object of the subsidy and the corresponding values, see Note 15.

23. Liabilities in respect of bonds and other financial liabilities

	31.12.2017	31.12.2016
Liabilities in respect of bonds	50 274	50 073
Liabilities arising from acquisition of shares in Medi-Lynx	21 407	37 399
Financial liabilities	**71 681**	**87 472**
of which long-term	63 794	76 961
of which short-term	7 887	10 511

Issue and redemption of bonds

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

Liabilities arising from acquisition of shares in Medi-Lynx

Other financial liabilities also include a promissory note against the seller of Medi-Lynx Cardiac Monitoring, LLC shares, i.e. Medi-Lynx Monitoring. As at 31 December 2017, the outstanding amount was USD 5,970 thousands. Payments are spread over three equal instalments amounting to USD 1,990 thousands, payable on 30 March 2018, 30 March 2019 and 30 March 2020. Liabilities bear interest at a fixed interest rate.

Financial liabilities are measured at amortized cost using the effective interest rate method.

24. Financial risk management

The Capital Group is exposed to the following risks arising from the use of financial instruments:

- operational risk;
- credit risk;
- liquidity risk;
- market risk;
- business risk.

The Management Board of the Parent Company is responsible for establishing and supervising the risk management by the Capital Group.

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

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

24.1. Operational risk

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

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

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

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

24.2. Credit risk

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

The Capital Group's exposure to credit risk results mainly from individual characteristics of each customer. Five largest counterparties generated jointly approx. 76% of the Group's sales revenue in 2017. As at 31 December 2017, receivables from five largest counterparties accounted for about 62% of total trade receivables.
As a result of the acquisition of shares in Medi-Lynx and the acquisition of AMI's client base in 2016, the credit risk has been significantly reduced. Actual revenue of the Capital Group are generated mainly at the level of insurers refunding medical services performed using PocketECG devices. Recipients of services provided by the Capital Group will primarily include hospitals, hospital networks, clinics, doctors, doctors' groups.

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

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

	31.12.2017	31.12.2016
Financial assets (investment fund certificates)	14 936	30 903
Loans and receivables	20 939	28 486
Cash and cash equivalents	32 531	47 540
	68 406	**106 929**

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

	31.12.2017	31.12.2016
Poland	63	158
United States of America	19 000	14 811
Other regions	549	650
	19 612	**15 619**
Institutional clients	19 612	15 619

24.3. Liquidity risk

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

Usually, the Capital Group is provided with sufficient cash on demand to cover the expected operating expenses over a 60-day period, including financial liabilities. However, this policy does not cover extreme situations that cannot be predicted on the basis of rational premises, such as natural disasters. According to the Management Board of the Parent Company, the current proceeds from operations will ensure the Company's financing in 2018. The Capital Group does not expect the projected cash flows, discussed in the maturity analysis, to occur significantly earlier or in amounts materially different from those presented.

31.12.2017	Carrying amount	Contractual cash flows	Less than 12 months	More than 12 months
Credit card debt	873	873	873	-
Trade and other liabilities	7 833	7 833	7 833	-
Bonds	50 274	50 274	336	49 938
Other financial liabilities	21 407	21 407	7 551	13 856
	80 387	**80 387**	**16 593**	**63 794**

31.12.2016	Carrying amount	Contractual cash flows	Less than 12 months	More than 12 months
Credit card debt	69	69	69	-
Trade and other liabilities	62 193	62 193	62 193	-
Bonds	50 073	50 073	335	49 738
Other financial liabilities	37 399	37 399	10 176	27 223
	149 734	**149 734**	**72 773**	**76 961**

24.4. Market risk

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

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

Currency risk

The Group executes most of its transactions in USD. The Group's currency risk is related to the fact that the presentation currency of these financial statements (PLN) is different from the functional currencies of some of the Group's companies (Medi-Lynx, MDG HoldCo).

The table below presents the sensitivity of total income to probable fluctuations in exchange rates on a ceteris paribus assumption. The amounts presented in the table represent a change in the value of the balance sheet item. Exchange differences on translation as at 31 December 2017, assuming a 5% change in the exchange rate of specific currencies as at 31 December 2017.

Impact of financial instruments on total comprehensive income (on account of translation of operations with functional currency other than PLN)	Increase of the exchange rate	Total impact	Decrease of the exchange rate	Total impact
PLN - USD	+5%	4 771	-5%	(4 771)

As at the reporting date, the Parent Company had a loan (granted in USD) granted to a consolidated foreign operation (MDG HoldCo). In accordance with IAS 21, this monetary item forms part of the net investment in a foreign operation. In the consolidated financial statements, foreign exchange differences on these loans (recognized under net finance income in the separate financial statements) are recognized in other comprehensive income. An increase/decrease in the PLN/USD exchange rate by 5% would result in an increase/decrease in foreign exchange differences on intercompany loans being a part of a net investment in a subsidiary presented under foreign exchange differences in the balance sheet by PLN 3,222/(3,222) thousands. The table below presents foreign exchange differences recognized in equity in the consolidated financial statements.

Foreign exchange differences	**31.12.2017**
Exchange differences on translating foreign operations	(9 352)
Exchange differences on intercompany loans constituting a part of net investments in subsidiaries	(12 809)
Deferred tax on valuation of exchange differences on loans	2 345
	(19 816)

Interest rate risk

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

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

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

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

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

Comparison between fair values and carrying amounts

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

		31.12.2017		31.12.2016	
	Category according to IAS	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Trade and other receivables	Loans and receivables	20 939	20 939	28 486	28 486
Investment certificates, bonds	Financial assets at fair value through profit or loss	14 936	14 936	30 903	30 903
Cash and cash equivalents	Loans and receivables	32 531	32 531	47 540	47 540
Trade and other liabilities	Other financial liabilities	7 522	7 522	61 752	61 752
Liabilities in respect of bonds	Other financial liabilities	50 274	50 274	50 073	50 073
Other financial liabilities	Other financial liabilities	22 400	22 400	37 468	37 468

24.5. Business risk

Business risk is related to the Group's business activities and is understood as the risk of incurring losses resulting from adverse changes in the business environment. Nearly 97% of the Group's consolidated revenue is generated from the provision of diagnostic services to patients in the United States, and therefore the Group is exposed to certain risks resulting from the specific nature of the healthcare market in this country. Key factors of business risk include:

- possible changes in reimbursement rates for examinations and payments received from private and public insurers – over the last year the average rates achieved for examinations have not changed significantly. However, if this were to be the case in the future, a decrease in average reimbursement rates would adversely affect the Group's revenue and financial result;
- changes in the range of services reimbursed by individual insurers – although the subsidiary, Medi-Lynx, provides medical services to a dispersed group of recipients (patients in many different medical institutions, clinics and hospital networks), the number of payers (insurers) is limited. If one of the key insurers were to stop reimbursing the medical procedure provided by Medi-Lynx, this change could have a material adverse effect on the Group's operating results.

25. Capital management

During the year, there were no changes in the Capital Group's approach to capital management. The Capital Group is not subject to external capital requirements. The policy of the Parent Company's Management Board is to maintain a sound capital base so as to preserve the confidence of shareholders, investors and trading partners, and ensure the future growth of business operations. The Parent Company's Management Board seeks to strike a balance between a higher rate of return achievable with higher debt levels and the benefits and security offered by a solid capital base.

