Annual Report 2013
Medistim ASA

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For the holding company Medistim ASA

For the group and the holding company

Introduction

A paradox ...

Coronary heart disease remains the major cause of death in the western world and is now increasing rapidly in developing countries. Treatment of the disease often requires angioplasty (out blocking) of the coronary arteries and insertion of a stent or bypass surgery. When surgical bypass is performed, new blood vessels are constructed to increase blood flow to the heart muscle. This is a relatively complex surgery.

During angioplasty, which is performed using a catheter that is inserted through the arteries, there is a routine quality assurance procedure by taking x-rays of blood vessels. For bypass surgery, it is impractical to use X-rays. Unfortunately, in many cases no form of quality assurance of new blood vessels are performed during surgical treatment, and many of the world's cardiac surgeons conclude surgery without having objective evidence that the new blood vessels are working as intended. Bypass surgery is technically difficult and if the new blood vessels are not functioning, the chance of death, complications or unsatisfactory results increases significantly. Clinical studies show that up to 10% of patients that have undergone coronary bypass surgery have problems with one or more of the new blood vessels. Medistim's equipment is the best and logistically easiest to use for quality assurance of coronary bypass surgery, but is still used today in only about 20% of the coronary bypass procedures performed globally.

Coronary Bypass Surgery is an effective treatment, but represents a relatively large intervention. Patients, surgeons, hospitals and health insurance organizations expect good results, and the incidence of complications and death after such an operation should be very low. It is an increased focus on good long term results in relation to quality of life. This requires that the new blood vessels admitted during surgery works satisfactory over time*. Therefore, it is a paradox that no quality assurance is conducted routinely before concluding coronary bypass surgery.* Medistims vision is that all coronary bypass surgery should be quality assured while the patient is still on the operating table.

The technology and equipment exists

The leading measurement method on the market for measuring blood flow is the Transit Time Flow Measurement (TTFM). This is a tried and proven method that is simple, safe and an economically viable way to verify reliable measurement results. In 2014 Medistim celebrates its 30th anniversary as a company and has over the years developed its products in consultation with medical and surgical specialists. The company has developed three generations of quality equipment and is currently *the only supplier in the world that can offer a user friendly integrated TTFM and intra-operative ultrasound imaging system*. Imaging functionality provides the surgeon the opportunity to uncover the cause of poor blood flow measurements and thereby make it easier to correct technical problems and achieve optimal clinical outcome. Intraoperative imaging with ultrasound can for example prevent stroke, which can be a catastrophic complication of cardiac surgery. This is achieved through imaging of the aorta to locate deposition of cholesterol and calcium and then avoid manipulation of the aorta where depositions are located.

To measure blood flow with TTFM is standard clinical practice in many countries

In Japan and many countries in Europe it is almost unthinkable to perform bypass surgery without using TTFM to ensure proper graft quality. In 2010 TTFM was included in the European guidelines for coronary revascularization. This was followed up in 2011 by the British National Institute for Health and Care Excellence (NICE), which recommend TTFM to be used regularly in the British health care system. Furthermore, the use of intraoperative ultrasound imaging was recommended by the American Heart Association. *In other words, there is broad clinical and scientific support for the method*. Despite this, the methodology is still not widespread in major markets like the U.S., England and France, so the potential for expansion is large in these markets. At the same time we see growing demand and interest in markets like Brazil, Russia, India, China and many other countries. This represents significant growth opportunities for Medistim.

Medistims vision

A leading provider within medical-devices is a supplier that in collaboration with physicians, specialists and hospitals are developing innovative equipment and technology that reduces risk and improves outcomes of medical interventions. Effective solutions give patients better quality of life and health care higher efficiency and lower costs. Medistim is a leading provider that contributes to shape future standard clinical practice. Medistim can today proudly call it shelf the innovator and market leader in its niche within the quality assurance of coronary bypass surgery. Even so, only a small portion, about 25 % of the total annual number of surgeries

performed annually, uses equipment to ensure quality. Our vision is that the equipment shall benefit all patients and surgeons, regardless of where in the world they are located, and *that Medistims equipment and solution represent standard clinical practice in all countries.*

Positive development in 2013

2013 was another good year for Medistim, with *continued growth and excellent profitability*. We have further strengthened our position within cardiac bypass surgery. This because we increase the sale of flow probes and thus show increased use of the equipment in existing markets, and because we experience a significant increase in interest and sales of our new ultrasound imaging modality. Medistim is in an exciting phase of developing the 4th generation of equipment for quality control. This is product development that will strengthen our capabilities not only in cardiac surgery, but also bring us closer to the goal of establishing significant business within other vascular, plastic and transplant surgery.
Coronary bypass surgery is increasingly being performed with less invasive methods including robotic surgery. Medistim has already developed probes for these new procedures and is cooperating with partners in the United States and China in this field.

Expectations ahead

Medistim originated within Norway's world leading ultrasound technology environment, and has for decades built up a worldwide network for technology- and clinical partnerships. We have in recent years established new and *meaningful relationships with the world's finest hospitals and surgeons*, and work with several exciting clinical projects that could help accelerate the acceptance of the methods in the future. We work diligently to strengthen our own organization and expertise, particularly our sales and marketing teams in the U.S., Germany and UK, but also in China and the BRIC countries.

Medistim have *highly skilled employees*, an experienced management team and an active board as a team player.
We are inspired and united in the great and exciting task of realizing the vision of creating Medistims solutions as standard clinical practice - and thereby realize our considerable business potential.

Follow us in 2014

Kari Eian Krogstad
CEO Medistim ASA

Annual report for Medistim group

Products and area of use

Nature of the business

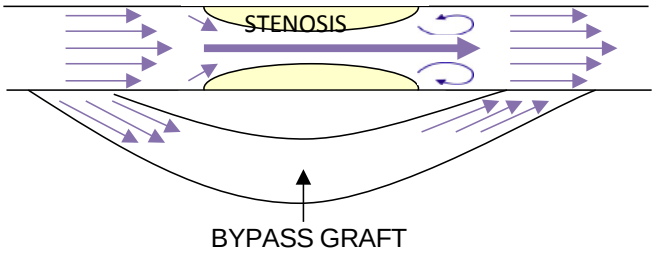
The Medistim group's business is within developing, producing, servicing, leasing and distribution of medical devices. The Group has its head office in Økernveien 94 in Oslo. The production facilities are located in Moloveien 10 in Horten. Further Medistim has sales and distribution centre in Minneapolis, Minnesota in the US, a sales and distribution centre in Munich in Germany, sales and distribution centre in Copenhagen Denmark, and sales and distribution centre in London UK.

The business is focused on ensuring quality within cardiac and vascular surgery. Cardiovascular diseases are the most common cause of death in the western world and have an increasing trend in Asian and African countries adopting western lifestyles. Worldwide there are performed more than 700.000 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 33 % of all coronary bypass procedures are performed. Medistim strengthen its leading position within quality control of coronary bypass surgery in 2013 by increasing its market penetration in Europe and Asia.

In addition Medistim is a distributor of other medical devices through its subsidiary Medistim Norge AS and Medistim Danmark Aps. The products distributed are mainly medical devices within all types of surgery.

Measuring blood flow with VeriQ™ and VeriQC™

The company develops and produces a medical device that is used to ensure quality of cardio-vascular surgery. With the use of ultrasound, blood flow through veins or arteries can be measured with precise accuracy during surgery. Physically the device 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 blood flow 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 coronary bypass surgery where blood flow is measured on new vessels (grafts) connected to the hart. The purpose is to supply the hart with blood in areas where diseased vessels are not supplying enough blood. It is then essential for the outcome of the surgery that the new vessels have the right blood flow. 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 correct the error. The equipment then provides the surgeon a tool to verify quality and increase the level of precision. Proper grafts correlates positively with lower risk for complications like infarction, stroke and death during or after surgery. 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 blood flow measurements using the transit time principle (TTFM) 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.

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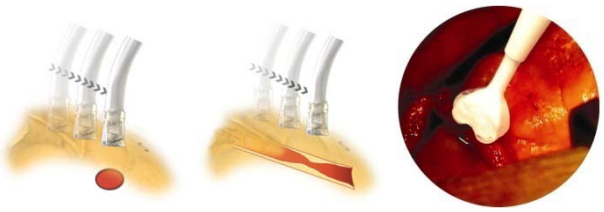
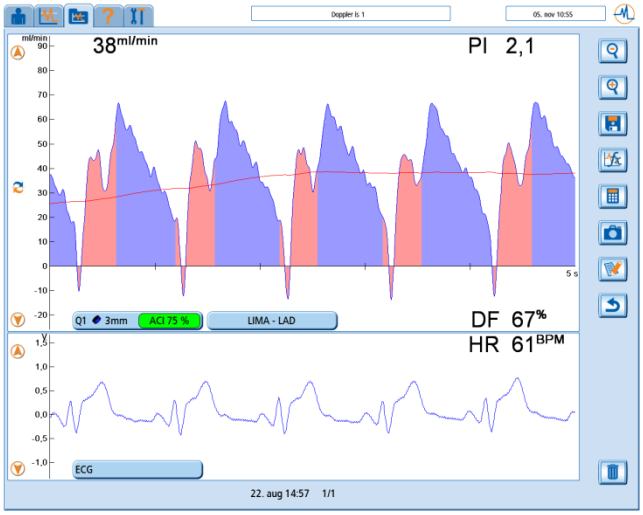
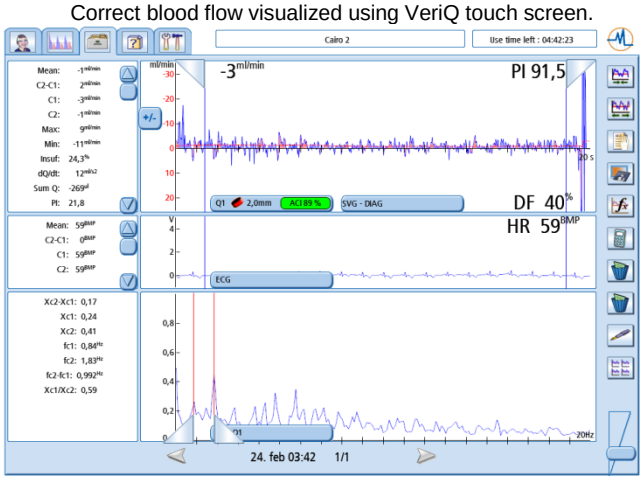


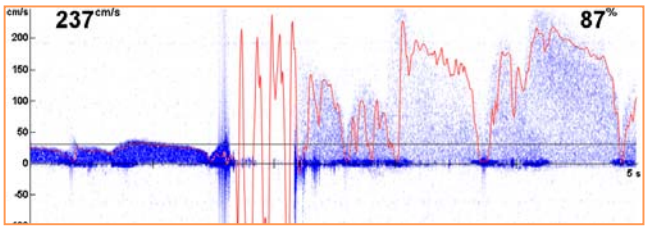
Doppler probe searches and locate, Quickfitprobe verify blood flow.



Correct blood flow visualized using VeriQ touch screen.



No blood flow visualized through VeriQ touch screen.



A shift in the Doppler curve that identifies a stenosis.

Medistim has developed and launched a product that includes ultrasound imaging in addition to traditional functionality described above. The imaging capability will provide the surgeon with multi functional equipment. The product is named VeriQC. VeriQC is Medistim's most advanced 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 provides the surgeon with 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 stenosises, decide optimal placement for new graft and verify flow before the patient is closed. Increased precision and quality is good for the patient and save the health care system expenses by avoiding re interventions. The product has clearance for sale in all of Medistims major markets by health authorities in Europe, USA and Japan.

The new ultrasound imaging probe

Medistims new ultrasound imaging system VeriQ C™

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. The combination

strongly increases the market potential within existing markets but also open new markets.

Reading flow curves during surgery.

Medistim product includes a digital ultrasound module. A surgeon that operates the equipment using the specialized 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 visualized using color coded two dimensional Doppler technology (CFM).

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.

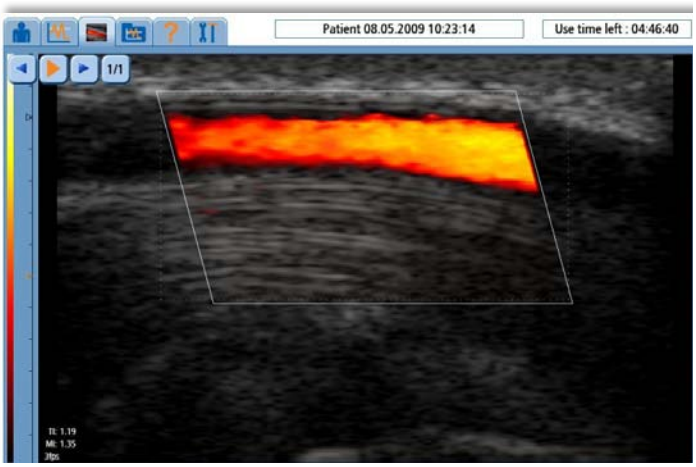


Image of a blood vessel using color Doppler.

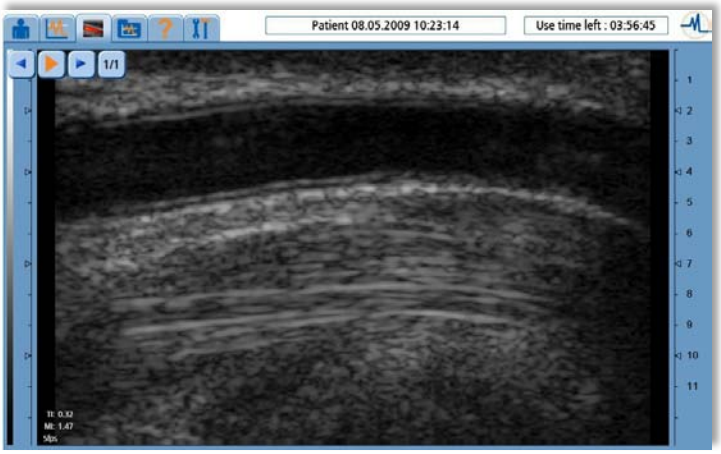
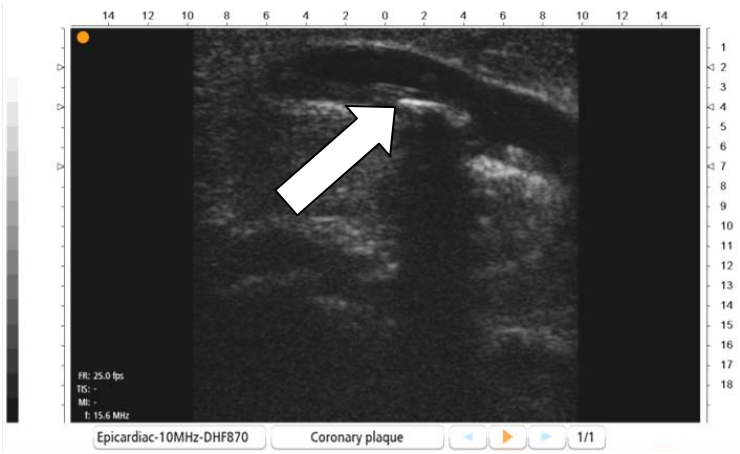
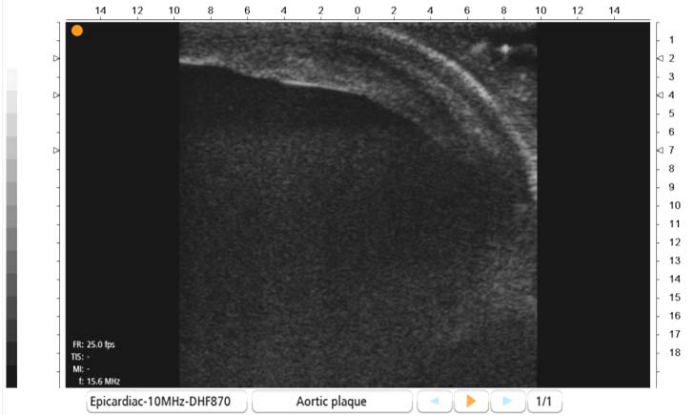


Image of a blood vessel without color Doppler.



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.



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.

Third party products

In Denmark 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.

Market development

Medistim sells its products all over the world through distributors. The exception is USA, Denmark, UK, Germany and Norway where Medistim has local representation.

There are tremendous differences in clinical practice around the world when it comes to graft patency verification during Coronary Bypass Grafting (CABG). The lack of utilization of clinically proven, cost effective technology in many countries must be a concern, not only to patients and surgeons, but also to publich and private payers.

In order to increase the awareness and importance of utilizing TTFM during CABG, Medistim is focusing on and push for that TTFM is included in the guedelines as «standard of care». This is the case for both international organizations, but also for national organizations and guidance for clinical practice.

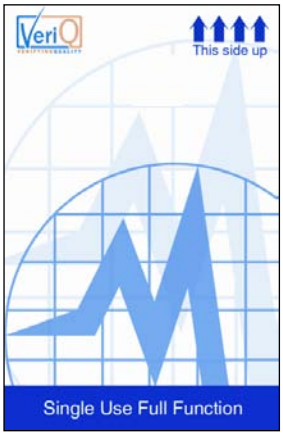
By the end of 2010 Medistim's equipment was included in the guidelines from European Society of Cardiology (ECS) and European Associatiion for Cardio-Thoracic surgery (EACTS) as standard of care during CABG. The same was the case by end 2011 where Medistims equipment was embraced by british National Institute for Health and Clinical Excellence (NICE) as standard of care during CABG. These are all highly respected organizations and it is expected that these reccomodations will influence clinical practice in many countries including the US. Medistim views this as important steps in the companys efforts of making blood flow measurement the «standard of care» in treating CABG patients all over the world.

