

2nd quarter and 1st half report 2014

- Sales ended at MNOK 47.9 for the quarter (MNOK 49.0). Sales for the 1st half increased by 2.3 % and ended at MOK 96.7 (MNOK 94.5).
- Positive development in USA with 41 % increase in sales in the 2nd quarter and 9.1 % for the first half. The reduction in total sales for the quarter is related to delayed system sales in Europe.
- Operating profit (EBIT) for the quarter and ended at MNOK 11.7 (MNOK 12.8). Operating profit for the 1st half ended at MNOK 18.9 (MNOK 20.1).
- Dividend paid in 2014 was MNOK 14.5, NOK 0.80 per share (NOK 1.10 per share).

2nd quarter and 1st half report for 2014

FINANCIAL DEVELOPMENT

(Comparative numbers for 2013 in parenthesis)

Sales and geographic split

Sales in the 2nd quarter ended at MNOK 47.9 (MNOK 49.0). USA had a strong quarter with a 40.9 % growth in sales. In Asia sales increased with 14.2 %, while sales in Europe had a decrease of 11.7 %. In the rest of the world where sales vary more per quarter, there was a 44.7 % decrease.

Sales for the 1st half increased with 2.4 % and ended at MNOK 96.7 (MNOK 94.5). The growth measured in NOK was 2.8 % in Europe where sale of consumables probes continues the positive trend. Sales in the US and Asia increased with 9.1 % and 18.6 % respectively. In the rest of the world there was a decrease of 38 %.

Development in volumes

With the same rates as in 2013 sales would have amounted to MNOK 45.6 for the quarter. Similar for the 1st half would have resulted in sales of MNOK 91.8.

Split of own products and 3. party products.

Sales of own products amounted to MNOK 32.8 (MNOK 33.2). Sales of third party products ended at MNOK 15.1 (MNOK 15.8). For the 1st half sales of own products ended at MNOK 65.5 (MNOK 64.0) and sales of 3. party products ended at MNOK 31.2 (MNOK 30.5)

Cost of goods sold

Cost of goods sold ended at MNOK 12.3 for the quarter (MNOK 11.4) and cost of goods sold represent a percentage of 25.7 % of total sales (23.3 %). For the 1st half cost of goods sold ended at MNOK 25.3 (MNOK 23.6), which represent a percentage of 26.2 % (25.0 %). The lower margin is a consequence of different product mix.

Salary, social and other operating expenses

Salaries and social expenses ended at MNOK 12.9 (MNOK 13.2) for the quarter. Other operating expenses ended at MNOK 8.9 (MNOK 9.6) for the quarter.

For the 1st half salaries and social expenses ended at MNOK 29.7 (MNOK 28.3). Other operating expenses ended at MNOK 18.7 (MNOK 18.7)

The increase in salary expenses is related to the strengthening of the sales and marketing teams.

R & D expenses

For the quarter MNOK 3.2 (MNOK 4.7) was used within research and development (R&D). Result before R & D, depreciations and write offs was MNOK 13.0 (MNOK 15.2). This equals a margin of 28.7 % (31.1 %). During the quarter MNOK 3.2 of the R & D expense was activated in the balance sheet (MNOK 4.2).

For the 1st half MNOK 6.9 (MNOK 6.7) was used within research and development (R&D). Result before R & D, depreciations and write offs was MNOK 24.4 (MNOK 25.3). This equals a margin of 25.2 % (26.8 %). During the 1st half MNOK 5.5 (MNOK 5.2) of the R & D expense was activated in the balance sheet.

Earnings

Operating profit before depreciation (EBITDA) for the quarter ended at MNOK 13.7 (MNOK 14.7).

Operating profit before depreciation (EBITDA) for the 1st half ended at MNOK 23.0 (MNOK 23.8).

Result before tax and finance (EBIT) ended at MNOK 11.7 (MNOK 12.8) for the quarter. Result before tax and finance (EBIT) ended at MNOK 18.9 (MNOK 20.1).

Net finance ended positive with MNOK 0.3 for the quarter (MNOK0.0).

For the 1st half net finance ended positive with MNOK 0.3 (positive MNOK 0.5).