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

Specification	**31.12.2017**	**31.12.2016**
Interest-bearing credits, loans and bonds	72 554	87 541
Trade and other liabilities	7 522	61 752
Less cash and cash equivalents	(32 531)	(47 540)
Net debt	**47 545**	**101 753**
Equity	**168 913**	**176 970**
Equity and net debt	**216 458**	**278 723**
Leverage ratio	**22,0%**	**36,5%**

26. Operating leases

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

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

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

27. Contingent liabilities

The Parent Company is a party to agreements for the EU co-financing of investment projects aimed at the development of the products and services offered. A failure to meet the conditions set for the relevant development work may give rise to the risk that the grants received will have to be repaid. The subsidies received are secured with promissory notes. As at the balance sheet date, the risk described above was assessed as doubtful. The Parent Company carries out its works in accordance with the schedule.

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

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo relatively frequent changes, often resulting in the absence of any established regulations or legal precedents for reference. Moreover, the existing regulations sometimes lack clarity, leading to differing opinions as regards the legal interpretation of tax provisions, both between state authorities and between authorities and the private sector. Tax declarations and other settlements (e.g. customs or foreign exchange) may be audited by authorities which are authorized to impose significant fines, and the additional liabilities arising from such audits have to be paid including interest. In the light of the above, the tax risk in Poland is higher than usual tax risk in countries with better-developed tax systems. Tax declarations can be audited over a period of five years. In consequence, the amounts presented in the financial statements may change at a later date, after the final amount is determined by tax authorities. The Capital Group was subject to control by the tax authorities. Tax authorities have got the right to inspect books and accounting records. Within five years of the end of the year which relevant tax return was filed, they may impose additional tax charges, including interest and other penalties. In the opinion of the Management Board, there were no circumstances that could lead to significant liabilities in this respect.

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

	31.12.2017	31.12.2016
Change in trade and other receivables	5 916	(19 660)
Receivables acquired as part of acquisition of Medi-Lynx	-	18 752
Receivables from the increase of the share capital of Medi-Lynx by a non-controlling shareholder	(11 679)	11 677
Prepaid income tax	38	731
Claims for compensation of AMI recognised as part of the payment for the client base	-	(27 533)
	(5 725)	**(16 033)**

	31.12.2017	31.12.2016
Change in trade and other liabilities	(54 230)	61 182
Liabilities assumed as part of acquisition of Medi-Lynx	-	(17 613)
Liability arising from acquisition of AMI's client base	39 965	(39 976)
Remuneration for AMI for January and February as part of the purchase price of the client base	-	(4 764)
	(14 265)	**(1 171)**

	31.12.2017	31.12.2016
Expenditures for R&D and other intangible assets	(3 639)	(3 108)
Expenses to cover the liability for the purchased AMI / Spectocor client base (cash)	(32 013)	-
	(35 652)	**(3 108)**

	31.12.2017	31.12.2016
Payment of dividend in the Parent Company	(7 213)	(6 392)
Payment to minority shareholders on account of distribution of Medi-Lynx's profit	(4 352)	-
	(11 565)	**(6 392)**

29. Transactions with executives

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

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

The remuneration costs of the Parent Company in 2017 also include the costs of the incentive scheme described in note 20.6 of the explanatory notes to the financial statements. These costs amounted to PLN 2,142 thousands. Valuation of the incentive scheme was reclassified to the incentive scheme valuation reserve.

30. Employment structure

	31.12.2017	31.12.2016
Headcount	495	345

As at the report date (21 March 2018), the Capital Group had 509 employees (in FTEs).

31. Information about significant legal proceedings

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

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

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

The amount of USD 2,887 thousands resulting from the settlement has been recognized in the annual consolidated financial statements for 2016, and therefore has got no impact on the financial result of the Medicalgorithmics Capital Group reported in the current period. For more information on the settlement, see current report No 19/2017 of 26 June 2017.

32. Information on the entity authorized to audit financial statements

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

The auditor's remuneration for the audit of the annual consolidated financial statements amounted to PLN 62 thousands, while for the review of the consolidated interim financial statements – to PLN 26 thousands.

33. Events after the balance sheet date

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

Marek Dziubiński
President of the Management Board

Maksymilian Sztandera
Chief Financial Officer

Warsaw, 21 March 2018

MEDICALgorithmics

INNOVATIVE SOLUTIONS IN MEDICINE

DIRECTORS' REPORT
ON THE OPERATIONS OF
THE MEDICALGORITHMICS CAPITAL GROUP

I. Overview of the Capital Group's operations

I. 1. Business profile of the Group

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

The principal areas of operations of the Capital Group are:

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

The Capital Group provides services in over a dozen countries on several continents, including North and South America, Europe and Australia. Currently, the United States is the largest market. The expansion of sales on the American market was possible owing to the openness of this market to medical innovations and the high level of reimbursement of cardiac diagnostic services by private and public insurers.

Key competitive advantages of the Group:

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

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

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

I. 2. Composition of the Capital Group

The Parent Company of the Group is Medicalgorithmics S.A. (the "Parent Company", "Company", "Issuer"), a joint-stock company registered in Poland which commenced its operations in 2005. In 2011, the Company's shares made their debut on the NewConnect market, an alternative system of trading outside a regulated market operated by the Warsaw Stock Exchange. Since 3 February 2014 the shares of Medicalgorithmics S.A. have been listed on the regulated market of the Warsaw Stock Exchange.

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

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

During the audited period, there were no changes in the organization of the Capital Group. The financial statements of the Parent Company and all its subsidiaries were included in the consolidated financial statements using the full method.

As at 31 December 2017, the composition of the Medicalgorithmics Capital Group and its organizational and capital relations were as follows:

I. 3. Strategy and business model

The Group's business model is tailored to the specificity of its operations, ensuring cost optimization in order to maintain high profitability with a low level of financial indebtedness. The Parent Company is based in Poland, where R&D and production operations are located, which ensures full control over the quality of products, relatively low labour costs and protection of technological secrets.

In the United States, the subsidiary, Medi-Lynx, provides medical diagnostics services using the PocketECG system. Medi-Lynx is responsible for attracting and serving clients, namely the health care units that prescribe heart rate monitoring to patients. After the monitoring is completed, the electrocardiographic technicians employed at the Medi-Lynx monitoring center prepare a comprehensive diagnostic report on the examination, including full data, statistical analysis and information on possible cardiac abnormalities. The report is provided to a physician so that he or she can formulate a diagnosis and recommend appropriate treatment. Diagnostic services performed with the use of the PocketECG system are paid for by the patients' insurers. Therefore, after the completion of the patient’s monitoring, Medi-Lynx sends claims for payment for the services performed to the insurers.

Outside the U.S. market, the Group sells devices and services in the subscription model, in cooperation with trading partners who provide diagnostic services to hospitals, clinics, cardiology surgeries and other health care units. With this model of operation, the Group is able to minimize its operating costs and focus on technological support for patient care and the development of cardiology solutions.

The Group's strategy includes activities aimed at becoming a leading provider of state-of-the-art technological solutions in the field of cardiac telemetry. The Group is working on strengthening its position in the US healthcare market, expanding its operations in other countries, and further expanding its geographical reach into European countries. The strategic plans also include the further development of products and services in the fields of cardiac telemetry, cardiac disease diagnosis and cardiac telerehabilitation.

I. 4. Segment information

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

I. 5. Shareholding structure of the Parent Company

The following chart and table present the shareholders of Medicalgorithmics S.A. holding 5% or more of total voting rights at the General Meeting as at the issue date of this report based on the Company's best knowledge, including changes in major holdings of shares after the issue of the previous quarterly report. The information contained in the table is based on current reports filed with the Warsaw Stock Exchange, which reflect the information received from shareholders in accordance with Article 69 of the *Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.*

Chart 1. Shareholding structure of Medicalgorithmics S.A.

