
Master the flow
Use intraoperative ultrasound imaging and flow measurement during cardiac surgery and protect the patient

MEDISTIM

Annual report 2016

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Introduction

A paradox ...

If you are a heart patient hospitalized to undergo angioplasty to block out a stenosis that prevents a coronary artery to supply blood to the heart muscle, this is a relatively small invasive two-hour treatment. The procedure is performed and controlled using angiography, an X-ray examination of the coronary arteries to ensure that the treated arteries are supplying blood to the heart.

However, if your heart disease is more serious and you need to undergo a substantially more invasive coronary bypass surgery involving several hours on the operating table and several weeks of convalescence, there is most often no objective diagnostic method required to ensure proper blood flow while the patient is still in surgery. The surgeons are allowed to rely on their own senses, and use their fingertip to subjectively feel for pulsation in the new graft, *as if the finger would be an accurate and calibrated measuring instrument and the feeling of pulsation a sure sign of effective blood flow in the vessel.*

The technology and equipment exists

The leading measurement method on the market for measuring blood flow is 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. Medistim has for over 30 years developed its products in consultation with medical and surgical specialists. The company has developed several 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 with both, guidance during surgery and the opportunity to uncover the cause of poor blood flow measurements, and thereby make it easier to correct technical problems and achieve optimal clinical outcomes. This way errors are avoided and it is easier to correct errors during surgery to achieve optimal surgical results.

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 in 2011 by the British National Institute for Health and Care Excellence (NICE), which recommend TTFM to be used regularly in the British national health care system. Furthermore, the use of intraoperative ultrasound imaging is 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 USA, 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 and China. This represents significant growth opportunities for Medistim.

Medistim's 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 providers higher efficiency and lower costs. Medistim is a leading provider that contributes to shape future standard clinical practice. Medistim can today proudly call itself the innovator and market leader in its niche within the quality assurance of coronary bypass surgery. Even so, only a small portion, about 30 % 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 Medistim's device and solution represent standard clinical practice in all countries.*

Positive development in 2016

2016 was another good year for Medistim, with *continued growth and profitability*. We have further strengthened our position within cardiac bypass surgery, in particular in our most important market USA, where we now have achieved a market penetration of 17% measured as the share of bypass procedures done with Medistim's devices. Medistim is experiencing increased attention from the academic environment within coronary surgery. A good example is the new congress International Coronary Congress (ICC), established in 2015, where the only theme of the congress is coronary surgery. In 2016, this conference was held in New Delhi, India, and provided a great opportunity for us to launch the newest addition to the product family; the SonoQ™. SonoQ is a flowmeter

based on technology acquired by the agreement with the German company em-tec GmbH, and is a simpler device targeting more price sensitive markets such as India. In the USA, we launched our most advanced product generation, the MiraQ™, in 2016. The MiraQ is made as different versions to fit with the needs of cardiac and vascular surgery, respectively. This new platform will strengthen our opportunities within cardiac surgery, but furthermore, it is key to build and establish a significant position within vascular surgery.

Future outlook

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 *valuable 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 USA, Germany and UK, as well as the newly established subsidiary in Spain. USA and Germany are the countries where most of the coronary bypass- and vascular procedures are performed.

Medistim have *highly skilled employees*, an experienced management team and an actively engaged board of directors. We stand inspired and united in the great and exciting task of realizing the vision of making Medistim's solutions standard clinical practice - and thereby realize our considerable business potential.

Follow us in 2017

Kari Eian Krogstad
CEO Medistim ASA

Chapter 1: Annual Report for Medistim group

Annual report for Medistim group

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 center in Minneapolis, Minnesota in the US, a sales and distribution center in Munich in Germany, sales and distribution center in Copenhagen Denmark, sales and distribution center in London UK and a sales and distribution center in Spain.

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. The Company's products contribute to improved quality of surgery, reduce risk to the patient and contribute to a more efficient health economy.

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 2016 by increasing its market penetration in the US, Europe and Asia.
In addition, Medistim is a distributor of other medical devices through its subsidiary Medistim Norge AS and Medistim Denmark Aps. The products distributed are mainly medical devices within all types of surgery.

Financial development in 2016

(Numbers for 2015 in parenthesis)

Sales

Sales for the group in 2016 ended at 268.1 MNOK (251.4 MNOK), a 6.6 % growth. There was a growth in all markets except Europe. In Medistim's largest market, USA, there was a growth of 19.4 %. Sales in Asia and the rest of the world there was a growth of 14.3 % and 34.7 % respectively. In USA, Asia and the rest of the world Medistim sells its own products and no 3.party products. 3. party products are sold through the subsidiaries in Norway and Denmark. In Europe, there was a decrease in sales of 3.8 %. The reason for the decrease was lower sales of 3.party products in Norway after Medtronic terminated the agency in 2015. The Medtronic products amounted to 25 % of a 3.party sale of 76.1 MNOK. Sale of own products in Europe increased with 3.5 % in 2016.

Sales of Medistim products were in 2016 199.6 MNOK (175.3 MNOK). Sales of 3.party products were in 2016 68.4 MNOK (76.1 MNOK). Average exchange rates towards USD and EUR were in 2016 respectively 8.40 and 9.29, while equivalent rates in 2015 were 8.07 for USD and 8.95 for EUR. With the same rates as in 2015 sales in 2016 would have ended at 260.5 MNOK. The volume growth in 2016 was 3.6 %. For own products the volume growth was 9.5 % while for 3.party products there was a decline of 10.0 %.

