



**Annual report 2009
for
MediStim ASA Group**



Table of contents

For MediStim ASA Group:

- 1. Annual report**
- 2. Corporate governance**
- 3. Consolidated Income Statement 2009**
- 4. Consolidated Balance Sheet as of 31.12.2009**
- 5. Consolidated Cash Flow Statement**
- 6. Consolidated Changes in Equity**
- 7. Accounting principles**
- 8. Notes to the consolidated financial statements**

For MediStim ASA

- 1. Annual report**
- 2. Income Statement 2009**
- 3. Balance Sheet as of 31.12.2009**
- 4. Cash Flow Statement**
- 5. Accounting principles**
- 6. Notes to the financial Statement**
- 7. Auditors report**

Annual report

Nature of the business

The MediStim group's business is within developing, producing, service, leasing and distribution of medical devices. The Group has its head office in Fernanda Nissensgate 3 in Oslo, production facilities in Moloveien 10 in Horten, sales and distribution centre at Etterstad in Norway, sales and distribution centre in Minneapolis, Minnesota in the US and a sales and distribution centre in Munich in Germany.

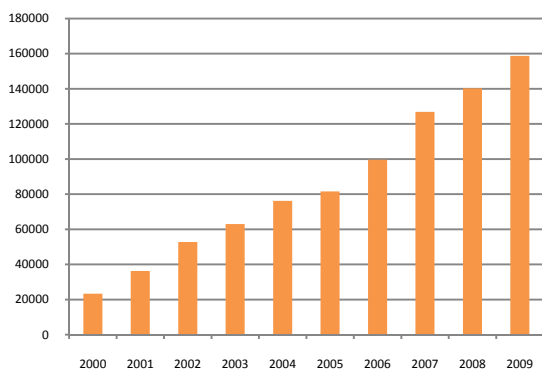
The business is focused on ensuring quality within cardiac and vascular surgery. Cardiovascular diseases are the most common casus of death in the western world and have an increasing trend in Asian countries adopting western lifestyles. Worldwide there are performed 730.000 coronary bypass procedures per year and 600.000 vascular procedures per year. On a global scale MediStim group has a leading position within quality control of coronary bypass procedures. The largest market for the MediStim products is in the US where 37 % of all coronary bypass procedures are performed. MediStim strengthen its leading position within quality control of coronary bypass surgery in 2009 by increasing its market share and through the launch of its new equipment within ultrasound imaging.

In addition MediStim is a large distributor of other medical devices through its subsidiary Medistim Kirop in Norway and MediStim Deutschland GmbH in Germany. The products distributed are medical devices within all types of surgery. The company is developing and selling electronic stethoscopes that is used by both doctors and veterinarians. The stethoscopes are sold through Welch Allyns global distribution network.

Financial development in 2009:

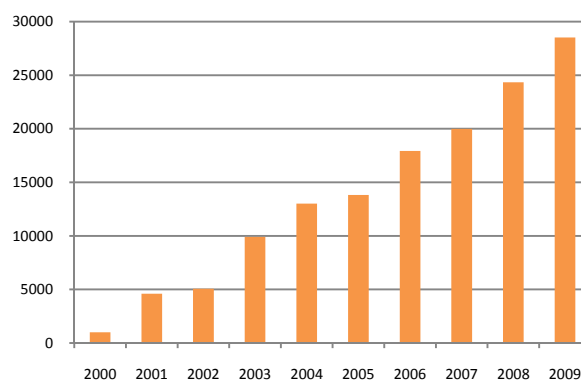
(Numbers for 2008 in parentheses)

Sales for the group increased in 2009 with 13.2 % to 158.8 MNOK (140.3 MNOK). There was growth within all the international markets. Europe had a 3.7 % growth. Growth in the US and the rest of the world was 11.8 % and 29.7 % respectively. In Asia sales increased with 105 %. Sales of MediStim products were in 2009 106.9 MNOK (88.5 MNOK). Sales of 3.Party products were in 2009 51.9 MNOK (51.8 MNOK).



Sales per year 1 = NOK 1000.

The R & D expense for the year was 9.3 MNOK (8.7MNOK). For 2009 result before R & D expenses and depreciation ended at 36.8 MNOK (30.9 MNOK). This equals a margin of 23.2 % (22.0 %). During the year 4.7 MNOK of the 9.3 MNOK in R & D expense was activated in the balance sheet (6.2 MNOK). The company received 1.1 MNOK from Skattefunn in 2009 and MNOK 0.8 in 2008. In 2009 MediStim received 0.9 MNOK in OFU funds (Public R & D development contract) from Innovasjon Norge. For 2008 the company received 2.1 MNOK in OFU funds. The OFU funds were activated in the balance sheet as deferred income.



Operating result per year = NOK 1000.

The group recorded a net finance income of 8.7 MNOK. In 2008 net finance was a cost of 2.8 MNOK. Net finance for the respective year was related to interest expense on loan and realized and unrealized gains and losses on foreign currency. Profit before tax ended at 37.2 MNOK (21.6 MNOK) a growth of 72 % compared to 2008.

Result after tax ended at 27.9 MNOK (13.5 MNOK) for 2009. The company has a deferred tax asset and the tax expense for 2009 of 9.0 MNOK was recorded against the deferred tax asset in the balance sheet. The company does not expect to be in a payable tax position before 2011, since the deferred tax asset amounted to 13.4 MNOK by 31.12.2009. Earnings per share for 2009 were NOK 1.51 (NOK 0.72). Average shares outstanding were 18.411.614 (18.769.406) by the end of December 2009.

Total value of the balance sheet was 145.6 MNOK as of 31.12.2009 (145.4 MNOK). The group had no net interest bearing debt by year end. The equity by 31.12.2009 was 106.3 MNOK (95.5 MNOK).

The cash position by year end was 29.3 MNOK (27.0 MNOK). The group's ability to finance its activities is satisfactory. This is also the case for the group's financial position and cash flow. Cash from operation was in 2009 32.8 MNOK (36.3 MNOK). In 2009 the company purchased MediStim shares for 5.8 MNOK. By the end of 2009 the company had 533 989 own shares. The board of directors will suggest to the general meeting to amortize 523 989 of these shares.

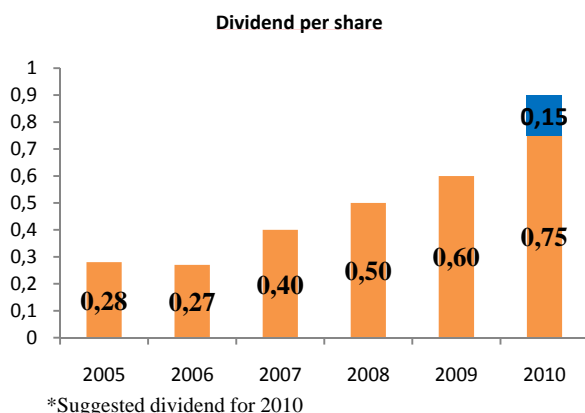
Down payment of long term debt was 4.0 MNOK in 2009 and long term debt was reduced from 7.0 MNOK as of 31.12.2008 to 3.0 MNOK as of 31.12.2009. Interest bearing debt was 7.0 MNOK as of 31.12.2009 and the company was in a net cash position of 22.3 MNOK by year end 2009. Short term debt was 20.5 MNOK.

The group is exposed to changes in foreign currency in EUR and USD since most of the revenue in the group is in these currencies. The company has entered foreign currency hedging contracts to reduce the risk towards foreign currency fluctuations. The company is exposed towards changes in interest level since the group has leasing agreements and debt with floating interest. The risk that business partners and customers do not have the financial capability to fore fill its obligations is regarded as low. Historically losses on receivables have been very low. The group's customers are mainly public hospitals that have secure financing.

The global economical situation will affect the company since MediStim is a supplier to the health care sector in many countries. The financial risks are closely monitored by management. The company's position in financial instruments reflects underlying exposure in the business. MediStim enters hedging contracts so secure future sales in EUR and USD. Market risk is not secured trough financial instruments.

Suggested distribution of profit for 2009

Result after tax for the holding company MediStim ASA was a profit of 24.3 MNOK. The Board of Directors suggest to the general assembly a dividend of NOK 0.75 per share and an extraordinary dividend of NOK 0.15 per share in relation to the company's 25 year anniversary. Total dividend suggested is NOK 0.90 per share, a total of 16.5 MNOK corrected for dividend on own shares. Remaining profit for the year of 7.8 MNOK is suggested distributed to other equity.



Continued operation

The financial report for 2009 and 2008 has been prepared according to the IFRS (International Financial Reporting Standard). The board of Directors and managing Director confirm to the best of our knowledge that the condensed

set of financial statements for the period 1st of January to 31st of December 2009 has been prepared in accordance to IFRS and gives a true and fair view of the groups assets, liabilities, financial position and result for the period viewed in their entirety, and that the annual report includes a fair review of any significant events that arouse during the period and their effect on the 2009 financial report, any significant related parties transactions, and description of the principal risks and uncertainties for the next accounting period 2010. The Board of Directors confirms that the fiscal year is closed under the assumption of continued operation. The Board is not familiar with any incidents after the closing that will affect the financial statements for 2009. In the holding company free equity was 24.8 MNOK after accruing for dividend. Equity in the group was 106.3 MNOK as of the 31.12.2009 which represent an equity ratio of 73.0 %.

Products and area of use

Measuring bloodflow with VeriQ

The company develops and produces equipment that is used to ensure quality of cardio-vascular surgery. With the use of ultrasound blood flow can with precise accuracy be measured during surgery. Physically the equipment consists of a system and probes. The probe, that is used for the measurement is set on a blood vessel and sends signals to the system that analyses the signal. The touch screen presents bloodflow curves and values. The size of the probes varies dependent upon the thickness of the vessel that is measured.

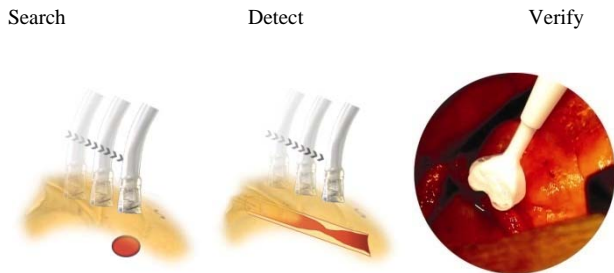


VeriQ system unit and probes in different sizes.

The most important area of use today is within cardio surgery where blood flow is measured on new vessels connected to the hart. These will in part or completely replace diseased vessels. It is then essential for the outcome of the surgery that the new vessels have the right bloodflow. This is verified with precise accuracy using MediStims equipment. In cases where blood stream is to low and the reason is a "technical error" during surgery, the surgeon can normally correct the error. The equipment then provides the surgeon a tool to verify quality and

increase the level of precision. It is easier to redo a bypass immediately rather than having a new surgery at a later point in time. This reduces patient risk and increases efficiency at the hospital. The equipment can also be used to verify quality within vascular and transplant surgery.

In addition to bloodflow measurements the equipment provides a tool for the surgeon to search for vessels and to decide the level of stenosis on a diseased vessel by using Doppler technology. Vessels can be hard to locate because of fat tissue and arteries located inside the hart. During cardiac surgery time is a critical factor. A quick and precise location for the new vessel reduces the time. In addition the surgeon does not make unnecessary incision on the hart to located diseased vessels. This increases the surgeon precision and quality of the surgery.



Dopplerprobe searches and locate, Quickfitprobe verify bloodflow.

The software to VeriQ version 3.0 has a flexible user interface in addition to analysing tools to use for both during and after surgery.

MediStim has developed and launched in 2009 a new product that includes ultrasound imaging in addition to traditional functionality described above. The imaging capability will provide the surgeon with multi functional equipment. The new product is named VeriQC. VeriQC is MediStims new generation of product for quality assurance within vascular and cardiac surgery. The system is unique and the only one of its kind that combines state of the art blood flow measurement with new ultrasound based imaging functionality. By visualizing it's easier to plan, assure quality and perform the surgical procedure. VeriQC is a new tool that contributes with increased precision and quality during surgery. Some of the uniqueness with VeriQC is that the surgeon receives a clear picture of the inside of the vessel and vessel walls. As an example the surgeon can connect the hart lung machine to the patient at the optimal place on the aorta, search after vessels, locate stenosis, decide optimal placement for new graft and verify flow before the patient is closed. All this in an effective manner that was not possible earlier. VeriQC will also have other areas of use that is commented further under R & D section.



The new ultrasound imaging probe



MediStims new ultrasound imaging system VeriQC

Electronic Stethoscope

The electronic stethoscope has a superior reproduction of sound. The sound from an auscultation can be stored and analysed both during and after consultation. The product also comes with a “distributor” that connects several persons to hear the same sound simultaneously. This has proven to be very useful in teaching situations. The quality of the sound is the same even when the stethoscope for instance is used on thick fur. This gives an advantage for veterinarians not having to shave fur on animals during consultation.



The electronic stethoscope and the distributor.

Third party products

In Germany and Norway the group has its own distribution companies offering products from other suppliers in addition to MediStim products. The third party products

offered are within surgery to have additional sales towards the same customer group. MediStim has good experience with combining own and 3rd party products within distribution.

Market development

MediStim sells its products all over the world through distributors. The exception is USA, Germany and Norway where MediStim has local representation. The US is the largest and most important market where 270.000 bypass surgery procedures are done on a yearly basis. This represents 37 % of all bypass surgery performed on a global scale. To secure its position in the US MediStim established its own sales- and distribution centre in 2007.

USA

In the US MediStim has a unique business model. Instead of purchasing equipment and consumables the hospital pays per procedure the equipment is used. The equipment is placed at the customer site free of charge and the hospital must purchase a smart-card or diskette that opens the system for use. One smart-card or one diskette represents surgery on one patient.



VeriQ smart-card used in the US.

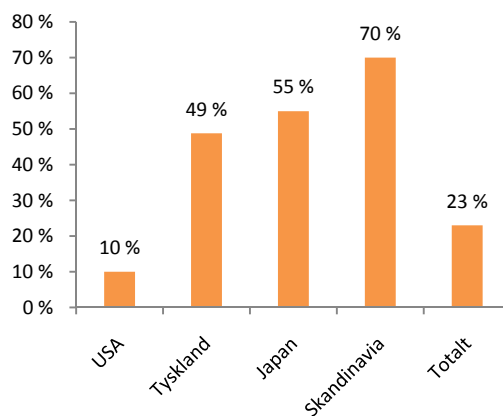
MediStims subsidiary in the US is represented by 23 sales representatives and 5 within administration. 10 of the 23 sales representatives are employed by MediStim and 13 are independent representatives. All of the employees have extensive experience within healthcare. MediStim is able to cover all states in the US with its organization.

MediStims investment going direct in the US has given positive results. Despite the general depression in the US economy sales of procedures increased. Number of procedures sold in 2009 was 24 788 (24 442). Sales in the US increased with 11.8 % to 38.5 MNOK.

In the US procedural sales is promoted and not capital sales. Still, some customers in the US prefer to own the equipment rather than paying per procedure. In these cases MediStim sell the equipment as a capital sale like

elsewhere in the world. MediStim has been represented in the US since year 2000 and has sold 2 to 4 systems on a yearly basis. Therefore it's a growing number of capital installations purchasing probes that represent a significant number of procedures. In 2009 it represented 3176 procedures and in 2008 it represented 3675 procedures. These procedures are included in the total number of procedures referred to above. Procedure sales through smartcards increased with 4 % to 21 612.

MediStim participated with at the US cardiac congresses American Association for Thoracic surgery (AATS) and The Society of Thoracic Surgeons (STS). During the exhibitions MediStim held a symposium. During the symposium presentations was held by the surgeons Dr. Thomas Salermo, Jacob Bergsland, Gabriele Di Gimmarco and Sam Balkhy. The subject in the presentations was their experience with quality control of cardiac surgery. These surgeons have extensive experience using MediStims equipment. Their opinion is that it is essential to use MediStims equipment to secure good outcome of cardiac surgery.



MediStims estimated market penetration within cardiac surgery.

MediStim entered during 2009 an agent agreement with the company Larry Dykes Associates. The agent is responsible for sales in the states Oregon, Washington, Idaho, Montana and Alaska. The company has several years of experience selling medical devices from Siemens, Medtronic, GE and Baxter. The above states was previously covered by MediStims main office in Minneapolis, Minnesota, and so far sales to these states have been low. Sales went down when MediStim went direct because of low coverage. With the new agreement MediStim covers all states in the US either through own sales representatives or through an independent agent.

In 2009 MediStim entered a distribution agreement for a 3 party product in the US with the Canadian company Kardium Inc. Kardium Inc delivers devices within cardiovascular surgery, and their focus is to find new solutions and increase efficiency. MediStim shall market and sell Kardiums product TORQ starting in 2010. TORQ is a surgical instrument that improves the closing of the chest after open heart surgery. The instrument ensures

optimal closing and reduces the risk for complications. The product is described in detail at the company's web site www.kardium.com. The agreement gives MediStim exclusive sales rights in the states where MediStim US Inc. has directly employed sales representatives. In total MediStim cover 23 states in the US with its own sales representatives. MediStim has in other markets, like Germany, had success combining MediStim's own products with 3 party products within the same surgical area. The company has a good coverage in the US through its subsidiary, and is therefore an attractive partner and distributor for producers that want to enter the US market.

MediStim launched its imaging product VeriQC during 2009 in Europe. There is today an uncovered global demand for imaging within surgical procedures. MediStim's new imaging product is expected to be able to cover this demand. The company is estimating that the market for MediStim's products will increase with more than 100 % with imaging functionality. It is therefore important for MediStim to have a motivated and well organized sales force in the largest market when the product is released in the US in 2010.

It is performed approximately 270.000 procedures in the US per year, and MediStim's equipment is used in about 10 %. There is a large potential and limited competition. The US represents 37 % of the market for MediStim's products and a direct representation secures focus.

By year end MediStim had 340 systems at customer sites in the US. This is expected to increase in 2010, and that the usage per installation will increase with a direct follow up of end customers. It is also expected that the demand for VeriQC will increase the number of installations at US hospitals. With direct representation MediStim can focus on activities that are expected to give growth. Of total 1250 cardiac centres in the US, MediStim had installed its equipment in 263 of these. Focus in 2010 is to increase usage per installation, create new customer relations and establish a customer base for VeriQC.

The establishment of a direct US operation has been a success, which first operating year confirms. The company is optimistic in regard to the future, expects positive results and a strengthening of MediStim's position in the company's largest and most important market.

Other markets

Instead of pay per procedure that is used in the US, customers in the rest of the world invest a onetime amount in the system. The hospitals have the ownership of the system, but are dependent upon purchasing necessary consumables. The consumables consist of different probe sizes. To date consumables is the most significant source of revenue for the group.

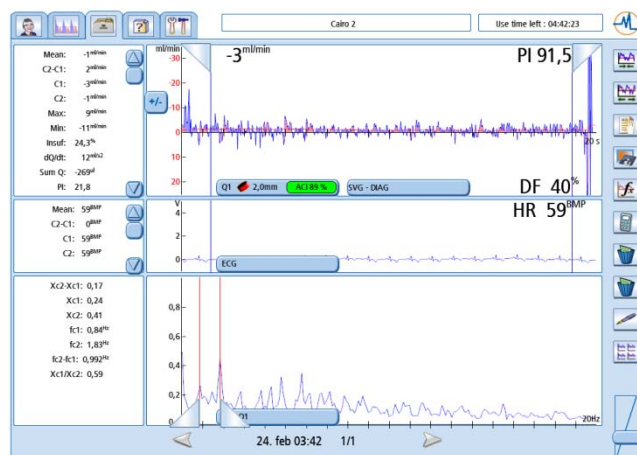
Asia is still best represented through Japan that contributed with 77.5 % of sales in the region. Equally in 2008 was 75.1 %. Asia was the region with strongest growth in 2009 and sales increased with 105 % compared to 2008. The region has increased focus on cardiac diseases as western

lifestyles are adopted by many Asians. It is therefore important for MediStim to be well represented in the region. MediStim has good representation through its distributors and is well prepared for future growth.

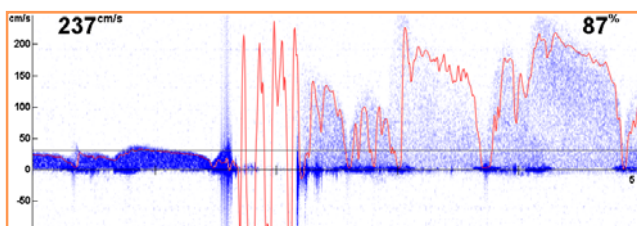
The Chinese health authority, State Food and Drug Administration, has after a longer process finally given MediStim the necessary clearance for sale in China. The clearance is valid for MediStim's latest VeriQ version with probes for transit time blood flow measurements. This is an important milestone for MediStim, since China is the largest country in Asia with strong economic growth. In China the company is represented through its distributor Pacific Medical Solutions Ltd.

The foundation for the approval of VeriQC in Japan was made in 2009. MediStim received in January 2010 confirmation from its distributor in Japan that its new product VeriQC was cleared for sale. In Japan it's the Ministry of Health, Labour and Welfare (MHLW), the Japanese health authorities that approves medical devices. Japan is a substantial market for MediStim with about 400 hospitals performing on average 36 000 cardiac procedures per year. MediStim's equipment is used in about 50 % of the procedures. It is expected that a large portion of hospitals and existing users will purchase the new product VeriQC. MediStim's products are well accepted in the Japanese market and the company is optimistic in regard to future sales of VeriQC in Japan.