It is a fact that the CABG market is a conservative market and an immediate effect of these reccomondations is hard to measure. Medistim still assumes that it is likely that these reccomondations have had an impact on the increased demand the company has experienced in Europe and Asia in 2013.

USA

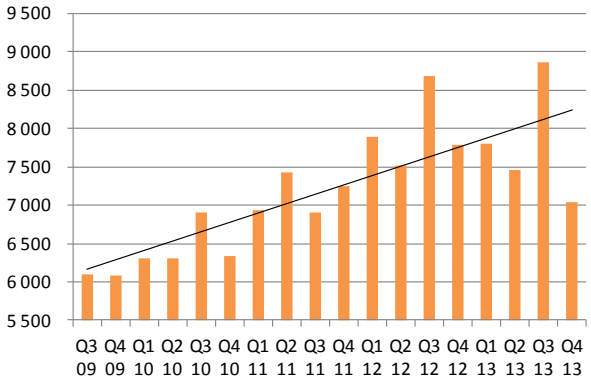
In the US about 80 % of the bypass surgeries are performed with no other quality assurance of blood flow other than the surgeons experience by feeling pulse on the vessels using the finger. It is clinically proven that this method is not reliable. It is therefore a large potential and need for Medistims products in the US. Medistim has large ambitions in the US market. So far Medistim has achieved a market penetration of about 13 % of the total market of approximately 240.000 bypass surgery procedures performed annually.

Medistim has established a unique business model for the US market. 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 that opens the system for use. One smart-card represents surgery on one patient. 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. Medistims subsidiary in the US is represented by 13 sales representatives and 5 within administration and support functions. In addition the company is represented by two independent agents. All of the employees and representatives have extensive experience within healthcare. Medistim is able to cover all states in the US with its organization. The organization is established and motivated, which is important since it serves Medistims largest market.



VeriQ smart-card used in the USA.

Sales in the US ended at 49.4 MNOK (51.6 MNOK). Number of procedures sold in 2013 was 31 170 (31 833). The main reason for reduced sales in the US in 2013 was a lower probe sale to capital installations compared to 2012. In 2013 it represented 4 940 procedures and in 2012 it represented 6 235 procedures. These procedures are included in the total number of procedures referred to above. Sale of imaging procedures had a growth of 48 % and of the total number of procedures sold 2 290 procedures were performed on the ultrasound imaging product VeriQC (1550).



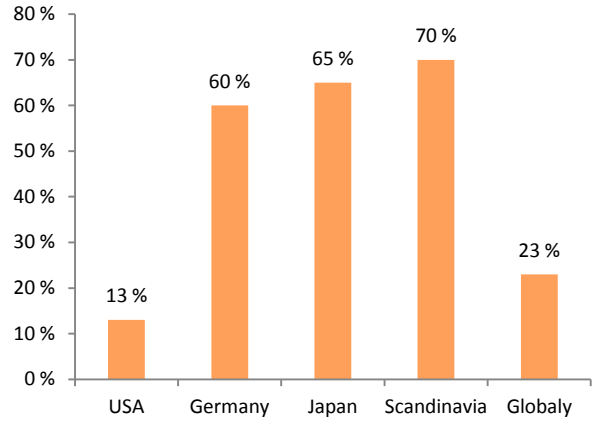
Number of procedures sold per quarter in the US

Medistims investment going direct in the US has given positive results, but the company has not managed to follow up the positive trend from 2011 and 2012 with more than 10 % annual growth. The company is not satisfied with the development in 2013 and a change in management in the US has been initiated in 2014.

The commercial strategy in the US includes, in addition to regular sales activities, strategic collaboration with influential surgeons at leading cardiac centers and dialogue with the US medical associations like AATS (The American Association for Thoracic Surgery) and STS (Society for Thorax surgery). The objective is that these organizations include Medistim's equipment in their guidelines as standard of care for CABG in the same manner as the European and British organizations. Medistim consider this as important and has strengthened its recourses and competence in this area in 2013.

The company is now in an exciting phase with VeriQC. VeriQC represents a new paradigm for quality assessment during bypass surgery. By combining the established transit time flow measurement (TTFM) technology with coronary and epiaortic ultrasound scanning (EUS), the risk of major adverse cardiac and cerebrovascular events will be further reduced.

Considering the large underdeveloped accessible market, the new product VeriQC and the recommendation from NICE and other leading organizations, Medistim is in the position for growth in the US market with the vision of achieving «standard of care» status.



Medistims estimated market penetration within coronary bypass surgery.

By year end Medistim had about 430 systems at customer sites in the US. Of total 1250 cardiac centers in the US, Medistim had installed its equipment in 340 of these. Focus and goal in 2014 is to increase usage per installation, create new customer relations and establish a customer base for VeriQC.

Europe

Instead of pay per procedure that is common practice 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.

Direct representation in UK

Medistim established a subsidiary and sales force in the UK during 2012 and 2013 was the first full year of direct operation. A local sales team is handling end customers, with support from the head office in Oslo.

About 30.000 coronary artery bypass surgery (CABG) procedures are performed in the UK annually, and 40 % of the surgery is performed by the 15 largest cardiac centers. 80 % of all coronary bypass surgery is conducted by the public National Health System (NHS). In addition, a significant number of peripheral vascular surgery procedures are performed.

The report from NICE points out the health economics derived from routine usage of the VeriQ system for assessing graft blood flow during coronary artery bypass graft (CABG) surgery, compared to clinical assessment alone. NICE reports an estimated cost saving of more than £115 per patient. NICE also support the clinical evidence, suggesting

reduction of early graft failure, stroke, myocardial infarction or recurrent angina.

In 2013 the University Hospitals Birmingham (UHB) adopted Medistims top model the VeriQC. UHB is part of National Health Services (NHS) Foundation Thrust and is the leading university teaching hospital in the West Midlands, UK. It is one of the most consistently high performing trusts in the NHS and has been rated "excellent" for financial management and "excellent" for quality of clinical and non-clinical services by the Healthcare Commission. A range of quality indicators has been developed by the Cardiac Surgery Team for coronary artery bypass graft procedures.

After the hospital had invested in the VeriQC the clinical team at the hospital stated that "The Queen Elizabeth Hospital Birmingham recognizes the importance of quality assurance in cardiac surgery and the Medistim TTFM / VeriQC technology offers a significant advance in intraoperative evaluation during cardiac surgical procedures; thereby potentially optimizing postoperative recovery and long term outcomes. With national recognition of the importance of evaluation of coronary artery bypass graft flow by the National Institute for Health and Care Excellence, NICE, in the UK, and European recognition of the value of intraoperative assessment of graft flow in the ESC / EACTS Guidelines on Myocardial Revascularization, the QEHB is delighted to have the ability to add this level of quality assurance to the cardiac surgical program."

Medistim has until now only a few installations in the UK. Medistim has good experience with direct sales and follow-up to end customers through its subsidiaries in the United States, Germany and Denmark, and is well equipped to ensure that the direct operation becomes a success in the UK.

Direct operation in Norway, Denmark and Germany

Medistim sold in 2013 a VeriQC to Rikshospitalet in Norway. Norway has a strong position and tradition in coronary bypass surgery. With the sale to Rikshospitalet Medistim has its most advanced quality control system, VeriQC, in use at all the Norwegian University hospitals that performes coronary bypass surgery. The clinics are located in Bergen, Trondheim, Tromsø and Oslo.

Medistim established a direct representation in Denmark in 2011. 2013 was the second operating year and sales of own products and 3.party products has developed as expected.

Medistim continues its positive trend i Germany. Germany is the largest market in Europe for Medistims products. Per year there is performed about 60.000 CABG procedures and Medistim increases sales with 17 % compared to 2012.

Europe in general

In Europe there has been a positive trend for the year. There has been an increase in investments in systems for flow measurements (VeriQ) and the combined solution with imaging and flow measurements (VeriQC). The consumables probes have also had a positive development with an increase in sales 5.4 % for the year. Despite the challenging economic situation in many European countries, investment in Medistims products increases. This is a strong indication that European hospitals prioritizes Medistims equipment and that it is regarded as a necessity. In total sales of own products in Europe increased with 18.8 % in 2013 to 52.0 MNOK.

Asia, Latin America, Middle East and other markets

In general there is increased focus on cardiac diseases in Asia and Latin America as western lifestyles are adopted by the population. Whilst in Europe and US where number of CABG per year decreases slightly, there is an opposite trend in Asia and Latin America. It is therefore important for Medistim to be well represented in the regions with growth. In Asia Medistim has good representation through its distributors Nippon BXI and Pacific Medical Systems Ltd, and is well prepared for future growth.

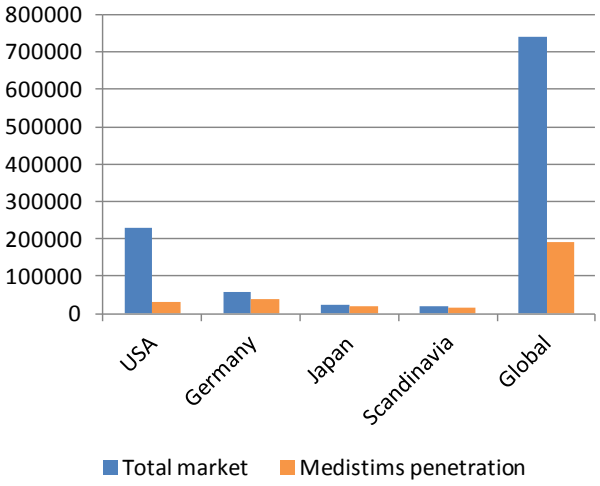
In Asia Medistim is still best represented in Japan, which accounted for 64% of sales in the region in 2013. The corresponding proportion in 2012 was 75 %. Sales in Japan have been stabile over the years which also were the case for 2013. The reason that the share of sales to Japan has decreased is that there has been a good growth in China. This is a positive development since China is the country in Asia with the highest population and a fast growing economy. Japan is a good market for Medistims top model the VeriQC. Of a total of 34 systems sold in 2013, 9 were sold in Japan.

In Latin America Brazil is the country with the largest potential for Medistims products.
In the Middle East and Africa, Medistims latest product, VeriQC, has been well received, led by Saudi-Arabia.

Other activities

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 (ASCVS), Society for Thorax Surgery (STS) and the Asian Society of Cardiovascular Surgery (ASCVS). The exhibitions are respectively for surgeons in Europe, USA and Asia. The company establishes many important contacts, identify new projects and get to present new products during the exhibitions. Attending the cardiac congresses is one of the most important marketing channels for the company.

Medistims stand at AATS



Medistims market penetration compared to the total number of Coronary Bypass procedures performed

Medistims global representation

Installed base

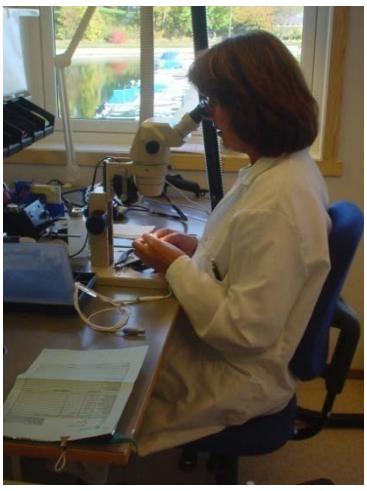
Medistim has close to 50 distribution agreements with distributors all over the world. The products from the company are installed in about 60 countries and the installed base was 2100 systems by the end of 2013. Medistim expects large revenues in the future from the daily use of the equipment and consumables that then will be demanded. In addition, Medistim expects that many hospitals will purchase the most advanced product VeriQC. Medistims top model increases 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.

Medistim Norge AS

Medistim Norge 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 Medistims own developed products. This increases Medistims integrity in the medical device market. The company is ISO certified and has 19 employees including 11 sales representatives. Medistim has in 2013 strengthened its position as a Nordic distributor. The Danish company is managed from Norway and will distribute Medistims own products as well as bring in 3rd party products that has been successful in Norway.

Production

Medistims production facilities are located in Horten where all electronics are assembled and where probes are produced. Probes to VeriQC are produced by Sound Technology Inc from the US, which together with Medistim develop the imaging probes.



Assembling a probe.

In production there is a constant focus on improvements and 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)

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 2013 18.0 MNOK was invested, which is 9.4 %.

Development activities

Main focus in 2013 has been the work with the new system platform for future flowmeasurement and imaging systems. The new platform will have a flexibility that will allow customer adaptions and new applications. The technological improvement will secure and strenghten Medistim's leading position. Products based upon the new platform will be launched in 2014/ 2015. Medistim is approved for Skattefunn related to the project.

Research activities

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 8 years ending in 2014. Medistim will mainly contribute with own recourses 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.

Financial development in 2013:

(Numbers for 2012 in parenthesis)

Sales

Sales for the group in 2013 ended at 191.0 MNOK (183.8 MNOK). There was growth within all the international markets except in the US. Sales of Medistim products were in 2013 128.4 MNOK (120.5 MNOK). Sales of 3.Party products were in 2013 62.6 MNOK (63.2 MNOK). Average exchange rates towards USD and EUR were in 2013 respectively 5.88 and 7.80, while equivalent rates in 2012 were 5.82 for USD and 7.47 for EUR. With the same rates as in 2012 sales in 2013 would have ended at MNOK 188.9. The volume growth in 2013 was 2.8 %.

Cost of goods sold

For 2013 cost of goods sold ended at MNOK 49.2 (MNOK 49.4), and cost of goods sold represent a percentage of 25.5 % of sales (26.9 %). Improved margins in 2013 was a consequence of a higher portion of sales of own products.

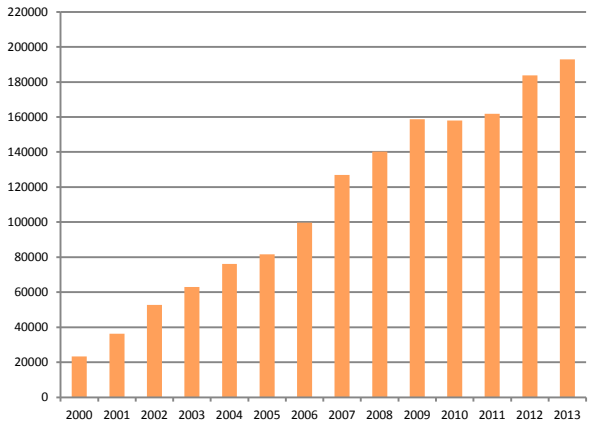
Salary, social and other operating expenses

For 2013 salary and social expenses ended at MNOK 62.4 (MNOK 50.6). The increase in expense for the year is related to the termination of the defined benefit pension plan that has been replaced by a contribution pension plan for all employees. The change was implemented in 2012. As a consequence when terminating the defined benefit pension plan, the actuarial pension liabilities ceased. The liability was reversed by a onetime recording as a reduction in salary and social expenses, with an offset in pension liabilities in the balance sheet in 2012. The liability in the balance sheet was MNOK 9.3.

Other operating expenses in 2013 ended unchanged at MNOK MNOK 36.0 (MNOK 36.3).

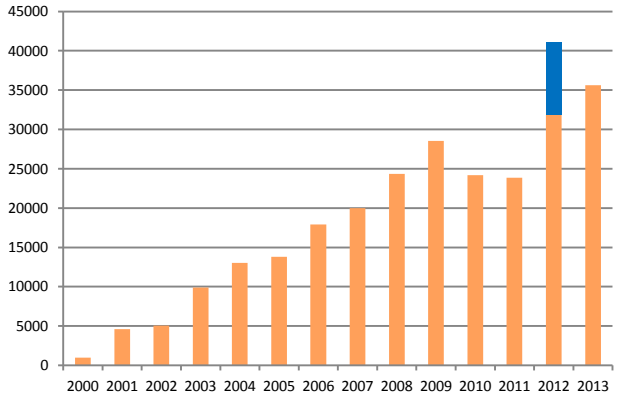
R & D expenses

During the year MNOK 18.0 (MNOK 7.6) was used within research and development (R&D). Result before R & D, depreciations and write offs was MNOK 46.5 (MNOK 52.5). This equals a margin of 24.3 % (28.5 %). In 2013 MNOK 14.9 (MNOK 2.6) of the R & D expense was activated in the balance sheet. In 2013 the company received 2.0 MNOK from Skattefunn. Medistim was not qualified for similar funding in 2012.



Sale per year

1 = NOK 1000.



EBIT per year.

The marked area in 2012 shows the one time effect of terminating the defined benefit pension plan and introducing contribution pension plan.

1 = NOK 1000

Earnings

Operating profit before depreciation (EBITDA) for 2013 ended at MNOK 43.3 (MNOK 47.4). Result before tax and finance (EBIT) for 2013 ended at MNOK 35.6 (MNOK 41.1). See also comment related to the change in pension.