Cost of goods sold

For 2016 cost of goods sold ended at 64.9 MNOK (64.6 MNOK), and cost of goods sold represent a percentage of 24.2 % of sales (25.7 %).

Salary, social and other operating expenses

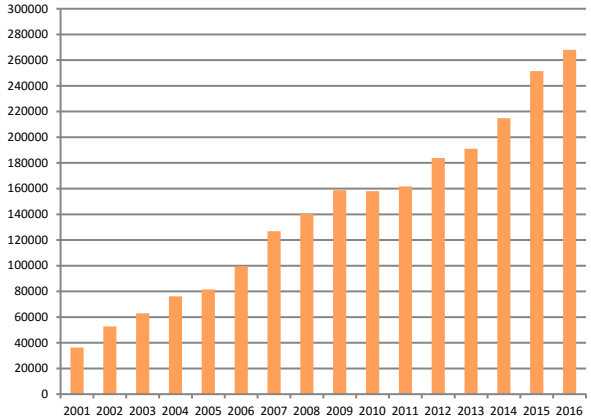
For 2016 salary and social expenses ended at 89.7 MNOK (79.1 MNOK). 2.8 MNOK of the increase in expenses for the year is related to the full year effect of employment of five new sales representatives in the USA in the second half of 2015. Share options to CEO resulted in an additional expense of 1.2 MNOK. A weaker NOK against USD and EUR resulted in an increased expense in NOK with 1.1 MNOK. The remaining increase was related to salary adjustments and new employees in 2016.

Other operating expenses in 2016 ended at 45.3 MNOK (44.0 MNOK). The increase in the expenses was related to index regulated expenses.

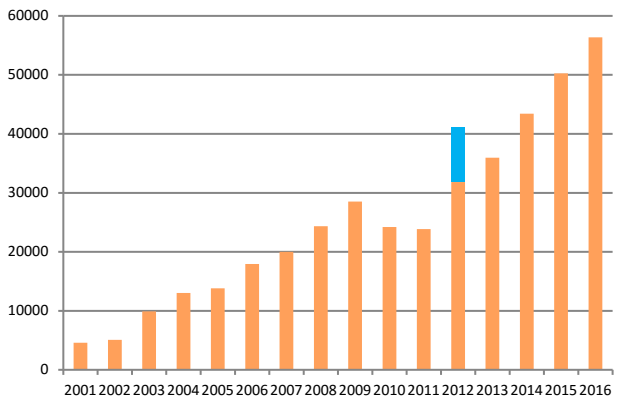
R & D expenses

During the year 9.3 MNOK (11.0 MNOK) was used within research and development (R&D). Result before R & D, depreciations and write offs was 73.8 MNOK (67.9 MNOK). This equals a margin of 27.5 % (27.0 %). In 2016 3.6 MNOK (6.8 MNOK) of the R & D expense was activated in the balance sheet.

Sales revenue 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

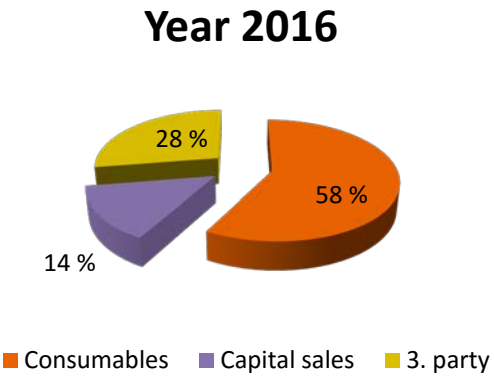
Earnings

Operating profit before depreciation (EBITDA) for 2016 ended at 68.1 MNOK (63.6 MNOK). Result before tax and finance (EBIT) for 2016 ended at 56.4 MNOK (50.3 MNOK).

The group recorded a net financial expense of 2.8 MNOK in 2016. In 2015, net financial income was 5.4 MNOK. Net finance for the respective years was mainly related to realized and unrealized gains and losses on foreign currency.

Profit before tax ended at 53.5 MNOK (55.6 MNOK). Result after tax ended at 39.1 MNOK (40.4 MNOK) for 2016.

Earnings per share for 2016 were NOK 2.15 (NOK 2.23). Average shares outstanding were 18.150.502 (18.118.336) by the end of December 2016.



Split of sales; Consumables consist of probe sales, lease and ppp cards. Capital sales include both flow systems and imaging systems. 3. party sales are products from other vendors.

Total value of the balance sheet was 217.0 MNOK as of 31.12.2016 (219.0 MNOK). The equity by 31.12.2016 was 166.7 MNOK (156.2 MNOK).

The cash position by year-end was 31.1 MNOK (48.9 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 2016 30.5 MNOK (44.6 MNOK). By the end of 2016, the company had 186.000 own shares.

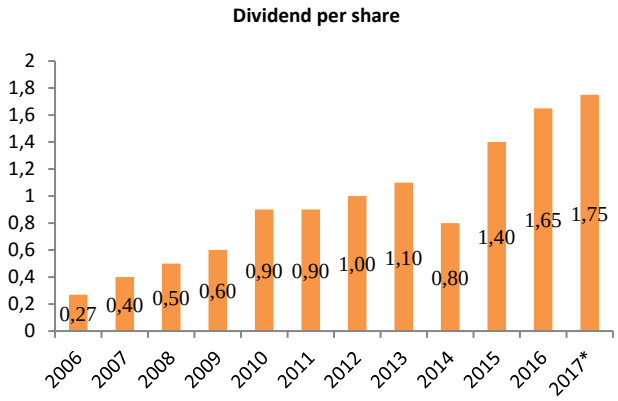
The company was in a net cash position of 25.4 MNOK by year-end 2016, and interest-bearing debt was 5.6 MNOK. Short-term debt was 47.1 MNOK.