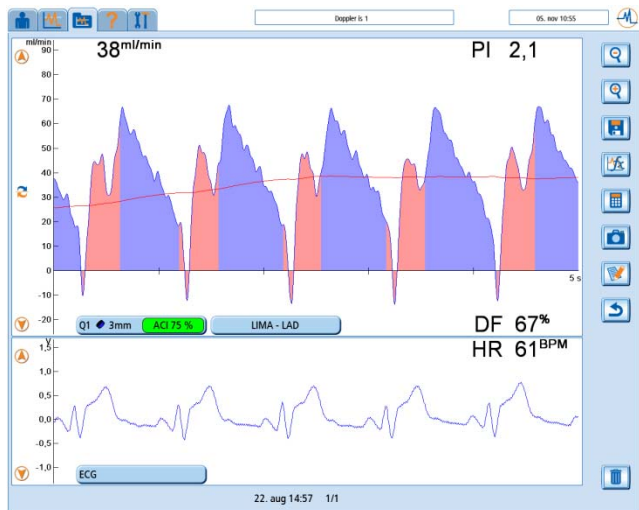
MediStim has a product specialist for the region with base in Australia. The purpose is to get focus and closer follow up of distributors in Australia, New Zealand and Asia.



No bloodflow visualised through VeriQ touch screen.



A shift in the Doppler curve that identifies a stenosis



Correct blood flow visualised using VeriQ touch screen.

Countries like France, Great Britain and the Benelux countries are markets with large potential for the MediStim products. In Great Britain there is a population of 60 million people where MediStim has a large potential. MediStim has as of now a low market penetration in Great Britain, but have over the years gradually gained increased acceptance for its products in a conservative market.

France is a market with a potential similar to Great Britain. Steam autoclave is in most French hospitals the only alternative for sterilization of probes. MediStim probes were not robust enough to handle this method before recently. MediStim's newest probe is autoclaveable and will ease the use for French hospitals. This makes MediStim optimistic that the company over time will strengthen its position in France. MediStim increased its resources within sales and marketing to secure focus towards France and Great Britain.

The group's experience with introductions in new markets is that it takes time to build a market share. This is the case for introductions in USA, Europe and Asia.

In general there has been a positive development in Europe. Sales of own products increased with 7.2%. It is expected that the trend will continue. The most important milestone in Europe in 2009 was the CE approval of VeriQC in September. With the CE approval in place MediStim is able to sell VeriQC in all European markets. Sale of VeriQC was also an important contribution to the growth in 2009. MediStim launched VeriQC in Europe during the European cardiac congress EACTS (The European Association for Cardiac-Thoracic Surgery) in Vienna, Austria. The Congress was held from the 17th of October and ended the 21st of October. VeriQC got much attention and the company collected many new leads during the congress. The first order came from Finland and in total it was sold 5 systems in the last 2 months of 2009. Besides Finland one system was sold in Denmark, one in Sweden and two in Italy.

In Europe Germany is the country with the highest level of cardiac surgery and MediStim is represented through its subsidiary MediStim Deutschland GmbH. Sales in Germany increased with 6.5% in 2009 and 10% in 2008. It is expected a stronger growth in 2010 with sales of VeriQC in the German market. In Germany MediStim distributes 3rd Party products together with own products. The subsidiary in Germany is also service- and distribution centre for the Benelux countries.

In the rest of the world MediStim increased sales with 29.7%. Medtronic, considered to be one of the world's largest medical device suppliers, is MediStim's distributor in Latin-America, Canada, Australia and New Zealand.

Canada and Latin-America are regions where the distributor is followed up by the US subsidiary in Minneapolis. To strengthen focus in Latin-America MediStim has a person within sales and marketing in Argentina to serve the region.

In the Middle East there has been a growth in both system sales and consumable sales. MediStim has over a time period had a dedicated resource for the region.

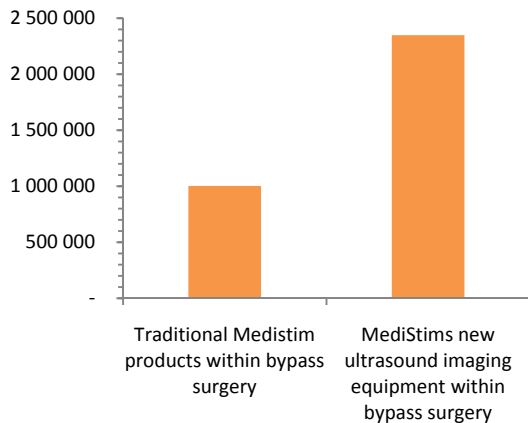
MediStim participated at the four large cardiac exhibitions that are arranged annually. These are The European Association for Cardiac-Thoracic Surgery (EACTS), The American Association for Thoracic Surgery (ASTS), Society for Thoracic Surgery (STS) and the Asian Society of Cardiovascular Surgery (ASCVS). The exhibitions are respectively for surgeons in Europe, USA and Asia. The company established many important contacts, identified new projects and got to present new products during the exhibitions. Attending the cardiac congresses is one of the most important marketing channels for the company.



MediStim's booth at STS in Fort Lauderdale, Florida USA.

MediStim has close to 50 distribution agreements with agents all over the world. The products from the company are installed in 59 countries and the installed base was 1750 systems by the end of 2009. MediStim expects large revenues in the future from the daily use of the equipment and consumables that then will be demanded. In addition,

MediStim expects that many hospitals will purchase the new product VeriQC. MediStim's new equipment more than doubles the company's market potential for two reasons. Not only does it open for new areas of use, but the additional information provided to the user increases the economical value of the equipment.



Total market potential for MediStim's traditional products and MediStim's new Ultrasound imaging product 1 = NOK 1000

MediStim Kirop AS is the Norwegian distributor and a MediStim ASA subsidiary. The main focus for the company is 3-party surgery products that fit well with MediStim's own developed products. This increases MediStim's integrity in the medical device market. The company is ISO certified and has 16 employees including 9 sales representatives.

Market development for the electronic stethoscope

The products have gained access amongst veterinarians and are much in use in medical teaching environments. There has been a long introduction time for the product in a conservative market where the traditional stethoscopes have a strong position. It is expected the electronic stethoscopes gradually will gain market share because of its superior reproduction of sound and the opportunity to digitally save the sound. Digitalised products within modern medicine are an advantage and in most cases a necessity.

MediStim ASA has a 3 year global distribution agreement for the stethoscopes with Welch Allyn. The agreement expands in 2011. Welch Allyn has its main office in New York, USA, has more than 2300 employees and is represented directly in 17 countries. The company is a distributor for a range of medical device products and has since it was founded in 1911 had a global distribution network.

MediStim has over some time developed improvements to the stethoscope. This is new functionality in the software that gives the user additional aid setting right diagnosis. In parallel several quality improvements are implemented increasing expected lifetime and that makes it easier to use. The new version was put in production during 2008. The product improvements have increased the profitability per stethoscope sold.

The stethoscope business has been through a restructure. Historically there were large losses generated by the business. After MediStim took over the operation common functions like administration, service, production and sale has been coordinated with MediStim. The restructure has given a positive result and the business has been profitable the last three years.

New and improved version of the product has increased the profitability per unit sold. However, sales have not increased as expected. The product has not received the attention it deserves from the distributor. The main reason for this is that there has been a reorganising within Welch Allyn, and for a period of time, there was no product manager responsible for the stethoscopes. New product manager has been appointed so that the product will be properly managed in 2010.

Production

MediStim's production facilities are located in Horten where all electronics are assembled and where probes are produced. The distributor and the analyzer, products to the electronic stethoscope, are also produced in Horten. The electronic stethoscopes are produced by a third party. Scandinavian Health Limited (SHL) that has production facilities in Taiwan. Probes to VeriQC have been produced by WL Gore & associates Inc. In 2010 these probes will be produced by Sound Technology Inc.



Assembling a probe.

In production there is a constant focus on how to make production more effective. All of the components that are included in probes and systems are closely monitored and where possible cost for the components reduced. The company manufactures products that satisfy the demands from relevant health authorities. This requires high flexibility and excellent quality systems.

Research and development (R & D)

There is a large and un-served demand within quality control of procedures within cardiac and vascular surgery.

New and more advanced surgery increases the need to quality control the outcome of a procedure. The trend is less invasive procedures and keyhole surgery. This leaves the surgeon less workspace and possibility to control in a traditional manner. It is therefore important for the surgeon to verify the outcome and to document the result of a procedure. MediStim will invest in existing and new products to cover the surgeons need to verify quality. MediStim invest between 5 to 10 % of sales in research and development. In 2009 9.3 MNOK was invested.

The R & D activity in 2009 was mainly within development of imaging. The project was initiated in 2005 and is the most complex project MediStim has managed.



Reading flow curves during surgery.

MediStim has together with its partner in the project, Aurotech Electronics, developed a digital ultrasound module. A surgeon that operates the equipment using new developed ultrasound probes and software will, in addition to traditional functionality, be able to see two dimensional pictures of the vessels. Blood flow in the vessels will also be visualised using colour coded two dimensional Doppler technology (CFM). The new product is named VeriQC and the first version was released in fourth quarter 2009.

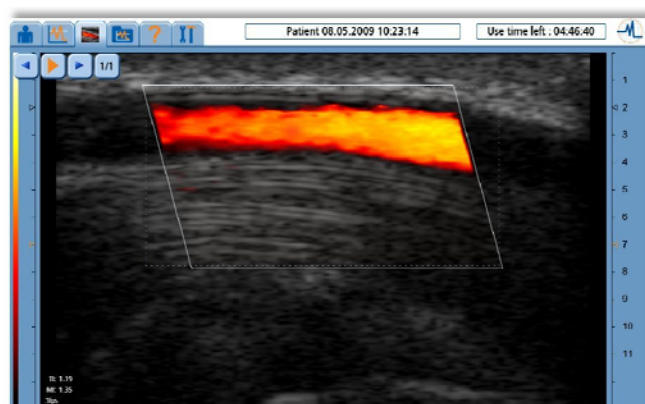


Image of a blood vessel using colour Doppler.

There is today an un-served need for ultrasound based imaging equipment specially designed for surgical applications. The combination of ultrasound transit time

measurement and imaging is unique and the first product in the market with this functionality. The combination strongly increases the market potential within existing markets but also open new markets. VeriQC with imaging and CFM was available for sale from the fourth quarter of 2009.

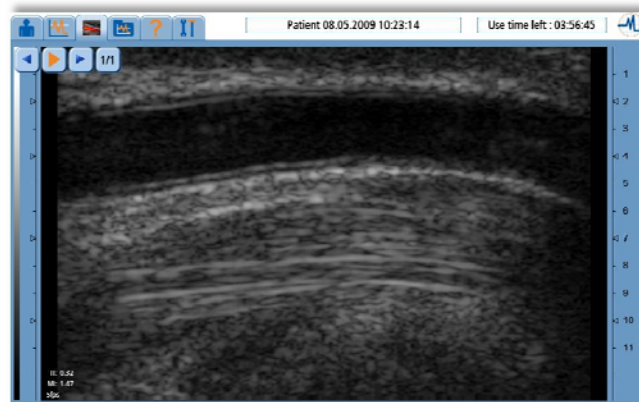


Image of a blood vessel without colour Doppler

The first clinical experiences with the equipment have been successful. The clinical experience have provided important information, and resulted in a significant improvement of the product. The ultrasound images from VeriQC provide detailed pictures of the inside of vessels and vessel walls. In clinic surgeons have changed otherwise accepted methods and techniques several times during a surgery based on information visualized with VeriQC. VeriQC serves the surgeon with information that previously was not available.



The picture shows a coronary artery with a stenosis indicated by the arrow. A shadow is observed in the ultrasound which indicates that this is hard plaque that reflects that ultrasound more than soft plaque.

In addition to bypass surgery, VeriQC will be a useful tool within other surgical procedures, like valve surgery, transplant surgery and surgery on persons with congenital cardiac diseases. MediStim will together with its partners test the equipment in clinic to develop procedures for this type of surgery.

MediStim received its CE approval for VeriQC in 2009 and clearance for sale in Japan in January 2010. The company is in the process of filing for a FDA (Food and Drug Administration) clearance in the first half of 2010.

MediStims partners in the clinical testing of VeriQC have been St. Olavs Hospital and St. Elisabeth. The surgeons

have given valuable input for best clinical usage when optimizing picture quality.

The imaging project made MediStim qualified for OFU funds (Offentlig Forsknings- og Utviklingskontrakt). The total grant was 5.85 MNOK over a time period of four years where 2009 was the last year in the project. The grant is given directly to the project by Innovasjon Norge. The cardiac clinic St. Elisabeth and St. Olavs Hospital is also participating in the project and represent the public involvement in the project. The two hospitals has been and will continue have a central role in the further development of VeriQC, St. Elisabeth within cardiac surgery and St. Olavs Hospital within vascular surgery. MediStim also qualified for Skattefunn. Both grants have been important contributions to fund MediStims imaging project.

MediStim participates in a project arranged by Senter for Forskningsdrevet Innovasjon (SFI) with support from Norges Forskningsråd (funded by public authorities). The SFI project focuses on imaging within medicine for innovative future diagnose and patient treatment. The project is hosted by NTNU in Trondheim. In addition to MediStim companies like GE Vingmed Ultrasound participates in the project. The project has a yearly budget of 44.6 MNOK over 7 years. MediStim will mainly contribute with own resources rather than financial contributions. MediStims participation in the project will increase the company's competence within ultrasound imaging and secure participation in future oriented research both technically and clinically within the field. The project will stimulate MediStims future development in the coming years.

Other affairs within the group

Events after year end

The tax authorities requested information from the company related to the acquisition of Meditron ASA during 2007. The tax authorities informed the company that it was considered to change the tax filing from 2005. MediStim has provided information and detailed descriptions of the evaluations and events that was considered during the acquisition in January and March 2008. The company received the 16th of March 2010 confirmation from the tax authorities that they will not follow the issue further and that the case is closed.

No other events after 31.12.2009 has occurred that affect the evaluations made in the 2009 financial accounts for the group.

Working environment and employees

There have been no material damages or accidents related to the company's activities and the working environment are considered to be good. The activities in the group are in general at a low risk level. However, it is considered to be important and a priority to focus on improvements in the working environment. Sick leave at a group level was 406

days in 2009 (201 in 2008), that represented 2.2 % (1.1 %) of total working hours. It has not been necessary to put into effect special measures in 2009. The group had 72 employees by the end of the year.

The group strives to be a workplace where sexes are treated equally. There is a group policy to ensure that there are no differences between sexes in cases like salary, promotions and recruitment. 29 of the 72 employees were women.

The company actively works to prevent discrimination because of disabilities, ethnicity, national origin, color, religion or belief. The activities include recruitment, wages and working conditions, promotion, development and protection from harassment.

MediStims hired in 2009 a new CEO, Kari Eian Krogstad (b.1964), to succeed after Arne Grip. Kari Eian Krogstad holds a M.Sc. degree in Molecular Biology from the University of Oslo as well as a Marketing degree from IHM Business School. She has an extensive background from various senior management positions within marketing, business development and management in Nycomed and Dynal. Her latest position was as CEO in Invitrogen Dynal where she has played a key role in the growth and success of the company since 2005.

Previous CEO Arne Grip will continue to support MediStim with his extensive knowledge which he will do on a long-term consultant basis. Arne Grip can look back upon the enormous success of the development of MediStims system for intraoperative quality control in cardiovascular surgical interventions. This commitment has been instrumental in the achievement of the high level of success MediStim is experiencing today.

External environment

It is the Board of Director's opinion that the external environment is not particularly polluted or affected by the company's activities. The Board of director's has therefore not taken any specific measures within the area.

Forward looking statement

The Board of Directors views the company's future opportunities as good. MediStim is well positioned for future growth both organic and through acquisitions. The Board of directors is of the opinion that the company has a large potential in general and a specific opportunity in the US market with an established direct sales organisation. There are large expectations towards the new ultrasound imaging product VeriQC.

Oslo, 18.3.2010

Øyvind A. Brøymer
Chairman

Lise Sofie Haug Nissen-Meyer
Board member

Helge Ranvik
Board member

Kari Pah
Board member

Christian Fekete
Board member

Kari Eian Krogstad
CEO

Corporate governance

MediStim is like other companies dependent upon a good relations towards its contacts to succeed and its a priority for the company. A good reputation and solid financial development to build and maintain trust and confidence towards important contacts like customers, investors, suppliers, employees, partners and public authorities. This demands good control of the business with an open and honest communication. Equal treatment of shareholders is also important to increase share value and achieve investor confidence.

Independency and neutrality

MediStim strive for independency and neutrality in the relations between the Board of Directors, management, owners and others. The principle of independence and neutrality and arms length principle applies towards all contacts and business associates like customers, suppliers, banks and other connections.

Equal treatment of shareholders and free trade of shares

MediStim strive to ensure that all shareholders shall be treated equally. There is one class of shares and one share has one vote at the shareholders meeting. All shares are freely negotiable with no form of restriction. Shareholders are treated equally in relation to dividend. All shareholders have the same rights in potential capital increases. There is no restriction related to the ownership of shares and there are no shareholder agreements that the company is aware of. Sales and purchases of own shares are done at the Oslo Stock exchange.

The guidance in the companies reporting of financial and other information is based on openness and equal treatment of the participants in the securities market. MediStim is listed at the Oslo stock exchange and is obliged to follow Oslo Stock exchange rules for handling information. All information is published trough Oslo stock exchange and the company web site www.medistim.com.

General Assembly

The company will send out a notice to the shareholders regarding the general assembly minimum 21 days before the meeting as required by law. An agenda, documents and information about the issues on the agenda will be included in the notice, so that the shareholders can be prepared on the issues treated at the General Assembly. To participate at the General Assembly a shareholder need to give a notification at latest one day before the meeting. A shareholder can be represented trough power of attorney. The Board of Directors are represented at the meeting. The company auditor will participate at the meeting.

Equity and financing

MediStim will at all times strive to have a strong balance sheet with a high level of equity.

Dividend

MediStim has ambitious goals for future growth. In order to achieve growth there may be at times necessary with a high level of equity. However, MediStim will consider a yearly dividend. The level of the dividend per share will be evaluated based upon the MediStims financial capacity. The company will at all times ensure that it has the financial capacity and equity to achieve future plans for growth.

Board of Directors

MediStim seeks a Board of Directors that is balanced in the sense of having the right competence, experience and relevant skills within the business. It is preferable that the members of the Board represent the owner structure and have neutral independent representatives with no link to owners. The management is not elected as members of the Board. MediStim has one Board member that earlier was an employee in the company. The Board of directors has a fixed yearly compensation decided by the General Assembly. The Board members are elected for a period of two years. All members are not on election at the same time. The Board is once a year evaluating its work. The Board has not seen it necessary to use a steering committee based upon the issues treated by the Board in 2009. All Board members have shares directly or indirectly in MediStim ASA.

Risk management and internal control

The Board of directors has a yearly meeting to set the strategy for the company within the next 3 years and identify important risk factors. The Board receives updated financial information at every Board meeting. The financial position is analysed and compared against budget, strategy approved by the Board and last year's performance. The Board of Directors review the quarterly reports and risk factors for the company are discussed and evaluated. The Board of Directors has an annual review together with the auditor before approving the annual report. Risk factors are also reviewed. The auditors give their view of the company's risk exposure to the Board of Directors.

Nomination committee

The company has a nomination committee elected by the General Assembly. The company has in its article of association that the General Assembly shall appoint a nomination committee. The Nomination committee suggests candidates to the Board of directors, yearly compensation to the board or committees. The nomination committee is independent from the Board of Directors except for one member. Suggestions to the nomination committee must be sent at latest 14 days before the General Assembly announcement. The committee consists of 3 members. The leader of the committee is Janne Flessum which represents Orkla ASA. Orkla ASA is MediStims 4. largest shareholder. Other members are Asbjørn Buanes and Bjørn Henrik Rasmussen. Asbjørn Buanes is the 5. largest shareholder

and previous employee. Bjørn Henrik Rasmussen represents Follum Capital AS and is MediStims 6.

Compensation to management

It is important for MediStim to be an attractive employer. The company strives to attract competent employees with relevant experience and give the opportunity to further develop. The compensation to management will at all times be at market terms. It is established an incentive plan where defined measurable goals are identified.

The Board of Directors set terms and conditions for the CEO. The CEO set the terms and conditions for the management team and leading employees. The principles for setting the terms to the CEO and leading employees are the same. The principles for 2008 and 2009 were the same and there are no planned changes. Terms and conditions are set at market terms and are evaluated on a yearly basis. It is company policy to reflect the average level in the market. Management had earlier share options that were vested in 2006. There was no incentive related to shares or development share in share price in 2008 and 2009. There are no plans to introduce a program with these criteria's. New CEO received 10 000 shares the 1st of October and received further 10 000 shares after 6 months in position. CEO and management have in addition to fixed salary incentive plans related to achieved results. The criteria's are reviewed annually and are linked to internal goals and budgets. If the criteria for bonus or provision are not reached, the Board of Directors or CEO may disregard the criteria in certain situations. This will be the case if a situation has been exceptionally demanding or the Board of directors have made decisions that affect earlier agreements. There are no employees in the company with an agreement giving additional compensation when leaving the company and there are no plans to introduce such agreements. Management is included in the same pension plan as other employees. Other benefits are of minor financial importance such as free access to communication tools for the management team to be available.