The group recorded a net financial income of 1.9 MNOK in 2013. In 2012 net financial income was 0.5 MNOK. Net finance for the respective year was related realized and unrealized gains and losses on foreign currency. Profit before tax ended at 37.5 MNOK (41.7 MNOK). Result after tax ended at 26.5 MNOK (30.2 MNOK) for 2013.

Earnings per share for 2013 were NOK 1.47 (NOK 1.66). Average shares outstanding were 18.101.336 (18.246.752) by the end of December 2013.

Total value of the balance sheet was 168.4 MNOK as of 31.12.2013 (151.9 MNOK). The equity by 31.12.2013 was 121.6 MNOK (115.2 MNOK).

The cash position by year end was 19.8 MNOK (26.7 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 2013 26.0 MNOK (25.1 MNOK). The company did not purchase Medistim shares in 2013. By the end of 2013 the company had 236.000 own shares.

The company was in a net cash position of 14.9 MNOK by year end 2013, and interest bearing debt was 8.3 MNOK. Short term debt was 38.7 MNOK.

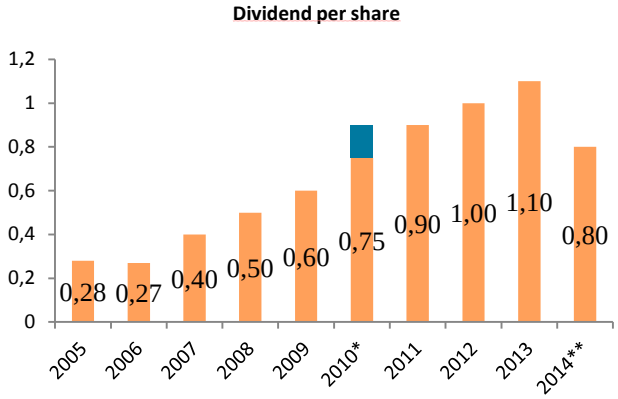
The company has a deferred tax asset of MNOK 5.6 related to temporarily differences in relation to book values and tax values.

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 an excess cash position. 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. Market risk is not secured trough financial instruments.

Suggested distribution of profit for 2013

Result after tax for the holding company Medistim ASA was a profit of 24.8 MNOK. The Board of Directors suggest to the general assembly a dividend of NOK 0.80 per share, a total of 14.5 MNOK corrected for dividend on own shares. This is a pay ratio of 51.9 % (65.8 %). Remaining share of profit of 10.3 MNOK is suggested transferred to other equity. The reduced proportion of dividend this year must be viewed in light of the company's investment in 4th generation of systems. The dividend is a reflection of the Board's positive expectations of future earnings. During the last 10 years the company has paid 119.4 MNOK in dividend to shareholders.



*25 years anniversary dividend with NOK 0.15

**Suggested dividend for 2014

Continued operation

The financial report for 2013 and 2012 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 2013 has been prepared in accordance to IFRS.

The financial statements give a true and fair view of the group's assets, liabilities, financial position and result for the period viewed in their entirety. The annual report includes a fair review of any significant events that arouse during the period and their effect on the 2013 financial report, any significant related parties transactions, and description of the principal risks and uncertainties for the next accounting period 2014.

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 2013. In the holding company free equity was 25.0 MNOK after accruing for dividend. Equity in the group was 121.6 MNOK as of 31.12.2013, which represent an equity ratio of 72.2%.

Other affairs within the group

Events after year end

No events after 31.12.2013 has occurred that affect the evaluations made in the 2013 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 270 days in 2013 (584 in 2012), that represented 1.2 % (3.2 %) of total working hours. It has not been necessary to put into effect special measures in 2013. The group had 86 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. 41 of the 86 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.

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.

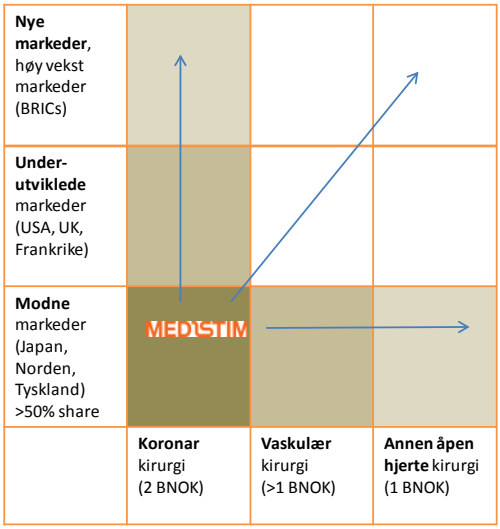
PROSPECTS AND TRENDS

Goals and vision

The company aims to develop products to meet surgeons' growing need for quality control of heart-bypass surgery, peripheral vascular surgery and transplant surgery. Our vision is that Medistim's solutions should represent the «standard of care» for clinical practice and that blood flow measurements are performed on all patients.

Strategy

Medistim's focus is to strengthen the company's ability to effectively commercialize existing product portfolio on a global basis. One of the key tasks to achieve this is closer contact with customers through a strengthened sales and marketing organization. Another important task is to produce enhanced clinical documentation and focus on putting blood flow measurements, ultrasound imaging and quality assurance on the agenda in relevant forums and channels.

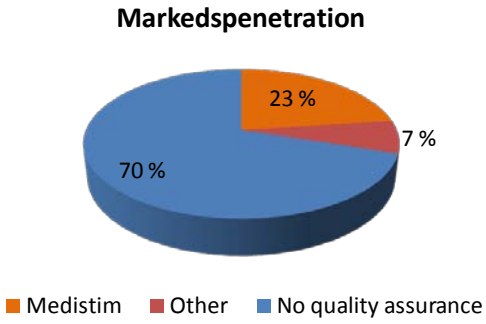


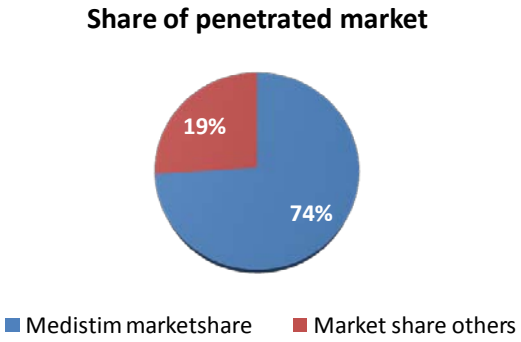
Medistims market potential within the segments coronary bypass- vascular- and other open hart surgery

Continious technology and product development will secure Medistims products and leading position within cardiac surgery also in the future. The company also has ambitions to launch new products adapted to specialities within vascular- and transplant surgery.

Market size and trends

On a global basis it is performed more than 700,000 heart bypass surgeries per year. The US represents the largest market for Medistims products with 33 % of the world market. The global number of procedures has in the past been constant. The decrease in number of procedures perfomed in the western countries has been compensated by an increase in the BRIC countries (Brazil, Russia, India and China). It is therefore expected to have a stabil growing trend in the years to come.





Within coronary bypass surgery, where Medistim is best represented, about 70 % of the surgeries performed are done without any quality assurance.

Medistim's most advanced model, VeriQC, creates great market potential because of new applications and relevance. The value of the system increases significantly compared with VeriQ, since VeriQ does not have imaging functionality. Total market size within cardiac surgery is estimated to be 2 billion NOK. The imagingfunctionallity makes VeriQC relevant in other cardiac surgeries and not just by pass surgery. Medistim estimates this potential to be 1 billion NOK.

In addition, the company has a significant potential within the global vascular market, which is estimated to be about 600,000 vascular procedures annually. Total market size within vascular surgery is estimated to be over 1 billion NOK.

The trend in surgery moves towards less intervention and keyhole surgery, which gives the surgeon less workspace and the ability to control in a traditional way. It is therefore an increased need to verify the desired result in the future.

Global demographic trends are an important driving force for the many cost-efficiency measures around the world, with America's health care reform as very important. Focus on quality is growing, driven by the need to reduce costs, particularly related to correction of errors, the need for repeated treatments and repeated hospital admissions. Medistim therefore has a good opportunity to position their products as an important contributor to achieving these goals.

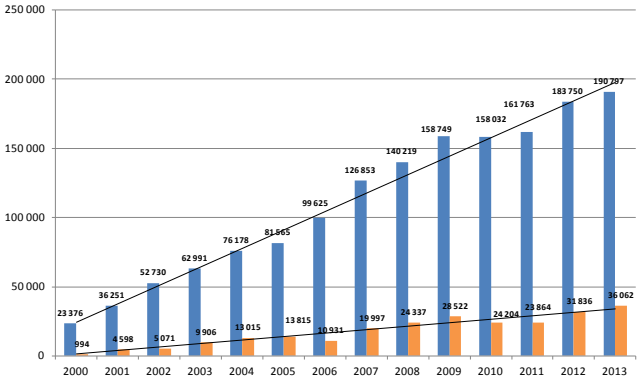
Position and Competition

Medistim's flow meters have been in use in more than 1 million patients worldwide since it came on the market, and the company is the clear leader in its niche. The equipment is used today in more than 25 % of the total number of by-pass surgeries performed worldwide. Medistims penetration and market share is expected to increase gradually as quality assurance in surgery is getting more attention and acceptance.

There are competitors that use the transit time measurement principle. Equipment from competitors is estimated to be in use in about 7 % of the procedures performed. This means that in about 70 % of the cases where by pass surgery is performed there is no equipment in use to verify blood flow. This market represent Medistim's largest opportunity.

With Medistim's VeriQC system, the company has acquired a new edge compared to competitors, with a unique and differentiated product that is currently alone in its segment.

Revenue and EBIT in TNOK from 2000 to 2013



EBIT in 2012 is corrected for the positive one time effect of 9.2 MNOK related to the change in pension plan

The Board of Directors views the company's future opportunities as good. Medistim is well positioned for future growth. 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. There are large expectations towards the ultrasound imaging product VeriQC, and new products under development.

Oslo, 20.3.2014

Øyvin A. Brøymer Chairman	Silje Garberg Ree Board member	Helge Ranvik Board member
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

Corporate governance

Medistim is like other companies dependent upon good relations towards its contacts to succeed and it's 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. Medistim ASA is also aware of its responsibility in society towards anticorruption, working environment, HMS, discrimination, environment and human rights.

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 Board of Directors has proxy to issue shares where shareholders first right to shares is not followed. In such a case the Board of Directors will publish its reasoning for not following existing shareholders first right of newly issued shares.

When there are major transactions between the company, its shareholders, subsidiaries, members of the board, leading employees or other close related parties, it will be performed an independent 3. party evaluation of the transaction. The General Assembly will treat the matter according to the rules by law and jurisdiction for ASA companies in Norway. It is board members and key employees responsibility to give notice to the board of directors, if the directly or indirectly has interests in any agreements the company is about to enter.

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 is represented at the meeting. The company auditor and nomination committee will participate at the meeting.

Equity and financing

Medistim will strive to have a solid balance sheet.

Dividend

Medistim has ambitious goals for future growth. To reach the goals the company will endeavor to have an optimal capital structure. Medistim will seek to provide annual dividends. 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. The need for neutral independent representatives is also important. The management is not elected as members of the Board. 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, considering the size of the company, not seen it necessary to use a steering committee based upon the issues treated by the Board in 2013.

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 analyzed and compared against budget, strategy approved by the Board and last year's performance. The Board of Directors reviews 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 and management. 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 was Johan Skjølberg which represented Chr. Salvesen & Chr. Thams Communication Aktieselskab. Salvesen & Thams is Medistims 3rd largest shareholder. Other members are Asbjørn Buanes and Bjørn Henrik Rasmussen. Asbjørn Buanes is the 5th largest shareholder and previous employee. Bjørn Henrik Rasmussen represents Follum Capital AS and is Medistims 6th largest shareholder.

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 2012 and 2013 were the same and there are no planed 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. There was, with the exception of CEO, no incentive related to shares, share options or development in share price in 2012 and 2013. The CEO receives 15 000 shares as part of the compensation if she stay in her position until 2015, further 10.000 shares under the same conditions if in position in 2016 and further 10.000 shares under the same conditions if in position in 2017. 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 has 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.

Company take over

In a potential offer where the effect of the transaction is a takeover the Board of Directors will handle the matter in professional manner, 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 Øyvin A. Brøymer (born 1948) was chosen as chairman for the first time in year 2000 and works as a consultant and investor trough his own company. He has experience from Aker Gruppen, Hafslund Nycomed ASA and the shipping company Leif Høeg & Co ASA. He 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 at the ordinary general assembly in 2015. He controls 100 % of the shares in Intertrade Shipping AS. Intertrade Shipping AS is the largest shareholder in Medistim and holds 21 % of the shares in the company.

Silje Garberg Ree is educated Business Economist and has experience from Boston Consulting group and Orkla ASA. Her specialty has been within strategic planning and implementation of fusions, fissions and restructuring of businesses. She works today in Orkla ASA as a project leader within Corporate Development and is a board member in Orklas subsidiary Salvesens and Thams. She is on election for a new term on the next ordinary general assembly in 2014.

Lars Rønn (born 1964) works as a consultant for Heidrick & Struggles with focus on recruitment of executives within the med-tech area. He has previous experience as Executive Vice President, Sales & Marketing in Ambu A\S, a Danish med-tech company and as CEO in Origio A\S. He has a long and extensive experience from several positions in Maersk-Medical AS. Lars Rønn is educated BSc in Business, Language & Culture and has a Graduate Diploma in Int. Trade from CBS (Copenhagen Business School). He also has a Management Programs from INSEAD. Lars Rønn is board member in Pressalit A\S. He is on election for a new term on the next ordinary general assembly in 2014.

Helge Ranvik (born 1950) was first time chosen as board member in 2004. Ranvik works for Apotekernes Hus as Director within finance and real estate. Apotekernes hus is the holding company for Apotekerforeningen. Ranvik worked earlier 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 organizations. 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 2015.

Siri Fürst was chosen as board member in 2013. Siri Fürst holds a degree in economics from NHH and is Managing Director of Considium Consulting Group from autumn 2011 and a Considium partner since 2005. Siri has experience within management and as a board member in a number of companies. She has worked within the areas strategy, business development, finance and investor relations. As a consultant Siri offers particular expertise in business development and strategy work, in addition to result assurance. She is independent towards the largest shareholders in the company and is on election for a new term on the ordinary general assembly in 2015.

Corporate Social Responsibility in Medistim (CSR)

In general

Medistim ASA and its subsidiaries provide a positive contribution to society through their activities. Medistim ASA develops products that give patients better quality of life, as well as an effective health care system, by offering products that ensure quality during surgery. Quality assurance of surgery improves outcomes and increases the likelihood that it is performed right the first time. This gives patients quality of life, creating an effective health care system and is cost saving for the society.

Cardio- vascular diseases are a growing social problem in most countries as a result of better living conditions, fatty foods, smoking and less exercise. As a consequence of better living condition the population develops lifestyle diseases where thickening and calcification of blood vessels is one of these. When this group of patients is treated, it is often done surgically through a bypass. This is a new vein or artery that connects past the closed or partially condensed area. Medistims proprietary equipment guides the surgeon in this effort by providing equipment that makes it easier for the surgeon to find condensed area, correct errors, and to qualify that the new vein or artery has proper blood flow.

The company is actively working towards clinics, surgeons and industry organizations to develop and improve practice in the clinic. Medistim aims to develop products that makes the everyday life in surgery easier and creates confidence that the desired outcome during a surgical procedure is achieved. Improved quality of performed surgery provides health benefits at several levels. Patients receive better quality of life, live longer and are healthier. Furthermore, improved quality of surgery will create an effective healthcare system that saves the community from unnecessary expenses with fewer re-admissions, shorter disease course and lower percentage of disability in the population. This provides social benefit.

The company's operations are, in other words, a contributor to improved clinical practice in hospitals. This is useful for the community that increases efficiency in health care that will cut costs for society. In addition, it provides enhanced quality of life for those affected. Healthy people make a positive contribution back to society.

In the same manner, the company is working with its distribution business in which the Company offers various surgical equipment.

Medistim has a global leading role in developing products for quality control within of CABG and vascular surgery. The company's products are sold either directly through subsidiaries or distributors in all continents. For the distribution business, Medistim represent various agencies and suppliers from around the world. The business is in other words internationally landscaped. It was therefore important for the company to create awareness and respect for human rights, labor conditions, environment and anti-corruption. To ensure compliance the company has prepared guidelines for ethical trade, anti-corruption handbook and code of conduct for all employees.

Ethical guidance in Medistim group

Employees of Medistim perform work of great importance to patients, surgeons and health authorities. To succeed with the companies vision and goal its essential that work and behavior is based on values that provide credibility, trust and respect among customers, employees and others that employees get in touch with through his\her work. Medistim will also be a driving force towards its partners, such as suppliers and distributors, to maintain high ethical standards in their daily work. As an example, Medistim Norway AS set clear standards for its suppliers in its "Guidelines for Ethical Trade / Code of Conduct". Medistim ASA poses similar demands on their suppliers and distributors. With this Medistim imposes itself with high ethical standards.

The purpose of the guidelines is to clarify Medistims expectations when it comes to personal behavior, so that the employees perform their work in an ethical manner. Employees of Medistim should feel confident that the employer supports and defends the employees in the exercise of their work in line with the guidelines.

Scope and responsibility

The guidelines apply to Medistims employees at all levels including temporary employees and contractors. The Code of Conduct also applies Medistims officers in the execution of their office.