Compared to last year working capital has increased with MNOK 20.5. The reason for the increase in working capital was related to build up of component to the new product line MiraQ, while the VeriQ product line still needs to be maintained. Increased sales and securing critical components have also contributed to increased working capital.

The company has a deferred tax asset of 3.2 MNOK related to temporarily differences in relation to book values and tax values.

Suggested distribution of profit for 2016

Result after tax for the holding company Medistim ASA was a profit of 41.7 MNOK. The Board of Directors suggest to the general assembly a dividend of NOK 1.75 per share, a total of 31.8 MNOK corrected for dividend on own shares. This is a pay ratio of 81 % (74 %). The remaining amount of 2016 profit of 9.9 MNOK is suggested allocated to other equity. The dividend is a reflection of the Board's positive expectations of future earnings. During the last 10 years, the company has paid 194 MNOK in dividend to shareholders.



**Suggested dividend for 2017

Continued operation

The financial report for 2015 and 2016 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 2016 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 2016 financial report, any significant related parties transactions, and description of the principal risks and uncertainties for the next accounting period 2017.

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 2016. Equity in the group was 166.7 MNOK as of 31.12.2016, which represent an equity ratio of 76.8 %.

Clinical practice and documentation

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 public 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 guidelines as «standard of care». This is the case for both international organizations, but also for national organizations and guidance for clinical practice.

Medistim's equipment is included in the guidelines from European Society of Cardiology (ECS) and European

Association for Cardio-Thoracic surgery (EACTS) as standard of care during CABG. Medistim's equipment is also 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 recommendations will influence clinical practice in many countries including the US. Medistim believes being included in guidelines as important and necessary in the company's efforts of making blood flow measurement the «standard of care» in treating coronary bypass surgery (CABG) patients all over the world.

It is a fact that the CABG market is a conservative market and an immediate effect of these recommendations is hard to measure. Medistim still assumes that it is likely that these recommendations have had an impact on the increased demand the company has experienced in 2016.

Many countries are going through reforms to make quality healthcare available to a growing population in a financially sustainable way, demands are increasing to reduce errors and re-interventions. In the USA, the Affordable Care Act ('Obamacare') is driving initiatives to improve the quality of care during hospital inpatient stays. From 2017, the Centers for Medicare and Medicaid Services will start cutting reimbursement for 30-days readmission after CABG. Consequently, hospitals need to not only deliver, but also document, high quality surgical results. Implementation of technology to provide intraoperative surgical guidance and quality assessment provides one potentially impactful way of achieving and documenting improved quality and outcomes.

Medistim recognizes the value of clinical documentation and has in 2016 enrolled over 600 patients in the registry study, REQUEST[1], which the company also supports financially.
The prospective, multicenter, registry study will provide new data on how the use of Medistim's devices for flow measurement and intraoperative imaging can be employed to optimize decision making during coronary artery bypass grafting (CABG) and become routine clinical practice. Similar data has not been collected and analyzed earlier. Therefore, the results from the study could be crucial for increased acceptance for the combined usage of TTFM blood flow measurements and ultrasound imaging during coronary bypass surgery.

It is anticipated that about 1,000 patients will be enrolled in the registry study and that this will be achieved in 2017. The interest amongst the hospitals that participate in the REQUEST registry study has been very encouraging, and the participants represent some of the most advanced coronary bypass programs in the world.

1) REgistry for QUality assESsmenT with Ultrasound Imaging and TTFM in Cardiac Bypass Surgery

Medistim's is sponsoring the REQUEST study with about 1 million Euro over a three-year period. The results from the study is expected to be ready in 2017.

At the end of the study, Medistim aim to establish a consensus for a recommended workflow to optimize decision making during CABG, and hopefully, gain guideline endorsements for such use of flow measurement and imaging data, in the USA as well as other countries.

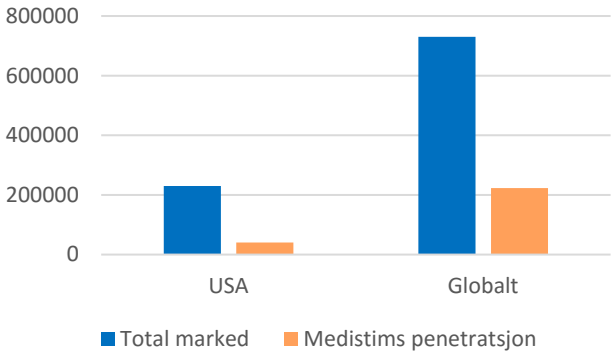
Market development

Medistim sells its products all over the world and is direct in USA, Denmark, UK, Germany and Norway where Medistim has local representation. Elsewhere in the world, the products are sold through distributors. In the beginning of 2017, a direct representation was also established in Spain.

Installed base

Medistim has close to 50 distribution agreements with distributors all over the world. The Medistim products are

installed in about 60 countries and the installed base was 2.350 systems by the end of 2016. 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 MiraQ. Medistim's 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 economic value of the equipment.