Policy for financial information

The company will give correct, accurate and adequate financial information every quarter and present the information without delay. Early reporting reduces the risk and possibility of information leakage and contributes to equal treatment of shareholders. The company does not give any forecast on future sales and results.

The responsibility for investor relations and sensitive information regarding MediStim shares is limited to the Managing Director (CEO) and the Financial Director (CFO).

Auditor

The group uses the same auditor for all companies within the group. The auditor is used as a consultant in accounting issues, tax calculation and tax issues. In due diligence processes other advisors are used than the company auditor. The auditor is not used when making the company strategy or in other operational matters. Only the CEO or the CFO is hiring the auditor services.

The auditor is participating in the board meeting treating the annual report. In this meeting the auditor is describing their views on accounting matters and principles, risk areas and internal control. The auditor participates in other board meetings on request from the Board when the Board wants to get the auditors view in a specific matter.

Compensation to the auditor is set by the General Assembly and is described in the notes to the financial statement.

Take over

In a potential offer where the effect of the transaction is a takeover the Board of Directors will handle professional and ensure same information and treatment of all shareholders. A takeover requires a General assembly and the Board of Directors will give their recommendation of a potential offer on the shares.

Composition of the board of directors and independence

The board of directors consists of the following five members:

Chairman Øyvind A. Brøymer was chosen as chairman for the first time in year 2000 and works as a consultant and investor through his own company. He has experience from Aker Gruppen, Hafslund Nycomed ASA and the shipping company Leif Høeg & Co ASA as CFO, vice president and vice managing director (1980–2000) and has extensive experience from boards in other companies. Brøymer has several years of experience within the medical industry and holds a degree within economics and business from Norwegian school of management and a master title from the University of Wisconsin in the US. Brøymer is on election for a new term on the next ordinary general assembly in 2011. He controls 100 % of the shares in Føltemarken AS. Fløtemarken AS is the second largest shareholder in MediStim.

Board member Lise Sofie Nissen Haug-Meyer was elected board member in 2007. Lise Sofie Nissen Haug-Meyer is educated as a doctor at the University of Oslo. She now works in a research group led by Professor Farrukh Chaudry at the biotechnological centre in Oslo where she also was a board member. Lise Sofie Nissen Haug-Meyer has a solid background within medical research and administrative experience through associations and committees. She is on election for a new term on the next ordinary general assembly in 2010

and is independent towards largest shareholders, management and company contacts

Christian Fekete was chosen as board member for the first time in 2002. Fekete works as a CFO in PhotoCure ASA and has had several leading positions within finance and business development in KPMG and Ernst & Young. He has experience within finance from Coca Cola and as board member in the Norwegian association for investor relations. Christian Fekete has given notice that he will not take re-election at the next ordinary general assembly in 2010. Christian Fekete is independent towards largest shareholders, management and company contacts.

Helge Ranvik was first time chosen as board member in 2004. Ranvik works as the managing director for Scandinavian House AS and as a consultant within healthcare in the Nordic countries. He was CEO in Holtung Alliance AS (Alliance Healthcare AS) which is a distributor within pharmacy. In addition to experience from several boards in other companies Ranvik is experienced in building international sales organisations. Helge Ranvik holds a bachelor degree from Norwegian school of management and is independent towards largest shareholders, management and company contacts. He is on election for a new term on the next ordinary general assembly in 2011.

Kari Pah was chosen as a board member in 2006. Kari Pah is one of the founders of the company in 1984 and was CEO for several years up until year 2000. From 2000 to 2004 she was CEO for the MediStim subsidiary Medi-Stim Norge AS. She is today not employed by MediStim, but has extensive knowledge and competence within the MediStim branch. Kari Pah is one of the major shareholders in Zenith Medical AS that is the largest shareholder in MediStim ASA. Kari Pah is on election for a new term on the next ordinary general assembly in 2010.

Income statement

MediStim ASA group

1 = NOK 1000

	Note	2009	2008
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	3	156 870	138 509
Other income	3,11	1 879	1 781
Total revenue	2,3	158 749	140 290
Operational expenses			
Cost of goods sold	3	42 792	40 622
Salary and social expenses	4,5,20	51 696	42 373
Other operating expenses	7	31 975	28 822
Total operating expenses before depreciation and write down		126 463	111 817
OPERATING RESULT BEFORE DEPRECIATION AND WRITE DOWN		32 286	28 473
Depreciation on assets	6,11	3 765	4 117
Total operating expenses		130 227	115 935
OPERATING PROFIT		28 522	24 355
FINANCIAL INCOME AND EXPENSES			
Total financial income	8,19	19 157	8 162
Total financial expenses	8,19	10 474	10 917
Net finance		8 682	-2 755
PROFIT BEFORE TAX		37 204	21 600
Tax expense	9,11	9 331	7 265
NET PROFIT	10	27 874	14 335
COMPREHENSIVE INCOME			
Net profit		27 874	14 335
Other income and expenses for the period:			
Exchange differences arising on translation of foreign operations		-186	-134
TOTAL COMPREHENSIVE INCOME		27 688	14 201
Earnings pr. share			
Basic	10	1,51	0,76
Diluted	10	1,51	0,76
Purposed dividend pr. share	10	0,90	0,60

Consolidated Balance Sheet

MediStim group ASA

1=NOK 1000

	Note	31.12.2009	31.12.2008
ASSETS			
Non current assets			
Machinery and equipment	6	5 989	8 089
Deferred tax asset	1,9	13 385	22 383
Intangible asset R&D	1,11	18 780	14 524
Intangible asset trade name and customer agreements	1,11	367	1 082
Goodwill	1,11	14 128	14 128
Total non current assets		52 649	60 206
Current assets			
Inventory	13	28 269	25 217
Accounts receivable	14	23 348	24 402
Other receivables	14	7 032	8 550
Financial instruments	19	5 033	-
Cash	15	29 297	27 010
Total current assets		92 979	85 179
TOTAL ASSETS		145 627	145 385
EQUITY AND LIABILITIES			
Equity			
Issued capital	16	46 435	46 527
Retained earnings		59 860	48 934
Total equity		106 294	95 461
Non current liabilities			
Interest bearing loans	17	3 003	7 004
Pension liabilities	1,5	5 965	3 669
Deferred revenue	11	5 568	4 415
Total non current liabilities		14 537	15 088
Current liabilities			
Accounts payable		8 716	10 275
Employee withholding, social security taxes and other payable	18	11 930	19 611
Provisions	21	150	150
Interest bearing loans	17	4 000	4 800
Total current liabilities		24 796	34 836
Total liabilities		39 333	49 924
TOTAL EQUITY AND LIABILITIES		145 627	145 385

Cash flow statement MediStim ASA group (Indirect method)

1 = NOK 1000

	Note	2009	2008
Cash flow from operations:			
Profit/loss before tax		27 874	13 537
Minus income tax paid	9	-355	-688
Plus depreciations	6,11	3 765	4 117
+/- Change in inventory	13	-3 052	-2 802
+/- Change in accounts receivable	14	1 055	-2 596
+/- Change in accounts payable		-1 559	6 234
+/- Change in paid and expensed pension	5	2 296	322
+/- Interest revenue		294	705
+/- Interest expense		-380	-1 015
+/- Change in other accruals*		2 846	8 947
Net cash from operating activities		32 783	26 761
Investing activities:			
Minus investment in assets		-5 419	-9 202
Net cash from investing activities		-5 419	-9 202
Financing activities:			
Minus down payment of interest bearing debt	17	-4 800	-4 800
Dividend	10	-11 017	-9 412
Purchase of own shares		-5 840	-2 365
Net cash from financing activities		-21 657	-16 577
Unrealised loss foreign exchange		-3 420	9 588
Net change in cash		2 287	10 570
Cash as of 01.01		27 010	16 440
Cash as of 31.12	15	29 297	27 010
Available cash and cash withholding			
Available cash as of 31.12	15	27 809	25 729
Cash withholding for taxes	15	1 488	1 281
Cash and cash equivalents as of 31.12		29 297	27 010

* Specification of other accruals 1 = NOK 1000:

Skattefunn	800
OFU funds	2 074
Other accruals	-28
Sum	2 846

Change in equity MediStim ASA group

1 = NOK 1000

	Note	Share capital	Own shares	Share premium fund	Issued capital	Other reserves	Retained earnings	Total earnings	Total Equity
Equity as of 31.12.06		4 854	-137	41 852	46 569	-40	27 529	27 489	74 058
Foreign exchangerate differences		-	-	-	-	-	-	-	-
Net result recognised agains equity		4 854	-137	41 852	46 569	-40	27 529	27 489	74 058
Total comprehensive income for the period		-	-	-	-	-292	28 394	28 101	28 101
Change own shares	16	-138	128	-	-10	-	-766	-766	-776
Dividend	10	-	-	-	-	-	-7 548	-7 548	-7 548
Equity as of 31.12.07		4 716	-9	41 852	46 559	-332	47 609	47 276	93 835
Net result recognised agains equity		4 716	-9	41 852	46 559	-332	47 609	47 276	93 835
Total comprehensive income for the period		-	-	-	-	-134	13 537	13 403	13 403
Change own shares	16	-	-31	-	-31	-	-2 334	-2 334	-2 365
Dividend	10	-	-	-	-	-	-9 412	-9 412	-9 412
Equity as of 31.12.08		4 716	-40	41 852	46 528	-466	49 400	48 933	95 461
Net result recognised agains equity		4 716	-40	41 852	46 528	-466	49 400	48 933	95 461
Total comprehensive income for the period		-	-	-	-	-186	27 874	27 688	27 688
Change own shares	16	-	-93	-	-93	-	-5 747	-5 747	-5 840
Dividend	10	-	-	-	-	-	-11 016	-11 016	-11 016
Equity as of 31.12.09		4 716	-133	41 852	46 435	-652	60 511	59 859	106 294

Comments to other reserves:

Other reserves in the equity reconciliation are differences related to converting equity from foreign subsidiaries to NOK. The subsidiaries present their financial statements in EUR and USD. When converted to NOK a difference occur equal to the change in the exchange rate at the balance sheet day to NOK in these currencies. By year end 2009 this difference was -652 TNOK and the change for the year was -186 TNOK. By year end 2008 the equivalent was -466 TNOK a change of -134 TNOK from the year before.

Accounting principles

MediStim ASA is a public company listed at the Oslo stock exchange and is registered in Norway. The main office is located in Fernanda Nissensgate 3, 0421 Oslo. The group area of business is described in the annual report-

1.1 Basis for preparation of financial statements

The financial statement for the group for 2009 is prepared in compliance with International Financial Reporting standard (IFRS) decided by EU and that is valid as of 31.12.2009.

The annual accounts for the company and the group has been prepared on the basis of historical cost. Financial instruments have been evaluated according to actual market value.

The consolidated accounts have been compiled on the basis of uniform accounting for similar transactions and events under otherwise equal conditions.

1.2 Functional currency and the presentation currency

The group presents its financial statements in NOK. This is also the functional currency for the holding company. Subsidiaries with other functional currency are recalculated to NOK using the exchange rate at the balance date for the balance sheet. For the income statement the average rate in the period is used. Differences in exchange rates are recorded against equity. In case of assets held for sale in foreign subsidiaries the accumulative exchange rate difference is recorded in the income statement.

1.3 Principles for consolidation

The consolidated accounts include MediStim ASA and companies where MediStim ASA has obtained control. Obtained control is defined by more than 50 % of the shares in the company and where MediStim ASA is actually able to control of the company.

Subsidiaries are consolidated from the date of acquisition. Companies acquired or sold during the period are included in the accounts from the time control is obtained and excluded when control ceases.

Other investments are accounted for according to IAS 39 *Financial instruments - recognition and measurement* and further comments are given under 1.9.

Inter-company transactions and intra-group balances including inter-company profits and unrealised profits or losses are eliminated. Unrealised losses are also eliminated unless there are indications of a permanent value reduction of an item sold within the group.

1.4 Cash and cash Equivalents

Cash includes cash in hand and cash in bank accounts. Cash equivalents are short term investments that immediately can be converted to cash to a known value within 3 months. The cash flow statement is presented using indirect method.

1.5 Accounts receivable

Accounts receivable are recorded at real value with a deduction for estimated losses and reduction in value.

1.6 Inventory

Inventory is valued at the lower of cost and net sales value according to the FIFO principle. Production cost includes the cost for components and cost for additional work done to get a complete product. The fixed and variable cost related to own products are allocated based upon normal capacity usage according to FIFO. Net sales value is estimated sales price in an ordinary operation environment with a deduction for cost to complete the product, including marketing and distribution.

1.7 Tangible fixed assets

Tangible fixed assets are recorded at cost less accumulated depreciations and write downs. When an asset is sold the remaining value of the asset in the balance sheet is deducted and profit or loss from sale is recognised in the financial statement.

The cost for fixed assets are the purchase price excluding taxes and VAT and other direct cost that incur in order to be able to use the asset. Costs accrued for major replacements and updates for a tangible fixed asset are added to cost if it is probable that the cost will bring future economic benefit and the cost can be reliably measured. Other cost such as maintenance is charged against income on an ongoing basis.

Tangible fixed assets are depreciated straight line over the estimated useful life from the time it's available for use. Depreciation time is as follows:

Machinery and equipment	3-7 years
Other assets	3-5 years

Depreciation time and method is evaluated on a yearly basis. The same evaluation is done for recoverable values. Management has evaluated the group's assets and has concluded that there is no need for decommissioned depreciation method for assets.

1.8 Leasing

(i) The group as a lessee

Finance leases

Finance lease, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at present value of the minimum payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are reflected in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of lease term.

When calculating net present value the interest rate in the leasing contract is used if it is possible to identify. If not then the interest on company loans are used.

Operational leases

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in the operating lease are added to the carrying amount of the lease and are recognised as cost on a straight line basis for the lease term.

(ii) The group as leaserOperational leases

The group presents assets that are leased as assets in the balance sheet. Revenue related to the assets is recognised on a running basis in the leasing period. Direct cost related to the leasing agreement is added to the leased assets value and is depreciated over the lifetime of the lease in the same way revenue is recognised.

In the US MediStim is selling procedures through a smart card solution rather than capital sales for systems with probes as consumables. The systems are blocked and the customer needs a smart card to open the system for usage for surgery. This is referred to as one procedure. One operation equals one procedure. The customer pays for the procedure rather than investing in a system and probes. MediStim uses this model only in the US.

MediStim is placing out systems and probes at the customer sites free of charge. This way it is still MediStim's property but it's the customer that has the physical access to the equipment. For this reason procedural revenue is regarded as leasing revenue according to IFRIC 4. The customer has signed an agreement which has a clause for minimal yearly usage and MediStim can withdraw the equipment if the customer does not reach minimal usage. The equipment is returned to MediStim when the agreement expires. For this reason MediStim classifies agreements as operational leases.

The business model towards end customers is unchanged compared to previous years. However when MediStim established its own sales operation in the US the ownership of systems and probes were transferred to MediStim rather than a 3rd party distributor. The end customer is still purchasing a smart card and the lease revenue is directly comparable to procedural revenue in previous years. The split of lease revenue is explained in note 2.

Financial leases

There was no financial lease in the group as of 31.12.2009.

1.9 Financial instruments

In accordance with IAS 39 *Financial instruments: recognition and measurement* and defines financial instruments as following: fair value and changes in value is recorded in profit and loss at due date for receivables, loans, set for sale, hedging contracts and other obligations.

The most important financial instrument for MediStim ASA is the forward exchange contracts. The group uses forward exchange contracts to reduce exposure towards USD and EUR. Change in fair value is recorded in income and is presented as financial income or expense when the contract is due. When closing a period unrealised gains or losses are recorded. The value of the contracts is an asset in the balance sheet and the change in value is recorded in profit and loss. The group has not been able to document hedge accounting, because the

revenue in foreign currency are random orders and not long term contracts. The hedging contracts are categorised as financial instruments held for sale.

Other financial instruments for the group are receivables, prepayments, shares in MediStim, cash, loans, leasing agreements and supplier debt. These are commented under note 19.

1.10 Intangible assets

Intangible assets are recorded in the balance sheet if it is probable that it will create future economic benefit for the company. The asset must be identified at a reliable and measurable cost.

Intangible asset with limited economic life is measured at cost with deduction for depreciations and writedowns. Depreciation is done on a straight line basis over expected lifetime. Economic life of the asset and depreciation method is evaluated on a yearly basis.

Intangible assets with undefined economic lifetime is not depreciated but tested yearly for fair value.

Patent and licences

Amounts paid for patents and licence are recorded in the balance sheet and depreciated on a straight line basis over expected lifetime. Expected lifetime varies from 5 to 10 years.

Software

Investments in software or own developed software is recorded in the balance sheet as an intangible asset, unless it is part of a cost related to hardware. Software is depreciated over 3 to 5 years. Expenses to maintain the program or to secure future use are expensed in the profit and loss unless the change in the program increases future economic benefit.

Branding and customer agreements

The value of branding and customer agreements is recorded as an intangible asset in the balance sheet. The value of the customer agreements are based upon when the agreement ceases. The length of the agreements is on average 3.5 years and they are depreciated accordingly on a straight line basis. The branding evaluated to have value in 4.5 years and is depreciated accordingly on a straight line basis.

1.11 Goodwill

The difference between cost and fair value of the identifiable assets at the point of acquisition is classified as goodwill. When investing in companies, and MediStim ends up with a minority interest, goodwill is part of the invested amount recorded in the balance sheet.

Goodwill is recorded in the balance sheet at cost with deduction of write downs if any. Goodwill is not depreciated, but it is tested yearly for write downs.

1.12 Research and development

Research and development is expensed on an ongoing basis. Development cost is capitalised as an intangible asset when it is identifiable and when the company has the recourse to complete the project. Expenses capitalised includes materials, salary and social expenses and other expenses that can be allocated to the asset. Capitalised research and development

cost are recorded in the balance sheet at cost with deduction for any accumulated writedowns or depreciation.

Capitalised research and development cost are depreciated on a straight line basis according to expected life. Capitalised research and development is depreciated when a new product is ready for sale or an improved product is ready for sale. Capitalised research and development not ready for sales is tested for writedowns on a yearly basis.

1.13 Provisions

Provisions are recorded when the group has an obligation associated with an event, when it is probable that the obligation can be measured or estimated. When all or part of a provision can be charged on to another party, it will be recorded in accounts receivable, if there is reasonable certainty that the other party will pay. The cost associated with a provision will be recorded net in the income statement after deduction for recharge and before tax. All risks, market value and all relevant issues related to the case will be reflected in the provision.

A provision for warranty is included based upon the level of product and services sold. The provision is based upon historic information related to warranties and the possible outcome for it to be a reality.

1.14 Equity and debt

(i) Equity and debt

Financial instruments are classified as debt or equity according to the economic reality of the financial instrument.

Interest, dividend, profit and loss related to a financial instrument are classified as debt, will be presented as an expense or revenue. Financial instruments classified as equity will be recorded directly against equity. When rights and obligations related to a financial instrument is uncertain and impossible for the issuer and owner to know the outcome of, the financial instrument is classified as debt. This given that it is unlikely that the issuer must pay cash or other financial assets. In such a case the financial instrument is classified as equity.

Loans are recorded at nominal value. Direct transaction costs related to loans are recorded as financial expense in the income statement.

(ii) Own shares

Purchasing of own shares are recorded at purchase price including costs against equity. Own shares are presented as a reduction of equity. Loss or profit on own shares are not recorded in the income statement.

(iii) Cost related to equity transactions

Transaction costs related to changes in equity are recorded directly against equity in the balance sheet net after tax.

(iv) Other equity

Differences in exchange rates when recalculating an investment in a foreign company, and other related financial instruments to reduce risk on the foreign investment, is specified as difference in exchange rates in the equity. The difference in equity is recorded in the profit and loss when the investment is sold.

Changes in financial instruments that in reality is part of the investment in the foreign unit will also be included as exchange rate differences in equity.

1.15 Revenue recognition

Revenue is recognised when it is probable that transactions will generate future economic benefit that will accrue to the company and the revenue can be reliably measured. Revenue is presented net without VAT and rebates.

Revenue for sales of goods is recognised on date of delivery and when major control and risk have been transferred to the buyer. Systems and probes are recognised as revenue when the goods are shipped from MediStim ASA and when the risk and ownership is either transferred to distributor or end customer. The same is the case for third party products. In the US where the systems are at the end customer site the lease revenue is recognised when a new smart card is shipped to a customer.

Interest income is recognised based upon the effective interest method and as they are earned.

Dividend is recognised as revenue when the shareholders right to the dividend is decided by the general assembly.

1.16 Foreign currency

Transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate at the date of the transaction. Financial instruments in foreign currency are translated to Norwegian kroner at the closing rate of the balance day. Non financial items measured at historic cost are translated to Norwegian kroner using the exchange rate at the time of the transaction. Non financial items measured at fair value are translated using the exchange rate at the balance date. Changes in exchange rates are recorded in the profit and loss statement.

Foreign subsidiaries

Assets, liabilities, goodwill and fair value adjustments in foreign subsidiaries that are consolidated are translated to Norwegian kroner at the date of the balance sheet. Revenue and costs are translated to Norwegian kroner using the average rate for the period.