It is incumbent upon all who are covered by the Code of Conduct to familiarize themselves with them and help to ensure that they are followed. Managers have a particular responsibility to follow the guidelines and be perceived as good role models.

Medistims employees must also have a clear understanding of how their individual behavior can influence the thrust of Medistim. Guidelines are an expression of Medistims basic views on responsible and ethical behavior. They are not exhaustive and does not cover all ethical issues that may arise. It takes good judgment to determine whether a particular action or decision is ethically justifiable. If in doubt its encouraged to seek guidance from superiors.

Basic expectations for employees are:

- They are familiar with Medistims values and use them as the basis for their work.
- Act professionally and with care, integrity and objectivity.
- Abstain from actions that could undermine confidence in Medistim.

- Treat everyone they come in contact with through their work with courtesy and respect.
- Are aware of ethical issues in business, including human rights, labor rights, environment and anti-corruption in line with Medistims Anticorruption Policy.
- In his\her work seeks to influence Medistims employees and partners to maintain high ethical standards in their way of conducting businesses.

Personal behavior

The employee shall contribute to a good working environment characterized by equality, diversity, openness and tolerance. In the guidelines, the following are described:

- Zero tolerance for discrimination and harassment
- Drug abuse
- Treatment of confidential information
- Treatment of Medistims assets
- Business travel
- Relation to Environmental and Social Media
- Integrity and possible conflicts of interest
- Other paid contracts and any directorships
- Securities trading and trading in the stock Medistim
- Relationships with related parties
- Relationship with the media and general public
- Notification of unethical conduct

Medistims anti-corruption policy

Corruption stand in the way of economic development, is anti-competitive and undermine both the rule of law and the democratic process. Medistims worldwide operations are subject to national and international law prohibiting Medistim and Medistims employees to take part in corruption, like for instance bribery of public officials and / or employees in the private sector. The fact that many corruption rules also apply outside the territory of each country, shows that it is not sufficient to follow the local national law when operating abroad.

Medistim has, in accordance with established principles as described in Medistims ethical guidelines, a strong commitment to operate according to sound, ethical and sound business principles and comply with all laws and regulations. Medistim in particular will not allow or tolerate involvement in any form of corruption. Medistim have therefore compiled a handbook for employees to describe and explain the content of Medistims anti-corruption policy and what this entails.

Medistims subsidiaries and distributors are responsible for putting into the special corruption legislation concerning their business and to introduce further anti-corruption rules and guidance where necessary to comply with such rules.

There is a requirement for all Medistims employees that they at all times fully comply with Medistims anti-corruption policy, and no Medistim employee can give another Medistim employee authorization to deviate from this. Any violation of applicable anti-corruption legislation will be considered a serious violation of the employee's duties to Medistim and will most likely result in termination of employment or other appropriate sanctions.

All Medistims employees are required to follow the principles given in the Group's anti-corruption policy. Medistims companies should also take necessary steps to ensure that Medistims independent business partners, including suppliers, customers and joint venture partners, does not take part in corruption or other illegal or unethical activities in connection with its business with Medistim.

Legal background

International conventions and agreements within the UN, the World Bank, the International Monetary Fund (IMF), World Trade Organization, the Organization of American States, OECD and EU oblige the participating countries to implement comprehensive national legislation against corruption.

Corruption is illegal in most countries of the world. It is important to be aware that Norwegian and other national anti-corruption legislation apply regardless of which country the actions are performed, and whether corruption is legal by respective country laws. In practice, individuals and corporations may be prosecuted under national anti-corruption legislation for acts committed anywhere in the world. Especially the U.S. government enforces extra territorial jurisdiction to pursue corruption anywhere in the world, according to the U.S. Foreign Corrupt Practices Act (FCPA).

General principles

Medistim shall act in a transparent, ethical and lawful manner to all potential or existing customers, suppliers and government officials.

In addition to following Medistims guidelines on anti-corruption in their dealings with customers, suppliers and government officials, employees must also check whether customers, suppliers or public agencies have anti-corruption rules that require extra precautions to ensure that these parties' corruption policy are met. Medistim should always perform its contractual obligations in accordance with the terms of the relevant contract unless deviations are approved by the appropriate line managers and duly documented in the company's archives. Cash payments or the like or payments to unauthorized recipients or account numbers will not be accepted.

All sales and marketing activities, coverage of third party expenses, disbursements and contract execution on behalf of Medistim should be open and transparent both internally and towards Medistims counterparts. Any invitation for individuals to participate in events or activities that are wholly or partially paid by Medistim should be directed to the appropriate management level in the relevant legal entity or public body. It must be exercised particular caution in relation to public officials and in situations where the receiver is in a

position in which he or she may make discretionary decisions or actions that may be beneficial for Medistim. Medistims employees should consult their supervisor if there is any doubt that a specific marketing or service activities are not consistent with Medistims or the applicable third party's anti-corruption policy.
All expenses must be approved in accordance with company standard procedures and documented and recorded in accordance with the right accounting standard.
Medistims employees must not under any circumstances receive from or give to a supplier or business partner any improper advantage, including personal discounts, commissions , undocumented reduction etc.
Companies in Medistim group must always take the appropriate steps to ensure that Medistims business partners, including suppliers, are not involved in corruption or any other illegal or unethical activities. Medistim employees who suspect that independent business partners are involved in corruption must report the matter and seek advice according to the procedures described the group's anti-corruption policy.

Code of Conduct (Guidelines for ethical trade)

Introduction

Medistim ASA works to promote a good working and environmental conditions in the supply chain and distribution chain. This is done in close cooperation with its suppliers and partners. To clarify what is expected of partners, Medistim ASA issued guidelines for ethical trade. The guidelines cover the basic requirements of human rights, labor rights and the environment.
Medistim ASA, is through its subsidiaries Medistim Norway AS a member of the Ethical Trading Initiative (ETI). ETI is an organization of organizations, private and public enterprises, and a driver and a resource centre for ethical trade. Medistim report to the ETI on the progress of our work on ethical trade and these reports are publicly available.

Principles

Our distributors and suppliers must deliver goods and services to or for Medistim ASA produced or manufactured in accordance with the guidelines. The partner should also communicate and follow up guidelines of their business partners .
At the request of Medistim, the associate must be able to document compliance according to the guidelines. This can be done by declaration, follow-up conversations with Medistim and / or survey of the working conditions at the production site. If Medistim want to map business associates partners, is obliged to provide the names and contact details of the relevant partner.
In case of violation of the Code of Conduct will Medistim in collaboration with associate make a plan for remediation of discrepancies. Corrective action should occur within a reasonable time. Termination of contract will only occur if the business associate, after repeated requests, is unwilling to rectify the situation.
Social and environmental standards will be a consideration in the selection of new suppliers.

Requirements for own business

Medistim will continually work to improve their own policies and practices that can help the business partners follow our guidelines for ethical trade.
Medistim, including all employees, will never offer or accept illegal or inappropriate monetary gifts or other benefits to achieve business or personal benefits for themselves or benefits for customers, agents or suppliers.
Medistim and Medistims partners should avoid trading with activities in countries with imposed trade embargo by the United Nations and / or the Norwegian authorities.

Requirements within the supply chain

ETI guideline for ethical trade is based on the internationally recognized UN and ILO conventions and specifies minimum and not maximum standards. The legislation at the production site must be respected. Where national laws and regulations covering the same topic as this policy, the higher standard shall prevail.
Medistim follow ILO conventions for:

- Forced labor and slavery
- Trade unions and Collective Bargaining
- Child labor and the UN conventions on children's rights
- Discrimination
- Brutal treatment and physical abuse or punishment
- Health and safety
- Working hours and wages
- Regular employment
- Marginalized populations
- Environment and corruption
- Management system with partner

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Income statement Medistim ASA group

1 = NOK 1000

	Note	2013	2012
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	3	190 333	181 974
Other income	3,11	646	1 776
Total revenue	2,3	**190 979**	**183 750**
Operational expenses			
Cost of goods sold	3	49 188	49 442
Salary and social expenses	4,5,20	62 440	50 650
Other operating expenses	7	36 042	36 250
Total operating expenses before depreciation and write down		**147 670**	**136 342**
OPERATING RESULT BEFORE DEPRECIATION AND WRITE DOWN		**43 309**	**47 407**
Depreciation on assets	6,11	7 703	6 280
Total operating expenses		**155 373**	**142 623**
OPERATING PROFIT		**35 605**	**41 127**
FINANCIAL INCOME AND EXPENSES			
Total financial income	8,19	7 070	6 462
Total financial expenses	8,19	5 187	5 937
Net finance		**1 883**	**525**
PROFIT BEFORE TAX		**37 488**	**41 652**
Tax expense	9	10 952	11 405
NET PROFIT	10	**26 536**	**30 247**

Items that can be reclassified to profit and loss	2013	2012
COMPREHENSIVE INCOME		
Net profit	26 536	30 247
Other income and expenses for the period:		
Exchange differences arising on translation of foreign operations	643	-441
TOTAL COMPREHENSIVE INCOME	**27 179**	**29 806**

Earnings pr. share		2013	2012
Basic	10	**1,47**	**1,66**
Diluted	10	**1,47**	**1,66**
Purposed dividend pr. share	10	**0,80**	**1,10**

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Consolidated balance sheet Medistim group ASA

1=NOK 1000

	Note	31.12.2013	31.12.2012
ASSETS			
Non current assets			
Machinery and equipment	6	14 061	10 944
Deferred tax asset	1,9	5 560	7 263
Intangible asset R&D	1,11	29 711	20 898
Goodwill	1,11	14 128	14 128
Total non current assets		**63 460**	**53 232**
Current assets			
Inventory	13	37 930	36 174
Accounts receivable	14	38 781	30 063
Other receivables	14	8 406	5 246
Financial instruments	19	-32	472
Cash	15	19 846	26 680
Total current assets		**104 930**	**98 635**
TOTAL ASSETS		**168 390**	**151 867**
EQUITY AND LIABILITIES			
Equity			
Issued capital	16	46 381	46 381
Retained earnings		75 254	68 789
Total equity		**121 635**	**115 170**
Non current liabilities			
Interest bearing loans	17	4 981	0
Deferred revenue	11,17	2 772	3 470
Total non current liabilities		**7 753**	**3 470**
Current liabilities			
Accounts payable		10 011	8 430
Income tax payable	9	8 096	7 652
Employee withholding, social security taxes and other payable	17,18	20 745	16 994
Provisions	21	150	150
Total current liabilities		**39 002**	**33 227**
Total liabilities		**46 755**	**36 697**
TOTAL EQUITY AND LIABILITIES		**168 390**	**151 867**

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Cashflow statement

1 = NOK 1000

	Note	2013	2012
Cash flow from operations:			
Profit/loss after tax		26 536	30 247
Minus income tax paid	9	-7 652	-6 728
Plus this years tax expense	9	10 952	11 405
Plus depreciations	6,11	7 703	6 280
+/- Change in inventory	13	-1 756	-3 845
+/- Change in accounts receivable	14	-8 718	-2 622
+/- Change in accounts payable		1 580	1 475
+/- Change in paid and expensed pension	5	-	-9 320
+/- Interest revenue		146	249
+/- Interest expense		-343	-
+/- Change in other accruals*		-2 405	-892
Net cash from operating activities		**26 044**	**26 250**
Investing activities:			
Minus investment in assets	6,11	-21 848	-6 477
Ney cash from investing activities		**-21 848**	**-6 477**
Financing activities:			
Minus down payment of interest bearing debt	17	-1 687	-
Dividend	10	-19 911	-18 321
New loans	17	10 000	-
Net cash from financing activities		**-11 598**	**-21 521**
Unrealised loss foreign exchange		**569**	**-807**
Net change in cash		-6 833	-2 555
Cash as of 01.01		26 680	29 235
Cash as of 31.12	15	**19 846**	**26 680**
Available cash and cash withholding			
Available cash as of 31.12	15	17 814	24 982
Cash withholding for taxes	15	2 032	1 698
Cash and cash equivalents as of 31.12		**19 846**	**26 680**

*Specification of other accruals 1 = NOK 1000:

Skattefunn	2019
Other	386
Total	2405

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Consolidated change in Equity for Medistim ASA

1 = NOK 1000

	Note	Share capital	Own shars	Share premium fund	Issued capital	Other reserves	Retained earnings	Total earnings	Total Equity
Equity as of 31.12.10		**4 585**	**-4**	**41 852**	**46 434**	**-915**	**62 316**	**61 401**	**107 834**
Net result recognised agains equity		**4 585**	**-4**	**41 852**	**46 434**	**-915**	**62 316**	**61 401**	**107 834**
Total comprehencive income for the period		-	-	-	-	-58	15 489	15 431	15 431
Change own shares	16	-	1	-	1	-	99	99	100
Dividend	16	-	-	-	-	-	-16 480	-16 480	-16 480
Equity as of 31.12.11		**4 585**	**-3**	**41 852**	**46 435**	**-973**	**61 423**	**60 450**	**106 885**
Net result recognised agains equity		**4 585**	**-3**	**41 852**	**46 435**	**-973**	**61 423**	**60 450**	**106 885**
Total comprehencive income for the period		-	-	-	-	-441	30 247	29 806	29 806
Change own shares	16	-	-54	-	-54	-	-3 146	-3 146	-3 200
Dividend	16	-	-	-	-	-	-18 321	-18 321	-18 321
Equity as of 31.12.12		**4 585**	**-56**	**41 852**	**46 381**	**-1 414**	**70 204**	**68 790**	**115 170**
Net result recognised agains equity		**4 585**	**-56**	**41 852**	**46 381**	**-1 414**	**70 204**	**68 790**	**115 170**
Total comprehencive income for the period		-	-	-	-	643	26 536	27 179	27 179
Other corrections		-	-	-	-	-804	-	-804	-804
Dividend	16	-	-	-	-	-	-19 911	-19 911	-19 911
Equity as of 31.12.13		**4 585**	**-56**	**41 852**	**46 381**	**-1 575**	**76 829**	**75 254**	**121 635**

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,GBP, DKK 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 2012 this difference was -1.414 TNOK and the change for the year was -441 TNOK. By year end 2013 the equivalent was -771 TNOK a change of 643 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 Økernveien 94, 0579 Oslo, Norway. The Medistim group's business is within developing, producing, service, leasing and distribution of medical devices. Further description is described in the annual report.

1.1 Basis for preparation of financial statements

The financial statement for the group for 2013 is prepared in compliance with International Financial Reporting standard (IFRS) decided by EU and that is valid as of 31.12.2013.

The annual accounts for the company and the group has been prepared on the basis of historical cost. Financial derivatives 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 unrealized profits are eliminated. Unrealized 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 recognized 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

There was no financial lease in the group as of 31.12.2013.

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 recognized as cost on a straight line basis for the lease term.

(ii) The group as leaser

Operational leases

The group presents assets that are leased as assets in the balance sheet. Revenue related to the assets is recognized 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 recognized. The split of lease revenue is explained in note 2.

Financial leases

There was no financial lease in the group as of 31.12.2013.

1.9 Financial instruments

In accordance to 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 derivatives for Medistim ASA are 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 unrealized 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 categorized as financial instruments held for sale.

Other financial derivatives for the group are receivables, 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.

Development of own products

Expenses or amounts paid for development of own products are recorded in the balance sheet and depreciated on a straight line basis over expected lifetime. Expected lifetime varies from 3 to 8 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 8 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.

1.11 Goodwill

The difference between cost and fair value of the identifiable assets at the point of acquisition is classified as goodwill.

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 capitalized as an intangible asset when it is identifiable and when the company has the recourse to complete the project. Expenses capitalized include materials, salary and social expenses and other expenses that can be allocated to the asset. Capitalized research and development cost are recorded in the balance sheet at cost with deduction for any accumulated writedowns or depreciation.

Capitalized research and development cost are depreciated on a straight line basis according to expected life. Capitalized research and development is depreciated when a new product is ready for sale or an improved product is ready for sale. Capitalized 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 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 net 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 are part of the investment in the foreign unit will also be included as exchange rate differences in equity.

1.15 Revenue recognition

Revenue is recognized 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 recognized on date of delivery and when major control and risk have been transferred to the buyer. Systems and probes are recognized 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 recognized when a new smart card is shipped to a customer.

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

Dividend is recognized as income when the group has a right to receive dividend decided by the General assembly meeting.

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. Changes in exchange rates are recorded in the profit and loss statement.

Foreign subsidiaries

Assets, liabilities and goodwill 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 rate at the transaction date. See also comment under 1.14 iv regarding exchange rate differences.

1.17 Pension and other employee benefits

Contribution pension plan

All employees in Medistim group has are included in 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

If the Group has share based payment scheme for its management, the programs are measured at fair value at grant date. The share based payment for the company's top leader is a scheme by issuing shares, while the share based payment is for the US leader is a system of cash. For transactions that are settled in equity instruments (arrangements by issuing shares) recognize the value of shares granted during the period as a compensation expense in the income statement and a corresponding additional paid-in capital. For schemes that are settled in cash (cash-based schemes) recognize the value of the shares granted as compensation expense in the income statement in the period and with a corresponding liability in the balance. The commitments by arrangements with cash are measured by at fair value at each balance sheet date until the date of settlement, and changes in fair value are recognized.

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 or development 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. No interest expense from loans was activated in 2013.