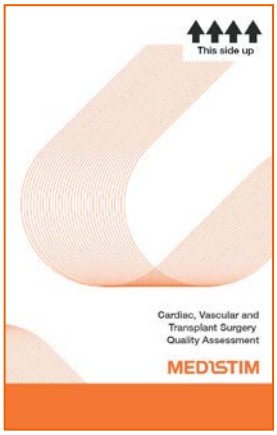
Medistim's market penetration compared to the total number of coronary bypass procedures performed

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 Medistim's products in the US. Medistim has large ambitions in the US market. So far, Medistim has achieved a market penetration of about 17.5 % of the total market of approximately 230.000 bypass surgery procedures performed annually.

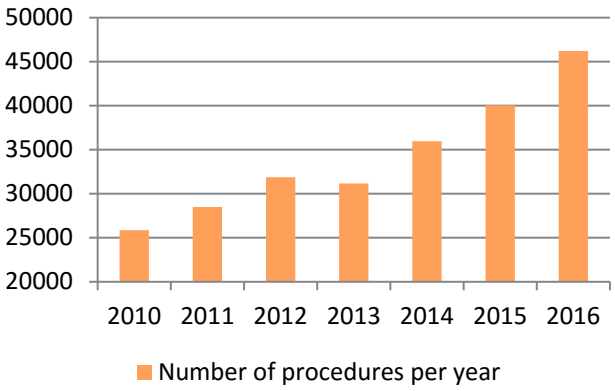
Medistim has established a unique and flexible business model for the US market. Instead of purchasing equipment and consumables, the hospital pays per procedure. The equipment is placed at the customer site free of charge and the hospital must pay a monthly lease or purchase a smart-card that makes the system available for use. One smart-card represents surgery on one patient. If customers prefers to own the equipment, Medistim sell the system as a capital and probes as consumables like elsewhere in the world.

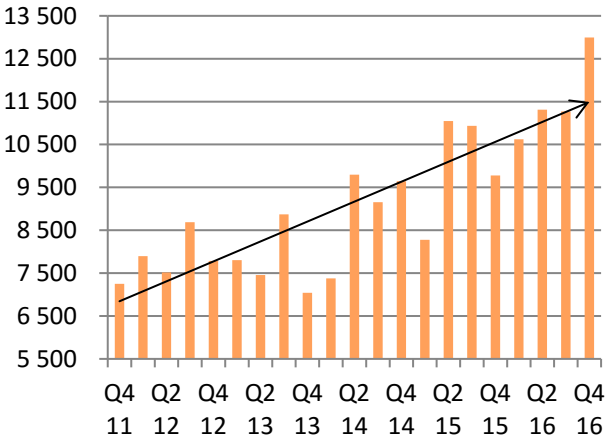
Medistim's subsidiary in the US has employed 18 sales representatives and 5 within administration and support functions. All of the employees and representatives have extensive experience within healthcare. Medistim is able to cover all states in the US with its organization. The organization is established and motivated, which is important since it serves Medistim's largest market.



VeriQ smart-card used in the USA.

Sales in the US ended at 91.0 MNOK (76.2 MNOK). Number of procedures sold in 2016 was 46 201 (40 036), a growth of 15.4 %. In 2016 11 647 of the procedures came from capital installations (7 945). Sale of imaging procedures had a growth of 45 % and of the total number of procedures sold was 5 807 (3 988). Sale of flow procedures ended at 40 394 procedures and represented a 12 % growth (36 048).



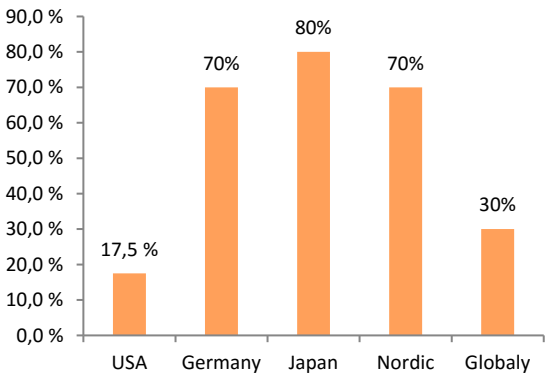


Number of procedures per quarter in the US

The commercial strategy in the US includes, in addition to regular sales activities and REQUEST, 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 work important in order to be accepted as standard of care within coronary surgery in the US.

The company is now in an exciting phase where ultrasound imaging 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 and the unique combination the product represents, Medistim is in the position for growth in the US market with the vision of achieving «standard of care» status.



Medistim's estimated market penetration within coronary bypass surgery.

Europe

Instead of pay per procedure and lease, 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 are the most significant source of revenue for the group.

Direct representation in Norway, Denmark UK and Germany

Medistim have a solid position in Norway and Denmark. All cardiac centers and many vascular centers have Medistim's equipment and use it on a regularly basis. Revenue from Norway and Denmark is therefore stable and mainly probe revenues unless an old system needs to be replaced. Sales in 2016 have been as expected. In both Norway and Denmark, Medistim operates as distributor for other surgical instruments as well.

Medistim established a subsidiary and sales force in the UK during 2012 and 2013 was the first full year of direct operation. Development in 2016 was not according to expectations. However, sales had a positive development compared to 2015 with a 400 % growth and ended at 3.0 MNOK in 2016. Medistim is optimistic regarding the potential in UK. The reason for this is that British NICE recommends the use of Medistim's equipment on a regular basis in all British hospitals that performs coronary bypass surgeries. UK is one of the few countries in Europe where Medistim's equipment is not widespread, so there is a large potential. In UK, there are performed between 20.000 and 25.000 procedures per year, and in 2016, Medistim's equipment was in use in 1.750 of these.