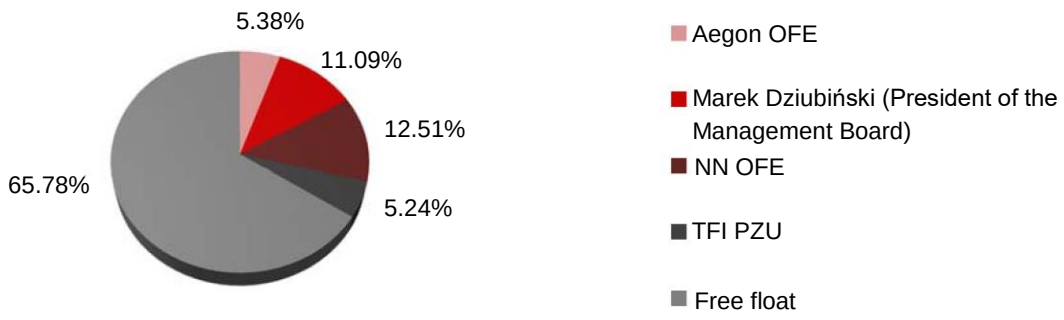


Table 1. Shareholding structure of Medicalgorithmics S.A.

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

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

The adopted incentive scheme for management and key employees is described in detail in Section I.12.

I. 6. Purchase of treasury shares

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

I. 7. Management Board of the Parent Company

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

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

dr Marek Dziubiński – President of the Management Board

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

Career:

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

Maksymilian Sztandera – Chief Financial Officer

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

Members of the Management Board of the Parent Company do not receive remuneration for their position in the management bodies of subsidiaries.

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

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

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

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

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

Marek Tatar – Chairperson of the Supervisory Board

Marek Tatar is a graduate of and a doctoral student at the Faculty of Law and Administration at the Jagiellonian University. Being a legal counsel, he is a Managing Partner of the Tatar and Partners Sp.k. law firm. He previously worked for Elektromontaż nr 2 Kraków S.A., Dom Maklerski PENETRATOR S.A. (1998−2009) and Trigon Dom Maklerski S.A. (2009). (2009).

Prof. Marcin Hoffmann, Ph.D. – Member of the Supervisory Board

Dr hab. Marcin Hoffman (PhD) is a graduate of the Faculty of Chemistry and the Faculty of Biotechnology at the Adam Mickiewicz University in Poznań. In 2009, he received a post-doctoral degree (doctor habilitatus). Marcin Hoffman is also a graduate of the MBA program organized by the Poznań University of Economics and Georgia State University in Atlanta. Marcin Hoffman is the winner of numerous competitions, including the 2002 Promising Scientist Award. He also received grants from

the Foundation for Polish Science, the Ministry of National Education, the Stefan Batory Foundation and the Adam Mickiewicz University in Poznań. Since 2007, he has been the CEO of BIB Seed Capital S.A. He also worked as a consultant at McKinsey & Co. and team leader at the BioInfoBank Institute.

Artur Małek – Member of the Supervisory Board

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

Jan Kunkowski – Member of the Supervisory Board

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

Piotr Żółkiewicz – Member of the Supervisory Board

Piotr Żółkiewicz is a university graduate, majoring in management. His professional experience is related to the capital market and provision of advisory services for corporations on capital raising and corporate finance management. He began his career as a private investor on the Warsaw Stock Exchange. Since 2007, he has been a member of the board of directors of Stalica Trading Limited. In 2011-2013, he was the finance and strategy advisor to the Eko Park Group and its affiliates operating in the energy sector. In 2010-2013, he also worked for Kardiosystem Sp. z o.o. offering invasive heart surgeries. Until 30 June 2015, Piotr Żółkiewicz served as Vice President of the Management Board, CFOO, at Medicalgorithmics S.A., and he currently works for Copernicus Capital TFI.

There were no changes in the composition of the Parent's Supervisory Board during the reporting period. Due to changes in the Polish law regarding the appointment and functioning of audit committees in the so-called public-interest entities, the Audit Committee composed of elected members of the Supervisory Board was appointed in 2017 For details, see Section IV. 7 of this report.

The table below presents shares in the Parent Company held, directly or indirectly, by members of its Management and Supervisory Boards as at the issue date of this report, and changes in the holdings after the issue date of the previous quarterly report. The information in the table is based on notifications received from members of the Management and Supervisory Boards in accordance with Article 160(1) of the Act on Trading in Financial Instruments.

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

Person	Function held in the Issuer's governing bodies	Number of directly held shares	Number of shares held indirectly[1]	Change in the period from 22 November 2017 to 21 March 2018
Marek Dziubiński	President of the Management Board	400,000	-	Unchanged
Maksymilian Sztandera	Chief Financial Officer	-	-	Unchanged
Marek Tatar	Chairman of the Supervisory Board	-	-	Unchanged
Piotr Żółkiewicz	Member of the Supervisory Board	7,469	-	Unchanged
Jan Kunkowski	Member of the Supervisory Board	100	-	Unchanged
Artur Małek	Member of the Supervisory Board	-	-	Unchanged
Marcin Hoffmann	Member of the Supervisory Board	-	148 1222	Unchanged

1) An indirect holding is when a person owns shares in an entity which directly holds shares in the Company; such ownership is not equivalent to having the status of the parent of the entity which directly holds shares in the Company. The links between the individual members of the governing bodies and the direct holders of shares are presented in detail in the footnotes to the table.
2) Marcin Hoffmann is the President of the Management Board of BIB Seed Capital S.A. with its registered office in Poznań and holds 40% of shares in this entity that holds 148,122 Shares, which represents 4.11% of the Issuer's share capital and the total number of votes at the Issuer's General Meeting, BIB Seed Capital S.A. is not a subsidiary (within the meaning of the Act on offering) of Marcin Hoffmann.

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

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

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

I. 9. Headcount

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

Table 5. Headcount in the Capital Group

	31.12.2017	31.12.2016
Number of employees in full-time equivalent units	495	345

As at the report date (21 March 2018), the Capital Group had 509 employees (in FTEs).

I. 10. Information on the agreement for the audit of the financial statements

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

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

Table 6. Remuneration of the entity authorized to audit and review financial statements (PLN '000)

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

I. 11. Information on changes in the key rules of managing the Company and its Capital Group

In the year ended 31 December 2017, there were no changes in the key rules of managing the Parent Company and the Capital Group. The Management Board of the Parent Company strives to unify the management principles in the Medicalgorithmics Group companies by implementing appropriate procedures and standards of ownership control.

I. 12. Information on the system of control of employee share plans

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

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

The Extraordinary General Meeting entrusted the Supervisory Board with oversight of the scheme's implementation, including verification of the fulfillment of grant conditions for the options and their allotment as per the adopted rules. The Parent Company's Management Board was authorized to take all actions as may be necessary to implement the scheme under the oversight of the Supervisory Board. Following the resignation of a person who was previously a beneficiary of the scheme from the Company's Management Board, the Company commissioned an actuarial revaluation. Valuation of the incentive scheme is recognized under the Revaluation reserve and amounted to PLN 5,312 thousands as at 31 December 2017. Costs in this respect amounted to PLN 2,142 thousands in the reporting period.