1.17 Pension and other employee benefits

Defined pension plan

The companies in Norway within the group offer a defined pension plan.

The net pension obligation is estimated using the present value of all future pension obligations the employee has earned at the date of the balance sheet deducting the actual value of the pension assets. The pension cost and obligation are estimated on a straight line basis using expected salary until the benefits become vested.

The discount rate used is according to the guidance from Norsk Regnskapsstiftelse. Other assumptions such as future change in salaries, benefit from Norwegian government, return on invested pension funds, mortality and level of employee turnaround is following the same recommendation.

The value of the pension fund is evaluated to real value and the net pension obligation is shown in the balance sheet. A change in the obligation because of changes in the pension plan is split over the remaining working years until the obligation is due. A change in the obligation or the value of the pension funds because of changes in the assumptions for the actuarial estimates are equally split over the remaining years until the

obligation is due if the differences are more than 10 %. In these cases actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting period exceed 10 % of the higher of the defined benefit obligation and the fair value of plan assets at that date. Actuarial gains and losses are recorded on a running basis in the P & L.

All estimates are performed by a qualified actuarial. There has not been any change in the pension plan since the pension was introduced.

Contribution plan

In the foreign companies and for all employees hired after the 17th of August 2007 has a contribution plan. The agreed percentage of the employee's salary is paid to the employee pension account. The company's payment of contributions is expensed in the period it's accrued.

Share based payments

Share options to employees and management is measured at real value at the time of exercise if share options are granted. Cost associated with share options are recorded as salary up until the employee can exercise the option. The company equity is increased correspondingly.

1.18 Interest bearing loans and borrowings.

Interest on loan is recorded as financial expense in the P & L for the period they occur. Interest on loans is only activated in the balance sheet if it is directly linked to acquisition of an asset. The interest is activated during the construction period of the asset. The activation of interest ends when the asset is ready for use. The asset is written down to real value if cost price is more than real value for the asset.

1.19 Public grants

A public grant is accounted for when company with reasonable certainty can assume that the conditions for the grant is fulfilled and that the grant will be paid. The grant is recorded systematically as other income over the grant period or as cost reduction dependent upon the type of project. Investment grants are recorded in the balance sheet as deferred income and revenue is recognised according to the life time of the asset.

1.20 Tax

The tax expense in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at 28 % of the basis of temporary differences between tax value of assets and accounting value of assets.

A tax asset is accounted for when it is objective proof that the company will have sufficient taxable profit in the future to offset the tax asset.

Tax assets that are not accounted for will be re-evaluated at the next balance sheet date and included to the degree that it is probable that future tax profits will allow the recovery of assets in connection to deferred tax. Tax assets will in the same manner be reversed if it is probable that the company cannot utilise the asset.

Deferred tax and deferred tax assets are measured using the expected future tax percentage for the companies within the

group that have temporarily differences between tax values and accounting values of assets or losses carry forward.

Deferred tax and tax assets are recorded at nominal value and is classified as long term financial asset in the balance sheet.

Tax payable and deferred tax is recorded against equity if the transaction is an equity transaction.

1.21 Write down of assets

A write down of assets are done when the fall in value is expected to be permanent. When a need for write down on an asset is identified, will the asset be written down to the lowest value of balance sheet value and fair value. Fair value is the largest of market value or future economic benefit of the asset. Best estimate is used when assessing future economic benefit. Best estimate is used by identifying cash flow from the asset independent of cash flow from other assets. An earlier write down is reversed only if the basis for the write down no longer exists. The reversal is limited to balance sheet value with deduction for accumulated depreciations calculated as if the write down never took place.

1.22 Segment

The group is organised, for management purpose, in four divisions dependent upon products and services. The segments are identified based upon different risk and return on investment profile. The divisions form the primary segment reporting. Information regarding segments and geographic split is presented in note 2.

Internal profit between the segments is eliminated in the segment report.

1.23 Contingent liabilities and assets

Contingent liabilities are not accounted for in the annual report. Information about significant contingent liabilities is in the notes to the accounts.

Contingent assets are not included in the annual accounts. Information about significant assets is in the notes to the accounts.

1.24 Events after the balance sheet date

New information regarding the company's financial position after the balance sheet date is included in the annual accounts. Event's after the balance sheet day that does not affect the financial position on the balance sheet day but affects the future position is informed about in notes if it is significant.

1.25 Use of estimates in the annual accounts

Management has used estimates and assumptions that effect assets, debt, revenue and cost and contingent liabilities. This is especially the case for pension liabilities, deferred tax, real value of assets and debt for acquired companies, research and development in the balance sheet, intangible assets and goodwill. Future events could lead to a change in the estimates. The estimates and assumptions for the estimates are continuously evaluated. Changes in estimates are accounted for in the period the change take place. If the change includes future periods is the effect split between current period and future periods.

When the annual accounts are prepared it is required according to the general accepted accounting principles in IFRS that

management in the company prepares estimates that affects assets, debt revenue and expenses for the company in the accounting period. In addition a presentation of assets or debt for sale is to be enclosed. Later achieved results can be different from the estimates.

For some amounts that are included in the accounts and enclosures are based upon estimates that require the management to set assumptions when finalising the accounts. The estimates in the accounts are important when evaluating the financial statements. It is a requirement that the management has assessed the issues and the complexity in the company at its best ability. The issues can by nature be uncertain, but when preparing the accounts it is management's best estimate that is reflected in the statements. The estimates are continuously evaluated based upon historic events, trends and experience. Management is consulting with its advisors to follow trends and methods management find reasonable to apply in the given situation in addition to forecasts and future development. See also note 1.

1.26 New principals

For 2009 the group follows International Financial Reporting Standard (IFRS). It is referred to the annual report for 2005 regarding detailed information about the transition to IFRS. The information is also available on the company web page.

1.27 Effect of implementing new standards after IFRS.

IFRIC 11 – Gives guidance on how IFRS 2 Share Based Payments shall be applied and recorded when using a company's own shares or equity instruments belonging to other companies within the group. The interpretation require that an agreement involving share based payment where one part receives goods or services and get shares or equity instruments as payment, shall be recorded as a share based transaction recorded in equity regardless of how the equity instrument was acquired. The group will apply IFRIC 11 as of 1st of January. The group has not used own shares as payment in 2009.

IFRS 2 Share based payments

Clarifies the definition of a vesting condition and prescribes the treatment for an award that is cancelled. The amendment will be effective from 1. January 2009. MediStim will adopt the change from 1. January, but has not affect the accounts since the company does not use this form of payments.

IFRS 8 replaces IAS 14 – Segment report.

According to the standard the group shall use the same principals and basis for reporting on segments as management. In general the information reported shall be identical to what management uses to evaluate the different segments using the same allocation of resources to the segments. Under IFRS 8 its required to inform about how the basis for the segments occur, type of products and services that are allocated to the segment, and how other recourses are allocated. The Group has applied IFRS as of 1st of January 2009. Today's segments are already according to the groups internal reporting.

IAS 1 Presentation of financial statements

The standard introduces changes in the financial presentation of the accounts. The major ones is statement of changes in equity that separates between transactions with owners and non-owner and the statement of comprehensive income. It is valid from 1. January 2009 and the company has adopted the standard at this time.

IAS 20 Information about public grants and recording of public grants in the accounts

Public loans with lower interest rate than market interest rate must be recognised in the accounts. The net present value of the lower interest rate is recognised as a public grant. The group had no such loans as of 31.12.09.

IAS 23 – Treats interest on loans in relation to an asset that is built over a time period before it can be taken into use or sold. In such cases the interest expenses are recorded in the balance sheet. The standard is effective as of 1st of January 2009. The company has a solid cash flow and had no such loans by end 2009.

IFRIC14/IAS 19 – Gives a guide on what should be accrued in relation to employee benefits. The standard was effective from 1st of October 2009.

IAS 36 –Value reduction on assets

There is an additional information requirement when future discounted cash flows are the basis for evaluation of the asset. The group evaluates assets on a yearly basis and provides the additional information.

IFRIC 16 Hedge of investment in foreign operation.

The standard gives a guide of hedging of investment in foreign operation and it will be implemented when approved by EU. The company does not use such instruments and it had no effect on the accounts for 2009.

1.28 The effect of new future standards under IFRS.

There are standards and interpretations under IFRS that are publicised, but not yet effective and implemented in the annual report for MediStim ASA.

IFRS 3 Business combinations

The standard is effective from 1. January 2010. The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period and that an acquisition occurs and future reported results. The standard will be implemented from 1. January and will affect future acquisitions.

IAS 27 Group financial statement and separate financial statement

The standard gives guidance when accounting for changes in ownership in subsidiaries. It regulates the split of loss between majority and minority interest. It also changes the rules for distribution of losses between majority and minority, where minority will obtain losses even if the value is negative. It will be implemented 1st of January 2010. As of 31.12.2009 MediStim is not in a business combination where the group is a majority or minority position.

IAS 39 financial instruments - eligible hedged items

Update guide to clarify whether a financial instrument is related to a specific item or future cash flow. The standard will be implemented once EU has approved the standard.

IFRIC 17 distribution of non cash assets to owners

The standard provides a guide on how to account for payment in other than cash to owners. It will be implemented once EU has approved the standard.

IFRS 2 Share based payments:

Expect approval of the standard in the 1st quarter of 2010. The standard will not affect the group, since these transactions have not been used and are not planned to be used.

IFRS 7 Financial instruments – change in information

provided: The group will implement the changes from 2010.

IFRIC 18 – Transfer of assets from customers: Not expected to affect the Group since these transactions have not occurred in the group and there are no plans to use this type of transaction.

Note 1 Estimate and assumptions

The company's main accounting estimates and assumptions are related to the following entries:

- Goodwill
- Customer agreements and trade name
- Research and development
- Uncertainty related to the assumptions used to estimate the actuarial obligation for pension plans
- Deferred tax
- Other accruals

Goodwill

The group's goodwill in the balance sheet is yearly tested for impairment. Goodwill occurred with the acquisition of Medi-Stim Norge AS, which was executed with effect from 01.01.02, and the acquisition of Kir-Op AS that was executed with effect from 06.07.06. Total recorded goodwill by year end 2009 was 14.1 MNOK. Goodwill of MNOK 7.9 was allocated to the Medi-Stim Norge AS acquisition and MNOK 6.2 was allocated at the Kir-Op AS acquisition. Goodwill in both companies is related to employee know how, experience in the distribution business and cost savings by gathering common functions. Both companies distribute third party products within surgery. During 2006 there was a fusion of the two companies and a total evaluation for both companies in relation impairment was done for goodwill in 2007. The total value of the business is dependent upon the success of maintaining and increasing the product portfolio. The value from the cash generating unit exceeded the book value in the balance sheet and the goodwill value for 2009 was not impaired. See also note 11 for the assumptions used in the estimate.

Customer agreements and trade name

In connection with the acquisition of Kir-Op AS in 2006 values was identified related to customer agreements and trade name. Estimates were used to give the assets a value. The balance sheet value for trade name and customer agreements was 0.4 MNOK as of 31.12.2009. The value of the customer agreements was based upon the duration of the agreements and expected purchases from the customers in this period. Sales of an existing product would be reduced or stop completely if a new product came to market that would replace an existing product. There are also terms in the agreements that a certain level of service is maintained for servicing the product, training of personnel, proper competence on the products sold and security for being able to deliver goods. The customers have alternative suppliers in case one company can't deliver the goods. Follow up and training is also important for a surgeon to continue using a product. If terms in the agreement are not held or a new product is introduced the value of the agreements are impaired and needs to be written down to proper value.

MediStim has evaluated the value of the trade name based upon the company's relation to customers and suppliers. The company has exclusive distribution rights because of its ability to promote products in a positive manner. Because of this suppliers take contact with the company offering distribution rights for their products. The company has a good reputation among its customers by giving excellent support and follow up programs. The value related to trade name is built up of unique relations towards suppliers and customers. In order to maintain this it is essential that key personnel continue in the company and that MediStim is perceived as a positive contribution. MediStim has re-evaluated the book value as of 31.12.09 and the expected cash flow from the assets exceeds the book value in the balance sheet.

Research and development

Development cost has been recognised as an intangible asset because MediStim can demonstrate technological feasibility for the asset to be available for sale for both existing products and new products. The revenue potential for the projects exceeds the investment. The balance sheet value as of 31.12.09 was MNOK 18.8. The estimates that form the basis for the intangible asset are performed by the management of the company, and there will always be a level of uncertainty in relation to the assessments that are performed on future revenue for future products. Activated development costs are depreciated over 3 to 8 years. 8 years is used if it is a new product on a new technological platform that creates the basis for a new generation of products. Based upon a platform or new generation of products there will be further developments and improvements. These enhancements of the products are depreciated over 3 years because of rapid technological development. Within 3 years it is assumed that parts or all of existing technology is updated.

Defined pension plans

MediStim ASA and Medistim Kir-op AS has a defined pension plan for some of its employees. In addition to paid premium a provision to cover obligations at the balance sheet day is needed. An actuarial valuation is performed on a yearly basis to identify the obligation and actuarial gains or losses are recognised as income or expenses. The provision for the additional obligation as of 31.12.09 was MNOK 6.0. There is uncertainty related to the assumptions used in the calculations for future profit on pension funds, discount rate, expected future growth in salaries, future pension adjustments and changes in the basis for calculation set by national authorities. The company has used the assumptions recommended by Norsk Regnskapsstiftelse that was published in September 2009. The actuarial loss of 1.2 MNOK is not recorded in the balance sheet and the real obligation is 7.2 MNOK.

Deferred tax asset

The deferred tax asset in the balance sheet decreased from MNOK 22.4 in 2008 to MNOK 13.4 in 2009. The deferred tax asset is related to losses carry forward and temporarily differences between book value and tax value on assets. All possible deferred tax is included in the balance sheet as of 31.12.09. The company is of the opinion that it is likely that the future taxable income will exceed losses carry forward and other temporarily differences. The company is optimistic in regard to the company's future and income, but there are always an uncertainty related to future projections. See also comment under note 23.

Accounts receivable and inventory

The group had an accrual for bad debt of 208 TNOK. Confirmed losses over the last 10 years have been 702 TNOK. The end customers are to a large extent hospitals that have public financing. The risk for losses is therefore considered to be low. The group has an inventory accrual of 0.8 MNOK. The accruals are related to spare parts inventory and demo inventory that is written down with respectively 50 % and 75 %. There can be some uncertainty related to the real value of these inventories.

Uncertainty related to the lifetime of depreciated assets is considered to be low and it's the management's opinion that there are no other material uncertainties for the company related to estimates and assumptions for other assets and debt.

Note 2 Segments

Segment information is presented for operating segment and geographical segment.

The group's activity is split into strategic operating units that are organised and managed separately. The different operating segments sell different products or the same product using another business model, has different customers and a different risk and return on investment profile. The split is according to the company's internal reporting structure. The activities are split in the following areas:

- A. Lease of equipment within cardiac surgery
- B. Capital and consumable sales within cardiac surgery
- C. Sales of electronic stethoscopes
- D. Distribution and sales of third party products

When leasing equipment within cardiac surgery, the system and probes are placed at the customer site without free of charge. For the customer to be able to use the equipment a procedure must be purchased. One procedure equals one surgery. The customer purchases a smart card or diskette that opens the system for use. For the customer the smartcard is a consumable purchase while MediStim owns all equipment placed at the customer site. The business model is used in the US where the health care sector is more focused on cost per patient. The financing of the products is more beneficial by placing the equipment at the customer site and only charged per usage. The economical barrier is reduced by avoiding large investments before the system can be taken into use. Outside the US cost per patient is not focused in the same way so the US model is not suitable in the rest of the world. There is also a policy among many hospitals that equipment used in the hospital shall be hospital property. For this reason systems are sold as capital equipment and probes as consumables outside the US. All revenue related to the procedural sales it is defined as leasing revenue according to IFRIC. The reason is that the customer has the physical control of the equipment, which was a change that was implemented in 2007. The change was triggered by the establishment of a direct sales and distribution centre in the US. The split of leasing revenue is based upon expected lifetime on the system and average usage of probes in a capital sale. This gives a split of revenue with 48 % allocated to system rental and 52 % allocated to probe rental. See also comment under 1.8 accounting principles. If a customer mistreat the equipment they become liable towards the company. The most common damage is related to cleaning and sterilising of probes where chemicals are used that damage the probe. The probe is marked with the chemicals one should use. In these cases MediStim invoice the customer for a new probe. For this reason its recorded probe revenue for the segment. In the leasing agreements there are clauses for minimum usage per year giving MediStim the right to withdraw the equipment if these levels are not reached. In some cases the customer wants to keep the equipment without being able to guarantee for minimum usage. In such a case a customer may purchase the equipment and this explanations that there are some system revenue allocated to the segment. MediStim does not promote capital sales in the US but allows it if this is what the customer prefers.

Capital and consumable sales within cardiac surgery is based upon the same products as within lease of equipment within cardiac surgery. The products are developed and produced by MediStim and is distributed through local partners unless MediStim has local representation. The systems are sold as capital equipment and the probes are sold as consumables. Through sales of the equipment the ownership is changed which then has a different risk and return on investment profile compared to leasing. For this reason it's treated as a separate segment.

Stethoscope represents the part of the business that was acquired by Meditron ASA and merged with MediStim. The products are promoted towards two customer groups. These are any kind of doctors or surgeons and veterinarians. Cardiac surgeons is a small niche so there is a need for a distribution channel that reaches wider than MediStims traditional distribution channel. Welch Allyn is a distributor with a worldwide network and has been given exclusive worldwide distribution rights for the stethoscope products.

Distribution and sale of third party products is a separate segment. The group sells third party products in the markets where it has direct representation except in the US. For smaller markets there is a need to offer more than one product to have a profitable business. The product portfolio is carefully selected to fit the same customer segment. MediStim sells third party products in Norway and Germany.

MediStim ASA uses geographical segment in addition to operating segment. The groups business by geography is split as follows: USA, Europe, Asia and the rest of the world. The split is based upon the localisation of customers. The US is an important geographical area for MediStim. It is only in the US that the business model with leasing of equipment is promoted. Also the US is the largest market for MediStims products and represents 37 % of the world market. It is for this reason important for the management to track the development in this market. The largest market penetration is in Europe, while Asia is the region where the largest growth potential as Asians adopting western lifestyles. A split between the US as the largest market, Europe where the market penetration is the highest and Asia with future growth potential is important for the company to follow the trends in the different markets.

Transactions between internal business units are performed at market terms. Revenue, cost and result for each segment includes transaction between the segments. On group level these transactions are eliminated.

Split of revenue and profit before tax according to operating segment

Segment 1 = NOK 1000	Lease of equipment within cardiac surgery		Capital sales/consumables within cardiac surgery		Stethoscopes		Third party products		Elimination		Group		2008
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009		
Revenue:													
Lease revenue from systems	17 599	15 153	-	-	-	-	-	-	-	-	-	17 599	15 153
Lease revenue from probes	19 065	16 416	-	-	-	-	-	-	-	-	-	19 065	16 416
Probes	-	-	43 331	34 676	-	-	-	-	-	-	-	43 331	34 676
Systems	534	1 340	21 696	17 669	-	-	-	-	-	-	-	22 230	19 010
Ultrasound imaging	-	-	1 779	-	-	-	-	-	-	-	-	1 779	-
Stethoscopes	-	-	-	-	959	1 505	-	-	-	-	-	959	1 505
Third party sales	-	-	-	-	-	-	51 907	51 749	-	-	-	51 907	51 749
Other revenue	333	500	1 546	1 281	-	-	-	-	-	-	-	1 879	1 781
Total external revenue	37 531	33 410	68 352	53 626	959	1 505	51 907	51 749	-	-	-	158 749	140 290
Intercompany sales	20 454	18 519	13 584	11 426	-	-	-	-	-34 038	-29 945	-	-	-
Total revenue	57 985	51 929	81 936	65 052	959	1 505	51 907	51 749	-34 038	-29 945	-	158 749	140 290
Other operating expenses	7 377	6 906	17 246	14 746	25	150	7 327	7 020	-	-	-	31 975	28 822
Segment result before tax	10 784	5 380	22 148	11 496	240	340	4 033	4 384	-	-	-	37 204	21 600

Segment	Lease of equipment within cardiac surgery		Capital sales/consumables within cardiac surgery		Stethoscopes		Third party products		Elimination		Group		2008
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009		
Sale in number of units													
Procedures	24 788	24 442	-	-	-	-	n.a	n.a	-	-	-	24 788	24 442
Probes	1 126	1 245	5 237	4 157	-	-	n.a	n.a	-	-	-	6 363	5 402
Systems	3	4	129	124	-	-	n.a	n.a	-	-	-	132	128
Ultrasound imaging	-	-	5	-	-	-	n.a	n.a	-	-	-	5	-
Stethoscopes	-	-	-	-	1 139	2 010	n.a	n.a	-	-	-	1 139	2 010

Split of revenue, debt and assets according to geographical segment

Geographic split of segments 1 = NOK 1000	USA		Europe		Asia		Rest of the world		Not allocated		Group		2008
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009		
Revenue	38 490	34 915	94 636	91 320	18 299	8 909	7 324	5 646	-	-	158 749	140 790	
Assets	22 418	22 132	77 234	74 769	3 154	1 569	706	2 189	42 115	44 726	145 627	145 385	
Investments	451	2 139	244	877	-	-	-	-	4 724	6 186	5 419	9 202	
Revenue in numbers													
Procedures	24 788	24 442	-	-	-	-	-	-	-	-	24 788	24 442	
Probes	1 126	1 245	3 138	2 904	1 524	728	575	525	-	-	6 363	5 402	
Systems	3	4	50	59	59	50	20	15	-	-	132	128	
Ultrasound imaging	-	-	5	-	-	-	-	-	-	-	5	-	
Stethoscopes	1 139	2 010	-	-	-	-	-	-	-	-	1 139	2 010	

Split of debt and assets according to operating segment

Segment 1 = NOK 1000	Lease of equipment within cardiac surgery		Capital sales\consumables within cardiac surgery		Stethoscopes	Third party products		Elimination		Group		2008
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	
Intangible assets	9 390	7 262	10 937	7 614	11 837	12 356	14 495	22 209	-	2 676	46 659	52 117
Tangible assets	4 683	5 984	853	1 208	-	-	453	897	-	-	5 989	8 089
Current assets	7 646	8 226	69 240	58 670	699	660	33 653	29 796	-18 259	-12 173	92 979	85 179
			-	-								
Total assets	21 719	21 472	81 030	67 492	12 536	13 016	48 601	52 902	-18 259	-9 497	145 627	145 385
Equity	40 343	29 559	27 593	29 140	130	(110)	38 229	34 196	-	2 676	106 294	95 461
Long term debt	-	-	10 193	3 164	-	-	4 344	11 924	-	-	14 537	15 088
Short term debt	9 736	12 793	15 695	15 247	40	-	17 584	18 969	-18 259	-12 173	24 796	34 836
Total debt and equity	50 079	42 352	53 481	47 551	170	-110	60 157	65 089	-18 259	-9 497	145 627	145 385
Investments	2 813	5232	2 581	3 655	-	-	24	315	-	-	5 419	9 202
Depreciations	1 645	1352	1 198	1 825	-	64	922	870	-	-	3 765	4 111

* Activated development cost is equally split between lease of equipment within cardiac surgery and capital sales and consumables within cardiac surgery in 2008 and 2009.