Medistim continues its positive trend in Germany. Germany is the largest market in Europe for Medistim's products. Per year there is performed about 60.000 CABG procedures in Germany. In Germany, sales increased with 8.6 % and ended at 36.6 MNOK. Of total revenue, about 20 % of sales was towards vascular customers. Medistim has a high penetration within coronary surgery in Germany and the vascular market represent an opportunity for growth in the future.

Medistim establishes direct sales operation in Spain

Medistim terminated in 2016 its distributor agreement in Spain and established a new subsidiary, Medistim Spain S.L. With two territory sales managers based in Madrid and Barcelona, this new subsidiary will serve our end customers directly with support from the Head Office in Oslo.

Annually, around 7.000 coronary artery bypass surgery (CABG) procedures and 8.000 vascular procedures are performed throughout the 56 cardiac centers and 75 vascular centers in Spain. Medistim currently has an installed base of 80 systems, most of them on the VeriQ platform and older versions that only include flow measurement and do not support the imaging modality. Medistim now has great potential to upgrade the installed base to the MiraQ platform, which provides the combination of ultrasound imaging and transit time flow measurement (TTFM) in one system. Medistim's technology is used in upwards of 80% of all coronary surgical procedures as the installed base is primarily in cardiac centers. This also shows there is an untapped potential in the vascular market where only a small number of Medistim systems are installed.

Medistim has been successful with direct sales and customer support through its other subsidiaries in the United States,

Germany, UK and Denmark and is well prepared to create results with the new establishment in Spain. The company already has a solid revenue base from probes, which are consumables to the installed base.

With this endeavor, Medistim shows its commitment in making flow measurement and ultrasound imaging technology as the 'standard of care' in Spain, within both coronary and vascular surgery. Routine use of the MiraQ system will create benefit for the surgeons, their patients as well as the healthcare system in general.

Europe in general

Despite the challenging economic situation in many European countries, investment and usage of Medistim's products are maintained. The MiraQ upgrade possibility is well received by the customers in Europe and there is a large potential in the vascular market. In total sale of own products through distributors and direct representation increased with 3.5 % in 2016 end ended at 67.9 MNOK. Other sale in Europe was related to 3.party products.

Asia, Latin America, Middle East and other markets

In general, there is increased focus on cardiac diseases in Asia and Latin America as the population adopts western lifestyles. 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, China represented for the first time the country with highest revenue for Medistim. In 2016, 52 % of the sales in Asia was from China. This is a positive development, since China is the country in Asia with the highest population and a fast growing economy. Sales in Japan has been stabile over many years, also in 2016. Asia is a good market for Medistims combined product with flow and ultrasound imaging and more than 40 % of sales of the product outside the USA was sold in the Asian market.

About 20,000 coronary bypass surgery procedures are performed annually in Japan, and more than 80% of these procedures are guided and controlled by the use of blood flow measurement and intraoperative ultrasound imaging technology from Medistim. This makes Japan the most developed country in the world in terms of adopting and routinely applying quality assessment and surgical guidance to improve CABG surgery.

An important milestone in 2016 was that the health authorities in Japan, the Ministry of Health, Labour and Welfare approved a reimbursement of YEN 25,000 [EUR 225] when blood flow of the graft is controlled, using either transit time flow measurement or high-resolution epicardial ultrasonography intraoperatively. Medistim achieves reimbursement for the use of the technology after almost two decades of developing routine use in Japan. This is a great encouragement and affirmation of the value that is put on the clinical value of the technology. Hopefully this could lead to more countries acknowledging the value of reimbursing the quality assessment and guidance aspects of CABG and other vascular surgery

Medistim is in the process of seeking clearance for sale of MiraQ in Japan and China.

In Latin America, Brazil is the country with the largest potential for Medistim's products.
In the Middle East and Africa, Medistim's imaging products, has been well received, led by Saudi Arabia.

Introduction of new specialized product for vascular surgery

Medistim introduced its new solution within vascular surgery in Europe in 2015 and in the US in 2016. The MiraQ Vascular product comes with specialized control panel, an application that is customized with a user interface adapted to the vascular surgeon's needs, and new probes tailored for the vascular application areas.

There are many types of applications within vascular surgery. Key target segments for Medistim will be peripheral bypass surgery and carotid endarterectomy, where the global number of procedures performed per year is 200,000 and 225,000 respectively. Peripheral bypass surgery is performed primarily on the major arteries in the legs. Carotid endarterectomy is a procedure where blockages in the neck arteries surgically are removed to ensure fresh blood flow to the brain. The new MiraQ Vascular product support both type of interventions using ultrasound imaging and blood flow measurements to guide the surgeon during the procedure and to quality assure clinical outcome. Medistim will now, with an integrated and customized solution for vascular surgery, work focused towards this customer group that represent a large revenue potential for the company.

The launch of the new vascular solution is in line with Medistims strategy, as stated earlier by the company. The global vascular market represents a significant opportunity for Medistim and is estimated to represent approximately 600,000 procedures annually. In comparison, cardiac bypass surgery, a segment where Medistim has its strongest position with a global market penetration of 30%, represent 700,000 procedures annually. Medistim estimate that the vascular market has an annual potential of NOK 1 billion. The company is well positioned in the vascular market in the Nordic countries and in Germany, but has so far only a modest

coverage in the vascular segment in other countries. Of total sales of own products around 10 % of the revenue was from vascular customers.