II. Overview of factors determining the Group's development and summary of material events related to operations of the Group in 2017

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

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

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

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

In terms of product development, the Parent Company continued to improve its PocketECG system for diagnosing cardiac arrhythmia. In the past year, the Group improved its devices by adding an accelerometer. Thus, it has incorporated a new unrivalled functionality into the system. Measurement with an accelerometer allows for linking the analysis of ECG signal data, including arrhythmias, with the patient's activity during heart rate monitoring. In addition, the Parent Company continued the previously initiated research and development projects on new products and worked on obtaining the necessary registrations

to enter new markets. The company has completed the process of registration of its proprietary system for hybrid cardiac telerehabilitation in Poland and has received permission for its commercialization from the Office for Registration of Medicinal Products, Medical Devices and Biocidal Products (Urząd Rejestracji Produktów Leczniczych, Wyrobów Medycznych i Produktów Biobójczych). As a result, in 2017 the Company launched a pilot implementation of the system at the John Paul II Specialist Hospital in Kraków.

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

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

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

III. 1. Discussion of the Group's performance

In 2017, the Capital Group continued to implement its strategy, pursuant to which its operations were based on the innovative PocketECG system. The Group's consolidated revenue comprises mainly:

- revenue from medical services in the US market generated by Medi-Lynx;
- subscription revenue generated by Medicalgorithmics S.A. from cooperation with strategic partners, excluding Medi-Lynx;
- revenue from sales of PocketECG devices, excluding Medi-Lynx.

Medi-Lynx revenue are derived from the number of diagnostic services performed over a given period and the refund rate for research (in the case of public insurers) or the amount of contractual payments for a given procedure (in the case of private insurers). The Parent Company operates on a subscription model, which means that it earns revenue from sales of devices, and then from subscriptions for their use and use of the related software and server infrastructure.

Acquisition of AMI/Spectocor's clients as described in Section II was of key importance for the Group's performance in 2017. When analysing the results of the Medicalgorithmics Capital Group, it should also be remembered that 2017 is the first year of full consolidation of the results of the subsidiary, Medi-Lynx. Due to the fact that the acquisition of shares in Medi-Lynx took place on 30 March 2016, the comparative figures for 2016 include the subsidiary's results for the period of 9 months – from the date of acquisition to the reporting date.

Table 7. Key items of the statement of comprehensive income for 2017 and 2016, and changes over the last financial year

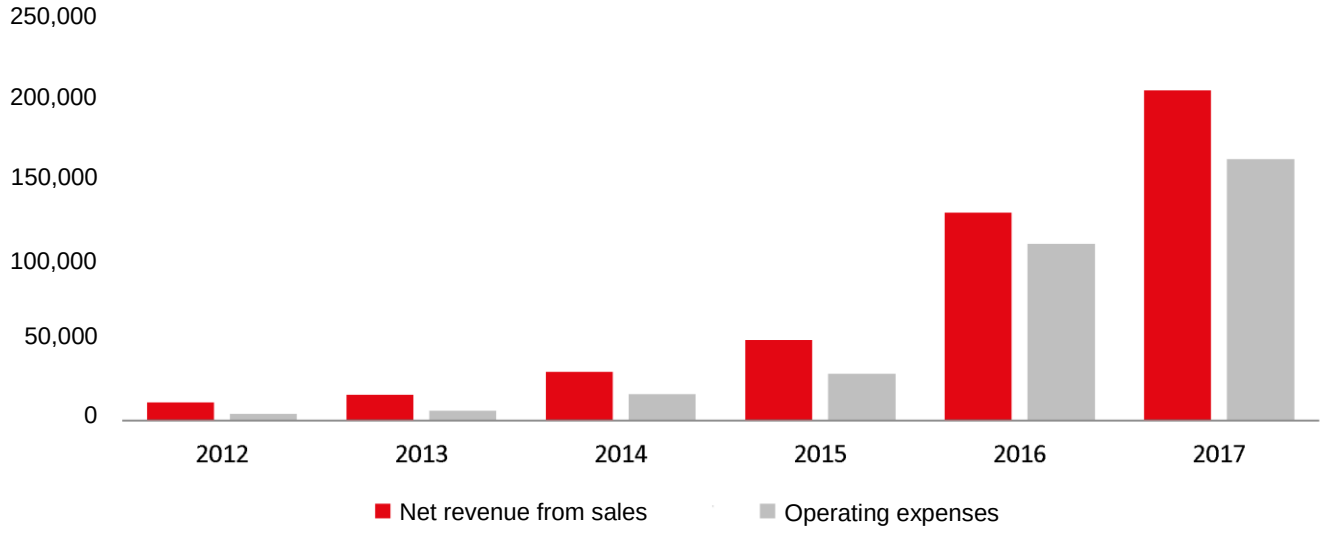
	2017	2016	Change	Change %
Sales revenue	203,354	127,921	75,433	59%
Operating expenses	161,049	108,703	52,346	48%
Profit on sales	42,305	19,218	23,087	120%
Other operating revenue/(expenses), net	(485)	27,312	(27,797)	(102%)
Net finance (costs)	(5,228)	(1,459)	(3,769)	258%
Profit before tax	36,592	45,071	(8,479)	(19%)
Net profit, *of which*:	33,653	42,004	(8,351)	(20%)
Net profit attributable to Shareholders of the Parent Company	25,539	40,108	(14,569)	(36%)
Net profit attributable to non-controlling interests	8,114	1,896	6,218	328%
EBITDA	54,290	51,124	3,166	6%

Sales revenue

In 2017, revenue of the Capital Group amounted to PLN 203,354 thousands, up by 59% from 2016, which is mainly attributable to the consolidation of the results of Medi-Lynx for the whole of 2017 (compared to three quarters in 2016) and a significant increase in the scale of Medi-Lynx's operations due to the acquisition of clients of AMI/Spectocor. The clients were acquired gradually starting from February 2017 and translated into an increase in the number of payment claims by 70% compared to

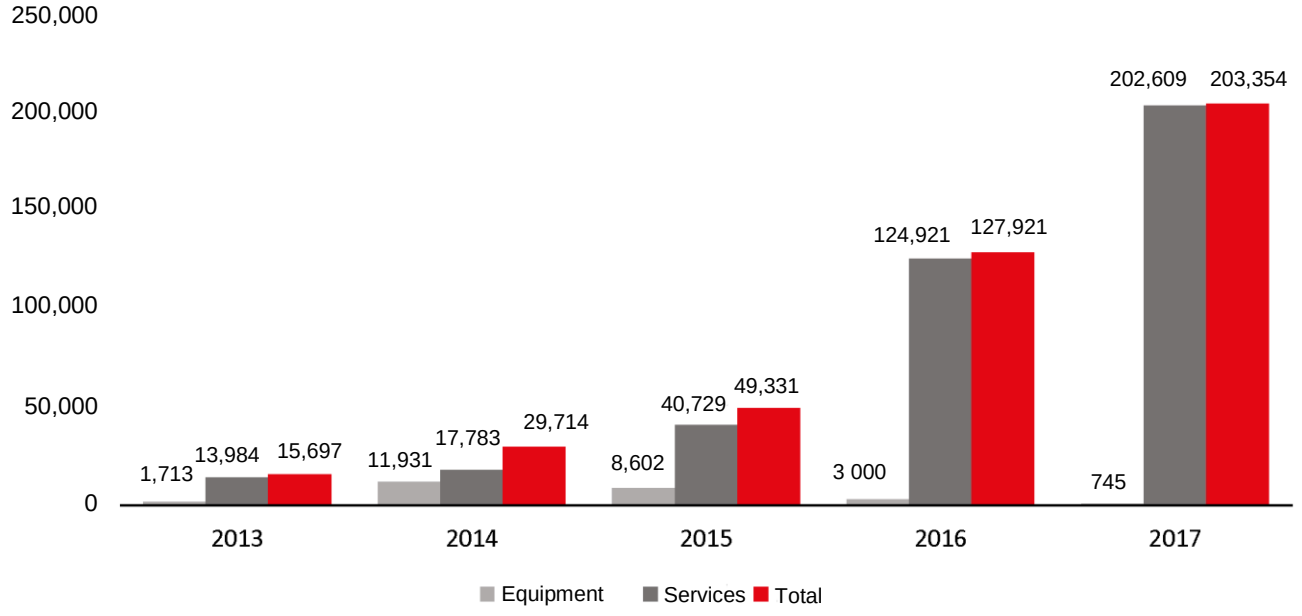
the corresponding period. The difference between the growth of the number of claims (70%) and the increase in revenue (59%) results from a lower average USD/PLN exchange rate and the fact that, as a result of signing a settlement agreement and terminating cooperation, Medicalgorithmics has no longer generated any revenue from AMI/Spectocor since March 2017.