Note 3 Split of revenue and cost of goods sold

Split of revenue:

I = NOK 1000	2009	2008
Sale of third party products	51 907	51 749
Probe revenue	43 331	34 676
System revenue	22 230	19 010
Ultrasound imaging	1 779	-
Leasing revenue	36 664	31 569
Stethoscope revenue	959	1 505
Grants\other	1 879	1 781
Total revenue	158 749	140 290

Split of cost of goods sold

I = NOK 1000	2009	2008
Third party products	28 029	27 611
Components	12 366	10 868
Development	170	194
Write down of inventory	772	447
Freight	1 455	1 502
Total cost of goods sold	42 792	40 622

Note 4 Salary and other benefits

Split of salary expenses

I = NOK 1000	2009	2008
Salary	34 481	32 936
Employeers tax	5 220	3 856
Bonus	6 757	1 839
Defined pension plan cost (Note 5)	3 276	2 462
Cost for contribution pension plan	934	179
Compensation to the Board	450	400
Other social costs	578	700
Total salary and social cost	51 696	42 373

Average number of employees:

	2009	2008
USA	17	17
Germany	5	5
Norway	50	48
Total	72	70

Audit expenses

1 = NOK 1000

	2009	2008
Expense for compulsory audit	594	485
Expense for other financial audit	101	14
Total audit expense	695	498
Tax advice	-	518
Expense for other services	129	113
Total other audit expenses	129	627
Total audit expense	824	1 126

The amounts are without VAT

Note 5 Pension expenses and obligations

1 = NOK 1000	2009	2008
Present value of this years pension	2 907	2 273
Interest expense on pension obligations	919	700
Expected return on pension fund	-789	-788
Administration expenses	125	140
Actuarial gains\losses in the P & L	114	-190
Social expenses on pensions	445	327
Pension expense for the year	3 721	2 462
Pension obligation and pension funds:		
	2009	2008
Change in pension obligation:		
Total pension obligation	23 468	14 909
Present value of this year pension contribution	2 907	2 270
Interest expense from pension obligation	919	700
Actuarial gains\losses	-5 600	5 587
Total pension obligation 31.12	21 694	23 466
Change in pension funds		
Present value of pension funds 1.1	11 968	12 900
Administrative expense	-125	-140
Expected return on pension fund	789	784
Actuarial gains\losses	1 413	-1 921
Pension contribution	1 249	1 817
Present value of pension funds 31.12	15 294	13 440
Net pension obligation	6 400	10 323
Unrecognised actuarial loss\gain	-1 173	-7 532
Employer tax	738	878
Net pension obligation in the balance sheet 31.12	5 965	3 669
Change in obligation		
	2009	2008
Net pension obligation including employer tax as of 1.1	-3 669	-3 288
Pension cost including employer tax	-3 721	-2 462
Pension premium paid including employer tax	1 425	2 081
Net pension obligation in the balance sheet	-5 965	-3 669
When calculating the net pension obligation The following assumptions have been taken:		
	2009	2008
Discount rate	4,40 %	4,30 %
Return on pension funds	5,60 %	6,30 %
Salary growth	4,25 %	4,50 %
Pension adjustment	4,00 %	4,25 %
G- regulation	4,00 %	4,25 %

Employees in Norway are either included in a defined benefit plan in or a contribution plan. The defined benefit plan guaranties 66 % of salary as pension within 12 G after 30 years participation. It also includes same coverage if an employee is disabled. As og 31.12.09 30 employees was included in the defined benefit plan. The defined benefit plan was frozen in 2007 and all new employees after 01.01.08 are included in a 5 % contribution plan. The cost for the contribution plan was in 2009 530 TNOK. In the US there is a contribution plan and the cost in 2009 was 402 TNOK. There was no pension plan in Germany.

The obligation in the defined pension plan has increased because of change in the assumptions shown above and is commented under accounting principles. Increase in future pensions and salaries gives an increase in future obligation. Also there has been an error in the actuarial calculation that did not take into account the adjustment of pensions according to G- regulation. Instead of using the growth in G regulation, 2 % has been used. The correction in 2009 resulted in an additional pension cost of 1.6 MNOK in 2009. The company follows the recommendation from Norsk Regnskapsstiftelse from September 2009 when estimating the obligation. The assumptions from September 2009 have been updated, but

the company's actuary confirms that it will only have minor effect on the obligation, and that an updated calculation is unnecessary. The principle for deadlines used is K2005 and for disability IR 02 is used.

The remaining average expected time before employees reach full pension is 17.2 years. The defined pension plan has no limit for life expectancy after retirement is reached. The funds were invested as follows:

Investment	Year 2009	Year 2008	Year 2007	Year 2006
Shares		6.0 %	24.8 %	29.7 %
Short term bonds		32.4 %	21.5 %	20.6 %
Certificates		11.5 %	7.5 %	4.5 %
Long term bonds		28.7 %	27.7 %	30.0 %
Property		17.1 %	15.6 %	12.6 %
Other		4.3 %	2.9 %	2.6 %
Total obligation (TNOK)	21 694	23 466	14 909	11 767
Present value of funds (TNOK)	15 294	13 440	12 897	10 934
Recorded return on the funds	3.0 %	3.0 %	11.7 %	7.5 %

It is compulsory by law for the company to have a pension plan for its employees. The pension plans in the company fore fill the obligation in the law.

Note 6 Assets and depreciation

1 = NOK 1000	Machinery and equipment 09	Other assets 09	Total assets 2009	Machinery and equipment 08	Other assets 08	Total assets 2008
Historical cost						
Balance 1. January	17 688	5 590	23 278	15 447	4 815	20 262
Additions	399	236	635	2 242	775	3 016
31. December	18 088	5 826	23 913	17 688	5 590	23 278
Accumulated depreciation						
Balance 1. January	10 912	4 278	15 190	8 978	3 893	12 870
Depreciation this year	2 001	580	2 581	2 054	545	2 600
Change intercompany profit	-	-	-	-120	-	-120
Exchange rate differences	-	153	153	-	-160	-160
31. December	12 913	5 012	17 924	10 912	4 278	15 190
Book value assets	5 175	814	5 989	6 776	1 312	8 089
Depreciation in %	14-33 %	20-33 %		14-33 %	20-33 %	
Economic lifetime	3-7years	3-5 years		3-7 years	3-5 years	
Depreciation method	linearly	linearly		linearly	linearly	

Fully depreciated assets

Some assets with total historic cost value of 0.5 MNOK is fully depreciated as of 31.12.09 but are still in use. Machinery and equipment at historic cost of 3.1 MNOK is fully depreciated but still in use.

Assets no longer in use

All assets were in use 2009 and 2008 and no assets were temporarily out of use as of 31.12.09.

Leased equipment

The cost for leased equipment was 1512 TNOK in 2008 and 1743 TNOK in 2009.

The group is leasing office equipment and cars. Office equipment is operationally leased and the last lease exceeds 25.03.14. The leasing cost was 147 TNOK in 2009 and there were no value in the balance sheet related to the lease of office equipment. Cars are also operationally leased. The leasing cost for 2009 was 1596 TNOK and there were no prepayments related to the car leases. Last lease for the cars exceeds 06.04.12. The lease obligation within one year is 1666 TNOK. Rest obligation as of 31.12.09 was 2258 TNOK and last agreement exceeds within 3 years. Total obligation as of 31.12.09 was 2347 TNOK and last lease exceeds 25.03.14.

Write downs

All assets have been evaluated and there was no need to write down any asset. In case of a write down of an asset the estimated current price is used.

Guaranties and securities

As of 31.12.09 assets with value up to 3000 TNOK is used as security for long term loan and hedging credit facility. The group's bank had the same security as of 31.12.08. See also comment notes 17 and 19.

Note 7 Other operating expenses

Group	2009	2008
Office rent	4 276	3 539
Travel cost	6 341	6 997
Marketing	3 257	3 247
Consultants	7 893	5 227
Insurance	1 214	1 406
Freight	1 769	1 952
Communication	1 084	1 146
IT cost	2 515	1 876
Other	3 626	3 432
Total	31 975	28 822

Note 8 Financial revenue and expenses

As of 31.12.09 the company had 7.0 MNOK in interest bearing debt. MediStim has a debt related to the acquisition of Kir-Op AS from DnBNOR amounting to 7.0 MNOK as of 31.12.09. Interest expenses on the loans were 371 TNOK. Additional cash in the group gave interest revenue of 150 TNOK. Other finance revenue and expenses was realized or unrealized gains or losses towards foreign currency. Financial revenue and expenses are shown below. See note 19 for comment about financial risks and exposure.

1 = 1000 NOK	2009	2008
Interest income	295	706
Gains on foreign exchange	18 862	7 456
Total financial income	19 157	8 162
Loss on foreign exchange	-10 077	-3 997
Loss on hedging contracts		-5 877
Interest cost on loans	-380	-1 016
Other financial expenses	-17	-27
Total financial expenses	-10 475	-10 917
Net financial expenses	8 682	-2 755

Note 9 Reported tax expense and temporary differences

Income tax for the year:

1 = NOK 1000

	2009	2008
Current income tax charge	266	688
Change in temporary differences	9 065	7 375
Income tax expense reported in income statement	9 331	8 063
Reconciling tax expense towards income before tax		
Tax expense for the year	9 331	7 265
Tax penalty	-	798
28% of income before tax	10 417	6 048
Losses carry forward	9 027	8 562
Change in deferred tax, temporary differences	-7 966	-10 641
	-17	139
Permanent differences and different tax rates	-42	75
Specification of taxable income		
	2009	2008
Income before tax	37 204	21 600
Permanent and other differences	946	-3 036
Difference because of different tax rate	-61	496
Change in temporary differences	-3 664	7 686
- Skattefunn	-1 100	-800
Taxable income	33 325	25 946
Reported income tax	9 331	7 265
Tax penalty	-	798
Total tax	9 331	8 063
Payable tax in the balance sheet		
	2009	2008
Payable tax this year's profit	6 459	9 240
Prepaid tax	-355	-571
Tax penalty	-	798
Utilizing deferred tax asset	-6 103	-9 466
Skattefunn	-1 100	-800
Total payable tax	-1 100	-800
Bet receivable is recorded in other receivables		
Specification of deferred tax		
Changes in values:	2009	2008
Fixed assets	-28 417	-29 954
Current assets	5 318	-3 551
Other obligations	5 149	122
Losses carry forward	-24 255	-43 970
Pension obligation	-5 965	-3 669
Value customer agreements	-	474
Value of trade name	367	608
Total differences	-47 803	-79 941
Deferred tax asset 28 %	-13 385	-22 383
Recorded tax asset in the balance sheet	-13 385	-22 383

The deferred tax asset in the balance sheet is based upon a conservative evaluation of future utilization of negative temporary differences and losses carry forward. See also comment in note 1 and note 23. There is no time limitation utilising the temporary differences or losses carry forward except for the losses carry forward in the US. In the US losses carry forward of 1.7 MNOK must be utilised within 20 years. The company expects positive results in the future and that the tax asset can be utilised.

Tax rates in Germany and in the US are different from Norwegian rates. However, there are minor differences that do not affect the average tax rate for 2009.

The tax penalty of 798 TNOK in 2008 was related to an error in the tax filing for 2005. MediStim hired its auditor at the time to prepare the tax filing. MediStim has an agreement with its former auditor that they will cover 300 TNOK of the penalty when MediStim is in a taxable position. The receivable is not recorded in the accounts.

Tax expense for the group is geographically split as follows:

1 = NOK 1000	2009	2008
Norway	8 971	7 996
Germany	356	688
USA	4	-622
Total	9 331	8 063

Note 10 Earnings per share

1 = NOK 1000	2009	2008
Profit for the year	27 874	13 537
Average numbers of shares outstanding 31.12		
Ordinary issued shares	18 412	18 769
Effect of share options	-	-
Average numbers of shares outstanding 31.12	18 412	18 769
1 = NOK 1		
Profit per share	2009	2008
Ordinary	1,51	0,72
Diluted	1,51	0,72
Paid dividend	11 017	9 412
Dividend per share	0,60	0,50
Suggested dividend per share	0,90	0,60

The company has only one class of shares and there are no share options outstanding. Ordinary earning per share is calculated as the relation between profits for the year that is allocated to ordinary shareholders divided with average number of shares outstanding. Shares purchased by the company is not included and average number of own shares are excluded from the calculation. In 2009 there were no share options to employees and the company purchased 372 011 shares during the year. By year end the company had 533 989 own shares.

Note 11 Intangible assets

Activated R & D expenses

Activated R & D expenses are related to expenses for 1 project. This is the development of the ultrasound imaging equipment VeriQC. During 2009 4.7 MNOK of R & D expenses was recorded in the balance sheet and all was related to the imaging product VeriQC. Depreciation was related to other projects that were fully depreciated by the end of 2009 and is therefore not commented.

1 = NOK 1000	R & D expenses in 2009	R & D expenses in 2008
Historic cost		
Historic cost 31.12.	17 356	11 170
Internal additions	1 792	3 768
External additions	2 932	2 418
Historic cost 31.12.	22 080	17 356
Accumulated		
Accumulated depreciation and Depreciations for the year	2 832 468	2 030 802
Total depreciation as of	3 300	2 832
Net value in balance sheet	18 780	14 524

Imaging with VeriQC:

The imaging possibility represents a major enhancement since the inside of the blood vessel is shown. This has clinical value for the surgeon because diagnose can be set directly if something is wrong. Also the trend within surgery is less invasive procedures and keyhole surgery. This increases the demand for better technology to compensate for the overview that surgeon is used to have. Imaging also opens other areas of use in the operating theatre. The value of the system increases when it has multi functionality for the surgeon. The company has over time through its contacts in the industry received requests with imaging functionality and a project was initiated in 2005. MediStim soon concluded together with surgeons after several tests on animals that it was feasible to produce the requested images. Later tests in the project with own developed equipment was successful and the images had a good quality. In 2009 the equipment was tested in clinic at pilot customers that has given valuable experience with the equipment during surgery. The imaging functionality is an important milestone that raises the company's technology to a higher level. The first version was released for sale in December 2009 and the project was finalised at this time. MediStim has created a new technological platform with the first version of VeriQC that will form the basis for future technological development. For this reason VeriQC is depreciated over 8 years. This is in line with the company's earlier experience when introducing new technology. The products have lasted over 10 years and are still in use.

MediStim has gone into partnership with two companies to ensure competence and financing of the project. These partners have same interest in an ultrasound scanner as MediStim but for different use. One of the partners has developed the hardware, while MediStim has developed software that is integrated with existing software and functionality. The other partner has same interest in the ultrasound scanner as MediStim, but for other markets. The partner that has developed the hardware gets a royalty of future sales. MediStim qualifies for OFU funds and has a grant of 5.85 MNOK. The project was finalised in December 2009 and MediStim has received 100 % of the original grant from the OFU fund. Also MediStim qualified for Skattefunn because of the imaging project until 2009. Book value of the project was as of 31.12.09 18.8 MNOK and is depreciated for December 2009.

The project has been tested yearly for write downs. In the test cash flow for the coming 5 years are used. It is expected that all of the projects will give an economic benefit that exceed the book value.

The R & D expense for 2009 was in total 9.3 MNOK compared to 8.7 MNOK in 2008. In 2009 4.7 MNOK of the R & D expense was activated in the balance sheet while 6.2 MNOK was activated in the balance sheet in 2008. The company received funds from Skattefunn with 1.1 MNOK in 2009 and 0.8 MNOK in 2008. In 2009 the company received OFU funds with 0.9 MNOK. The OFU funds are recorded as deferred revenue in the balance sheet since expenses related to the imaging project is activated in the balance sheet. The revenue will be recorded in the P & L according to expected lifetime of the product that also will be the depreciation ratio. In 2008 the company received 2.1 MNOK in OFU funds and as of 31.12.09 deferred revenue in the balance sheet was 5.6 MNOK. In total 4.5 MNOK of the R & D expenses was recorded in the P & L in 2009. Similar expense was 2.4 MNOK in 2008. Skattefunn funds were recorded as other revenue. The expensed R & D was the rest value of all R & D expenses after activated R & D was deducted. All R & D activities are in the holding company.

Trade name and customer agreements:

After the acquisition of Kir-Op AS values were allocated to customer agreements and trade name. The values are depreciated on a straight line basis over expected lifetime.

1 = NOK 1000	2009	2008
Historic value trade name	1 660	1 660
Historic value customer agreements	1 210	1 210
Total value of assets	2 870	2 870
Accumulated depreciation		
Total inbound depreciation	1 788	1 073
Depreciation for the year	715	715
Write down	-	-
Total depreciation and write down	2 503	1 788
Net value in the balance sheet	367	1 082

Trade name is depreciated over 4.5 years and customer agreements over 3.5 years.

Goodwill:

A yearly test of values is done for the cash flow generating units that has a goodwill value in the balance sheet:

1 = NOK 1000	2009	2008
Acquisition of Medi-Stim Norge AS	7 960	7 960
Acquisition of Kir-Op AS	6 168	6 168
Total goodwill Medistim Kirop AS	14 128	14 128

A test of values is performed by estimating the cash flow for Medistim Kirop AS. This is estimated using the company's budget for 2010 and 3 year strategy plan for the years 2011 and 2013 with the assumption of 3 % growth in 2014 compared to 2013. Cash flows for more than five years are estimated by using Gordon's growth formula with a 2 % growth in the terminal year. The cash flow is discounted using 16.6 % discount rate. This includes an additional yield of 12 % compared to risk free interest. The value of the discounted cash flow exceeded the recorded book value in the balance sheet and there was no need for a write down of goodwill.

The estimates in the tests are most sensitive to changes in the following parameters:

- Maintaining market share and product lines
- Maintaining margins and keep competitive prices
- Level of minimum return on investment
- Future growth
- Changes in foreign exchange rates
- Employee know how

Maintaining market share and product lines:

Within the medical device industry there are major investments done in the development of products. MediStim Kirop has certain product lines that have a large portion of total sales. Medistim Kirop's financial situation will be affected if a new product was released in the market that would replace existing key products, and Medistim Kirop is not distributor for the new product. The company would also be affected if a supplier changes distributor or chooses to go direct in the Norwegian market. For this reason it's important for the company to maintain knowhow and performance to secure key product lines. It is equally important that the company is able to see trends and take in new products with a future potential. The largest product line for the company has 20 % of total sales. If this product line is lost together with another line that is 5 – 10 % of total sales goodwill needs to be written down.

Maintain margins and keep competitive prices:

The company's largest customers are Norwegian hospitals. The hospitals are continuously improving their purchasing routines and purchasing is centralized and professionalized. This increases the demand for better quality and prices from the suppliers. The company's ability to maintain prices by offering quality products and services is crucial in the competition for future contracts. The company is well connected to its suppliers and when the competition increases the suppliers are contributing by lowering their prices. However it is not realistic to expect that the suppliers will compensate for all of the reduction in prices. The company's experience is that about 50 % of the price change is covered by the suppliers in an increased competitive situation. A price reduction of 10 % without any compensation from the suppliers will trigger a write down of goodwill.

Level of return on investment:

The company uses a level of minimum return on investment that is equal to risk free interest with an addition of 12 %. This level is evaluated on a yearly basis and a change in the level of minimum return on investment will affect the evaluation of the intangible assets.