Net finance was related to realized and unrealized gains or losses related to currency, hedging contracts, cash in USD and EUR and customer receivables.

Result before tax was MNOK 11.9 (MNOK 12.9) for the quarter. Result after tax for the quarter was MNOK 7.1 (MNOK 8.7).

For the 1st half result before tax was MNOK 19.2 (MNOK 20.6). Result after tax for the 1st half was MNOK 12.4 (MNOK 14.4).

Result per share for the quarter was NOK 0.40 (NOK 0.48).

Result per share for the 1st half was NOK 0.68 (NOK 0.80).

Average number of shares outstanding was 18.101.336 (18. 101.836) by end of June 2014.

Balance sheet

Equity by the end of June was MNOK 119.4 (MNOK 110.3). This equals an equity ratio of 68.9 % (71.5 %). A dividend of MNOK 14.5 was paid in May. See also comment under shareholder affairs.

Cash as of 30th of June was MNOK 27.2 and the company had MNOK 21.6 in interest bearing debt.

The balance sheet ended at MNOK 173.3 from MNOK 168.4 by the beginning of the year.

OPERATIONAL STATUS

Europe

In Europe sales was at the same level as for the first half last year. In 2013 the company experienced a solid increase in investments in systems for flow measurements (VeriQ) and the combined solution with imaging and flow measurements (VeriQ C). The investments were more modest so far in 2014, and was related to delayed system sales. The consumables probes have continued the positive development with an increase in sales of 9.4 % in the first half of 2014.

Medistim received during the second quarter clearance from Russian Health Authorities to sell VeriQ C in Russia. VeriQ C is Medistim's most advanced intraoperative systems for quality assessment used during coronary artery bypass grafting (CABG). The system combines state-of-art transit time blood flow measurements (TTFM) and ultrasound imaging modality.

Medistim has already obtained clearance from the Food and Drug Administration in the US (FDA), the CE certificate in Europe and the clearance for sale in Japan and Canada. Medistim is now positioned to sell the VeriQ C in most markets.

USA

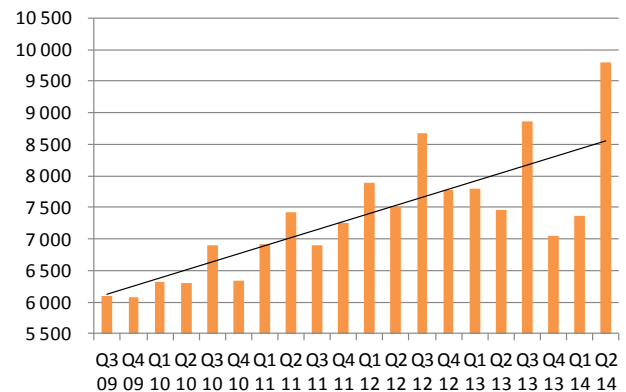
Medistim has a business model in the US that is mainly based upon sales of procedures and not capital sale as in other markets.

The US had a strong second quarter and sale increased with 41 % compared to last year. For the quarter there was sold 9.798 procedures compared to last year 7.456. During the quarter 983 (858) procedures was sold to customers using the imaging system VeriQ C, an increase of 14.5 %. Further 8.815 flow procedures were sold (6.598) which represent an increase of 33.6 %. For the 1st half there were sold 17.183 procedures (15.259) of which 1.318 were imaging procedures (1.100) and 15.856 flow procedures (14.159).

The increase in number of flow procedures is related to increased capital sale. In the second quarter there were 5 capital sales while it was 0 capital sales in the same period last year.

The company was not satisfied with the development in the US in 2013 and a change in management and new focus in the US was initiated entering 2014. Targeted initiatives to increase usage by existing customers and the capture of new customers are expected to have positive effect in the longer term. The development in the second quarter is positive and a step in the right direction towards the company's ambition in the US market.

Number of procedures sold per quarter in the US



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 more than 13% of the total market of approximately 240.000 bypass surgery procedures performed annually.

Asia

In Asia there was an increase in sales for the quarter with 14.2 %, while for the 1st half there was an increase of 18.6 %. Probe sales ended at the same level both for the quarter and for the first half, and the sales increase is related to capital sales.