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



In 2017, the Group's entire revenue came from sales of the PocketECG system, which included sales of devices in the amount of PLN 745 thousands (vs. PLN 3,000 thousands in 2016), accounting for 0.4% of total revenue (vs. 2% in 2016), and sales of services in the amount of PLN 202,609 thousands (vs. PLN 124,921 thousands in 2016), representing 99.6% of total revenue (vs. 98% in 2016). The lower share of revenue from the sale of devices results from the fact that the comparative data include sales of devices to Medi-Lynx generated in the first quarter of 2016, i.e. before the acquisition of shares which were not eliminated in the consolidation process.

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



Operating expenses

Table 8. Structure of operating expenses in 2017 and 2016 (PLN '000)

	2017	2016	Change	Change %
Raw materials and consumables used	6,250	3,328	2,922	88%
Employee benefits	106,581	55,267	51,314	93%
Amortization and depreciation	12,470	4,594	7,876	171%
Third-party services	30,411	41,443	(11,032)	(27%)
Other	5,337	4,071	1,266	31%
TOTAL:	161,049	108,703	52,346	48%

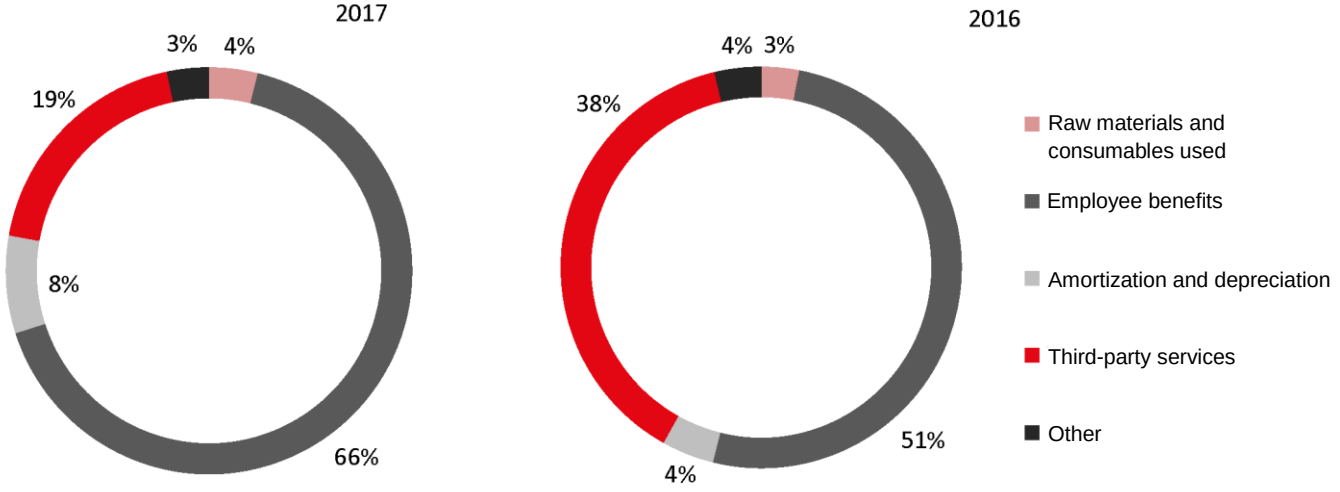
In 2017, similarly to revenue, also operating expenses rose significantly year on year following the consolidation of the financial results of Medi-Lynx for the entire 2017 and the increase in the scale of subsidiary's operations after the acquisition of AMI/Spectocor's clients.

The largest item among operating expenses were employee benefits costs, accounting for 66% of the Group's total operating expenses. The high share of costs of employee benefits in the cost structure results from the nature of the Group's operations, whose main resource is the people. Both at the level of the Parent Company, where the majority of employees are IT specialists and production engineers, and at the level of the subsidiary, where, among others, ECG technicians and sales and customer service specialists are employed, the operations are based on human capital. The increase in personnel costs in relation to 2016, apart from the consolidation of the subsidiary's data for the entire reporting period, was mainly due to the increase in the headcount in Medi-Lynx. Due to the acquisition of AMI/Spectocor's client base and the need to handle the growing volume of tests, the headcount in the subsidiary has been growing rapidly since the beginning of 2017.

In the reporting period, there was a significant decrease in the costs of third-party services, which is a consequence of lower costs of advisory (mainly legal) services as compared to 2016, when the Group was a party to litigation proceedings. In connection with the termination of disputes and signing of the settlement agreement, referred to in more detail in Note 31 to the Parent Company's financial statements for 2016, the costs of advisory services were significantly reduced in 2017. However, the effect of this decline was partially offset by the costs of marketing services (PLN 1,954 thousands) and monitoring services (PLN 1,994 thousands) which did not occur in the comparative period. The costs of marketing services are related to an extensive marketing and sales campaign on the American market, launched in 2017, which is aimed at highlighting the competitive advantages of PocketECG and creating an expert image among specific stakeholder groups. On the other hand, the costs of monitoring services have been incurred for the first time in 2017 in connection with the acquisition of AMI/Spectocor's client base. The model of cooperation with one of the acquired key clients assumes that ECG monitoring is performed not by the Medi-Lynx monitoring centre, but by the personnel of the healthcare unit, and its costs are re-invoiced to Medi-Lynx.

In 2017, a significant increase in depreciation and amortization costs was recorded, resulting mainly from the charging of amortization on PocketECG equipment used by Medi-Lynx and the commencement of amortization of client bases acquired by the Group in the reporting period. The cost of depreciation of devices amounted to PLN 3,694 thousands (PLN 1,830 thousands in 2016) and the cost of amortization of client bases reached PLN 5,921 thousands.

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



Net finance income

Table 9. Finance income and costs in 2017 and 2016 (PLN '000)

	2017	2016	Change	Change %
Finance income	614	1,828	(1,214)	(66%)
Finance costs	(5,842)	(3,287)	(2,555)	78%
Net finance income	(5,228)	(1,459)	(3,769)	258%

Finance income comprises mainly an increase in the valuation of investment certificates held by the Parent Company. Finance costs comprise mainly interest on bonds, interest on the liability to the seller of shares in Medi-Lynx and foreign exchange differences. The nominal year-on-year increase in interest expense results from the fact that both the liability on account of bonds and the liability to the seller of shares in Medi-Lynx were incurred during 2016, as a result of which interest in the comparative period was not accrued for the full reporting period. In the current reporting period, as a result of a decrease in the USD/PLN exchange rate, the Group recorded foreign exchange losses of PLN 1,356 thousands (as compared to foreign exchange gains of PLN 1,308 thousands in the comparative period).