Exhibitions

Medistim participated at the five large cardiac exhibitions that are arranged annually. These are The European Association for Cardiac- Thoracic Surgery (EACTS), The American Association for Thoracic Surgery (AATS) and AATS International Coronary Congress (ICC), 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.

Medistim's stand at EACTS

Strategic alliance and the launch of SonoQ

Medistim entered a License and OEM agreement with em-tec in 2015, where Medistim obtains exclusive, eternal, world-wide rights to market and sell em-tec's transit time flow measurement (TTFM) technology for use on human blood vessels within cardiac-, vascular- and transplant surgery. em-tec's flow measurement device is designed as a basic, entry-level customer solution that meets lower price-point market segments and fills a gap within Medistim's product portfolio. The first Medistim labeled device was launched in India in 2016.

One of the most important target markets for the SonoQ is India, a market with about 150,000 coronary artery bypass procedures per year, which is very low compared to the population size of 1.3 billion, and therefore expected to grow. In collaboration with our local distributor, Medistim launched the new product at the International Coronary Congress in New Delhi, India, on November 11-13. This meeting is dedicated to state of the art surgical coronary revascularization, and the program highlights the necessity of surgical guidance and quality assessment based on intraoperative ultrasound and TTFM.

Medistim is the market leader with high-end products for surgical guidance and blood flow measurement in cardiac-, vascular and transplant surgery, but have been lacking an entry-level device to reach some emerging market product segments. SonoQ represents a basic model that could increase the adaptation in price sensitive markets like India. Medistim is optimistic about future cooperation with Indian surgeons and support their efforts in achieving best possible surgical outcomes.

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 Medistim's own developed products. This increases Medistim's integrity in the medical device market. The company is ISO certified and has 15 employees including 8 sales representatives. The Danish company is managed from Norway and distributes Medistim's own products as well as 3.party products. Medistim strive to strengthen its position as a Nordic distributor by distributing common products in Denmark and Norway.
There was a 10 % decrease in sales of 3.party products in 2016. Sales in 2016 ended at 68.5 MNOK while sales in 2015 was 76.1 MNOK.

The reason for the decrease in sales was related to the Medtronic agency that was terminated in 2015. Around 25 % of the 3.party sales was related to the Medtronic products in 2015. Of lost revenue of 20.0 MNOK in 2016, 12.5 MNOK was in 2016 compensated with increased sales of other products and new product agencies.

Production

Medistim's production facilities are located in Horten where all electronics are assembled and where flow probes are produced. The imaging probes are produced by Sound Technology Inc from the US, which together with Medistim develops the imaging probes.

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 competence 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 invests between 5 to 10 % of sales in research and development. In 2016 9.3 MNOK was invested, which is 4.7 % of sales of own products.

Development activities – optimizing production line for new products

After the launch of vascular products late 2015 in Europe and the launch of the same products in the US 2016, focus for the development resources has been to establish and optimize the production line for the new products.

Research activities

Medistim has collaboration with Aalborg University in Denmark. The purpose of the project is to develop methods that make it easier to apply ultrasound during coronary surgery. Medistim has in relation to the project received support from Innovation Norge.

Other affairs within the group

Events after year end

No events after 31.12.2016 has occurred that affect the evaluations made in the 2016 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 845 days in 2016 (748 in 2015), that represented 3.9 % (3.5 %) of total working hours. It has not been necessary to put into effect special measures in 2016. The group had 90 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. 47 of the 90 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.

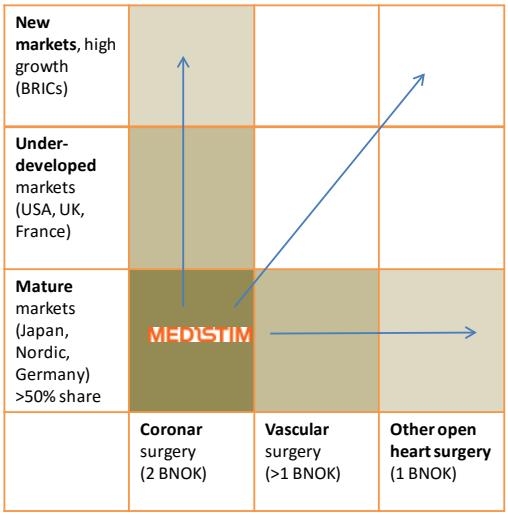
Prospects and trends

Goals and vision

The company aims to develop products to meet surgeons' growing need for quality control of coronary-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 and ultrasound imaging 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.

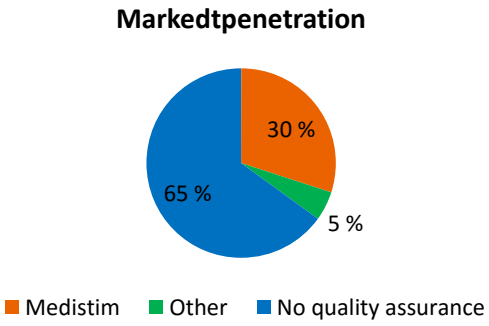


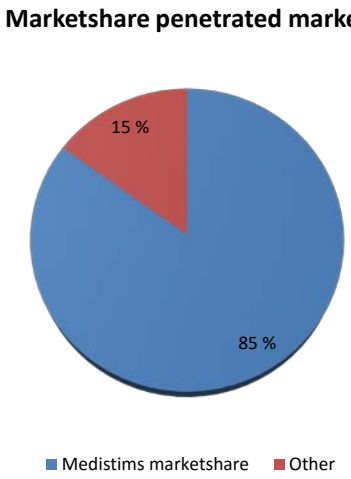
Medistim's market potential within the segments coronary bypass-vascular and other open-heart surgery

Continuous technology and product development will secure Medistim's products and leading position within cardiac surgery in the future. The company also has ambitions to launch new products adapted to specialties 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.