Future growth:

It is projected growth in sales that on average is 5 % the next 5 years. To be able to maintain this increase it is crucial that the company handles existing product lines in an effective manner and that the company is able to identify and get distribution agreements for new product lines that create more business than lost product lines. For the first year it's assumed a growth of 8 % that is gradually reduced to 2 % in the terminal year.

Changes in foreign exchange rates:

Medistim Kirop AS is purchasing goods in foreign currencies that are sold to Norwegian customers in NOK. A change in the exchange rates where the company is exposed will directly affect the margin. The result effect is 1.0 MNOK if all exchange rates changes with 5 %. The largest exposure is towards USD and EUR. The group has revenue in these currencies and is netting exchange rate fluctuations when this is possible.

Employee knowhow:

Medistim Kirop has over the years built a competence within the medical device industry and distribution. It is essential that this knowhow is updated and passed on to new employees.

Changes in the analysis:

If the operating margin changes from 10% to 6.0 % everything else equal, goodwill needs to be written down. A change in the discount rate from 16.7 % to 27 % everything else equal triggers a write down of goodwill.

Note 12 Shares in subsidiaries

Summary of financial information for the subsidiaries 100 %:

1 = NOK 1000

Company	Assets	Debt	Equity	Sales	Profit in 2009
MediStim USA Inc.	8 134	9 741	-1 606	39 941	-574
MediStim Deutschland GmbH	6 395	3 260	3 135	20 587	975
Medistim Kirop AS	33 710	20 780	13 026	53 626	3 681
Total	48 239	33 781	14 554	114 154	4 081

Medistim Kirop AS has offices at Etterstad in Oslo. MediStim USA Inc has offices in Minneapolis in the USA, while MediStim Deutschland GmbH has offices in Munich in Germany. Book value of goodwill related to the acquisition of Medistim Kirop AS was as of 31.12.09 14 128 TNOK. Goodwill at the time of acquisition was 16 097 TNOK. None of the subsidiaries are listed at a stock exchange. There was a loss in the distribution company in the USA in 2009. The loss was reduced in 2009 from 1 897 TNOK in 2008 to 574 TNOK in 2009. The company has been newly established and had its first full operating year in 2008.

Note 13 Inventory

Spesification of inventory (1=NOK 1000)	2009	2008
Raw material	2 522	1 331
Work in progress	1 136	2 044
Finished goods	7 275	7 510
Spare parts	1 142	879
Third party products	17 030	16 033
Inventory provision	-836	-2 580
Total	28 269	25 217

Finished goods are valued at production cost that includes cost for components and internal labour cost. Work in progress is valued at the total of the component cost. The increase in inventory of 3.0 MNOK is a natural consequence of increased sales in 2009 compared to 2008 and to secure access to components to own developed products.

Specification of inventory accrual

Spesification of inventory provision (1=NOK 1000)	2009	2008
Stethoscopes	-	1 867
Demonstration products	196	208
Spare parts	440	305
Third party products	200	200
Total	836	2580

Note 14 Accounts receivable and other receivable

Accounts receivable

1 = NOK 1000	2009	2008
Avccounts receivable	23 556	24 610
Provision for bad debt	-208	-208
Total	23 348	24 402
1 = NOK 1000	2009	2008
Inbound provision	208	198
Utilised provision	-	-
increased provision	-	10
Total	208	208

Aging accounts receivable

1 = NOK 1000	Not due	0-30 days	31 - 60 days	61 - 90 days	More than 91 days	Total
Year 2009	16 470	4 001	1 203	442	1 439	23 556
Year 2008	14 970	5 380	810	730	2 720	24 610

All receivables are due within one year. Confirmed losses on receivables was in 2009 13 TNOK. For 2008 was the confirmed losses 96 TNOK. There is an accrual of 208 TNOK to cover unforeseen losses. The accrual is based upon previous experience and status as of 31.12.09. Historically there the group has had small or no losses. End customers are often public hospitals with government funding and the risk for losses is low. However, days sales outstanding is high compared to other businesses something that the aging receivables confirm. Other receivables are shown below:

Other receivables

1 = NOK 1000	2009	2008
Prepaid insurance	345	336
Other pre payments	1 464	1 797
Deferred income	407	2 074
Skattefunn and Int. award	2 015	1 000
Inbound VAT receivable	1 651	2 458
Other	1 149	885
Total	7 032	8 550

Note 15 Cash and cash equivalents

1 = NOK 1000	2009	2008
Available cash in bank	27 583	25 505
Restricted cash in bank	1 714	1 505
Cash and cash equivalents	29 297	27 010
Credit limit	-	-
Cash and cash equivalents in cashflow analysis	29 297	27 010

Restricted cash as of 31.12.09 was 1 490 TNOK and was related to tax withheld from salaries and 224 TNOK as deposit for leasehold of offices. As of 31.12.08 the restricted cash was 1 281 TNOK related to tax withheld on salaries and 224 TNOK as deposit for leasehold of offices. The group had interest revenue on excess cash and the interest rate was 3 months NIBOR minus 0.45 %. The holding company had a credit facility of 7.5 MNOK. The credit facility was not in use as of 31.12.08 or 31.12.09.

Note 16 Shareholder affairs

The company had 18.861.325 shares at par value of NOK 0.25 per share and total share capital amount to NOK 4.715.331. There is only one class of shares and all shares are treated equally. Each share represents one vote.

Change in issued share capital in 2009:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.09	18 861 325	NOK 0.25	NOK 4 715 331.25
No changes are registered	-	-	-
Share capital 31.12.09	18 861 325	NOK 0.25	NOK 4 715 331.25

The Board of Directors got under the shareholders meeting commission to purchase up to 1 856 154 MediStim ASA shares at par value NOK 464 038.50. The commission is valid until the next ordinary general assembly in 2010 in the price range of NOK 0.25 to NOK 100 per share. Further the Board of Directors got commission to increase share capital with NOK 471 533 or 1 886 132 new shares at par value NOK 0.25. The

commission can be used if there is a decision to fusion, acquire another company or to create an option program. The commission is valid until the next ordinary shareholders meeting in 2010. See under change in equity for changes in the equity for the last year.

Status for the commissions as of 31.12.09:

	Capital increase	MediStim shares
Commission given at the shareholders meeting 28.04.09	1 886 132	1 856 154
<u>Commissions used</u>	-	<u>372 011</u>
Status for the commissions as of 31.12.09	1 886 132	1 484 143

The company had 533 989 MediStim shares as of 31.12.09. Number of MediStim shares by 01.01.09 was 161 978. The change through the year is shown below:

Change in MediStim shares

Number of shares as of 31.12.08	161 978
Sales and purchase of own shares	372 011
Number of shares as of 31.12.09	533 989

The 20 largest shareholders in the company were as of 31.12.09:

Share holder	Number of shares	Shares in %	Nationality	Comment
ZENITH MEDICAL AS*	3 926 000	20,82 %	NOR	
FLØTEMARKEN AS**	3 800 000	20,15 %	NOR	
SKAGEN VEKST ****	1 795 000	9,52 %	NOR	
ORKLA ASA	1 717 500	9,11 %	NOR	
BUANES ASBJØRN JOHN	1 281 500	6,79 %	NOR	
FOLLUM CAPITAL AS	1 000 000	5,30 %	NOR	
NIPPON BXI INC.***	670 000	3,55 %	JPN	
MEDI-STIM AS	533 989	2,83 %	NOR	
ROSLAND BRIGT	282 900	1,50 %	NOR	
RBC DEXIA INVESTOR S S/A LUX-NON-RESIDE	250 000	1,33 %	LUX	NOM
VERDIPAPIRFONDET FON	229 000	1,21 %	NOR	
KRISTOFFERSEN KJELL	203 500	1,08 %	NOR	
DNB NOR SMB VPF	200 000	1,06 %	NOR	
ENERGI CORPORATE AS	195 000	1,03 %	NOR	
BLIX RIGMOR HELEN	180 000	0,95 %	NOR	Ansatt
MP PENSJON	174 500	0,93 %	NOR	
STOREBRAND VEKST JPMORGAN EUROPE LT	153 500	0,81 %	NOR	
RETIRO AS	150 000	0,80 %	NOR	
SHB STOCKHOLM CLIENT C/O HANDELSBAN	147 970	0,78 %	SWE	NOM
TANI KAZUO***	142 500	0,76 %	JPN	
Total 20 largest shareholders	17 032 859			
Total number of shares outstanding	18 861 325			
20 largest shareholders in %	90,31 %			

* Company controlled by former CEO Arne Grip and board member Kari Pah.

** Company controlled by Chairman of the board Øyvind A. Brøymer.

*** Nippon BXI is MediStims distributor in Japan and is controlled by Kazuo Tani.

**** Consist of two Skagen funds, Skagen Vekst and Skagen Vekst III

Other board members and management team with shares in the company:

Shareholder	Number of shares	In % of total	Position
Lise Sofie Haug Nissen-Meyer	4 000	0,02 %	Board member
Helge Ranvik	5 000	0,03 %	Board member
Erik Swensen	40 000	0,21 %	Development man.
Thomas Jakobsen	60 000	0,32 %	CFO
Kari Eian Krogstad	10 000	0,05 %	CEO
Howie Milstein	13 188	0,07 %	Man.dir USA
Anders Lillebø	1 000	0,01 %	Production man.

It was no share options outstanding as of 31.12.09. CEO Kari Eian Krogstad received another 10 000 shares after 6 months in position as CEO.

Note 17 Long term interest bearing debt

1 = NOK 1000			Balance sheet	Balance sheet
	Interest rate	last due date	value	value
			2009	2008
Secured loan				
Loan from DnBNOR	NIBOR + 1,50 %	06.07.11	7 003	11 004
Loan from previous Kir-Op AS owners	NIBOR + 0,50 %	06.07.09	0	800
Total long term debt			7 003	11 804
Total long term debt			7 003	11 804
Long term debt due within one year			-4 000	-4 800
Total long term debt with due date more than one year			3 003	7 004

MediStim ASA has loan through DnBNOR. The original loan amount was 20 MNOK and the loan was taken in relation to the Kir-Op AS acquisition. MediStim ASA's shares in Medistim Kir-Op AS are recorded as security for the loan. In addition the bank has security in assets, accounts receivable and inventory. The security in assets is limited to 3.0 MNOK. The security in accounts receivables are limited to 10 MNOK and security in inventory is limited to 10 MNOK. Book value of secured items was as of 31.12.09 4.9 MNOK for assets, 24.1 MNOK for accounts receivables and 10.0 MNOK for inventory. Interest rate on the loan is 3 months NIBOR plus 1.50 %. There are no other restrictions related to the loan such as level of equity, minimum profit or similar covenants. The portion of the loan due within 12 months was recorded as short term interest bearing debt.

Note 18 Payable expenses and accruals

1 = NOK 1000	2009	2008
Accrual for public taxes	3 416	3 144
Accrual for holiday pay	2 621	2 427
Accrual for salaries and board member fee	3 513	1 780
Accrual for customer and supplier obligations	1 221	1 283
Unrealised exchange rate differences	-	9 588
Other	1 159	1 114
Accrual for royalty	-	275
Total	11 930	19 611

Note 19 Financial risk

Market risk:

The group's financial obligations are bank loan, credit facility, leasing agreements, hedging contracts and accounts payable. The financial obligations and facilities are important instruments that contribute to the financing of the group's operational activities. The group's financial assets are accounts receivables, prepayments, own shares and cash from operation. The exposure towards financial instruments is changes in interest level, exchange rates and credit risk towards customers.

Interest rate risk:

The group had as of 31.12.09 interest bearing debt of 7.0 MNOK. The loan has a floating interest and the group is exposed towards changes in the interest level. To reduce the risk to a minimum the interest is linked to NIBOR with an addition of 1.5 %. It is group policy to have floating interest since this will be the lowest interest rate over time. In general the group considers the exposure towards changes in interest rates as low. A change in the interest level of 2.0 % in 2009 would have had a P & L effect of 140 TNOK. In 2008 this effect would have been 236 TNOK.

Foreign exchange rates risk:

Change in exchange rates involves a direct and indirect financial risk for MediStim ASA. The company has revenue and expenses in EUR and USD where most revenue is in another currency and expenses mostly in NOK. Efforts are made to neutralize net exposure 12 to 24 months in the future by entering hedging contracts. The development in NOK towards USD and EUR is continuously monitored. By the end of 2009 the company had secured 17 hedging contracts for USD and 20 hedging contracts for EUR. The contracts are due by the end of each month with USD 150.000 and EUR 150.000. Total amount of hedging contracts in USD as of 31.12.09 was USD 2.55 mill. that gave an unrealized gain of 2.9 MNOK. Equally there was hedging contracts in EUR amounting to EUR 3.0 mill. that gave an unrealized gain of 2.1 MNOK. The hedging contracts are entered to secure sales in USD and EUR. Unrealized gain or loss related to the contracts is recorded in the balance sheet as of 31.12.09 and the change of value related to the contracts is recorded in the profit and loss. The management and Board of directors evaluate the handling of risks related to exchange rates fluctuations continuously together with its professional advisers.

Currency	Number of contracts as of January 09	Amount per month	Total value of contracts in currency	Average rate on contracts	Rate as of 31.12.09	Unrealised gain/loss in NOK
USD	17	150 000	2 550 000	6,91	5,78	2 888 079
EUR	20	150 000	3 000 000	9,03	8,32	2 145 000
Total unrealized gain						5 033 079

The group had 66 % of its revenue in USD or EUR, while 64 % of the expenses were in NOK. Comparable numbers for 2008 was 63 % and 59 %. The share of revenue in foreign currency increases because of direct operation in the US and the share of expenses in NOK are reduced for the same reason. It is group policy to secure 75 % of net exposure using hedging contracts. A change in exchange rate of 5 % in USD and EUR will change profit and equity as shown below:

Year 2009	Change in exchange rate	Effect on P & L	Effect on equity
	+5 %	TNOK 3 120	TNOK 3 200
	-5 %	TNOK 2 823	TNOK 2 896
Year 2008	+5 %	TNOK 2 127	TNOK 2 197
	-5 %	TNOK 1 924	TNOK 1 987

The group had a credit facility of 6.0 MNOK to enter hedging contracts. The facility represents 10 % of the value of the contracts the group can use. The bank has security in assets, accounts receivable and inventory as described in note 17 long term debts. The group has not been able to document hedge accounting and the contracts are categorised as financial instruments held for sale.

Credit and liquidity risk:

Other financial risk as credit risk and liquidity risk is viewed by the company as nonexistent based upon the group's financial position as of 31.12.09. The group is at some extent exposed towards credit risk. Over the last two years was confirmed loss on receivables 108 TNOK. The general risk is low since the majority of customers are financed by public authorities. The group has over the last 5 years experienced a solid increase in revenues and available cash. The company had a credit facility with a limit of 7.5 MNOK to secure available cash.

Overview of debt

1 = NOK 1000

Year 2008	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	1 004	3 800	7 000	-	11 804
Accounts receivable	10 275	-	-	-	10 275
Other debt	11 727	6 046	1 838	-	19 611
Pension obligation	-	-	-	3 669	3 669
Total	23 006	9 846	8 838	3 669	45 359

Overview of debt

1 = NOK 1000

Year 2009	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	1 003	3 000	3 000	-	7 003
Accounts receivable	8 716	-	-	-	8 716
Other debt	9 009	3 071	-	-	12 080
Pension obligation	-	-	-	5 965	5 965
Total	18 728	6 071	3 000	5 965	33 764

All of the financial instruments in the group are recorded at real value.

Financial strategy:

Management strive to strengthen the group's credit rating and healthy financial position through a high level of equity. This will secure continued growth and will maximize shareholders values. The group will adjust capital structure to adapt to changes in the financial climate. Capital structure can be adjusted through dividend, repayment of share capital or issue new shares. There were no changes in the financial strategy in the group in 2008 or 2009.

Cash and cash equivalents are recorded in the balance sheet at real value because of the short due date. Accounts receivable and account payable is following the same principle and are entered with normal terms.

1 = NOK 1000	2009		2008	
	Book value	real value	Book value	real value
<i>Financial assets</i>				
Cash	29 297	29 297	27 010	27 010
Accounts receivable	23 348	23 348	24 402	24 402
Own shares	-	8 870	-	3 029
<i>Financial debt</i>				
Accounts payable	8 716	8 716	10 275	10 275
<i>Interest bearing loan</i>				
Bank loans	7 000	7 000	11 000	11 000
Forward currency contracts	5 033	5 033	-5 877	-5 877

Note 20 Transactions towards close related partners and options

Compensation to management

The management group consists of 8 people in 2009 including CEO, which was the same structure as in 2008. The managing directors in the subsidiaries are included in the management group. The overview below includes compensation to CEO.

Compensation and benefits to the management group:

1 = NOK 1000	2009	2008
Salary and benefits	7 777	7 131
Pension	1 599	1 158
Total compensation	9 376	8 289

Salary and benefits to CEO

2009

1 = NOK 1000

Salary	1 336
Bonus	13
Other	205
Pension	307

Salary and benefits to CEO includes 10 months compensation to former CEO Arne Grip and 4 months compensation for the new CEO Kari Eian Krogstad. Other compensation of 205 TNOK includes the benefit of 10 000 shares with value of 203 TNOK that was granted the new CEO.

There are no special agreements towards any in the management team in case of leaving the company. All in the team has a two way arrangement of 6 months notice. The exception is management in the US that has no notice period. The management group has the same pension plan as for other employees. The defined benefit plan covers 66 % of salary limited to 12 G and 30 years participation. This pension plan is frozen and new members of the management team after 01.01.08 has a 5 % contribution plan. Management in the US has a contribution plan. Bonus paid to the CEO in 2009 was 13 TNOK. The board decides incentives to CEO. Bonus and incentives to the management group is decided by the CEO. Bonus and incentives for both management group and CEO is based on achieved results. Either the board, CEO or other employees in the group have a loan from the company.

Compensation to the board was 450 TNOK in 2009 and 450 TNOK in 2008. The chairman received 150 TNOK as compensation in 2008 and 2009. The four board members received a total 75 TNOK each as compensation in 2008 and 2009, a total of 300 TNOK.

The leader for the US operation receives a cash compensation that equals 20 % of the value of 10 000 shares. The share price as of 31.12.09 was NOK 23.00 per share and NOK 46 000 was accrued in 2009 to cover the obligation. No options were issued by the board in 2009 and no options were outstanding as of 31.12.09.

Former CEO has a consultancy agreement with MediStim ASA and receives 400 TNOK per year in 5 years for being available for the company. Former CEO, Arne Grip, is one of the major shareholders in Zenith Medical AS. Zenith Medical AS is MediStim ASA's largest shareholder.

Transactions with close related parties

All transactions between the companies within the group are according to the arms length principal. Intercompany goods and services sold between the companies was 34 356 TNOK in 2009. In 2008 this was 29 945 TNOK. The split between goods and services was as follows:

	2009	2008
1 =NOK 1000		
Goods	33 770	29 359
Services	586	586
Total	34 356	29 945

MediStim ASA sold in 2009 goods for 33 770 TNOK to MediStim Deutschland GmbH, MediStim US Inc and Medistim Kirop AS. MediStim Deutschland, MediStim US Inc and Medistim Kirop AS are distributors for MediStim ASA in respectively Germany, USA and Norway for MediStim's own developed products. MediStim Kirop AS purchased accounting and administrative services from MediStim ASA in 2009 for 238 TNOK and MediStim Deutschland GmbH administrative services for 289 TNOK. MediStim ASA purchased services from MediStim Kirop AS amounting to 60 TNOK.

MediStim ASA sold goods to in 2008 to MediStim Deutschland GmbH, MediStim US Inc and Medistim Kirop AS for 29 359 TNOK. Medistim Kirop AS purchased administrative services from MediStim ASA for 298 TNOK and MediStim Deutschland GmbH purchased administrative services from MediStim ASA for 289 TNOK in 2008.

MediStim ASA had a receivable as of 31.12.09 towards MediStim Deutschland GmbH of 2 627 TNOK, a receivable towards Medistim Kirop AS of 11 832 TNOK and a receivable towards MediStim US Inc of 8 893 TNOK. Of the receivable towards Medistim Kirop AS amounting to 11 832 TNOK, 9 748 TNOK was group contribution.

Note 21 Other obligations

Accruals

1 = NOK 1000	2009	2008
Guaranty accrual	150	150
Total	150	150

The guaranty accrual is based upon the company's experience with sales and return of its own products. The estimate is based upon this experience to cover future obligations.

The company is renting offices in Fernanda Nissensgate 3 in Oslo, Moloveien 10 in Horten, Biskop Jens Nilssønngate 5 A at Etterstad in Oslo and in 10200 73ave. N. Suite 112 i Maple Grove i Minneapolis, Minnesota, USA. Yearly rent for the offices amounts to 3.5 MNOK. In Oslo the rental agreement expires at year end 2012. In Horten the rental agreement is renewed on a yearly basis. The rental agreement in Biskop Jens Nilssønngate expires in February 2012 and in the USA the rental agreement expires year end 2012. The rental is adjusted yearly according to National indexes for goods and services.

The company has no other obligations with specific govern ants.