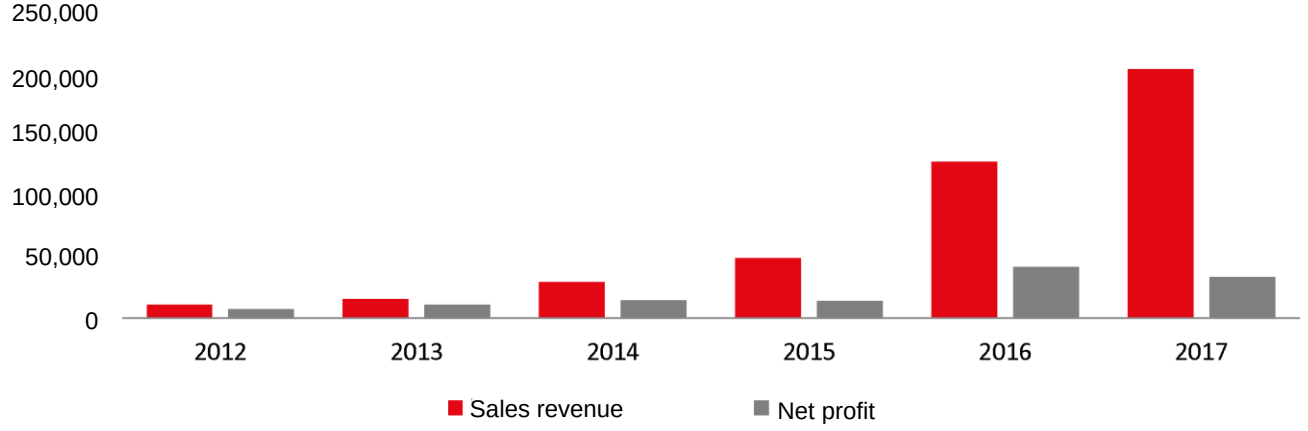
As at the reporting date, the Parent Company had a loan (granted in USD) granted to a consolidated foreign operation (MDG HoldCo). In accordance with IAS 21, this monetary item forms part of the net investment in a foreign operation. In the consolidated financial statements, foreign exchange differences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

Profit and profitability

The consolidated net profit generated in 2017 amounted to PLN 33,653 thousands and was lower by 20% than the profit generated in 2016. However, the net profit for 2016 was driven by significant one-off events, mainly by the recognition of the costs of litigation and negotiations conducted in that period related to the acquisition of shares in Medi-Lynx, as well as by proceeds from the awarded reimbursement of legal costs. Adjusted net profit for 2016 amounted to PLN 36,180 thousands and was higher than the net profit earned in 2017 by 7% (PLN 2,527 thousands).

As a result of the change in the tax rate in the United States from 34% to 21%, which came into force on 1 January 2018, the Group remeasured its deferred tax provisions, which resulted in a tax benefit of PLN 862 thousands. This amount affected the income tax reported in the reporting period and the low effective tax rate in the fourth quarter of 2017.

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



In 2017, return on assets (ROA) amounted to 12%, which is an increase compared to 11% in 2016. On the other hand, return on equity (ROE) in 2017 amounted to 17% and was lower than in 2016 by 3pp. The decrease in this ratio was caused by a decrease in net profit, the reasons for which have already been discussed.

Table 10. ROA and ROE in 2017 and 2016 and changes in these ratios during the last financial year

	2017	2016	Change (pp)
ROA	12%	11%	+1
ROE	17%	20%	-3

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

Cash flows

In 2017, the Capital Group achieved a positive balance of cash flows from operating activities, mainly as a result of surplus from net profit and depreciation/amortization. The cash flows from operating activities were also significantly affected by changes in working capital resulting from the settlement of the acquisition of AMI/Spectocor's client base. This settlement was also the main reason for negative cash flows from investing activities. In turn, negative cash flows from financing activities were caused mainly by the repayment of the first part of the liability towards the seller of shares in Medi-Lynx, the dividend distribution and the repayment of interest on bonds.

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

	01.01.2017-31.12.2017	01.01.2016-31.12.2016	Change	Change %
Net cash from operating activities	28,611	35,477	(6,866)	(19%)
Net cash from investing activities	(22,026)	(80,702)	58,676	(73%)
Net cash from financing activities	(21,594)	72,803	(94,397)	(130%)
Total net cash flows	(15,009)	27,578	(42,587)	(154%)
Closing balance of cash	32,531	47,540	(15,009)	(32%)

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

As at 31 December 2017, total assets amounted to PLN 289,281 thousands which represents a decrease by PLN 80,610 thousands (or 22%) compared to the balance as at the end of 2016. The tables below present the key assets the Group and sources of their financing, as well as changes in these assets during the last financial year.

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

ASSETS *(PLN '000)*	2017	2016	Change	Change %
Non-current assets, *of which:*	228,573	280,325	(51,752)	(18%)
Intangible assets	196,900	237,383	(40,483)	(17%)
Property, plant and equipment	17,249	22,112	(4,863)	(22%)
Long-term financial assets	10,910	18,744	(7,834)	(42%)
Current assets, *of which:*	60,708	89,566	(28,858)	(32%)
Trade and other receivables	23,951	29,867	(5,916)	(20%)
Short-term financial assets	4,226	12,159	(7,933)	(65%)
Cash and cash equivalents	32,531	47,540	(15,009)	(32%)
TOTAL ASSETS	289,281	369,891	(80,610)	(22%)

As at 31 December 2017, total non-current assets amounted to PLN 228,573 thousands and accounted for 79% of total assets. As at 31 December 2016, non-current assets amounted to PLN 280,325 thousands and accounted for 76% of total assets. The change in non-current assets was driven mainly by a decrease in intangible assets. This is mainly due to the lower USD exchange rate used to convert the carrying amount of the assets. This exchange rate dropped by nearly 17% in relation to the rate used as at 31 December 2016 and generated exchange rate differences on conversion of intangible assets amounting to approximately PLN 37,624 thousands. The remaining part of the difference results to a large extent from the charging of amortization on the client bases held in the amount of PLN 5,505 thousands. These changes were partially offset by the development costs capitalized in the reporting period in the total amount of PLN 3,425 thousands.

Short- and long-term financial assets comprise mainly certificates issued by Bezpieczne Obligacje Fundusz Inwestycyjny Zamknięty (a closed-end investment fund). The decrease in these assets compared to the balances presented as at 31 December 2016 results from the fact that in 2017 the Parent Company surrendered part of its certificates, with a total value of PLN 15,885 thousands, for redemption.

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

EQUITY AND LIABILITIES *(PLN '000)*	2017	2016	Change	Change %
Equity	168,913	176,970	(8,057)	(5%)
Non-controlling interests	34,820	37,976	(3,156)	(8%)
Long-term liabilities, *of which:*	67,649	81,663	(14,014)	(17%)
Liabilities in respect of bonds and other financial liabilities	63,794	76,961	(13,167)	(17%)
Short-term liabilities, *of which:*	17,899	73,282	(55,383)	(76%)
Liabilities in respect of bonds and other financial liabilities	7,887	10,511	(2,624)	(25%)
Trade and other liabilities	7,522	61,752	(54,230)	(88%)
Total liabilities	85,548	154,945	(69,397)	(45%)
TOTAL EQUITY AND LIABILITIES	289,281	369,891	(80,610)	(22%)

The change in equity is attributable to the accumulation of profit attributable to Shareholders of the Parent Company earned in 2017 and to the recognition the amount of PLN 2,142 thousands in the capital reserve from incentive scheme measurement, resulting from the current actuarial valuation of the scheme. The value of equity as at 31 December 2017 was also driven by the distribution of dividend in the Parent Company (PLN 7,213 thousands) and recognition on exchange differences on translation (PLN 28,525) which result from the aforementioned decline in the USD/PLN exchange rate. As the functional currency of the subsidiaries, Medi-Lynx and MDG HoldCo, is USD, assets and liabilities of these entities are translated into the Group's presentation currency (PLN) at the exchange rate effective as at the reporting date. Non-controlling interests of PLN 34,820 thousands correspond to the minority shareholding in Medi-Lynx attributable to a minority shareholder.