Other markets (Middle-East, Africa, South America and Canada)

In other markets sales for the second quarter and the first half decreased with 45.7 % and 38.0 % respectively. These are marginal markets that have little effect on the total sales. The reduction is related to random variations.

R & D

New system platform

Main focus for the 1st half 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 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.

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.

Continuous technology and product development will secure Medistim's 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 Medistim's products with 33 % of the world market. The global number of procedures has in the past been constant. The decrease in number of procedures performed 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 stable growing trend in the years to come.

The introduction of Medistim's instrument, VeriQ C, more than doubles Medistim's market potential because of new applications and relevance. Because of this the value of the system increases significantly compared with VeriQ. VeriQ does not have imaging functionality. Total market size within cardiac surgery is estimated to be 2 billion NOK. The imaging functionality makes VeriQ C 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 untapped 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 20 % of the total number of by-pass surgeries performed worldwide. Medistim's 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 represents Medistim's largest opportunity. With Medistim's VeriQ C system, the company has acquired a new edge compared to competitors, with a unique and differentiated product that is currently alone in its segment.

Exposure towards currency

The Company is exposed to Euro (EUR) and US dollars (USD). Exposure can vary depending on how large share of revenues and costs USD and EUR account for of total income and expenses. For the 1st half of 2014 a 10 % change in the exchange rate against USD and EUR would result in a 7.0 % change in sales and a 21 % change in operating result. The company partly secures its positions with hedging contracts.

SHARHOLDER AFFAIRS

The company had 236.000 Medistim shares by the end of June 2014. The shares were purchased at a price per share of NOK 15.34. The share price was NOK 23.50 per share at the end of the quarter. By year end 2013 the share price was NOK 23.00 per share.

The number of shares traded in the 1st half of 2014 was 1.108.060. The four largest shareholders by the end of the 1st half were Intertrade Shipping AS with 3.850.000 shares, Chr. Salvesen & Chr. Thams with 1.862.500 shares, Stenshagen Invest AS with 1.589.566 shares and Skagen Vekst with 1.465.625 shares.

The General Assembly held the 23rd of April decided to pay a dividend of NOK 0.80 per share (NOK 1.10). The Medistim share was sold ex dividend as of the 24th of April. Dividend was paid the 7th of May

Responsibility statement:

The financial report per 30th of June 2014 has been prepared according to the IFRS (International Financial Reporting Standard) and follows IAS 34 for interim financial reporting, as do the comparable numbers for 2013. 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 30th of June 2014 has been prepared in accordance with IAS 34 "Interim Financial Reporting" and gives a true and fair view of the groups assets, liabilities, financial position and result for the period viewed in their entirety. The board of Directors and managing Director confirm that the interim management report includes a fair review of any significant events that arouse during the six month period and their effect on the half yearly financial report, any significant related parties transactions, and description of the principal risks and uncertainties for the remaining six months of the year.

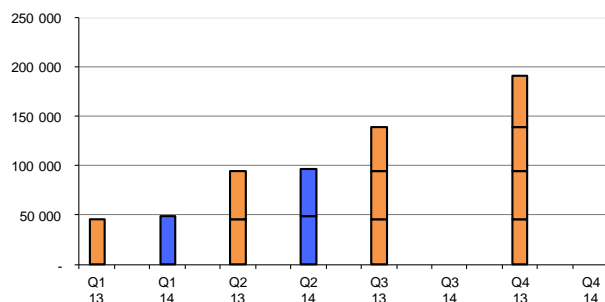
Risk factors for the rest of the year:

The group risk and uncertainty factors remain the same as described in the annual report for 2013. The general global economic situation is closely monitored.

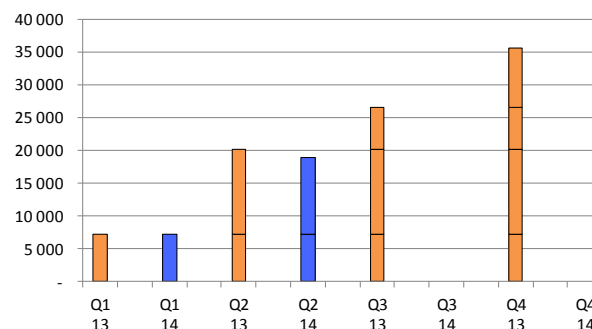
Transactions with related parties:

There were no transactions between related parties in the period.