Note 22 Exchange rates foreign currency

Currency	Rate 01.01.09	Average rates	Rate 31.12.09
USD	6,998	6,281	5,776
EUR	9,865	8,728	8,315

Note 23 Other issues and events

The tax authorities requested information from the company related to the acquisition of Meditron ASA during 2007. The tax authorities informed the company that it was considered to change the tax filing from 2005. The circumstances are described in detail in the annual report from 2007. MediStim has provided information and detailed descriptions of the evaluations and events that was considered during the acquisition in March 2008. The company received the 16th of March 2010 confirmation from the tax authorities that they will not follow the issue further and that the case is closed.

Note 24 Events after 2009

The Board of directors have no knowledge about other events after 2009 that will affect the annual report and financial statement for 2009.

Oslo, 18. 03. 2010

Øyvind A. Brøymer
Chairman

Lise Sofie Haug Nissen-Meyer
Board member

Helge Ranvik
Board member

Kari Pah
Board member

Christian Fekete
Board member

Kari Eian Krogstad
CEO



**Annual report 2009
for the holding company
MediStim ASA**



Table of content

- 1. Annual report from Board of Directors**
- 2. Income statement for 2009**
- 4. Balance sheet as of 31.12.2009**
- 5. Cash flow statement**
- 6. Notes to the financial statement**
- 7. Auditors report for the company and the group**

**MediStim ASA
Fernanda Nissensgate 3
P.O.Box 4744 Nydalen
0421 OSLO
Company registration number: 936656013**

Annual report for the holding company

Nature of the business

MediStim ASAs business is within development, producing, selling, service and distribution of medical equipment. The company has its main office in Fernanda Nissensgate 3 in Oslo and production facilities in Moloveien 10 in Horten. MediStim ASA has 3 subsidiaries MediStim US Inc located in Minneapolis, Minnesota in the US, MediStim Deutschland GmbH in Munich in Germany and Medistim Kirop AS located at Etterstad in Oslo. MediStim ASA is the holding company in the MediStim Group.

MediStims business is focused towards cardiac and vascular surgery. Cardiac and vascular diseases are the most common cause of death in the western world and have an increasing trend in Asian countries where western lifestyle is adopted. On a global scale it's performed 730.000 cardiac bypass surgeries per year and about 600.000 vascular procedures per year. MediStim has a world leading position within quality control of cardiac surgery. MediStim strengthen its leading position within quality control of coronary bypass surgery in 2009 by increasing its market share and through the launch of its new equipment within ultrasound imaging. MediStim plans to increase its market share within vascular surgery.

MediStim ASA is developing and selling an electronic stethoscope that is distributed worldwide through a distribution agreement with Welch Allyn.

MediStims subsidiaries are in addition to MediStim products distributing other third part products within the surgery segment.

Working environment and employees

There has been no injuries or accidents related to the company activities in 2008. The working environment is considered to be good. On a general basis the activities within the company are considered to be on a low risk level. However, Health, environment and safety at the workplace has priority. The number of sick leave days was 314 in 2009 (129 in 2008) which is 3.4 % of total work time in 2009 (1.6 % in 2008). No specific measures have been necessary in this regard. On average there were 34 employees in 2009.

The company aim to be a work place where there are equal opportunities for women and men. It is company policy to make sure there is equal treatment between sexes in cases like level of salary, promotions and recruiting. The company had 17 women employed of a total of 34 employees.

The company actively works to prevent discrimination because of disabilities, ethnicity, national origin, color, religion or belief. The activities include recruitment, wages and working conditions, promotion, development and protection from harassment.

External environment

It is the Board of Directors belief that the external environment in not polluted or affected by the company activities. On this basis the no specific measures have been made.

Share capital and number of shareholders

The share capital in MediStim ASA was as of 31.12.09 NOK 4 715 331, 25 split on 18 861 325 shares at par value of NOK 0, 25 per share. The share is freely traded at the Oslo stock exchange. The company had 350 shareholders and had 533 989 MediStim shares by 31.12.2009. The Board of Directors will suggest to the general assembly that 523 989 of owns shares are amortised.

Profit for the year

Sales increased by 14.9MNOK to 78.9 MNOK. Profit before tax and after group contribution of 5.5 MNOK was 33.3 MNOK in 2009 compared to 26.9 MNOK in 2008. Group contribution in 2008 was 7.2 MNOK.

Total assets in the balance sheet was for the company 145.9 MNOK as of 31.12.09 compared to 145.4 MNOK as of 31.12.08. Equity in the company was as of 31.12.09 100.8 MNOK and 98.5 MNOK as of 31.12.08. The equity ratio as of 31.12.09 was 69.0 %.

By year end 2008 the company had 18.0 MNOK in cash. The company's ability to finance its activities and investments are satisfactory. The same is the case for the company's financial and cash position. Cash flow from operating activities was 36.1 MNOK.

Financial risk

Foreign exchange risk:

MediStim is exposed to changes in exchange rates towards USD and EUR, since most of the company's revenue is in these currencies. To reduce the risk of changes in exchange rates between the currencies the company has entered hedging contracts and therefore reduced the exposure.

Interest risk:

The company is exposed to changes in the interest level since the company has long term debt with a floating interest. However, changes in interest levels will not affect the company's investments opportunities in the future.

The global economical situation will affect the company since MediStim is a supplier to the health care sector in many countries. The financial risks are closely monitored by management. The company's position in financial instruments reflects underlying exposure in the business. MediStim enters hedging contracts so secure future sales in EUR and USD. Market risk is not secured through financial instruments.

Credit risk:

The risk that customers are unable to fulfill economic obligations is viewed as low and historical losses on receivables have been low. The company's customers are mainly public hospitals that have a secure financing.

Salary and benefits to management and leading employees

The Board of Directors set terms and conditions for the CEO. The CEO set the terms and conditions for the management team and leading employees. The principles for setting the terms to the CEO and leading employees are the same. The principles for 2008 and 2009 were the same and there are no planned changes. Terms and conditions are set at market terms and are evaluated on a yearly basis. It is company policy to reflect the average level in the market. Management had earlier share options that were vested in 2006. There was no incentive related to shares or development share in share price in 2007 and 2008. There are no plans to introduce a program with these criteria's. New CEO received 10 000 shares at the first day in the position and received further 10 000 after 6 months in the position. CEO and management have in addition to fixed salary incentive plans related to achieved results. The criteria's are reviewed annually and are linked to internal goals and budgets. If the criteria for bonus or provision are not reached, the Board of Directors or CEO may disregard the criteria in certain situations. This will be the case if a situation has been exceptionally demanding or the Board of directors have made decisions that affect earlier agreements. There are no employees in the company with an agreement giving additional compensation when leaving the company and there are no plans to introduce such agreements. Management is included in the same pension plan as other employees. Other benefits are of minor financial importance such as free access to communication tools for the management team to be available.

Important events in 2009

Within research and development the focus has been towards the imaging project. This is a project where MediStim uses ultrasound based imaging techniques to develop applications used during surgery. There is a demand in the market for such products and the combination of ultrasound imaging and transit time measurements is the first and the only available tool with this combination in the market. MediStim finalised the project in 2009 and received the CE approval in September 2009. The new product VeriQC was launched in Europe during EACTS in October 2009.

The US is an important market for MediStim. Since this market represents 37 % of the world market for MediStims products. In 2009 sales in the region on a group level increased with 11.8 % to 38.5 MNOK. This represents 10 % of the market in the US. MediStims market penetration in other countries like Japan and Germany are respectively about 50 %. MediStim believes that the company has a large potential in the US market. A direct sales organisation makes the company able to focus on the activities that gives growth. This is strengthened further by the ultrasound imaging product VeriQC, which MediStim will launch in the US in 2010. MediStim expects to have a FDA clearance for VeriQC in the second half of 2010. In 2009 MediStim strengthens its coverage in the US market by entering agent agreements. Also, in 2009 the company entered a distribution agreement for a 3rd party product. MediStim is for these reasons optimistic to the future in regard to its US operation.

MediStim has strengthened its position by increased sales with 6 % to 29 % in Europe, Middle East, Canada, Latin America and Australia. Asia was the region with strongest growth in 2009 with 105 % increase in sales compared to 2008.

It is expected a growth in the region as the Asians adopt a western lifestyle. It is important for MediStim to be well represented in the region which the company is through its distributors. The company have a product specialist with base in Australia to ensure proper support of the distributors. The purpose is to build relations, knowledge and thrust towards Asian distributors to prepare for future growth. Important events in 2009 were that MediStim received approval for sale of VeriQC with probes in China. Also, the foundation for the clearance of sale in Japan of the new ultrasound imaging product VeriQC, was made in 2009. The company was informed by its distributor in Japan in January 2010 that the product was approved for sale. Both of these approvals will secure future growth for MediStim.

In general there has been a positive development in Europe. Sales of own products increased with 7.2 %. It is expected that the trend will continue. The most important milestone in Europe in 2009 was the CE approval of VeriQC in September. With the CE approval in place MediStim is able to sell VeriQC in all European markets. Sale of VeriQC was also an important contribution to the growth in 2009. MediStim launched VeriQC in Europe during the European cardiac congress EACTS (The European Association for Cardiac-Thoracic Surgery) in Vienna, Austria. The Congress was held from the 17th of October and ended the 21st of October. VeriQC got much attention and the company collected many new leads during the congress. The first order came from Finland and in total it was sold 5 systems in Europe the last 2 months of 2009.

The improved version of the stethoscopes has increased the product line's profitability. The improved quality increases expected lifetime and make it easier to use. In addition new functionality in the software makes it easier for the user to set right diagnoses. The stethoscopes are distributed by Welch Allyn and the agreement expires in 2011. The product has not received the attention it deserves from the distributor and MediStim has not been satisfied with the sale development. The main reason for this is that there has been a reorganising within Welch Allyn, and for a period of time, there was no product manager responsible for the stethoscopes. New product manager has been appointed so that the product will be properly managed in 2010.

MediStim has received a notice from the tax authorities about a possible change in the tax filing from 2005. The company did not agree with the tax authorities. MediStim received confirmation from the tax authorities 16th of March 2010 that they will not follow up further on the issue. See also note 17 for further comments.

The financial report per 31th of December 2009 has been prepared according to Norwegian accounting principles (NGAAP) as do the comparable numbers for 2008. The board of Directors and managing Director confirm to the best of our knowledge that the condensed set of financial statements for the period 1st of January to 31st of December 2009 has been prepared in accordance to Norwegian GAAP and gives a true and fair view of the groups assets, liabilities, financial position and result for the period viewed in their entirety, and that the annual report includes a fair review of any significant events that arouse during the period and their effect on the 2009 financial report, any significant related parties transactions, and description of the principal risks and uncertainties for the next accounting period 2010.

The Board of Directors confirms that the fiscal year is closed under the assumption of continued operation. The Board is not familiar with any other incidents after the closing that will affect the financial statements for 2009.

Allocation of profit

The Board of Directors suggests that the profit for 2009 of 24 277 TNOK is allocated to shareholder dividend of NOK 0.75 per share, and an extraordinary dividend of NOK 0.15 per share in relation to MediStim ASAs 25 year anniversary. Total dividend is NOK 0.90 per share which amounts to 16.504 corrected for own shares, and the remaining profit of 7.773 TNOK is distributed to other equity. Free equity as of 31.12.09 was 24 839 TNOK after 16 504 TNOK was allocated to dividend.

Oslo, 31.3.2010

Øyvinn A. Brøymer
Chairman

Lise Sofie Haug Nissen-Meyer
Board member

Helge Ranvik
Board member

Kari Pah
Board member

Christian Fekete
Board member

Kari Eian Krogstad
CEO

Income statement MediStim ASA

1 = NOK 1000

	Note	2009	2008
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	1	77 325	62 477
Other income	1,4	1 627	1 586
Total revenue		78 952	64 063
Operational expenses			
Cost of goods sold		13 381	11 718
Salary and social expenses	2	24 675	17 994
Depreciation on assets	3	2 223	2 473
Other operating expenses	4,14	15 104	12 890
Total operating expenses		55 384	45 075
OPERATING PROFIT		23 568	18 988
FINANCIAL INCOME AND EXPENSES			
Financial income			
Contribution from subsidiaries	6	5 582	7 166
Other financial income	12	18 038	10 827
Financial expenses	12	13 845	10 117
NET FINANCE		9 775	7 876
PROFIT BEFORE TAX		33 343	26 864
Tax expense	5	9 066	8 103
NET PROFIT		24 277	18 761
ALLOCATIONS			
Dividend	11	16 504	11 317
Other equity	11	7 773	7 444
TOTAL ALLOCATION		24 277	18 761
Dividend per share		0,90	0,60

Balance sheet for MediStim ASA

1 = NOK 1000

	Note	31.12.09	31.12.08
ASSETS			
Non current assets			
Intangible assets			
Deferred tax	5	12 416	21 481
R & D	3,4	18 780	14 524
Fixed assets			
Machinery	3	4 668	5 926
Office equipment	3	262	394
Financial assets			
Shares in subsidiaries	6	37 277	37 277
Total non current assets		73 402	79 602
Current assets			
Inventory	8	9 996	7 039
Accounts receivables	7,16	24 146	26 472
Other receivables	7,16	20 358	14 766
Cash	9	18 001	17 501
Total current assets		72 502	65 777
TOTAL ASSETS		145 904	145 379
EQUITY AND LIABILITY			
Equity			
Issued capital			
Share capital	10,11	4 715	4 715
Share premium fund	10,11	40 253	40 253
Other equity			
Retained earnings	11	55 806	53 573
Total equity		100 774	98 541
Liabilities			
Accruals for obligations			
Pension liability	2	4 621	2 745
Deferred income	4	5 568	4 415
Total accruals		10 189	7 160
Other long term debt			
Long term debt from bank	15	3 000	7 000
Total other long term debt		3 000	7 000
Short term debt			
Interest bearing short term debt	15	4 000	4 000
Accounts payable	16	4 411	6 098
Payable tax	5	-	-
Employee withholding, social security taxes		1 664	1 632
Dividend	11	16 504	11 317
Other short term debt	13,16	5 362	9 631
Total short term debt		31 941	32 678
TOTAL EQUITY AND LIABILITY		145 904	145 379

Cash flow statement for MediStim ASA

1 = NOK 1000	Note	2009	2008
Cash flow from operations:			
Profit/loss before tax		33 343	26 864
Minus income tax paid		-	-
Plus depreciations		2 223	2 473
+/- Change in inventory		-2 957	-194
+/- Change in accounts receivable		2 326	-6 520
+/- Change in accounts payable		-1 687	4 116
+/- Change in paid and expensed pension		1 876	240
+/- Change in other accruals*		1 004	7 498
Net cash from operating activities		36 127	34 477
Investing activities:			
Minus investment in assets		-5 089	-8 287
Purchase of own shares		-5 840	-2 365
Net cash from investing activities		-10 929	-10 652
Financing activities:			
Minus down payment of long term debt		-4 000	-4 000
Dividend	11	-11 017	-9 412
Interest on loans		-209	-941
Net cash from financing activities		-15 226	-14 353
Net change in cash		9 972	9 472
Cash as of 01.01		8 029	8 029
Cash as of 31.12		18 001	17 501
Available cash and cash withholding			
Available cash as of 31.12	9	17 138	16 782
Cash withholding for taxes	9	863	719
Cash and cash equivalents as of 31.12		18 001	17 501

* Specification of other accruals 1 = NOK 1000 :

Reduction of deferred tax assets	9 066
Unrealised gain hedging contracts	-5 033
Group contribution	-5 582
OFU founds	2 074
Skattefunn	800
Other accruals	-321
Total	1 004

Accounting principles

Accounting principles

The financial statement and notes is according to Norwegian GAAP, Norwegian accounting law and according to best practice within Norwegian GAAP

Sales revenue

Sales revenue is recognized in the profit and loss on the date of delivery and when the major risk and ownership of the product have been transferred to the customer. Systems and probes are recognized as revenue when the goods are shipped from MediStim ASA and the risk and ownership is transferred to the distributor or end customer. The same is the case for sale of procedures for quality control of cardiac surgery and other third party product. Services are recognized as revenue at the time the service is performed.

Current assets and short term debt.

Current assets and short term debt is defined as items that are due for payment within one year at the last day of the accounting year, and items defined as working capital. Current assets are evaluated at the lowest of cost and net sales value. (The lowest value principle).

Fixed assets and long term debt.

Fixed assets are defined as property for long term use. Fixed assets is valuated at cost in the balance sheet and depreciated of the expected economic lifetime. Fixed assets are written down to real value if the reduction in value is expected to be permanent. Write down is reversed if the basis for the write down no longer exists.

Shares in subsidiaries

Shares in subsidiaries are valuated according to cost. Shares in Medistim Kirop AS, MediStim US Inc, and MediStim Deutschland GmbH are owned 100 %. The shares are recorded at cost or written down to real value if real value is assumed to be the lowest and that it is permanent. Dividend and group contributions are recognized as revenue in the holding company as financial revenue in the year that it has been accrued given that MediStim had the ownership of the shares in this period.

Foreign currency

Balance sheet items in foreign currency are valued at the exchange rate on the balance sheet day. Sales revenue is recorded at the exchange rate that was at the time of the sale. Unrealized gains or losses on hedging contracts are recorded in the profit and loss.

Inventory

Inventory is valued at the lowest of cost (FIFO principle) and net sales value (lowest value principle). For components the lowest of historic cost and current price is used to value the component inventory.

Work in progress and finished goods

Cost for finished goods includes direct cost and a portion of indirect and fixed production cost. Basis for the allocated cost to the products is a normal production situation. Goods in progress are valued at the cost price on the components.

Accounts receivables

Account receivables and other receivables are recorded in the balance sheet at par value with deduction for estimated losses. The accrual for losses is based upon a separate evaluation in each case. In addition there is made an unspecified accrual on receivables to cover expected losses. The same evaluation is made for other receivables.

Taxes

Tax cost in the income statement includes payable tax for the current accounting year and changes in temporary differences that are due for payment the coming accounting year. Temporary differences occurs using the tax rate by the end of the accounting year (28 %) and comparing tax increasing or tax reducing temporary differences between accounting values and tax values. Tax increasing or reducing temporary differences that can be reversed in the same period is recorded at net value. Deferred tax asset is recorded if it is likely that the company will be able to utilize the tax asset.

Accounting principles

Pension liabilities

The net pension obligation is estimated using the present value of all future pension obligations the employee has earned at the date of the balance sheet deducting the actual value of the pension assets. The pension cost and obligation are estimated on a straight line basis using expected salary until the benefits become vested. Assumptions such as future change in salaries, discount rate benefit from Norwegian government, return on invested pension funds, mortality and level of employee turnaround is following the Norsk Regnskapsstiftelse recommendation. The value of the pension fund is evaluated to real value and the net pension obligation is shown in the balance sheet. A change in the obligation because of changes in the pension plan is split over the remaining working years until the obligation is due. A change in the obligation or the value of the pension funds because of changes in the assumptions for the actuarial estimates are equally split over the remaining years until the obligation is due if the differences are more than 10 %. In these cases actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting period exceed 10 % of the higher of the defined benefit obligation and the fair value of plan assets at that date. Actuarial gains and losses are recorded on a running basis in the P & L.

Research and development

The activities in the development department are split in 3 categories. These are maintenance, general research and development of new products. Maintenance and general research is expensed in the P & L while new products are recorded as an asset and depreciated over expected lifetime. When recorded as an asset it is expected that revenues from the product will exceed activated amounts. An immaterial asset that is acquired, or other immaterial assets that are developed, are recorded as an asset in the balance sheet if they are identifiable and that it is likely to give future economic benefit. The asset is amortised over the expected economic lifetime of the asset. The values of the assets are evaluated yearly and if the book value exceeds future economic benefit the asset is written down. The evaluation is performed by the management in the company.

Cash flow analysis

The cash flow analysis is prepared using indirect method. Cash is defined as cash in bank and other financial assets that are due within 3 months after it's acquired.

Other financial assets

Shares and other financial assets are evaluated at the lowest of cost and market value. The company enters hedging contracts in USD and EUR. The value of the contracts is based upon the exchange rate at the balance sheet day and a change in value is recorded in the P & L.

Accruals

Obligations and accruals are made if it is more than 50 % likely that the obligation is real. Best estimate is used to estimate the obligation.

Notes to the accounts

Note 1 Geographic split of sales

1 = NOK 1000	2009	2008
USA	19 027	19 655
Asia	18 299	8 909
Europe	35 512	30 652
Rest of the world	6 114	4 847
Total sales	78 952	64 063

Other income amounted to 1 627 TNOK and 1 100 TNOK was income from Skattefunn and 527 TNOK income from services provided to subsidiaries.

Note 2 Salary and other benefits

Specification of salary and social expenses

1 = NOK 1000	2009	2008
Salaries	18 741	13 659
Payroll tax	2 678	2 446
Pension cost	3 007	1 790
Other benefits	249	99
Total salary and social expenses	24 625	17 994

Total number of employees' trough the year was 34.

Pension obligation - defined pension plan

1 = NOK 1000	2009	2008
Expense in the income statement		
Present value of this year pension	2 222	1 562
Interest expense on obligation	527	331
Payroll tax	348	233
Administration cost	68	45
Expected return on funds	-158	-381
Net pension cost	3 007	1 790
Balance sheet at 31.12.		
DBO at the end of the year	8 869	12 262
Unrecognised actuarial loss	638	5 585
Value of pension funds	4 142	4 961
Net pension obligation	4 049	1 716
Payroll tax	572	1 029
Recorded pension obligation	4 621	2 745

Number of employees included in the defined pension plan is 22. The plan covers 66 % of salary limited to 12 G. The defined plan was frozen in 2007, and all new employees in 2008 are included in a 5 % contribution plan. 12 employees were included in the contribution plan as of 31.12.2009. It was expensed 256 TNOK in relation to the contribution plan in 2009.