Liabilities in respect of bonds and other financial liabilities are related to bonds issued by the Parent Company and a promissory note liability to the seller of shares in the subsidiary. The liability in respect of bonds did not change significantly in relation to the comparative period as the bonds were issued in PLN and their maturity date is April 2019. The liability in respect of the acquisition of shares in Medi-Lynx decreased by PLN 15,992 thousands, due to a number of factors. First, in the second quarter of 2017, a part of the liability and interest accrued as at that date, in the total amount of USD 2,015 thousands, was repaid. In addition, based on an agreement with a minority shareholder in connection with the settlement of the acquisition of the AMI/Spectocor's client base, the liability was reduced by USD 1,044 thousands. Due to the fact that the promissory note liability is incurred in USD, the year-on-year change in its balance reflects also a decrease in the exchange rate used to translate the value of this liability into PLN as at the reporting date.

Trade liabilities decreased mainly due to the final settlement of the acquisition of AMI/Spectocor's client base, which took place in the first quarter of 2017, and a decrease in the USD/PLN exchange rate.

III. 3. Cash and financial assets

As at 31 December 2017, the Group has significant financial surpluses which it tries to invest in such a way as to maximize the rate of return on investment while maintaining a low level of risk.

As at 31 December 2017, the Capital Group held only investment certificates of the fund Bezpiecznych Obligacji Fundusz Inwestycyjny Zamknięty and cash in current accounts and term deposits. During 2017, in accordance with the Management Board's decision to discontinue investing cash surpluses in debt instruments and to submit, in stages, the certificates held for redemption, the Company sold a part of the investment certificates held with a total value of PLN 15,885 thousands. For more information, see Note 17 to the financial statements of the Capital Group for 2017.

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

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

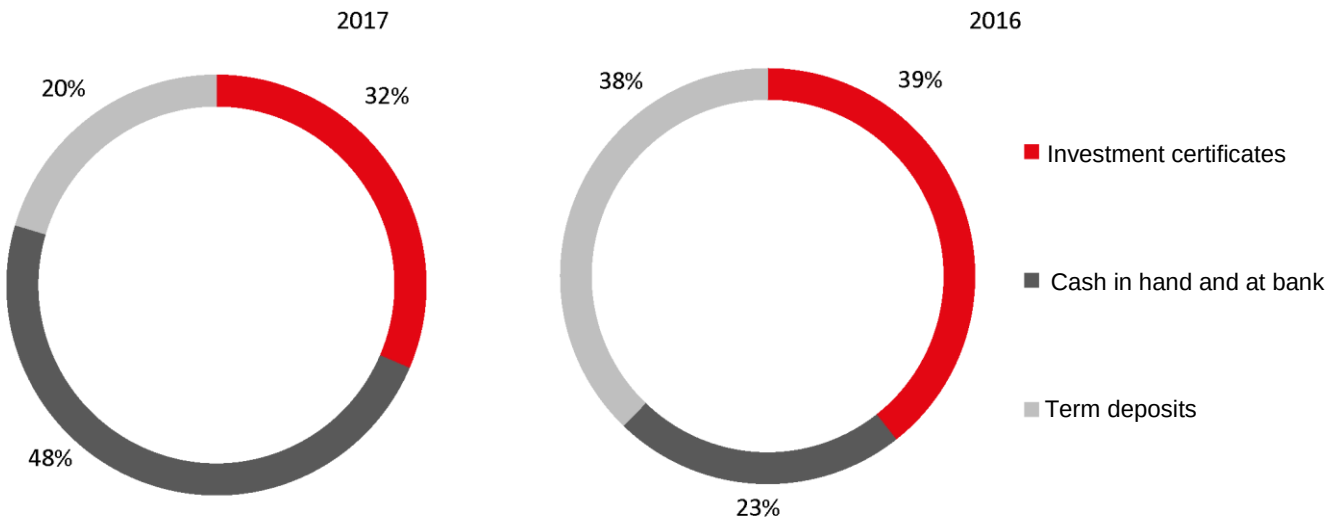


Table 14. Structure of the Group's financial assets as at the end of 2017 and 2016 (PLN '000)

Financial assets	31.12.2017	31.12.2016	Change	Change %
Investment certificates – long-term	10,710	18,744	(8,034)	(43%)
Investment certificates – short-term	4,226	12,159	(7,933)	(65%)
Cash in hand	11	13	(2)	(15%)
Cash at bank	22,838	17,890	4,948	28%
Term deposits	9,682	29,637	(19,955)	(67%)

Credits and loans received

As at the end of 2017, the Group reported a liability on account of credits in the amount of PLN 873 thousands, resulting entirely from the credit card debt balance. During the reporting period, the Parent Company utilised a credit line in its current account. After the balance sheet date, due to cash surpluses held, the credit line was closed.

Issue of bonds

In 2016, the Parent Company issued bonds with a nominal value of PLN 50,000 thousands and a maturity date of 21 April 2019. The purpose of the issue was to finance an investment in a subsidiary, Medi-Lynx. For detailed information on issue, see Note 23 of the Consolidated financial statements of the Capital Group for 2017.

Loans granted

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

Sureties and financial guarantees granted and received

Medicalgorithmics S.A. is a party to agreements for the EU co-financing of investment projects aimed at the development of the products and services offered. A failure to meet the conditions set for the relevant development work may give rise to the risk that the grants received will have to be repaid. The grants are secured by promissory notes.

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

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

Material off-balance sheet items

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

III. 4. Ongoing research and development projects

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

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

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

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

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

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

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

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

III. 5. Other domestic and foreign investment projects

The Capital Group is currently not engaged in any investment projects other than those described in the two preceding subsections.

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

In the reporting period, there were no events, other than those described in Sections III.1–III.5, which had a material bearing on operations of the Capital Group and the Group's consolidated financial statements for 2017.

III. 7. Related party transactions

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

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

Shareholders (as related parties)

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

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

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

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

According to the Management Board, the Capital Group's current financial condition and growth prospects do not involve any significant threats to its ability to continue as a going concern in the foreseeable future. However, there are certain factors, both internal and external, that will directly or indirectly affect the Group's financial results in the next year. The most important of them include:

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

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

The objective of the Parent Company and Group companies is to ensure a long-term increase in the company's value. For this reason, the Management Board is committed to ensuring further development that will strengthen Group's position among the leading providers of state-of-the-art cardiac telemetry technologies, not only in the United States, but also in other

countries around the world. The Group pursues its business objective by improving its own products and services in the field of telemedicine technologies, researching and searching for new directions of the Group's development, developing new algorithms and products (services) and acquiring new customers in the existing and new markets.