Sales per quarter



Operating profit per quarter



Oslo 19th of August 2014,
Board of Directors and managing director in Medistim ASA

Profit & loss	2. quarter 14	2. quarter 13	1. half 14	1. half 13	2013
All numbers in NOK 1000					
Sales	47 868	48 962	96 725	94 468	190 979
Cost of goods sold	12 323	11 428	25 304	23 619	49 188
Salary and sosial expenses	12 947	13 205	29 722	28 349	62 440
Other operating expenses	8 855	9 609	18 699	18 681	36 042
Total operating expenses	34 125	34 242	73 725	70 649	147 670
Opr. res.before. depr. and write offs	13 743	14 719	23 000	23 819	43 309
<i>Opr. res before depr. and write off %</i>	<i>28,71 %</i>	<i>30,06 %</i>	<i>23,78 %</i>	<i>25,21 %</i>	<i>22,68 %</i>
Depreciation	2 072	1 888	4 110	3 702	7 703
Operating result	11 671	12 831	18 890	20 117	35 605
Financial income	2 429	2 899	3 541	3 212	7 070
Financial expenses	2 178	2 879	3 269	2 679	5 187
Net finance	251	20	272	532	1 883
Pre tax profit	11 922	12 851	19 162	20 649	37 488
Tax	4 765	4 182	6 801	6 227	10 952
Result	7 158	8 669	12 361	14 423	26 536
Dividend	14 481	19 911	14 481	19 911	19 911
Comprehensive income					
Result after tax	7 158	8 669	12 361	14 423	26 536
Exchange differences arising	-	-	-	-	-
on translation of foreign operations	(26)	716	(153)	675	645
Total comprehensive income	7 132	9 385	12 208	15 098	27 181

Key figures	2. quarter 14	2. quarter 13	1. half 14	1. half 13	2013
Equity share	68,89 %	71,50 %	68,89 %	71,50 %	72,23 %
Earnings per share	kr 0,40	kr 0,48	kr 0,68	kr 0,80	kr 1,47
Earnings per share diluted	kr 0,40	kr 0,48	kr 0,68	kr 0,80	kr 1,47
Average shares outstanding in 1000	18 101	18 101	18 101	18 101	18 101
Average shares outstanding in 1000 diluted	18 101	18 101	18 101	18 101	18 101

Split of operating result	2. quarter 14	2. quarter 13	1. half 14	1. half 13	2013
per segment					
All numbers in NOK 1000					
Result from Medistim products	8 772	9 738	14 202	15 295	28 269
Margin from Medistim products	26,75 %	29,37 %	21,67 %	23,91 %	22,01 %
Result from 3 party products	2 899	3 093	4 688	4 822	7 336
Margin from 3 party products	19,24 %	19,57 %	15,03 %	15,81 %	11,73 %
Totalt result	11 671	12 831	18 890	20 117	35 605
Margin	24,38 %	26,21 %	19,53 %	21,29 %	18,64 %

Balance sheet	30.06.2014	30.06.2013	31.12.2013
All numbers in NOK 1000			
Assets			
Intangible assets	52 897	45 518	49 399
Fixed assets	13 247	13 561	14 061
Total tangible and fixed assets	66 144	59 079	63 460
Inventory	38 652	40 055	37 930
Customers receivables	33 651	39 348	38 781
Other receivables	7 623	3 902	8 374
Cash	27 205	11 957	19 846
Total current assets	107 131	95 262	104 930
Total assets	173 275	154 342	168 390
Equity and liability			
Share capital	4 585	4 585	4 585
Share premium reserve	41 852	41 852	41 852
Other equity	72 925	63 920	75 198
Total equity	119 362	110 357	121 635
Deferred income	2 423	3 121	2 772
Other long term debt	14 565	9 980	4 981
Total long term debt	16 987	13 101	7 753
Short term debt			
Credit facility	-	-	-
Accounts payable	4 902	12 493	10 011
Tax and social liabilities	31 874	18 240	28 841
Other short term debt	150	150	150
Total short term debt	36 926	30 883	39 002
Total equity and liability	173 275	154 342	168 390
Net interest bearing debt	(5 559)	(1 977)	(14 865)