1.19 Public grants

A public grant is accounted for when the company with reasonable certainty can assume that the conditions for the grant is for filled 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 recognized 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 on 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 utilize 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 organized, 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.

The segment reporting is similar to the internal reports that are given to the decision makers in the company. The decision makers are responsible for allocating resources and assessing profitability within the segments, and are identified as the management team that takes strategic decisions.

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 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 finalizing 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

It is being developed new standards, amendments to existing standards and new interpretations on existing standards on an ongoing basis. Few of these have significant effects for Medistim ASA. The most important changes are discussed below.

1.27 Effect of implementing new standards after IFRS.

IAS 1 Presentation of financial statements:
IAS 1 has been amended in relation to the presentation of items included in other comprehensive income. These are divided now into the records to be reclassified to profit or loss under given conditions, and records that will never be reclassified.

IFRS 13 Fair value measurement:
The standard regulates how fair value should be determined and the information to be provided about the determination of fair value. The change has not resulted in changes for Medistim.

1.28 The effect of new future standards under IFRS.

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

IFRS 11-Joint arrangements: Medistim has no such arrangements in 2012 that would affect the accounts. Will be implemented I 2014.

IAS 12 – Disclosure of interests in other entities: Includes note information about investments in other units. Effect need to be analyzed, but will be implemented I 2014.

IAS 27 – Separate financial statements: Accounts in the holding company Medistim ASA follow NGAAP and will not be affected by the change that will be implemented in 2014.

IAS 28-joint ventures: Medistim ASA has as of 31.12.2013 no such relationships.

IFRS 9 Financial instruments: The standard is not completed yet and Medistim can now not analyze the effect of the standard.

Other standards and changes in existing standards and interpretations are not expected to cause any significant changes for Medistim.

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Notes to the accounts

Note 1 Estimate and assumptions

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

- Goodwill
- Research and development
- 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 2013 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 to impairment was done for goodwill in 2007. Both entities are within the same segment. 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 2013 was not impaired. See also note 11 for the assumptions used in the estimate.

Research and development

Development cost has been recognized 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 31.12.2013 was MNOK 29.7. 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.

Deferred tax asset

The deferred tax asset in the balance sheet was MNOK 5.6 by the end of 2013. The deferred tax asset arises from temporarily differences between book value and tax value on assets. All possible deferred tax is included in the balance sheet as of 31.12.2013. The company is of the opinion that it is likely that the future taxable income will exceed 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.

Accounts receivable and inventory

The group had an accrual for bad debt of 357 TNOK. Confirmed losses over the last 10 years have been 760 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 0.9 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 organized 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 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 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 charge 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 sterilizing 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 it 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.

The stethoscope business was discontinued in 2012. There were no sales from this segment I 2013.

Distribution and sale of third party products is a separate segment. The group sells third party products in Norway and Denmark. 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 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 localization 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 33 % 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	Lease of equipment within cardiac surgery		Capital sales\consumables within cardiac surgery		Stethoscopes		Third party products		Elimination		Group	
1 = NOK 1000	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012
Revenue:												
Lease revenue from systems	20 626	20 539	-	-	-	-	-	-	-	-	20 626	20 539
Lease revenue from probes	22 345	22 251	-	-	-	-	-	-	-	-	22 345	22 251
Probes	-	-	51 128	47 307	-	-	-	-	-	-	51 128	47 307
Systems	852	3 993	16 242	13 878	-	-	-	-	-	-	17 094	17 871
Ultrasound imaging	2 217	1 502	11 706	7 290	-	-	-	-	-	-	13 923	8 792
Ultrasound imaging probes	254	210	2 402	1 788	-	-	-	-	-	-	2 656	1 998
Stethoscopes	-	-	-	-	-	-	-	-	-	-	-	-
Third party sales	-	-	-	-	-	-	62 561	63 217	-	-	62 561	63 217
Other revenue	(416)	-	1 062	1 776	-	-	-	-	-	-	646	1 776
Total external revenue	45 878	48 494	82 540	72 039	-	-	62 561	63 217	-	-	190 979	183 750
Intercompany sales	23 081	27 741	20 425	16 520	-	-	-	-	-43 506	-44 261	-	-
Total revenue	68 959	76 235	102 965	88 559	-	-	62 561	63 217	-43 506	-44 261	190 979	183 750
Other operating expenses	9 277	9 014	18 988	19 498	-	400	7 777	7 338	-	-	36 042	36 250
Segment result before tax	5 341	11 680	24 880	21 758	0	-	7 267	8 215	-	-	37 488	41 652

Segment	Lease of equipment within cardiac surgery		Capital sales\consumables within cardiac surgery		Stethoscopes		Third party products		Elimination		Group	
	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012
Sale in number of units												
Procedures	31 170	31 883	-	-	-	-	n.a	n.a	-	-	31 170	31 883
Probes	1 410	1 474	6 028	5 668	-	-	n.a	n.a	-	-	7 438	7 142
Systems	2	10	100	85	-	-	n.a	n.a	-	-	102	95
Ultrasound imaging	3	2	34	23	-	-	n.a	n.a	-	-	37	25
Ultrasound imaging probes	31	3	54	41	-	-	n.a	n.a	-	-	85	44
Stethoscopes	-	-	-	-	-	-	n.a	n.a	-	-	-	-

Split of debt and assets according to operating segment

Segment	Lease of equipment within cardiac surgery		Capital sales\consumables within cardiac surgery		Stethoscopes		Third party products		Elimination		Group	
1 = NOK 1000	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012
Intangible assets	15 854	10 449	19 377	17 093	-	-	14 168	14 746	-	-	49 399	42 288
Tangible assets	9 049	7 943	2 229	23	-	-	2 783	2 978	-	-	14 061	10 944
Financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Current assets	13 523	9 220	70 632	74 888	-	-	38 886	35 831	-18 111	-21 304	104 930	98 635
			-	-								
Total assets	38 426	27 612	92 238	92 004	-	-	55 837	53 555	-18 111	-21 304	168 390	151 867
Equity	50 942	45 601	24 879	31 022	(263)	(263)	46 077	38 810	-	-	121 635	115 170
Provisions	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-	-	-	-	-	-	-
Long term debt	-	-	7 753	3 470	-	-	-	-	-	-	7 753	3 470
Short term debt	19 322	16 127	27 074	25 255	-	-	10 717	13 149	-18 111	-21 304	39 002	33 227
Total debt and equity	70 264	61 728	59 707	59 747	-263	-263	56 794	51 959	-18 111	-21 304	168 390	151 867
Investments	10 406	4056,5	10 348	1 893	-	-	1 094	528	-	-	21 848	6 477
Depreciations	4 004	3626	3 092	2 216	-	-	607	438	-	-	7 703	6 280
Write downs	-	-	-	-	-	400	-	-	-	-	-	400

Split of revenue, debt and assets according to geographical segment

Geographic split of segments	USA		Europe		Asia		Rest of the world		Not allocated		Group	
1 = NOK 1000	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012	2 013	2012
Revenue	45 878	46 783	114 583	106 990	19 210	18 444	11 308	9 822	-	-	190 979	182 038
Assets	38 426	27 612	119 978	118 417	6 893	2 711	3 093	3 127	-	-	168 390	151 867
Investments	10 406	4 057	11 442	2 216	-	-	-	-	-	-	21 848	6 273
Revenue in numbers												
Procedures	31 170	31 883	-	-	-	-	-	-	-	-	31 170	31 883
Probes	1 410	1 474	3 914	3 712	1 419	1 289	695	667	-	-	7 438	7 142
Systems	2	10	47	30	39	38	14	17	-	-	102	95
Ultrasound imaging	3	2	12	4	11	13	11	6	-	-	37	25
Ultrasound imaging probes	31	3	21	11	20	20	13	10	-	-	85	44
Stethoscopes	-	-	-	-	-	-	-	-	-	-	-	-

Activated development cost is equally split between lease of equipment within cardiac surgery and capital sales and consumables within cardiac surgery in 2012 and 2013 since it is the same products. Dividend and own shares is partially split between capital sales, lease and third party products.

Note 3 Split of revenue and cost of goods sold

Split of revenue:

1 = NOK 1000	2013	2012
Sale of third party products	62 561	63 217
Probe revenue	51 128	47 307
System revenue	17 094	17 871
Ultrasound imaging	13 923	8 792
Ultrasound imaging probes	2 656	1 998
Leasing revenue	42 971	42 790
Grants\other	646	1 776
Total revenue	**190 979**	**183 750**

There is no minimum rent related to the lease contracts. The nature of the lease is described in note 2

Split of cost of goods sold

1 = NOK 1000	2013	2012
Third party products	31 869	34 318
Components	13 911	12 076
Development	1 162	409
Write down of inventory	0	400
Packing material and other materials	38	64
Freight	2 209	2 175
Total cost of goods sold	**49 188**	**49 442**

Note 4 Salary and social expenses

Split of salary expenses

1 = NOK 1000	2013	2012
Salary	48 788	46 396
Employeers tax	7 229	6 181
Bonus	1 344	4 164
Defined pension plan cost (Note 5)	0	-9 320
Cost for contribution pension plan	2 503	1 707
Compensation to the Board	699	576
Other social costs	1 877	946
Total salary and social cost	**62 440**	**50 650**

Average number of employees:

	2013	2012
USA	17	19
Germany	4	2
UK	2	2
Denmark	1	1
Norway	62	54
Total	**86**	**78**

Audit expenses

1 = NOK 1000

	2013	2012
Expense for compulsory audit	402	289
Expense for other services	42	71
Total audit expense	444	360

The amounts are without VAT

Note 5 Pension expenses and obligations

The board of Medistim ASA decided to discontinue the defined benefit pension plan with effect 01/07/2012, and a new contribution plan was introduced for all employees at the same date. The consequence of this was that the actuarially determined pension liability ceased. This liability was recorded at TNOK 9291 and it was reversed in 2012. The liability is reversed by recording a credit towards wages in the P & L with an offset of pension liabilities in the balance sheet. The termination cost for the defined pension plan including premium for the first half of 2012 was TNOK 816.

The contribution plan cover 5 % of salary up to 6 G and 8 % of G between 7 and 12. 1G is the base amount in the social security system. The cost for the contribution plan was in 2013 TNOK 2.503, while it was TNOK 1.705 in 2012. 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 13	Other assets 13	Total 2013 Assets	Machinery and equipment 12	Other assets 12	Total 2012 Assets
Historical cost						
Balance 1. January	28 980	7 430	36 410	25 717	6 675	32 392
Additions	5 270	1 573	6 842	3 337	755	4 092
Assets sold\written down	-908	-	-908	-74	-	-74
31.December	**33 342**	**9 003**	**42 344**	**28 980**	**7 430**	**36 410**
Accumulated depreciation						
Balance 1. January	19 315	6 152	25 467	16 932	5 693	22 625
Accumulated depreciation trough acquisition			-			-
Depreciation this year	2 781	868	3 649	2 372	489	2 861
Assets sold\written down	-786	-	-786	-	-	-
Exchange rate differences	13	34	47	-10	30	20
31. December	**21 297**	**6 986**	**28 283**	**19 314**	**6 152**	**25 466**
Book value	**12 045**	**2 016**	**14 061**	**9 666**	**1 278**	**10 944**
Depreciation in %	14-33 %	20-33 %		14-33 %	20-33 %	
Economic lifetime	3-7 years	3-5 years		3-7 years	3-5 years	
Depreciation method	lineary	lineary		lineary	lineary	

Fully depreciated assets

Some assets with total historic cost value of 4.6 MNOK is fully depreciated as of 31.12.2013 but are still in use.

Assets no longer in use

All assets were in use in 2013 and 2012 and no assets were temporarily out of use as of 31.12.2013.

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. Write down in 2013 was related to relocation to new facilities in 2013.

Guaranties and securities

As of 31.12.2013 assets with value up to 13 000 TNOK is used as security for long term loan and hedging credit facility. The group's bank had the same security as of 31.12.12.

Note 7 Other operating expenses

1 = NOK 1000	2013	2012
Office rent	4 690	4 670
Travel cost	6 956	8 675
Marketing	4 161	4 042
Consultants	8 794	8 874
Insurance	1 200	920
Freight	2 192	1 215
Communication	967	1 227
IT cost	2 435	2 773
Other	4 647	3 854
Total	**36 042**	**36 250**

Note 8 Financial revenue and expenses

As of 31.12.2013 the company had 8.3 MNOK in interest bearing debt. Additional cash in the group gave interest revenue of 146 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	2013	2012
Interest income	146	249
Gains on foreign exchange	6 924	6 213
Total financial income	**7 070**	**6 462**
Loss on foreign exchange	-4 769	-5 848
Interest cost on loans	-342	-
Other financial expenses	-76	-89
Total financial expenses	**-5 187**	**-5 937**
Net financial expenses	**1 883**	**525**

Note 9 Reported tax expense and temporary differences

Income tax for the year:		
1 = NOK 1000	**2013**	**2012**
Current income tax charge	9 420	8 720
Change in temporary differences	1 532	2 685
Income tax expense reported in income statement	10 952	11 405
Reconciling tax expense towards income before tax		
Tax expense for the year	10 952	11 405
28% of income before tax	10 497	11 489
Different tax rates	-	22
Permanent differences and different tax rates	456	-61
Specification of taxable income	**2013**	**2012**
Income before tax	37 488	41 652
Permanent and other differences	237	139
Differance because of different tax rate	324	-1 057
Change in temporary differences	3 086	-
- Skattefunn	-2 019	-
Taxable income	39 115	40 734
Reported income tax	10 952	11 405
Total tax	**10 952**	**11 405**
Payable tax in the balance sheet	**2013**	**2012**
Payable tax this years profit	10 952	11 406
Prepaid tax	-1 324	-1 068
Utilizing deferred tax asset	-1 532	-2 685
Skattefunn	-2 019	-
Total payable tax	6 077	7 653
Skattefunn receivable is recorded in other receivables		
Specification of deferred tax		
Changes in values:	**2013**	**2012**
Fixed assets	-19 413	-21 205
Current assets	-3 781	-3 601
Other obligations	2 264	-1 132
Total differences	-20 593	-25 938
Deferred tax asset 27 %	-5 560	-7 263
Recorded tax asset in the balance sheet	-5 560	-7 263

The deferred tax asset in the balance sheet is based upon future utilization of negative temporary differences. There is no time limitation utilizing the temporary differences. 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 2013. See also comment in note 1.

Tax expense for the group is geographically split as follows:

1 = NOK 1000	**2013**	**2012**
Norway	9 810	10 294
Germany	1 037	963
USA	105	105
Denmark	-	34
Total	10 952	11 405

Note 10 Earnings per share

1 = NOK 1000	2013	2012
Profit for the year	26 536	30 247
Average numbers of shares outstanding 31.12		
Ordinary issued shares	18 101	18 246
Average numbers of shares outstanding 31.12	**18 101**	**18 246**
1 = NOK 1		
Profit per share	**2013**	**2012**
Ordinary	**1,47**	**1,66**
Diluted	**1,47**	**1,66**
Paid dividend	**19 911**	**18 321**
Dividend per share	**1,10**	**1,00**
Suggested dividend per share	**0,80**	**1,10**

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 2013 there were no share options to employees. By year end the company had 236 000 own shares.

Note 11 Intangible assets

Activated R & D expenses and deferred revenue

Capitalized development costs include expenses incurred in connection with one project. This is the development of 4th generation of systems replacing today's platform for VeriQ and VeriQC. The 4th generation of systems is module based and flexible in regard to the configuration the customer needs. In addition there are components in the VeriQ platform that are at end of life and soon no longer available in the market. In 2013 12.9 MNOK was activated in the balance sheet. The new platform will form the basis for future models from Medistim.

Intangible assets derived from internal R & D:

1 = NOK 1000	R & D expenses in 2013	R & D expenses in 2012
Historic cost		
Historic cost 31.12.	32 847	30 285
Internal additions	3 077	1 397
External additions	11 785	1 165
Skattefunn	-1 996	
Historic cost 31.12.	**45 713**	**32 847**
Accumulated		
Accumulated depreciation	11 949	8 529
Depreciations for the year	4 053	3 420
Total depreciation as of	**16 002**	**11 949**
Net value in balance	**29 711**	**20 898**

Ultrasound 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 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 2013 the equipment was used in several clinics and the product has been available for sale in Europe, USA and Japan. Customers using the product in clinic have given valuable feedback and experiences with the equipment during surgery. The product has been available for sale since 2009. 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 qualified for OFU funds and had a grant of 5.85 MNOK. The project was finalized in December 2009 and Medistim has received 100 % of the original grant from the OFU fund. Book value of the project was as of 31.12.2013 15.3 MNOK and is depreciated over 8 years. No further investments were done in the ultrasound imaging product in 2013. The technology from this project will be integrated into the 4th generation of systems.

Probes to vascular surgery – the PV probe:
Within vascular surgery, there is a corresponding need to measure blood flow in the same manner as within cardiac surgery. Some vascular surgeons are already using Medistims equipment despite the fact that the probes are designed for cardiac surgery. The company has seen an increasing demand over time and in 2011 the company developed a specially designed probe for use in the vascular area. The market in vascular surgery is large and it is performed about 600,000 procedures annually. In comparison, about 700,000 procedures are performed per. year within cardiac surgery. This is a significant market where Medistim can customize its solution with a modest investment. The first probes were available for sale by the end of 2011 and the company invested 2.6 million in the new product in 2011. There was no further investment done in the project in 2013. Book value as of 31.12.2012 was 1.6 MNOK. It is planned to invest in other probe sizes within this probe family in 2014.