Within coronary bypass surgery, where Medistim is best represented, about 65 % of the surgeries performed are done without any quality assurance.

New product platform and intraoperative ultrasound imaging increases Medistim's market potential, because of new applications and relevance and higher pricing compared to traditional flow measurement technology. Total market size within cardiac surgery is estimated to be 2 billion NOK. The imaging functionality makes MiraQ™ Cardiac relevant in other cardiac surgeries and not just within bypass 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 verify 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 1.5 million patients worldwide since it came on the market, and the company a clear leader in its niche. The equipment is used today in about 30 % 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 is a competitor that use the transit time measurement principle. Equipment from competitors is estimated to be in use in about 5 % of the procedures performed. This means that in about 65 % of the cases where bypass surgery is performed there is no equipment in use to verify blood flow. This market represents Medistim's largest opportunity.

Risk and uncertainties

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.

Global economy:
The global economic situation will affect the company since Medistim is a supplier to the health care sector in many countries. Management closely monitors the financial risks.

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

Regulatory risk:
Medistim is dependent upon regulatory approvals from health authorities for permission to sell its products. The company is revised on a regularly basis to verify that approvals can be maintained. There is a latent risk that changes in regulatory

conditions can result in lost approval to sell products in a market.

Market risk:
In general, health care systems have many priorities and limited resources. For this reason, it is crucial for Medistim that the company's solutions have clinical acceptance, in order for the health care system to invest in Medistims products.

Future outlook

Medistim operates in a stable market. The company has a strong position and is the market leader. The company has proper access to both recourses and competence. With imaging technology and the new MiraQ™ platform, the company has acquired an additional 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 within cardiac- and vascular surgery. The Board of directors is of the opinion that the company has a large potential, and a specific opportunity in the US market. There are large expectations towards the MiraQ platform.

Oslo, 14.3.2016

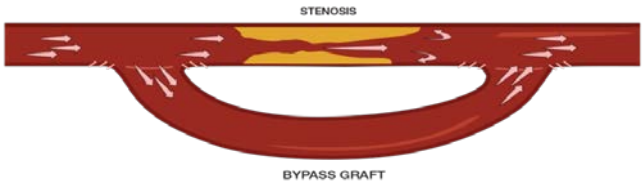
Øyvin A. Brøymer Chairman	Tove Raanes Board member	Bjørn M. Wiggen deputy chairman
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

Chapter 2: Products and area of use

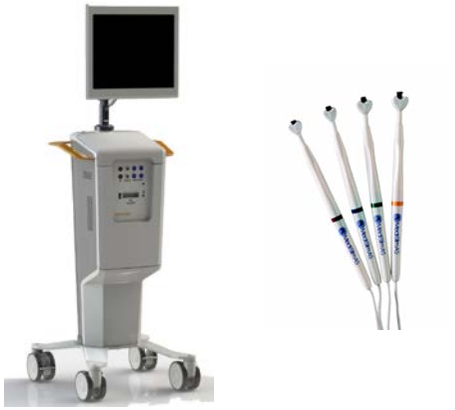
Products and area of use

Measuring blood flow with Medistim's equipment

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.



A stenosis in an artery needs to be bypassed by conecting a new graft to supply blood to the heart.



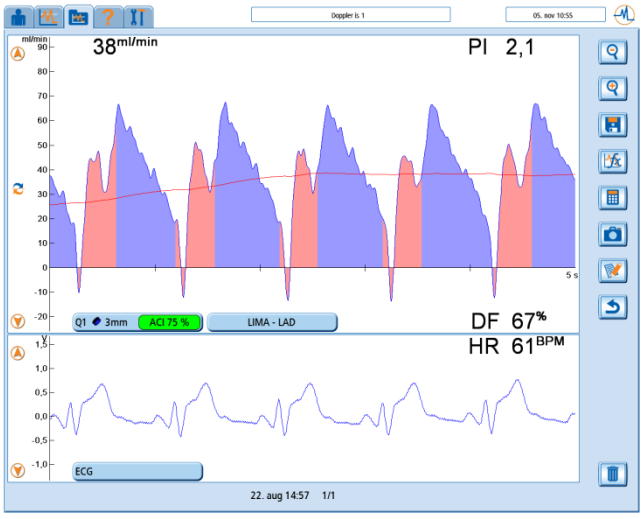
MiraQ™ system unit and probes in different sizes.

The most important area of use today is within coronary bypass surgery where blood flow is measured on new vessels (grafts) connected to the heart. The purpose is to supply the heart 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 Medistim's 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.

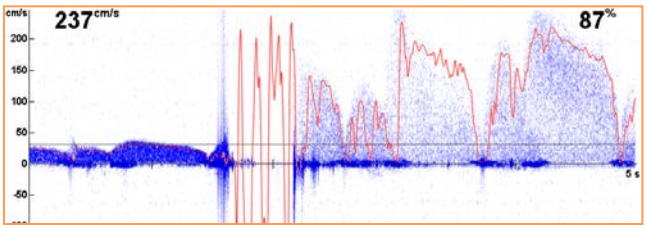
In addition to blood flow measurements, using the transit time principle (TTFM) the equipment provides a tool for the surgeon to search for vessels and to decide the level of stenosis in a diseased vessel by using Doppler technology. Vessels can be hard to locate because of fat tissue and arteries located inside the heart. 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 heart to locate diseased vessels. This increases the surgeon precision and quality of the surgery.