Change in equity	30.06.2014	30.06.2013	31.12.2013
All numbers in NOK 1000			
Equity start of period	121 635	115 170	115 170
Result for the period	12 361	14 423	26 536
Dividend	(14 481)	(19 911)	(19 911)
Changes in exchange rates	(153)	675	645
Equity end of period	119 362	110 357	121 635

Cash flow analysis	30.06.2014	30.06.2013	31.12.2013
All numbers in NOK 1000			
Result for the period	12 361	14 423	26 536
Cash flow from operation	2 741	(10 340)	(249)
Cash flow from operation	15 102	4 083	26 287
Cash flow from investments	(6 595)	(8 895)	(21 523)
Cash flow from financing (loan\dividend)	(1 148)	(9 911)	(11 598)
Change in cash for the period	7 359	(14 723)	(6 834)
Cash at start of period	19 846	26 680	26 680
Cash by the end of period	27 205	11 957	19 846

Geographic split of sales	2. quarter 14	2. quarter 13	1. half 14	1. half 13	2013
All numbers in NOK 1000					
USA	14 562	10 339	25 248	23 143	45 878
Asia	3 318	2 906	7 693	6 486	19 210
Europe	27 499	31 135	59 437	57 829	114 583
Rest of the world	2 489	4 581	4 347	7 010	11 308
Total sales	47 868	48 961	96 725	94 468	190 979

Geographic split of sales in number of units	2. quarter 14	2. quarter 13	1. half 14	1. half 13	2013
USA					
Procedures flow measurement	8 815	6 598	15 856	14 159	28 300
Procedures imaging	983	858	1 318	1 100	2 870
Capital sales VeriQ flowmeasurement instrument	2	-	3	2	2
Capital sales VeriQC imaging and flowmeasurement instru	3	-	3	2	3
Asia					
VeriQ flowmeasurement instrument	4	10	13	13	39
VeriQC imaging and flowmeasurement instrument	-	-	4	3	11
Imaging probes	3	-	7	7	20
Flowmeasurement probes	346	258	535	606	1 419
Europe					
VeriQ flowmeasurement instrument	6	8	17	22	47
VeriQC imaging and flowmeasurement instrument	2	6	6	7	12
Imaging probes	4	10	8	11	21
Flowmeasurement probes	981	1 067	2 194	2 006	3 914
Rest of the world					
VeriQ flowmeasurement instrument	3	6	5	10	14
VeriQC imaging and flowmeasurement instrument	1	6	2	7	11
Imaging probes	3	7	3	9	13
Flowmeasurement probes	164	224	310	425	695
Sales outside the US					
Number of VeriQ flow instruments outside USA	13	24	35	45	100
VeriQC imaging and flowmeasurement instruments	3	12	12	17	34
Total number of imaging probes	10	17	18	27	54
Total number of flowmeasurement probes outside US	1 491	1 549	3 039	3 037	6 028

Split of sales per segment	2. quarter 14	2. quarter 13	1. half 14	1. half 13	2013
All numbers in NOK 1000					
USA					
Procedural revenue	11 677	10 338	22 077	20 923	42 860
Capital sales VeriQ flowmeasurement instruments	994	0	1 280	818	818
Capital sales VeriQC imaging and flowmeasurement instru	1 891	0	1 891	1 402	2 200
Outside USA					
VeriQ flowmeasurement instrument	1 786	3 948	5 645	7 191	16 242
VeriQC imaging and flowmeasurement instrument	1 387	3 807	4 505	5 630	11 706
Imaging probes	399	1 027	881	1 365	2 402
Flowmeasurement probes	13 917	13 110	28 300	25 686	51 128
Other	747	930	964	958	1 062
Total sale of Medistim products	32 798	33 160	65 543	63 973	128 418
Sale of 3 party products	15 071	15 801	31 183	30 496	62 561
Total sales	47 868	48 961	96 725	94 469	190 979