4th generation of systems:

Main focus in 2013 has been the work with the new system platform for future flow measurement and imaging systems. The new platform will have a flexibility that will allow customer adaption and new applications. The technological improvement will secure and strengthen Medistim's leading position. Products based upon the new platform will be launched in 2014/ 2015. Medistims Skattefunn application related to the project was approved during the year.

Summary:

The projects have 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 2013 was in total 18.0 MNOK compared to 7.6 MNOK in 2012. In 2013 14.9 MNOK of the R & D expense was activated in the balance sheet while 2.6 MNOK was activated in the balance sheet in 2012. The company received funds from Skattefunn with 2.0 MNOK in 2013, which was recorded as a reduction of investments in the platform project. As of 31.12.2013, 2.7 MNOK was recorded in the balance sheet as deferred revenue and 0.7 MNOK was recorded as revenue in the P & L in 2013. In total 3.1 MNOK of the R & D expenses was recorded in the P & L in 2013. Similar expense was 5.0 MNOK in 2012. 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.

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	2013	2012
Acquisition of Medi-Stim Norge AS	7 960	7 960
Acquisition of Kir-Op AS	6 168	6 168
Total goodwill Medistim Norge AS	**14 128**	**14 128**

A test of values is performed by estimating the cash flow for Medistim Norge AS. This is estimated using the company's budget for 2014 and 3 year strategy plan for the years 2015 and 2017 with the assumption of 2 % growth in 2018 compared to 2017. 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 16.0 % discount rate. This includes an additional yield of 12.0 % 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 Norge has certain product lines that have a large portion of total sales. Medistim Norge's financial situation will be affected if a new product was released in the market that would replace existing key products, and Medistim Norge 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 is 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. In the test it's assumed the same margin level as of today.

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 12.0 %. 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. Risk-free interest rate is based on 10-year government bond that at the beginning of the year was 4%. It is further added another 4.5 % based on 15-year interest rate swap, an additional 5% market risk premium and 4% in small company premium. With a beta of 0.82, the interest rate before tax used to discount the cash flow is 16%.

Future growth:
It is projected growth in sales that on average is 5.6% 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 9.0 % that is gradually reduced to 2 % in the terminal year.

Changes in foreign exchange rates:
Medistim Norge 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 1.8 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 Norge 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 13.6% to 6.6% everything else equal, goodwill needs to be written down. A change in the discount rate from 16.0 % to 30.0 % everything else equal triggers a write down of goodwill.

Note 12 Shares in subsidiaries

Summary of financial information from subsidiaries all 100 % owned

1 = NOK 1000

Unit	Assets	Debt	Equity	Sales	Profit
Medistim USA Inc.	19 224	19 322	-98	49 363	72
Medistim Deutschland GmbH	10 443	980	9 463	27 808	3 088
Medistim Danmark Aps	1 595	1 516	80	2 549	-142
Medistim UK Ltd	992	3 968	-2 976	701	-1 928
Medistim Norge AS	41 651	12 778	28 874	64 137	5 635
Total	**73 905**	**38 563**	**35 342**	**144 558**	**6 724**

Medistim Norge AS has offices in Økern in Oslo. Medistim USA Inc has offices in Minneapolis in the USA. Medistim Deutschland GmbH has offices in Munich in Germany, Medistim Danmark has offices in Copenhagen Denmark and Medistim UK, established in 2012, has offices in London UK. Book value of goodwill related to the acquisition of Medistim Norge AS was as of 31.12.2013 14 128 TNOK. Goodwill at the time of acquisition was 16 097 TNOK. None of the subsidiaries are listed at a stock exchange. Previous loss in the distribution company in the USA was turned to profit. Medistim Danmark was established in 2011 and is close to break even in 2013. Medistim UK Ltd was established in the second half of 2012, and 2013 was the first full year of operation.

Note 13 Inventory

Spesification of inventory (1=NOK 1000)	2013	2012
Raw material	10 863	11 201
Work in progress	887	-
Finished goods	11 729	10 396
Spare parts	1 248	1 192
Third party products	14 091	14 245
Inventory provision	-888	-860
Total	**37 930**	**36 174**

Finished goods are valued at production cost that includes cost for components and internal labor cost. Work in progress is valued at the total of the component cost. The inventory level in 2013 is similar to the level in 2012. The inventory level is relatively high. The reason for the high inventory level is to secure access to critical components to own developed products.

Spesification of inventory provision (1=NOK 1000)	2013		2012	
	Gross value	Provision	Gross value	Provision
Demonstration products	260	195	258	194
Spare parts	987	493	932	466
Third party products	200	200	200	200
Total	**1 447**	**888**	**1 390**	**860**

Note 14 Accounts receivable and other receivable

Accounts receivable

1 = NOK 1000	2013	2012
Accounts receivable	39 139	30 364
Provision for bad debt	-358	-301
Total	**38 781**	**30 063**

Provision for bad debt

1 = NOK 1000	2013	2012
Inbound provision	301	301
Utilized provision	(93)	-
increased provision	150	-
Total	**358**	**301**

Aging accounts receivable

1 = NOK 1000	Not due	0-30 days	31 - 60 days	61 - 90 days	More than 91 days	Total
Year 2012	19 449	6 151	1 116	1 526	2 123	30 364
Year 2013	19 083	12 701	1 957	794	4 603	39 139

All receivables are due within one year. Confirmed losses on receivables was in 2013 182 TNOK. For 2012 the confirmed losses was 24 TNOK. There is an accrual of 358 TNOK to cover unforeseen losses. The accrual is based upon previous experience and status as of 31.12.2013. Historically there the group has had small or no losses. End customers are often public hospitals with government funding and the risk for losses are 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	2013	2012
Prepaid insurance	295	675
Prepaid rent	-	549
Other prepayments	2 229	1 681
Deferred income	1 336	128
Skattefunn	1 996	-
Inbound VAT receivable	1 664	2 249
Other	886	(35)
Total	**8 406**	**5 246**

Note 15 Cash and cash equivalents

1 = NOK 1000	2013	2012
Available cash in bank	17 814	24 982
Restricted cash in bank	2 032	1 698
Cash and cash equivelents	19 846	26 680
Credit limit	-	-
Cash and cash equivelents in cashflow analisys	**19 846**	**26 680**

Restricted cash as of 31.12.2013 was 2032 TNOK and was related to tax withheld from salaries. As of 31.12.2012 the restricted cash was 1698 TNOK related to tax withheld on salaries. The group had interest revenue on excess cash and the interest rate was 2.5 % by the end of 2013. The holding company had a credit facility of 7.5 MNOK. The credit facility was not in use as of 31.12.2013 or 31.12.2012.

Note 16 Shareholder affairs

The company had 18.337.336 shares at par value of NOK 0.25 per share and total share capital amount to NOK 4.584.334. There is only one class of shares and all shares are treated equally. Each share represents one vote.

Change in issued share capital in 2013:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.2013	18 337 336	NOK 0.25	NOK 4 548 334.00
Changes	-	NOK 0.25	NOK -
Share capital 31.12.13	**18 337 336**	**NOK 0.25**	**NOK 4 584 334.00**

The Board of Directors got under the shareholders meeting the 25th of April 2013 commission to purchase up to 1 833 733 Medistim ASA shares at par value NOK 458 433.25. The commission is valid until the next ordinary general assembly in 2014 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 458 433.25 or issue 1 833 733 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 2014. See under change in equity for changes in the equity for the last year.

Status for the commissions as of 31.12.2013:

	Capital increase	Medistim shares
Commission given at the shareholders meeting in 2013	1 833 733	1 833 733
Commissions used	-	-
Status for the commissions as of 31.12.2013	**1 833 733**	**1 833 733**

The company had 236 000 Medistim shares as of 31.12.2013. Number of Medistim shares by 01.01.2013 was 236 000. The change trough the year is shown below:

Change in Medistim shares

Number of shares as of 31.12.2012	236 000
Change of own shares	0
Number of shares as of 31.12.2013	236 000

The 20 largest shareholders in the company were as of 31.12.2013:

Shareholder	Number of shares	Shares in %	Nationality	Comment
INTERTRADE SHIPPING AS*	3 850 000	21,00 %	NOR	
CHR SALVESEN & CHR T	1 862 500	10,16 %	NOR	
SKAGEN VEKST **	1 513 751	8,26 %	NOR	
STENSHAGEN INVEST AS V/LARS HATLETVEIT	1 338 463	7,30 %	NOR	
BUANES ASBJØRN JOHN	1 008 436	5,50 %	NOR	
FOLLUM CAPITAL AS	1 000 000	5,45 %	NOR	
SKANDINAVISKA ENSKIL A/C CLIENTS ACCOUNT	918 570	5,01 %	SWE	NOM
HOLMEN SPESIALFOND	800 000	4,36 %	NOR	
VERDIPAPIRFONDET HAN NORGE	446 154	2,43 %	NOR	
VEVLEN G RD AS	446 154	2,43 %	NOR	
JACAJO AS	446 154	2,43 %	NOR	
GRANDEUR PEAK INTERN BROWN BROTHERS HARRI	417 000	2,27 %	USA	
THE NORTHERN TRUST C NON-TREATY ACCOUNT	317 316	1,73 %	GBR	NOM
VJ INVEST AS	290 983	1,59 %	NOR	
ROSLAND BRIGT	271 000	1,48 %	NOR	
DANSKE INVEST NORGE	250 000	1,36 %	NOR	
MEDISTIM AS	236 000	1,29 %	NOR	
NIPPON BXI INC. ***	226 411	1,23 %	JPN	
AAT INVEST AS	222 222	1,21 %	NOR	
STOREBRAND VEKST JPMORGAN EUROPE LTD,	207 928	1,13 %	NOR	

Total 20 largest shareholders	16 069 042
Total number of shares outstanding	18 337 336
20 largest shareholders in %	87,63 %

* Company controlled by Chairman of the board Øyvin A. Brøymer.
** Consist of two Skagen funds, Skagen Vekst and Skagen Vekst III.
*** Nippon BXI is Medistims distributor in Japan and is controlled by Kazuo Tani.

Board members and management team with shares in the company:

Shareholder	Number of shares	In % of total	Position
Helge Ranvik	5 000	0,03 %	Board member
Roger Morberg	20 000	0,11 %	VP sales
Erik Swensen	40 000	0,22 %	Development man.
Thomas Jakobsen	70 000	0,38 %	CFO
Kari Eian Krogstad	40 000	0.22 %	CEO
Howie Milstein	13 188	0.07 %	Man.dir USA
Siri Fürst	2 000	0.01 %	Board member
Øyvin A. Brøymer (indirect)	3 850 000	21.00 %	Board chairman
Anders Lillebø	5 000	0,03 %	Production man.

There were no share options outstanding as of 31.12.2013.

Note 17 Deferred revenue

1 = NOK 1000	Balance sheet value 2013	Balance sheet value 2012
Deferred revenue - OFU funds	2 771	3 470

1 = NOK 1000	2013	2012
Revenue to P & L	699	699
Reduction of deferred revenue	699	699

Medistim ASA received MNOK 5.85 in OFU funds in relation to the development of VeriQC as described in note 11. The revenue is reversed to the P & L in the same phase as the expected lifetime for the investment, which is 8 years. 2013 was the 4th year of releasing revenue to the P & L and the remaining 2.7 MNOK will be released to the P & L over the next 4 years.

Interest bearing debt

1 = NOK 1000	Interest rate	last due date	Balance sheet value 2013	Balance sheet value 2012
Secured loan				
Loan from DNB	NIBOR + 2,50 %	06.07.16	8 313	-
Total long term debt			8 313	-
Total long term debt			8 313	-
Long term debt due within one year			-3 332	-
Total long term debt with due date more than one year			4 981	-

Medistim ASA has loan trough DNB. The original loan amount was 10 MNOK and the remaining loan as of 31.12.2013 was 8.3 MNOK. The bank has security in assets, accounts receivable and inventory in the holding company and the Norwegian subsidiary. The security in assets is limited to 13.0 MNOK. The security in accounts receivables are limited to 23 MNOK and security in inventory is limited to 25.7 MNOK. Book value of secured items was as of 31.12.2013 13.7 MNOK for assets, 46.4 MNOK for accounts receivables and 34.0 MNOK for inventory. There are no other restrictions related to the loan such as level of equity, minimum profit or similar covenants.

Note 18 Payable expenses and accruals

1 = NOK 1000	2013	2012
Accrual for public taxes	5 040	5 227
Accrual for holiday pay	4 123	3 518
Accrual for salaries and board member fee	2 984	3 899
Accrual for customer and supplier obligations	1 279	3 046
Unrealised exchange rate differences	1 919	-
Other	2 068	1 303
Long term debt due within 12 months	3 332	-
Total	**20 745**	**16 994**

Note 19 Financial risk

The group's financial obligations are 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.

Market risk:

Interest rate risk:

The group had as of 31.12.2013 8.3 MNOK interest bearing debt. If the group needs a loan 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.

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 up to 18 months in the future by entering hedging contracts. The development in NOK towards USD and EUR is continuously monitored. By the end of 2013 the company had secured 12 hedging contracts for USD and 18 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 31.12.2013 was USD 1.8 mill. that gave an unrealized gain of 166 TNOK. Equally there was hedging contracts in EUR amounting to EUR 2.7 mill. that gave an unrealized loss of 197 TNOK. 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 31.12.2013 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. See overview of hedging contracts below.

Currency	Number of contracts as of January 2014	Amount per month	Total value of contracts in currency	Average rate on contracts	Rate as of 31.12.2013	Unrealised gain\loss in NOK
USD	12	150 000	1 800 000	6,18	6,08	165 600
EUR	18	150 000	2 700 000	8,31	8,38	-197 370
Total unrealized loss						**-31 770**

The group had an unrealized gain on accounts receivables of TNOK 615 related to receivables in USD and EUR.

The group had 66% of its revenue in USD or EUR, while 65 % of the expenses were in NOK. Comparable numbers for 2012 was 65% and 60 %. 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. This may vary some from year to year dependent upon the fluctuation in

exchange rates. 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 2012	Change in exchange rate	Effect on P & L	Effect on equity
	+ 5 %	TNOK 3 337	TNOK 3 791
	-5 %	TNOK 3 019	TNOK 3 474
Year 2013	+5 %	TNOK 3 790	TNOK 4 130
	-5 %	TNOK 3 429	TNOK 3 737

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 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 31.12.2013 11.3 MNOK for assets, 36.1 MNOK for accounts receivables and 20.1 MNOK for inventory. 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 low based upon the group's financial position as of 31.12.2013.

Credit and liquidity risk:
Credit risk:
The group is at some extent exposed towards credit risk. Over the last two years confirmed loss on receivables was 205 TNOK. The general risk is low since the majority of customers are financed by public authorities. Still history records for payments, the size of the transaction and the other party's credit risk is evaluated from case to case. The level of credit given is evaluated when there is a change in market conditions. The level of risk is reduced by using bank guaranties and prepayments in cases where the level of risk is found to be higher than normally accepted.

Liquidity risk:
Liquidity risk for Medistim is the risk that the company is not able to meet its obligations in time. Managing liquidity risk is therefore prioritized to secure financial flexibility. Medistim main source of cash is cash generated from operations. The group has over the last 5 years experienced an increase in profit and available cash. Therefore the company has been able to build up a cash reserve due to strong profits to handle the increased need for working capital as the company grows. The liquidity buffer also secures cash in situations where the incoming cash is delayed. In addition, the company has a credit facility with a limit of 7.5 MNOK to secure available cash.

Real value of financial instruments:

Overview of debt

1 = NOK 1000

Year 2012	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Accounts receivable	8 430	-	-	-	8 430
Other debt	12 756	12 141	-	-	24 897
Total	**21 186**	**12 141**	**-**	**-**	**33 327**

Overview of debt

1 = NOK 1000

Year 2013	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	-	3 332	4 981	-	8 313
Accounts receivable	10 011	-	-	-	10 011
Other debt	12 560	13 099	-	-	25 659
Total	**22 571**	**16 431**	**4 981**	**-**	**43 983**

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

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. The bank loan has a floating interest rate. Even so there are unrealized gains and losses related to the items as shown below.

1 = NOK 1000	2013			2012		
	Original value	Gain\loss	Book value	Original value	Gain\loss	Book value
Financial assets						
Cash	19 843	3	19 846	26 816	-136	26 680
Accounts receivable	38 166	615	38 781	30 809	-746	30 063
Other financial assets	-	-	-	-	-	-
Own shares	3 620	-	3 620	3 620	-	3 620
Forward currency contracts	-	-32	-32	-	479	479
Financial debt						
Accounts payable	10 011	-	10 011	8 430	-	8 430
Interest bearing loan						
Bank loans	8 313	-	8 313	-	-	-

Financial strategy:
Management strives 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 2012 or 2013.

Note 20 Transactions towards close related partners

Compensation to management
The management group consists of 10 people in 2013 and 9 people in 2012 including CEO. The managing directors in the subsidiaries are included in the management group.