Actuarial assumptions:	2009	2008
Discount rate	4.40 %	4.30 %
Expected return on assets	5.60 %	6.30 %
Adjustment in salary	4.25 %	4.50 %
G-amount regulation	4.00 %	4.25 %
Regulation of pension	4.00 %	4.25 %

It is compulsory by law for the company to have a pension plan for its employees. The pension plans in the company fore fill the obligation in the law. Assumptions like discount rate, future regulation of salary, pensions and social security, future return on assets, mortality and level of employee turnover follows the recommendation from Norsk Regnskapsstiftelse updated in September 2009. The obligation has increased as a result of regulation of pension that was estimated with the wrong actuarial assumptions in previous years. The additional cost was 1.3 MNOK in 2009.

Compensation to management

1 = NOK 1000

Managementteam	Position	Salary	Bonus	Pension	Actuarial Pension cost	Other	Total
Arne Grip	Previous CEO 8 months	834	13	104		171	- 1 122
Turid Kristoffersen	Previous VP market.	816	13	74		-	- 903
Erik Swensen	VP development	800	13	52		168	6 1 039
Rigmor Blix	Regulatory affairs	545	13	67		111	4 740
Anders Lillebø	VP production	829	13	99		185	6 1 132
Kari Eian Krogstad	New CEO 4 months	502	-	32		-	205 739
Thomas Jakobsen	CFO	880	13	68		195	4 1 160
Sum		5 207	76	497		830	225 6 834

There are no special agreements towards any in the management team in case of leaving the company. All in the team has a two way arrangement of 6 months notice. The company has hired a new CEO in 2009. Previous CEO is still available for the company through a consultant agreement. This is a 5 year contract and the yearly fee is 400 TNOK. Previous CEO is one of the major shareholders i Zenith Medical AS. Zenith Medical AS is the largest shareholder in MediStim ASA. The Board of Directors, neither CEO nor any other in the company has a loan from MediStim ASA. There are no options to employees or members of the Board. New CEO, Kari Eian Krogstad, had the benefit of receiving 10 000 shares when in position and receives further 10 000 shares after 6 months in the position.

Compensation to the Board:

1 = NOK 1000

	Compensation
Chairman Øyvind Brøymer	150
Board member Lise Sofie Haug Nissen-Meyer	75
Board member Ranvik	75
Board member Kari Pah	75
Board member Christian Fekete	75
Total compensation to the Board	450

Compensation to auditor

1 = NOK 1000

	2009	2008
Expenses for auditing	444	273
Compensation for other auditing services	70	14
Compensation for auditing	514	286
Tax advice	-	485
Compensation for other services	129	113
Total other services	129	597
Total compensation to auditor	643	883

The amounts are without VAT.

Note 3 Fixed assets and depreciation

1 = NOK 1000	Plant and Machinery	Equipment	Total fixed Assets	Activated Development	Total fixed assets
Historic cost as of 1/1	15 522	3 629	19 151	16 340	35 491
Additions	329	36	365	4 724	5 089
Historic cost as of 31/12	15 851	3 665	19 516	21 064	40 580
Accumulated depreciation as of 1/1	9 596	3 235	12 831	1 816	14 647
Ordinary depreciation	1 587	168	1 755	468	2 223
Accumulated depreciation as of 1/12	11 183	3 403	14 586	2 284	16 870
Book value at 31/12	4 668	262	4 929	18 780	23 709

Plant and machinery is depreciated over 3 to 7 years on a straight line basis dependent upon expected economic lifetime. Tools and equipment is depreciated over 3 to 5 years on a straight line basis dependent upon expected economic lifetime.

No items from the fixed asset registry were sold during 2009.

Development cost is recorded as intangible assets when a project has reached technological feasibility and it is likely that it will result in a new product or improved product that has revenue potential that exceeds the investment. Maintenance of existing products is expensed. The investment is depreciated over 3 to 8 years dependent upon whether it's a new product or improvement of existing product. A new product that represents a new technological platform has a longer expected lifetime and for MediStim products this is 8 to 10 years. Product improvements on existing technological platform is replaced more rapid and is therefore depreciated over 3 years.

Note 4 Research and development

MediStim used 9.3 MNOK within research and development in 2009 and 8.7 MNOK in 2008. 4.7 MNOK was recorded as intangible asset in 2009 and 6.2 MNOK was recorded as intangible asset in 2008. The company received 1.1 MNOK from Skattefunn in 2009 and 0.8 MNOK in 2008. In 2009 the company received OFU funds of 0.9 MNOK. OFU funds were given in relation to the imaging project and cost related to the project is activated. OFU funds are therefore recorded as deferred revenue in the balance sheet. The revenue will be released to the P & L according expected lifetime of the investment. In 2008 the company received 2.1 MNOK in OFU funds. In total 5.6 MNOK was recorded as deferred revenue as of 31.12.2009. In 2009 4.5 MNOK of development cost was expensed and the equivalent amount for 2008 was 2.5 MNOK. Skattefunn funds were recorded as other income. See also note 3. The first release of VeriQC was in December 2009 and the ultrasound imaging project is finalised. The product is depreciated over 8 years and deferred income is released to the P & L over 8 years.

Note 5 Income tax and temporary differences

Computation of income tax for the year:

1 = NOK 1000	2009	2008
Current income tax charge for the year before deferred tax asset is utilised	6 104	8 668
Tax penalty	-	798
Change in deferred tax	2 962	-1 363
Income tax expense reported	9 066	8 103

Reconciling income tax expense against profit

Income tax expense for the year	9 066	7 305
28 % of profit before tax	9 336	7 522
Change in deferred tax asset		
And temporary differences	-9 066	-8 103
Difference because of permanent differences	270	217

Specification of taxable income:	2009	2008
Profit before tax	33 342	26 864
Permanent differences	135	26
Change in temporary differences	-10 580	4 868
Skattefunn	-1 100	-800
Losses carry forward	-21 797	-30 958

Taxable income	-	-
Estimated income tax:	-	-

Payable tax in balance sheet:	2009	2008
Tax on profit for the year	-	-
Prepaid tax	-	-
Refund from Skattefunn	-1 100	-800
Total payable tax	-1 100	-800

Specification of deferred tax asset

Differences in accounting and tax values	2009	2008
Fixed assets	-28 424	-30 021
Current assets	5 650	-315
Accrual for obligations	5 225	333
Pension obligation	-4 621	-2 745
Losses carry forward	-22 172	-43 970
Total differences	-44 341	-76 718
Deferred tax asset 28 %	12 416	21 481
Deferred tax asset in balance sheet	12 416	21 481

Deferred tax asset in the balance sheet is reduced from 21.5 MNOK to 12.4 MNOK. Deferred tax asset is reduced according to the profit from the Norwegian companies in the group. Deferred tax asset consist of losses carry forward and temporary differences in valuation of assets. All deferred tax asset is recorded in the balance sheet as of 31.12.2009, since it is likely that the company will have future taxable income that will exceed losses carry forward and other temporary differences. See also comment in note 17. The tax penalty of 798 TNOK was related to an error in the tax filing for 2005. MediStim hired at the time its auditor to ensure that the tax filing was done properly. Previous auditor has agreed to cover 300 TNOK of the penalty when MediStim is in a tax position. This receivable is not recorded in the accounts for 2009.

Receivable related to Skattefunn of 1 100 TNOK is recorded under other receivables in the balance sheet.

Note 6 Shares in subsidiaries

MediStim ASA has the following investments in subsidiaries:

1 = NOK 1000

Company	Country	Segment	Ownership	Balance sheet value 31.12.09	Profit in 2009
MediStim USA Inc.	USA	Lease and sales within cardiac surgery.	100 %	135	-574
MediStim Deutschland GmbH	Germany	Sale of 3.party products and capital sales within cardiac surgery.	100 %	188	975
Medistim Kirop AS	Norway	Sale of 3.party products and capital sales within cardiac surgery.	100 %	36 953	3 681
Total				37 276	4 081

Summary of financial information for the subsidiaries 100%:

1 = NOK 1000

Company	Assets	Debt	Equity	Sales	Profit in 2009
MediStim USA Inc.	8 134	9 741	-1 606	39 941	-574
MediStim Deutschland GmbH	6 395	3 260	3 135	20 587	975
Medistim Kirop AS	33 710	20 780	13 026	53 626	3 681
Total	48 239	33 781	14 554	114 154	4 081

Book value of Medistim Kirop equals the historic cost for the shares in MediStim Norge AS and Kir-Op AS

Medistim Kirop AS has offices at Etterstad in Oslo. MediStim USA Inc has offices in Minneapolis in the USA, while MediStim Deutschland GmbH has offices in Munich in Germany. MediStim ASA received a group contribution of 5 582 TNOK in 2009. In 2008 the equivalent amount was 7 166 TNOK. There was a loss in the distribution company in the USA in 2009. The company has established a direct sales organisation that had its first full operating year in 2008. The loss in 2009 is reduced with 1323 TNOK compared to 2008.

Note 7 Account receivables and other receivables

Account receivables

1= NOK 1000	2009	2008
Account receivables	24 256	26 582
Accrual for losses	110	110
Total	26 146	26 472

All receivables are due within one year. Losses in 2009 were 3 TNOK and losses in 2008 were 86 TNOK. It is recorded an accrual of 110 TNOK to cover expected losses. Historically the company has small losses on receivables. Other receivables are shown below.

Other receivables

1= NOK 1000	2009	2008
Pre payments	846	585
Prepaid taxes and VAT	1 651	2 458
Group contribution	9 747	7 166
Skattefunn\OFU	2 014	800
Unrealised gain hedging	5 033	-
Accrued income	407	2 607
Other	660	1 150
Total other receivables	20 358	14 766

Note 8 Inventory

1= NOK 1000	2009	2008
Components	2 522	2 209
Work in progress	1 137	2 044
Finished goods	6 937	5 166
Inventory accrual	-636	-2 380
Total	9 996	7 039

Finished goods are valued at production cost that includes cost for components and internal labour cost. Work in progress is valued at the total of the component cost. Inventory accrual is related to service inventory, demonstration inventory and stethoscopes. The sales value of the products are assessed and found lower than historic cost. See table below.

Spesification of accrual 1 = NOK 1000	2009	2008
Stetoschopes	-	1 867
Demonstration inventory	196	208
Service inventory	440	305
Total	636	2 380

Note 9 Cash in Bank

Restricted cash amounted to 863 TNOK as of 31.12.09 and was related to tax withheld on salary paid to employees. The comparable amount as of 31.12.08 was 719 TNOK.

Note 10 Shareholder affairs

The company had 18.861.325 shares at par value of NOK 0.25 per share and total share capital amount to NOK 4.715.331. There is only one class of shares and all shares are treated equally. Each share represents one vote.

Change in issued share capital in 2009:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.09	18 861 325	NOK 0.25	NOK 4 715 331.25
No changes are registered	-	-	-
Share capital 31.12.09	18 861 325	NOK 0.25	NOK 4 715 331.25

The Board of Directors got under the shareholders meeting commission to purchase up to 1 856 154 MediStim ASA shares at par value NOK 464 038.50. The commission is valid until the next ordinary general assembly in 2010 in the price range of NOK 0.25 to NOK 100 per share. Further the Board of Directors got commission to increase share capital with NOK 471 533 or 1 886 132 new shares at par value NOK 0.25. The commission can be used if there is a decision to fusion, acquire another company or to create an option program. The commission is valid until the next ordinary shareholders meeting in 2010.

Status for the commissions as of 31.12.09:

	Capital increase	MediStim shares
Commission given at the shareholders meeting 28.04.09	1 886 132	1 856 154
<u>Commissions used</u>	-	<u>372 011</u>
Status for the commissions as of 31.12.09	1 886 132	1 484 143

The company had 533 989 MediStim shares as of 31.12.09. Number of MediStim shares by 01.01.09 was 161 978. The change trough the year is shown below:

Change in MediStim shares

Number of shares as of 31.12.08 161 978

Sales and purchase of own shares	372 011
Number of shares as of 31.12.09	533 989

The 20 largest shareholders in the company were as of 31.12.09:

Share holder	Number of shares	Shares in %	Nationality	Comment
ZENITH MEDICAL AS*	3 926 000	20,82 %	NOR	
FLØTEMARKE AS**	3 800 000	20,15 %	NOR	
SKAGEN VEKST ****	1 795 000	9,52 %	NOR	
ORKLA ASA	1 717 500	9,11 %	NOR	
BUANES ASBJØRN JOHN	1 281 500	6,79 %	NOR	
FOLLUM CAPITAL AS	1 000 000	5,30 %	NOR	
NIPPON BXI INC.***	670 000	3,55 %	JPN	
MEDI-STIM AS	533 989	2,83 %	NOR	
ROSLAND BRIGT	282 900	1,50 %	NOR	
RBC DEXIA INVESTOR S S/A LUX-NON-RESIDE	250 000	1,33 %	LUX	NOM
VERDIPAPIRFONDET FON	229 000	1,21 %	NOR	
KRISTOFFERSEN KJELL	203 500	1,08 %	NOR	
DNB NOR SMB VPF	200 000	1,06 %	NOR	
ENERGI CORPORATE AS	195 000	1,03 %	NOR	
BLIX RIGMOR HELEN	180 000	0,95 %	NOR	Ansatt
MP PENSJON	174 500	0,93 %	NOR	
STOREBRAND VEKST JPMORGAN EUROPE LT	153 500	0,81 %	NOR	
RETIRO AS	150 000	0,80 %	NOR	
SHB STOCKHOLM CLIENT C/O HANDELSBAN	147 970	0,78 %	SWE	NOM
TANI KAZUO***	142 500	0,76 %	JPN	
Total 20 largest shareholders	17 032 859			
Total number of shares outstanding	18 861 325			
20 largest shareholders in %	90,31 %			

* Company controlled by former CEO Arne Grip and board member Kari Pah.

** Company controlled by Chairman of the board Øyvind A. Brøymer.

*** Nippon BXI is MediStims distributor in Japan and is controlled by Kazuo Tani.

**** Consist of two Skagen funds, Skagen Vekst and Skagen Vekst III

Other board members and management team with shares in the company:

Shareholder	Number of shares	In % of total	Position
Lise Sofie Haug Nissen-Meyer	4 000	0,02 %	Board member
Helge Ranvik	5 000	0,03 %	Board member
Erik Swensen	40 000	0,21 %	Development man.
Thomas Jakobsen	60 000	0,32 %	CFO
Kari Eian Krogstad	10 000	0,05 %	CEO
Howie Milstein	13 188	0,07 %	Man.dir USA
Anders Lillebø	1 000	0,01 %	Production man.

It was no share options outstanding as of 31.12.09. CEO Kari Eian Krogstad received another 10 000 shares after 6 months in position as CEO.

Note 11 Change in equity

1 = NOK 1000	Share capital	Own Shares	Premium fund	Other equity	Total
Equity 31.12.08	4 715	-40	40 253	53 614	98 542
Change in equity					
Change own shares	-	-93	-	-5 747	-5 840
Other corrections				300	300
Profit for the year	-	-	-	24 277	24 277
Purposed dividend	-	-	-	-16 505	-16 505
Equity 31.12.09	4 715	-133	40 253	55 939	100 774

Note 12 Financial risk

Change in exchange rates involves a direct and indirect financial risk for MediStim ASA. The company has revenue and expenses in EUR and USD where most revenue is in another currency and expenses mostly in NOK. Efforts are made to neutralize net exposure 12 to 24 months in the future by entering hedging contracts. The development in NOK towards USD and EUR was favourable for MediStim by the end of 2008 and beginning of 2009 and the company entered monthly hedging contracts on a monthly basis with the last contract in August 2011. In total the company has secured 37 hedging contracts for both currencies USD and EUR. The contracts are due by the end of each month.

Total amount of hedging contracts in USD as of 31.12.09 was USD 2.6 mill. that gave an unrealized gain of 2.9 MNOK. Equally there was hedging contracts in EUR amounting to EUR 3.0 mill. that gave an unrealized loss of 2.1 MNOK. The hedging contracts are entered to secure sales in USD and EUR. Unrealized gain or loss related to the contracts is recorded in the balance sheet as of 31.12.09 and the change of value related to the contracts is recorded in the profit and loss. The management and Board of directors evaluate the handling of risks related to exchange rates fluctuations continuously together with its professional advisers.

Gains and losses related to currency:

1= NOK 1000	2009	2008
Foreign exchange gain	17 887	10 420
Foreign exchange loss	13 443	9 153
Total	4 430	1 267

Note 13 Specification of short term debt

1= NOK 1000	2009	2008
Holiday allowance	1 692	1 553
Accrued royalty	-	275
Bonus and commission	2 540	744
Interest expenses	63	247
Unrealised currency loss	-	5 877
Board compensation	450	400
Other	617	535
Total other short term debt	5 362	9 631

Note 14 Other operating expenses

1 = NOK 1000	2009	2008
Office rental	2 363	2 108
Travel expense	1 321	1 597
Marketing	1 867	1 666
Consultancy fee	3 885	2 845
Insurance	617	479
Freight	521	519
Communication	2 344	1 958
Other	2 186	1 718
Total other op. expenses	15 104	17 503

Note 15 Long term debt and loan security

MediStim ASA has loan trough DnBNOR. The original loan amount was 20 MNOK and the loan was taken in relation to the Kir-Op AS acquisition. MediStim ASA's shares in Medistim Kirop AS are recorded as security for the loan. In addition the bank has security in assets, accounts receivable and inventory. The security in assets is limited to 3 MNOK. The security in accounts receivables are limited to 10 MNOK and security in inventory is limited to 10 MNOK. Book value of secured items was as of 31.12.09 4.9 MNOK for assets, 24.1 MNOK for accounts receivables and 10.0 MNOK for inventory. Interest rate on the loan is 3 months NIBOR plus 1.50 %. There are no other restrictions related to the loan such as level of equity, minimum profit or similar covenants. 4.0 MNOK of the loan is due within 12 months and is recorded as short term interest bearing debt. Remaining debt as of 31.12.09 was 7.0 MNOK.

MediStim ASA has a credit facility of 6.0 MNOK to enter foreign currency hedging contracts. The facility represents 10 % of the total value the company can sign up contracts for. As security for the facility are assets, accounts receivable and inventory as described above. See also note 12 regarding foreign currency hedging contracts.

Note 16 Receivables and debt towards subsidiaries

1 = NOK 1000	2009	2008
Accounts receivables	13 671	11 639
Other receivables	408	533
Group contribution	9 748	7 166
Accounts payable	-	-
Other debt	-	-

Note 17 Other issues

The tax authorities requested information from the company related to the acquisition of Meditron ASA during 2007. The tax authorities informed the company that it was considered to change the tax filing from 2005. The circumstances are described in detail in the annual report from 2007. MediStim has provided information and detailed descriptions of the evaluations and events that was considered during the acquisition in March 2008. The company received confirmation from the tax authorities the 16th of March 2010 that they have closed the case and will not follow the issue further.

Note 18 Events after 2009

The Board of directors have no knowledge about other events after 2009 that will affect the annual report and financial statement for 2009.

Oslo, 18.3.2010

Øyvin A. Brøymer
Chairman

Lise Sofie Haug Nissen-Meyer
Board member

Helge Ranvik
Board member

Kari Pah
Board member

Christian Fekete
Board member

Kari Eian Krogstad
CEO

Statement pursuant to section 5-5 of the Securities Trading Act

We hereby confirm that the annual accounts for the group and the company for 2009 to the best of our knowledge have been prepared in accordance applicable accounting standards and give a true and fair view of assets, liabilities, financial position and profit and loss for the group and the company as a whole

The director's report give a true and fair view over development and performance of the business and the position of the group and the company, and a description of principal risk and uncertainties facing the group.

Oslo 18.3.2010

Board of Director's in MediStim ASA

Øyvind A. Brøymer

chairman

Lise Sofie Haug Nissen-Meyer

board member

Helge Ranvik

board member

Kari Pah

board member

Christian Fekete

board member

Kari Eian Krogstad

CEO

“To the Annual Shareholders’ Meeting of Medi-Stim ASA

AUDITOR’S REPORT FOR 2009

We have audited the annual financial statements of the Medi-Stim ASA as of 31 December 2009, showing a profit of NOK 24 276 882 for the parent company and a profit of NOK 27 873 642 for the group. We have also audited the information in the Board of Directors’ report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company’s financial statements and the group accounts. The parent company’s financial statements comprise the balance sheet, the statements of income and its cash flows, the statement of changes in equity and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and its cash flows, the statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to produce the parent company’s financial statements. The rules of the International Financial Reporting Standards as adopted by the EU have been applied to produce the group financial statement. These financial statements are the responsibility of the Company’s Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den Norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company’s financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the parent company’s financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2009 and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with good accounting practice in Norway
- the group company’s financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of December 31, 2009 and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with good accounting practice in International Financial Reporting Standards as adopted by the EU
- the company’s management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the Board of Directors’ report concerning the financial statements, the going concern assumption, the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, 18. Mars 2010
BDO AS - orgnr. 994 855 573

Marianne Hamre
State authorized public accountant

Note: This translation from Norwegian has been prepared for information purposes only”