In order to expand and strengthen its market position, the Parent Company plans to conclude agreements with new business partners and further expand its cooperation with existing customers. In 2018, the Parent Company also intends to continue its efforts to create reimbursement codes for the long-term arrhythmia monitoring service in Germany and the UK. Moreover, the Group will implement research and development projects to improve the current version of the PocketECG system and work on new solutions in the area of heart rate monitoring, including a hybrid cardiac telerehabilitation system and a system for remote, immediate ECG description.

Medi-Lynx, a Group company engaged in the provision of diagnostic services, plans to continue a comprehensive information and image campaign of the PocketECG system as part of its business development in the United States, including participation in industry conferences, publications in the specialist press and numerous sales initiatives via social media. In 2018, the Group also plans to initiate pilot implementations of a new product – PocketECG CRS, a system for hybrid cardiac rehabilitation – in the United States. In addition, Medi-Lynx intends to implement a comprehensive training programme for its sales department and to increase the number of sales representatives.

III. 11. Assessment of the feasibility of investment plans

The Capital Group is fully capable of financing its investment projects and assumes that they are financed from equity or, if necessary, debt. Where appropriate, the Group will apply for grants for development work on new products.

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

Risk management methods have been described in Note 24 to the consolidated financial statements for 2017.

III. 13. Information on sources of supply and markets

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

IV. Statement of compliance with corporate governance standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI.Z.4. In this directors' report, the company should report on the remuneration policy including at least the following:
1) general information about the company's remuneration system;
2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
3) information about non-financial remuneration components due to each management board member and key manager;
4) significant amendments of the remuneration policy in the last financial year or information about their absence;
5) assessment of operation of the remuneration policy with regard to the implementation of its goals, in particular the long-term increase in the value for shareholders and the stability of enterprise operations.

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

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

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

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

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

The flow of information within the Capital Group is strictly controlled in order to prepare up-to-date, reliable and complete financial statements drawn up in a reliable manner, on the basis of accounting regulations and policies. The keeping of the

accounting books of the Capital Group companies in 2017 and preparation of the financial statements was entrusted to an experienced accounting firms, which apply their own control systems for the process of preparing financial statements.

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

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

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

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

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

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

All the Parent Company's shares are ordinary, bearer shares with no special control rights. The Articles of Association of Medicalgorithmics S.A. do not provide for any limitations on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, time limits for exercising voting rights or provisions according to which the rights attaching to securities are separated from the holding of such securities As at the date of this report, there are no restrictions on the transferability of ownership rights to the Parent Company's shares, except for lock-up clauses entered into with an entity that acquired 151 thousands series F shares issued in 2016, i.e. Medi-Lynx Monitoring, Inc. Until 30 March 2018, these shares may not be disposed of, including through sale, pledge, swaps or other similar transactions. This restriction applies to a block of 50% of shares covered by the lock-up agreement until 30 March 2019, and to 25% of those shares until 30 March 2020.

IV. 4. General Meeting

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

In particular, the General Meeting has the authority to:

- review and approve the Directors' Report on the Parent Company's operations and the financial statements for the previous financial year;
- appoint and dismiss the Chairman, Vice-Chairman and members of the Supervisory Board;
- grant discharge to members of the Management Board and Supervisory Board in respect of their performance of duties;
- increase and decrease the share capital;
- adopt resolutions on distribution of profit or coverage of loss;
- create and reverse capital reserves;
- determine the rules of remuneration of the Supervisory Board members;
- amend the Parent Company's Articles of Association;
- consider issues submitted to it by the Supervisory Board, Management Board or Shareholders;
- adopt resolutions on dissolution, liquidation or merger of the Parent Company;

- appoint liquidators;
- issue bonds convertible to shares and bonds with pre-emptive rights;
- issue subscription warrants;
- adopt the rules of Procedure for the Parent Company's Supervisory Board;
- determine the date on which the list of shareholders entitled to dividend for the financial year in question (the dividend record date) and the dividend payment date are established.

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

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

IV. 5. Management Board of the Parent Company

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

The Parent Company's Management Board is composed of 1–3 members appointed for a five-year term of office. The composition of the Management Board is determined by the Supervisory Board which appoints and dismisses its members.
As at the date of publication of this report, the Company's Management Board consisted of:

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

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

IV. 6. Supervisory Board of the Parent Company

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

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

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

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

IV. 7. Audit Committee of the Parent Company

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

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

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

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

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

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

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

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

V. Basic information about the Parent Company

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

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

VI. Information about operations of the Issuer

Registry data

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

National Court Register (KRS) No: 0000372848; Tax ID No (NIP): 5213361457; Statistical ID No (REGON): 140186973

Share capital

As at the date of this annual report, the share capital (registered with the National Court Register) amounts to PLN 361 thousands and comprises 3,606,526 ordinary bearer shares with a par value of PLN 0.10 per share, including:

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

Marek Dziubiński

President of the Management Board

Maksymilian Sztandera

Chief Financial Officer

VII. Other representations of the Parent Company's Management Board

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

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

Marek Dziubiński

President of the Management Board

Maksymilian Sztandera

Chief Financial Officer

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

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

Marek Dziubiński

President of the Management Board

Maksymilian Sztandera

Chief Financial Officer

Medicalgorithmics S.A.
Capital Group

Report of the Independent Auditor on Yearly Consolidated Financial Statements

Financial Year ended
31 December 2017

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.
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www.cswp.pl

REPORT OF THE INDEPENDENT AUDITOR ON YEARLY CONSOLIDATED FINANCIAL STATEMENTS

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

Report on Yearly Consolidated Financial Statements

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

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

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

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

Auditor's Responsibility

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

Our audit was performed in accordance with:

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

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

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

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

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

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

Independence

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

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

The certified auditor responsible for audit and the audit firm provided to the Parent Company and other entities included in the Capital Group the following non-audit service, which has not been disclosed in the consolidated financial statements or the report on the Capital Group's activities.

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

Appointment of audit firm

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

Significant risks

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

Description of risk of significant misstatement	Audit procedures addressing the identified risks
The process of revenue and trade receivables recognition The majority of revenues from the sale of services is generated in USA. Correctness of revenue recognition is a specific inherent industry risk, due to the complex settlement process between the Capital Group, payers and patients. The amount of recognised revenues and trade receivables, is estimated on the basis of historical cash flows. The applied method of revenue recognition is complex and involves the use of judgments and estimates. *A reference to disclosure in the financial statement* Disclosures related to revenue and trade receivables recognition are presented in notes 5 and 18 of explanatory notes to the consolidated financial statements.	Our audit procedures included in particular: • compliance of accounting policies used with international accounting standards, • understanding of revenue recognition process methodology, as well as significant judgments and estimates related to them, • analytical tests on the rationality of revenue estimation based on historical data, • verification of the historical accuracy of estimates from prior periods, • tests of details on the revenue recognition model adopted to the source documentation.

Opinion

In our opinion, the audited consolidated financial statements in all material aspects:

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

Report on Other Legal and Regulatory Requirements

Opinion on Report on the Capital Group's Activities

Our opinion on the consolidated financial statements does not cover the report on the Capital Group's activities.

According to the Accounting Act the Management of the Parent Company and members of the Supervisory Board are responsible for preparation of the report on the Capital Group's activities

in compliance with applicable laws and regulations. Moreover, the Management of the Parent Company and members of the Supervisory Board are obliged to ensure that the report on the Capital Group's activities comply with requirements set forth in the Accounting Act.

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

Opinion on Statement of Corporate Governance

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

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

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

Signed on the Polish original

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Certified auditor 11505
Jędrzej Szalacha
Key Auditor on behalf of

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

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

Warsaw, 21 March 2018

MEDICALgorithmics
INNOVATIVE SOLUTIONS IN MEDICINE

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