Compensation and benefits to the management group:

Group Management	Position	Salary	Bonus	Pension	Other	Total
Hæge Johanne Krogh Wetterhus	Marketing dir.	1 093 956	50 000	78 004	3 996	1 225 956
Roger Reino Morberg	VP sales	1 366 514	-	66 056	6 000	1 438 570
Erik Swensen	VP development	982 152	50 000	64 548	6 000	1 102 700
Rigmor Blix	Quality manager	680 431	-	42 460	3 996	726 887
Tone Ann Veiteberg	QA manager	202 134	-	14 858	1 000	217 992
Ole Jørgen Robsrud	CEO Medistim Norge AS	1 032 550	100 000	65 460	6 000	1 204 010
Anders Lillebø	VP production	1 035 319	50 000	67 928	6 000	1 159 247
Howie Milstein	President Medistim USA	1 647 590	39 535	65 904	-	1 753 028
Kari Eian Krogstad	CEO	1 895 456	400 000	80 628	6 000	2 382 084
Thomas Jakobsen	CFO	1 118 840	-	65 460	3 996	1 188 296
Sum		**11 054 942**	**689 535**	**611 306**	**42 988**	**12 398 770**

There are no special agreements towards any in the management team in case of leaving the company. CEO has though an agreement receiving shares. All in the team has a two way arrangement of 3 months notice. The exception is management in the US that has no notice period and left his position in January 2014. The former President has a consultancy agreement with the

company in 2014. The management group has the same pension plan as for other employees. This is a contribution plan that covers 5 % of salary up to 6 G and 8 % of salary for G between 7 and 12. 1G equals NOK 85.245. Management in the US has a contribution plan. Bonus accrued to the CEO in 2013 was 400 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. Bonus is accrued in the accounts as of 2013 but not paid.

Compensation to the board was 700 TNOK in 2013 and 700 TNOK in 2012. The chairman received 200 TNOK as compensation in 2012 and 2013. The four board members received a total 125 TNOK each as compensation in 2012 and 2013, a total of 500 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 31.12.2013 was NOK 23.00 per share and NOK 46 000 was accrued in 2013 to cover the obligation.

No options were issued by the board in 2013 and no options were outstanding as of 31.12.2013. CEO receives up to 25.000 Medistim shares as part of compensation if in position until 2016. The nomination committee did not receive compensation for its work in 2013.

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 43 928 TNOK in 2013. In 2012 this was 44 618 TNOK. The split between goods and services was as follows:

	2013	2012
1 =NOK 1000		
Goods	43 506	44 260
Services	422	358
Total	43 928	44 618

Medistim ASA sold in 2013 goods for 43 506 TNOK to Medistim Deutschland GmbH, Medistim US Inc, Medistim Danmark Aps, Medistim UK Ltd and Medistim Norge AS. Medistim Deutschland, Medistim US Inc, Medistim Danmark Aps, Medistim UK Ltd and Medistim Norge AS are distributors for Medistim ASA in respectively Germany, USA, Denmark, UK and Norway for Medistims own developed products. Medistim Deutschland GmbH purchased administrative services for 422 TNOK from Medistim ASA.

Medistim ASA sold goods to in 2012 to Medistim Deutschland GmbH, Medistim US Inc, Medistim Denmark Aps and Medistim Norge AS for 44 260 TNOK. Medistim Deutschland GmbH purchased administrative services from Medistim ASA for 358 TNOK in 2012.

Medistim ASA had a receivable as of 31.12.2013 towards Medistim Deutschland GmbH of 196 TNOK, a receivable towards Medistim Danmark Aps of 354 TNOK, a receivable towards Medistim Norge AS of 260 TNOK, a receivable towards Medistim UK Ltd of 3 419 TNOK and a receivable towards Medistim US Inc of 16 972 TNOK.

Note 21 Other obligations

1 = NOK 1000	**2013**	**2012**
Guaranty accrual	150	150
Sum	**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 Økernveien 94 in Oslo, Moloveien 10 in Horten, and in 14000 25ave. N. Suite 108 in Plymouth in Minneapolis, Minnesota, USA. Yearly rent for the offices in Oslo amounts to 3.2 MNOK. In Horten yearly rent it 760 TNOK, while yearly rent for the US office is 450 TNOK. In Oslo and Horten the rental agreement expires in 2018 and total lease obligation is 19.9 MNOK. In the USA the rental agreement expire year end 2016 and total lease obligation is 1.35 MNOK. The rental is adjusted yearly according to National indexes for goods and services.

Split of lease obligation:		
Within 1 year	TNOK	4 410
Within 2 – 5 years	TNOK	21 150
More than 5 years	TNOK	21 150

Leased equipment

The cost for leased equipment was 1901 TNOK in 2013 and 1423 TNOK in 2012.
The group is leasing office equipment and cars. Office equipment is operationally leased and the last lease exceeds in April 2017. The leasing cost was 139 TNOK in 2013 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 2013 was 1762 TNOK and there were no prepayments related to the car leases. Last lease for the cars exceeds August 2016. The lease obligation within one year is 1901 TNOK. Lease obligation as of 31.12.2013 for the coming 3 years was 2492 TNOK. Total obligation as of 31.12.2013 was 2520 TNOK and last lease exceeds in August 2017.

The company has no other obligations with specific govern ants.

Note 22 Exchange rates foreign currency

Currency	Rate 01.01.2013	Average rate	Rate 31.12.2013
USD	5. 566	5.8768	6.0837
DKK	98.40	104.70	112.37
EUR	7.341	7.8087	8.3825
GBP	8.9958	9.1968	10.0527

Note 23 Events after 2012

The Board of directors has no knowledge about other events after 2013 that will affect the annual report and financial statement for 2013.

Oslo, 20.3.2014

Øyvin A. Brøymer Chairman	Silje Garberg Ree Board member	Helge Ranvik Board member
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

Annual report 2013 for the holding company

Medistim ASA

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Medistim ASA
Økernveien 94
P.B 6631 Etterstad 0607 Oslo
0579 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 Økernveien 94 in Oslo and production facilities in Moloveien 10 in Horten. Medistim ASA has 5 subsidiaries Medistim US Inc located in Minneapolis, Minnesota in the US, Medistim Deutschland GmbH in Munich in Germany, Medistim Danmark Aps located in Copenhagen Denmark, Medistim UK Ltd located in London, UK and Medistim Norge AS located at Økernveien 94 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 about 700.000 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 2013 through increased market share.

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 2013. 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 have priority. The number of sick leave days was 270 in 2013 (474 in 2012) which is 2.0 % of total work time in 2013 (5.6 % in 2012). No specific measures have been necessary to implement in this regard. On average there were 43 employees in 2013.

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 25 women employed of a total of 43 employees.

The company actively works to prevent discrimination because of disabilities, ethnicity, national origin, color, religion or belief. This is the case in matters like 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 31.12.13 NOK 4 584 334,00 split on 18 337 336 shares at par value of NOK 0, 25 per share. The share is freely traded at the Oslo stock exchange. The company had 333 shareholders and had 236 000 Medistim shares by 31.12.2013.

Profit for the year

Sales ended at 90.3 MNOK (85.3 MNOK). Profit before tax ended at 32.2 MNOK (28.0 MNOK). Medistim received a dividend from its subsidiary in Germany with 4.4 MNOK in 2013 (0.0 MNOK). No group contribution was received in 2013 or 2012.
The board of directors decided in 2012 to terminate the defined benefit pension plan. This was replaced by a contribution pension plan for all employees. As a consequence when terminating the defined benefit pension plan, the actuarial pension liability was ceased. The liability was reversed by a onetime recording as a reduction in salary and social expenses, with an offset in pension liabilities in the balance sheet. The liability in the balance sheet was TNOK 7.343.

Total assets in the balance sheet was for the company 148.7 MNOK as of 31.12.2013 compared to 135.4 MNOK as of 31.12.2012. Equity in the company was as of 31.12.2013 102.8 MNOK and 93.3 MNOK as of 31.1.2.2012. The equity ratio as of 31.12.2013 was 69.1 %.

By year end 2013 the company had 3.2 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 24.0 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 trough financial instruments.

Credit risk:
The risk that customers are unable to for fill 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 2012 and 2013 were the same and there are no planed 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. There was no incentive related to shares, share options or development in share price in 2012 and 2013. The exception is CEO that can receive 15 000 shares as part of the compensation if she stay in her position until 2015, further 10.000 shares if in position until 2016 and further 10.000 shares if in position until 2017. 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 has 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 2013

R & D activities in 2013 have been focused on 4th generation of systems that are to replace today's platform for the flow product VeriQ and the imaging product VeriQC.
The purpose is to develop the future platform for flow measurement and imaging systems. The new platform will have a flexibility that will allow customer adaptions and new applications. The technological improvement will secure and strenghten Medistim's leading position. Products based upon the new platform will be launched in 2014/ 2015. Medistims Skattefunn application related to the project was approved in 2013.

The US is an important market for Medistim, since this market represents 33 % of the world market for Medistims products. The equipment was used in 31.170 procedures (surgeries) in 2013. This represents 13.0 % of the US market. In the US about 80 % of the bypass surgeries are performed with no quality assurance.
The business model in the US is based upon procedural sales and not capital sales as else were in the world.
The company is now in an exciting phase with a paradigm shift for quality assessment during bypass surgery. By combining the established transit time flow measurement (TTFM) technology with coronary and epiaortic ultrasound scanning (EUS), the risk of major adverse cardiac and cerebrovascular events will be further reduced.
The company has not managed to follow up the positive trend in sales from the 2 previous years of more than 10 % annual growth. The company is not satisfied with the development in 2013 and a change in management in the US has been initiated in 2014. The company has ambitions in the U.S. market that is expected to be met in the coming years.

In Asia Medistim is still best represented in Japan, which accounted for 64 % of sales in the region in 2013. The corresponding proportion in 2012 was 75 %. Japan is one of the countries where the introduction of VeriQC has made the most progress, and Medistim has a solid representation through its distributor Nippon BXI. Sales in Japan have been stabile over the years which also were the case for 2013. The reason that the share of sales to Japan has decreased is that there has been a good growth in China. This is a positive trend since China is the country in Asia with the highest population and a fast growing economy.
The region has an increasing level of cardiac diseases as elements of western lifestyles are adopted. It is therefore important for Medistim to be well represented with their products in Asian markets. Medistim have good representation through its distributors and is well positioned to meet the expected growth in the region. Medistim is well represented in China through its distributor Pacific Medical systems Ltd.

In other markets, the features of Medistims newest product the VeriQC, has been well recognized in the Middle East led by Saudi-Arabia. In Latin America there are several countries with the same trend as in Asia where Brazil is the country with the largest potential for Medistims products.

In Europe there has been a positive trend for the year. There has been an increase in investments in systems for flow measurements (VeriQ) and the combined solution with imaging and flow measurements (VeriQC). The consumables probes have also had a positive development with an increase in sales 5.4 % for the year. Despite the challenging

economic situation in many European countries, investment in Medistims products increases. This is a strong indication that European hospitals prioritizes Medistims equipment and that it is regarded as a necessity

There are tremendous differences in clinical practice around the world when it comes to graft patency verification during Coronary Bypass Grafting (CABG). The lack of utilization of clinically proven, cost effective technology in many countries must be a concern, not only to patients and surgeons, but also to publich and private payers.
In order to increase the awareness and importance of utilizing TTFM during CABG, Medistim is focusing on and push for that TTFM is included in the guedelines as «standard of care». This is the case for both international organizations, but also for national organizations and guidance for clinical practice.

Position, Competition and outlook

Medistim's flow meters have been in use in more than 1 million patients worldwide since it came on the market, and the company is the clear leader in its niche. The equipment is used today in more than 25 % of the total number of by-pass surgeries performed worldwide. Medistims penetration and market share is expected to increase gradually as quality assurance in surgery is getting more attention and acceptance.

There are competitors that use the transit time measurement principle. Equipment from competitors is estimated to be in use in about 7 % of the procedures performed. This means that in about 70 % of the cases where by pass surgery is performed there is no equipment in use to verify blood flow. This market represent Medistim's largest opportunity.

With Medistim's VeriQC system, the company has acquired a new edge compared to competitors, with a unique and differentiated product that is currently alone in its segment.

The Board of Directors views the company's future opportunities as good. Medistim is well positioned for future growth. 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 ultrasound imaging product VeriQC, and new products under development

Other affairs

Corporate governance and CSR is described in the chapters with the same heading in the report for the group and the same principles applies for the holding company.

The financial report per 31st of December 2013 has been prepared according to Norwegian accounting principles (NGAAP) as do the comparable numbers for 2012. 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 2013 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 2013 financial report, any significant related parties transactions, and description of the principal risks and uncertainties relevant for the company.

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 2013.

Allocation of profit

The Board of Directors suggests that the profit for 2013 of 24 800 TNOK is allocated to ordinary shareholder dividend of NOK 0.80 per share, which amounts to 14.481 corrected for own shares. The remaining 10.319 TNOK is allocated to other equity. Free equity as of 31.12.2013 was 24 971 TNOK after 14 481 TNOK was allocated to dividend.

Oslo, 20.3.2014

Øyvin A. Brøymer Chairman	Silje Garberg Ree Board member	Helge Ranvik Board member
Sire Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

Income statement Medistim ASA

1 = NOK 1000	Note	2013	2012
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	1	89 228	84 221
Other income	1,4	1 121	1 057
Total revenue		**90 349**	**85 278**
Operational expenses			
Cost of goods sold		16 273	13 447
Salary and social expenses	2	28 183	19 901
Depreciation on assets	3	6 820	5 576
Other operating expenses	4,14	15 763	16 834
Total operating expenses		**67 039**	**55 759**
OPERATING PROFIT		**23 310**	**29 519**
FINANCIAL INCOME AND EXPENSES			
Financial income			
Other financial income	12	10 850	5 621
Financial expenses	12	1 942	7 113
NET FINANCE		**8 908**	**-1 492**
PROFIT BEFORE TAX		**32 218**	**28 027**
Tax expense	5	7 418	7 868
NET PROFIT		**24 800**	**20 159**
ALLOCATIONS			
Dividend	11	14 481	19 911
Other equity	11	10 319	248
TOTAL ALLOCATION		**24 800**	**20 159**

Earnings per share	**2013**	**2012**
Ordinary	**1,37**	**1,11**
Diluted	**1,37**	**1,11**
Dividend per share	**0,80**	**1,10**

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Balance Sheet Medistim ASA

1 = NOK 1000	Note	31.12.13	31.12.12
ASSETS			
Non current assets			
Intangible assets			
Deferred tax	5	4 135	5 679
R & D	3,4	29 711	20 898
Fixed assets			
Machinery	3	9 568	7 722
Office equipment	3	1 706	853
Financial assets			
Shares in subsidiaries	6	37 278	37 278
Total non current assets		**82 397**	**72 430**
Current assets			
Inventory	8	20 111	19 703
Accounts receivables	7,16	36 529	25 665
Other receivables	7,16	6 384	6 511
Cash	9	3 232	11 105
Total current assets		**66 256**	**62 984**
TOTAL ASSETS		**148 653**	**135 414**
EQITY AND LIABILITY			
Equity			
Issued capital			
Share capital	10,11	4 584	4 584
Share premium fund	10,11	40 253	40 253
Other equity			
Retained earnings	11	57 953	48 438
Total equity		**102 790**	**93 276**
Liabilities			
Accruals for obligations			
Deferred income	4	2 772	3 470
Total accruals		**2 772**	**3 470**
Other long term debt			
Long term debt from bank	15	4 981	-
Total other long term debt		**4 981**	**-**
Short term debt			
Interest bearing short term debt	15	3 332	-
Accounts payable	16	3 250	3 994
Payable tax	5	5 874	5 787
Employee withholding, social security taxes		2 408	2 032
Dividend	11	14 481	19 911
Other short term debt	13,16	8 764	6 944
Total short term debt		**38 109**	**38 668**
TOTAL EQUITY AND LIABILITY		**148 653**	**135 414**

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Cash Flow Statement for Medistim ASA

1 = NOK 1000	Note	2013	2012
Cash flow from operations:			
Profit/loss before tax		32 218	28 027
Minus income tax paid		-5 787	-4 945
Plus depreciations		6 820	5 576
+/- Change in inventory		-408	-5 915
+/- Change in accounts receivable		-10 864	247
+/- Change in accounts payable		-744	1 065
+/- Change in paid and expensed pension		-	-7 343
+/- Change in other accruals		2 797	7 579
Net cash from operating activities		**24 032**	**24 291**
Investing activities:			
Minus investment in assets		-20 328	-5 948
Purchase of own shares		-	-3 200
Ney cash from investing activities		**-20 328**	**-9 148**
Financing activities:			
Minus down payment of long term debt		-1 666	-
Dividend	11	-19 911	-18 316
New loans		10 000	-
Net cash from financing activities		**-11 577**	**-18 316**
Net change in cash		-7 873	-3 173
Cash as of 01.01		11 105	14 278
Cash as of 31.12		**3 232**	**11 105**
Available cash and cash withholding			
Available cash as of 31.12	9	1 862	9 979
Cash withholding for taxes	9	1 370	1 126
Cash and cash equivalents as of 31.12		**3 232**	**11 105**

ACCONTING 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 Norge AS, Medistim US Inc, Medistim Danmark Aps, Medistim UK Ltd, 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.

Pension liabilities

The defined pension plan is terminated for all employees and the defined pension plan is replaced by a contribution plan for all employees. The actuarial losses are therefore reversed.

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 amortized 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.

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Notes to the accounts

Note 1 Geographic split of sales

1 = NOK 1000	2013	2012
USA	23 081	27 598
Asia	19 210	18 444
Europe	40 235	32 574
Rest of the world	7 823	6 662
Total sale	**90 349**	**85 278**

Other income amounted to 1 121 TNOK in 2013. 699 TNOK was reversal of deferred income from OFU funds and 422 TNOK was income from services provided to subsidiaries.

Note 2 Salaries and other benefits

Specification of salary and social expenses

1 = NOK 1000	2013	2012
Salaries	21 356	23 443
Payroll tax	3 935	3 163
Pension cost defined plan	-	-7 343
Other benefits	2 892	639
Total salary expenses	**28 183**	**19 901**

The total number of employees was trough the year 42.

The board of Medistim ASA decided to discontinue the defined benefit pension plan with effect 01/07/2012, and a new contribution plan was introduced for all employees at the same date. The consequence of this was that the actuarially determined pension liability ceased. This liability was recorded at TNOK 7 343 and it was reversed in 2012.The liability is reversed by recording a credit towards wages in the P & L with an offset of pension liabilities in the balance sheet in 2012.

The contribution plan cover 5 % of salary up to 6 G and 8 % of G between 7 and 12. 1G is the base amount (NOK 85.245) in the social security system. The cost for the contribution plan was in 2013 TNOK 1 254, while it was TNOK 788 in 2012.

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.

Compensation to management

Medistim ASA

1 = NOK 1000	Position	Salary	Bonus	Pension	Other	Total
Hæge Johanne Krogh Wetterhus	VP marketing	1 093 956	50 000	78 004	3 996	1 225 956
Roger Reino Morberg	VP sales	1 366 514	-	66 056	6 000	1 438 570
Erik Swensen	VP development	982 152	50 000	64 548	6 000	1 102 700
Rigmor Blix	Quality manager	680 431	-	42 460	3 996	726 887
Tone Ann Veiteberg	QA manager	202 134	-	14 858	1 000	217 992
Anders Lillebø	VP production	1 035 319	50 000	67 928	6 000	1 159 247
Kari Eian Krogstad	CEO	1 895 456	400 000	80 628	6 000	2 382 084
Thomas Jakobsen	CFO	1 118 840	-	65 460	3 996	1 188 296
Sum		**8 374 802**	**550 000**	**479 942**	**36 988**	**9 441 732**

There are no special agreements towards any in the management team in case of leaving the company. CEO has though an agreement receiving shares. All in the team has a two way arrangement of 3 months notice. 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. The CEO will receive up to 25 000 shares as part of compensation if in position in 2016. Bonus was accrued in the accounts as of 2013, but not paid.

Compensation to the Board of Directors:

1 = NOK 1000

	Compensation
Chairman Øyvin Brøymer	200
Board member Silje Garberg Ree	125
Board member Helge Ranvik	125
Board member Kari Pah	125
Board member Lars Rønn	125
Total compensation to the Board of Directors	700

Compensation to auditor

1 = NOK 1000

	2013	2012
Expenses for auditing	323	208
Compensation for other services	26	71
Total compensation to auditor	349	279

The amounts are without VAT

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Note 3 Assets and depreciation

1 = NOK 1000	Plant and Machinery	Equipment	Total fixed Assets	Activated Development	Total
Historic cost as of 1/1	24 015	4 769	28 784	31 832	60 616
Additions	3 970	1 495	5 465	12 866	18 331
Historic cost as of 31/12	27 985	6 264	34 249	44 698	78 947
Accumulated depreciation as of 1/1	16 293	3 916	20 209	10 934	31 143
Ordinary depreciation	2 124	642	2 766	4 053	6 819
Accumulated depreciation as of31/1	18 417	4 558	22 975	14 987	37 962
Book value at 31/12	**9 568**	**1 706**	**11 273**	**29 711**	**40 985**

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 2013.

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

The R & D expense for 2013 was in total 18.0 MNOK compared to 7.6 MNOK in 2012. In 2013 14.9 MNOK of the R & D expense was activated in the balance sheet while 2.6 MNOK was activated in the balance sheet in 2012. The company received funds from Skattefunn with 2.0 MNOK in 2013 and 0.0 MNOK in 2012. As of 31.12.2013 2.8 MNOK was recorded in the balance sheet as deferred revenue and 0.7 MNOK was recorded as revenue in the P & L in 2013. In total 3.1 MNOK of the R & D expenses was recorded in the P & L in 2013. Similar expense was 5.0 MNOK in 2012. The expensed R & D was the rest value of all R & D expenses after activated R & D was deducted. Activated expenses related to the VeriQC project is depreciated over 8 years and the deferred income related to the project is released to the P & L within the same timeframe.

Note 5 Income tax and temporary differences

1 = NOK 1000	2013	2012
Current income tax charge for the year before deferred tax asset is utilised	5 874	5 787
Change in deferred tax	1 544	2 081
Income tax expense reported	**7 418**	**7 868**
Reconciling income tax expense against profit		
Income tax expense for the year	7 265	7 868
28 % of profit before tax	9 149	7 949
Change in deferred tax due to changed taxrate	153	-
Difference because of permanent differences	-1 731	-81

Specification of taxable income:	**2013**	**2012**
Profit before tax	32 218	28 027
Permanent differences	-4 252	73
Change in temporary differences	-4 969	-7 433
Skattefunn	-2019	-
Estimated income tax:	**20 978**	**20 667**

Payable tax in balance sheet:	**2013**	**2012**
Tax on profit for the year	5 874	5 787
Refund from Skattefunn	2019	-
Total payable tax	**3 855**	**5 787**

Specification of deferred tax asset

Differences in accounting and tax values	**2013**	**2012**
Fixed assets	-19 435	-21 622
Current assets	1 782	2 471
Accrual for obligations	2 337	-1 130
Total differences	-15 316	-20 281
Deferred tax asset 27 %	**4 135**	**5 679**
Deferred tax asset in balance sheet	**4 135**	**5 679**

Deferred tax asset in the balance sheet was reduced from the year before with 1.5 MNOK and was recorded at 4.1 MNOK. Deferred tax asset consist of temporary differences in valuation of assets. All deferred tax asset is recorded in the balance sheet as of 31.12.2013, since it is likely that the company will have future taxable income that will exceed temporary differences.

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Note 6 Shares in subsidiaries

Medistim ASA has investments in the following subsidiaries:

1 = NOK 1000

Unit	Country	Segment	Ownership	Balance sheet value 31.12.13	Profit in 2013
Medistim USA Inc.	USA	Lease and sale within bypass surgery	100 %	135	72
Medistim Deutschland GmbH	Germany	Sale of 3 pary products and capital sales within bypass surgery	100 %	188	3 088
Medistim Norge AS	Norway	Sale of 3 pary products and capital sales within bypass surgery	100 %	36 953	5 635
Medistim UK LTD	UK	Sale of 3 pary products and capital sales within bypass surgery	100 %	1	-1 928
Medistim Danmark Aps	Denmark	Sale of 3 pary products and capital sales within bypass surgery	100% - Owned indirectly through Medistim Norge AS with book value of TNOK 503		-142
Total				**37 277**	**6 724**

Medistim Norge AS has a subsidiary Medistim ASA owns indirectly through Medistim Norge AS in Denmark. The company is named Medistim Danmark Aps and is within the same segment as Medistim Norge AS.

Summary of financial information from subsidiaries all 100 % owned

1 = NOK 1000

Unit	Assets	Debt	Equity	Sales	Profit
Medistim USA Inc.	19 224	19 322	-98	49 363	72
Medistim Deutschland GmbH	10 443	980	9 463	27 808	3 088
Medistim Danmark Aps	1 595	1 516	80	2 549	-142
Medistim UK Ltd	992	3 968	-2 976	701	-1 928
Medistim Norge AS	41 651	12 778	28 874	64 137	5 635
Total	**73 905**	**38 563**	**35 342**	**144 558**	**6 724**

Medistim Norge AS has offices at Økernveien 94 in Oslo. Medistim USA Inc has offices in Minneapolis in the USA. Medistim Deutschland GmbH has offices in Munich in Germany, Medistim UK has offices in London in UK and Medistim Danmark has offices in Copenhagen in Denmark. Book value of goodwill related to the acquisition of Medistim Norge AS was as of 31.12.2013 14 128 TNOK. Goodwill at the time of acquisition was 16 097 TNOK. None of the subsidiaries are listed at a stock exchange. Medistim UK Ltd was established in August 2012.

Note 7 Account receivables and other receivables

Accounts receivable

1= NOK 1000	2013	2012
Accounts receivable	36 789	25 868
Provision for bad debt	-260	-203
Total	**36 529**	**25 665**

All receivables are due within one year. Losses in 2013 were 153 TNOK and losses in 2012 were 24 TNOK. It is recorded an accrual of 260 TNOK to cover expected losses. Historically the company has small losses on receivables. Other receivables are shown below.

Other receivables

1= NOK 1000	2013	2012
Prepayments	884	1 350
Prepaid taxes and VAT	1 201	2 126
Skattefunn\OFU	1996	-
Unrealised gain hedging	-	472
Accrued income	2109	2041
Other	194	522
Total other receivables	**6 384**	**6 511**

Note 8 Inventory

1= NOK 1000	2013	2012
Components	11 750	11 201
Work in progress	-	-
Finished goods	9 049	9 162
Inventory accrual	-688	-660
Total	**20 111**	**19 703**

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

Specification of accrual 1 = NOK 1000

1= NOK 1000	2013	2012
Demonstration units	195	194
Service parts	493	466
Total	**688**	**660**

Note 9 Cash in Bank

Restricted cash amounted to 1 370 TNOK as of 31.12.2013 and was related to tax withheld on salary paid to employees. The comparable amount as of 31.12.2012 was 1 126 TNOK.

Note 10 Shareholder affairs

The company had 18.337.336 shares at par value of NOK 0.25 per share and total share capital amount to NOK 4.584.334. There is only one class of shares and all shares are treated equally. Each share represents one vote.

Change in issued share capital in 2013:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.2013	18 337 336	NOK 0.25	NOK 4 548 334.00
Changes in share capital	-	NOK 0.25	NOK -
Share capital 31.12.13	**18 337 336**	**NOK 0.25**	**NOK 4 584 334.00**

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The Board of Directors got under the shareholders meeting commission to purchase up to 1 833 733 Medistim ASA shares at par value NOK 458 433.25. The commission is valid until the next ordinary general assembly in 2014 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 458 433.25 or issue 1 833 733 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 2014. See note 11 for changes in the equity for the last year.

Status for the commissions as of 31.12.2013:

	Capital increase	Medistim shares
Commission given at the shareholders meeting in 2013	1 833 733	1 833 733
Commissions used	-	-
Status for the commissions as of 31.12.2013	**1 833 733**	**1 833 733**

The company had 236 000 Medistim shares as of 31.12.2013, unchanged from 01.01.2013.

Change in Medistim shares

Number of shares as of 31.12.2012	236 000
Change in own shares	0
Number of shares as of 31.12.2013	236 000

The 20 largest shareholders in the company were as of 31.12.2013:

Shareholder	Number of shares	Shares in %	Nationality	Comment
INTERTRADE SHIPPING AS*	3 850 000	21,00 %	NOR	
CHR SALVESEN & CHR T	1 862 500	10,16 %	NOR	
SKAGEN VEKST **	1 513 751	8,26 %	NOR	
STENSHAGEN INVEST AS V/LARS HATLETVEIT	1 338 463	7,30 %	NOR	
BUANES ASBJØRN JOHN	1 008 436	5,50 %	NOR	
FOLLUM CAPITAL AS	1 000 000	5,45 %	NOR	
SKANDINAVISKA ENSKIL A/C CLIENTS ACCOUNT	918 570	5,01 %	SWE	NOM
HOLMEN SPESIALFOND	800 000	4,36 %	NOR	
VERDIPAPIRFONDET HAN NORGE	446 154	2,43 %	NOR	
VEVLEN G RD AS	446 154	2,43 %	NOR	
JACAJO AS	446 154	2,43 %	NOR	
GRANDEUR PEAK INTERN BROWN BROTHERS HARRI	417 000	2,27 %	USA	
THE NORTHERN TRUST C NON-TREATY ACCOUNT	317 316	1,73 %	GBR	NOM
VJ INVEST AS	290 983	1,59 %	NOR	
ROSLAND BRIGT	271 000	1,48 %	NOR	
DANSKE INVEST NORGE	250 000	1,36 %	NOR	
MEDISTIM AS	236 000	1,29 %	NOR	
NIPPON BXI INC. ***	226 411	1,23 %	JPN	
AAT INVEST AS	222 222	1,21 %	NOR	
STOREBRAND VEKST JPMORGAN EUROPE LTD,	207 928	1,13 %	NOR	

Total 20 largest shareholders	16 069 042
Total number of shares outstanding	18 337 336
20 largest shareholders in %	87,63 %

* Company controlled by Chairman of the board Øyvin A.

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

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

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Board members and management team with shares in the company:

Shareholder	Number of shares	In % of total	Position
Helge Ranvik	5 000	0,03 %	Board member
Roger Morberg	20 000	0,11 %	VP Sales
Erik Swensen	40 000	0,21 %	Development man.
Thomas Jakobsen	70 000	0,38 %	CFO
Kari Eian Krogstad	40 000	0.22 %	CEO
Howie Milstein	13 188	0.07 %	Man.dir USA
Siri Fürst	2 000	0.01 %	Board member
Øyvin A. Brøymer (indirect)	3 850 000	21.00 %	Chairman
Anders Lillebø	5 000	0,03 %	Production man.

It was no share options outstanding as of 31.12.2013.

Note 11 Change in equity

Medistim ASA

1 = NOK 1000	Share capital	Own shares	Premium fund	Other equity	Total
Equity 31.12.12	4 584	-60	40 253	48 499	93 276
Change in equity 2013					
Other corrections	-	-	-	-804	-804
Profit 2013	-	-	-	24 800	24 800
Dividend to shareholders	-	-	-	-14 481	-14 481
Equity 31.12.13	**4 584**	**-60**	**40 253**	**58 014**	**102 791**

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 18 months in the future by entering hedging contracts. The development in NOK towards USD and EUR is continuously monitored. By year end the company had 12 USD contracts and 18 EUR contracts. Each contract is due by the end of the month with the same amount, USD 150.000 and EUR 150.000.

Total amount of hedging contracts in USD as of 31.12.2013 was USD 1.8 mill. that gave an unrealized gain of 0.16 MNOK. Equally there was hedging contracts in EUR amounting to EUR 2.7 mill. that gave an unrealized loss of 0.19 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 31.12.2013 and the change of the 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	**2013**	**2012**
Foreign exchange gain	6 369	5 464
Foreign exchange loss	1 540	7 051
Total	**4 829**	**-1 587**

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Note 13 Specification of short term debt

1= NOK 1000	2013	2012
Inventory accrual	1 013	812
Bonus and commission	1177	2622
Holiday allowance	2 790	2235
Goods received not invoiced	731	196
Board compensation	700	575
Debt towards subsidiary	2000	
Other	353	504
Total short term debt	**8 764**	**6 944**

Note 14 Other operating expenses

1 = NOK 1000	2012	2012
Office rental	2 579	2 529
Travel expense	1 227	1 578
Marketing	1 937	2 045
Consultancy fee	4 348	4 983
Insurance	704	490
Freight	554	636
Communication	1 980	2 478
Other	2 434	2 097
Total other op. expenses	**15 763**	**16 834**

Note 15 Long term debt and loan security

Medistim ASA had 8.3 MNOK in long term debt by the end of 2013. The interest on the loan is 3 months NIBOR plus 2.5 %. Last down payment on the loan is due in the second quarter of 2016.

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. In addition the company has a credit facility of 7.5 MNOK. As security for the facilities are assets with 3 MNOK, accounts receivable with 10 MNOK and inventory with 10 MNOK. Book value of secured items was as of 31.12.2013 11.3 MNOK for assets, 36.1 MNOK for accounts receivables and 20.1 MNOK for inventory. See also note 12 for status related to hedging contracts.

Note 16 Receivables and debt towards subsidiaries

1 = NOK 1000	2013	2012
Account receivable	20 523	19 165
Other receivable	2 679	522

Note 17 Events after 2013

The Board of directors has no knowledge about events after 2013 that will affect the annual report and financial statement for 2013.

Oslo, 20.3.2014

Øyvin A. Brøymer Chairman	Silje Garberg Ree Board member	Helge Ranvik Board member
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

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

We herby confirm that the annual accounts for the group and the company for 2013 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 20.3.2014
Board of Director's in Medistim ASA

Øyvin A. Brøymer chairman	Silje Garberg Ree board member	Helge Ranvik board member
Siri Fürst board member	Lars Rønn board member	Kari Eian Krogstad CEO

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To the Annual Shareholders' Meeting of Medistim ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Medistim ASA, which comprise the financial statements of the parent company, showing a profit of TNOK 24 800, and the financial statements of the group, showing a profit of TNOK 26 536. The financial statements of the parent company comprise the balance sheet as at 31 December 2013, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet at 31 December 2013, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Medistim ASA as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 20 March 2014
BDO AS

Marianne Hamre
State Authorised Public Accountant (Norway)

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