Search Detect Verify

Doppler probe searches and locate, Quickfitprobe verify blood flow.



Correct blood flow visualized using VeriQ touch screen.



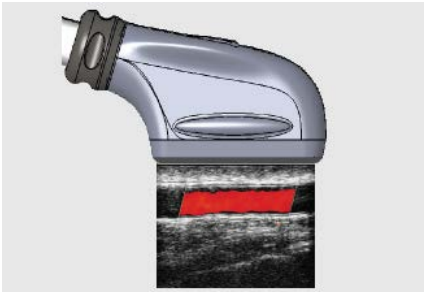
A shift in the Doppler curve that identifies a stenosis.

Medistim's most advanced model includes ultrasound imaging in addition to traditional functionality described above. The

imaging capability represents multi-functional equipment for the surgeon. Medistim's most advanced product for quality assurance within vascular and cardiac surgery is unique. The system is the only one of its kind that combines state of the art blood flow measurement with ultrasound based imaging functionality.

By visualizing, it's easier to plan, assure quality and perform the surgical procedure. Medistim's equipment provides the surgeon with a clear picture of the inside of the vessel and vessel walls. As an example, the surgeon can connect the heart lung machine to the patient at the optimal place on the aorta, search after vessels, locate stenoses, 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 Medistim's major markets by health authorities in Europe, USA, China and Japan.

The ultrasound-imaging probe used together with MiraQ Cardiac or VeriQC

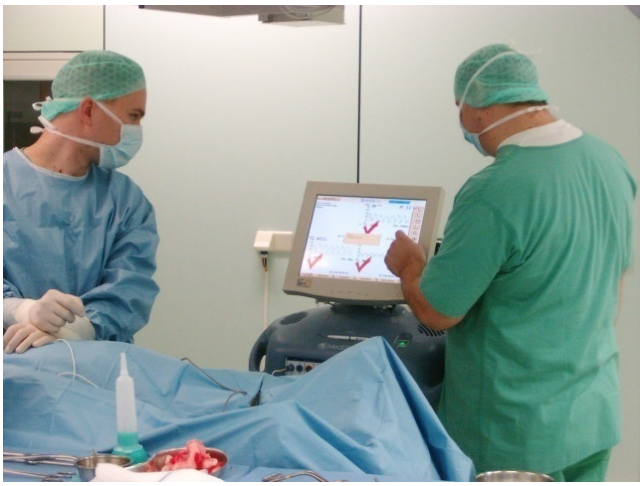


The imaging probe is used to visualize blood flow

Medistim's new ultrasound imaging system MiraQ Cardiac and the older version VeriQ C™ in the background

Medistim completed during 2014 its new system platform for future products, the MiraQ, which will replace the VeriQ platform. It takes time to get approvals in place from the different health authorities around the world. For this reason, the VeriQ products will be offered until the respective health authorities have approved the MiraQ products. The new product on the new platform is named MiraQ Cardiac and was launched in Europe in 2014. In 2015, the new MiraQ Vascular was launched for use within vascular surgery. MiraQ Vascular follows the same principles for measuring blood flow and ultrasound imaging as for MiraQ Cardiac, only adapted to the vascular surgeons information need. Together with the MiraQ Vascular product, the MiraQ Ultimate was introduced. MiraQ Ultimate combines the functionality in MiraQ Cardiac and MiraQ Vascular. As of 2016 all MiraQ products was cleared for sale in the US and in Europe and all other countries that accept the FDA clearance or the CE mark. Medistim is in process of applying for clearance for sale of MiraQ in Japan and in China. The clearance for sale is expected to be in place during 2017.

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 procedure based on information visualized with Medistim's equipment. MiraQ Cardiac or VeriQC serves the surgeon with information that previously was not available.

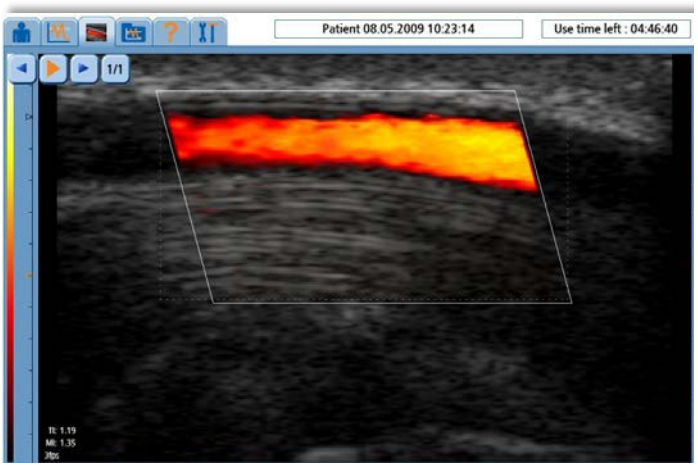


Image of a blood vessel using color Doppler.

In addition to bypass surgery, Medistim's equipment will be a useful tool within other surgical procedures, like valve surgery and surgery on persons with congenital cardiac diseases. The MiraQ Vascular tool will be useful within transplant surgery and in many vascular procedures. Medistim will together with its partners test the equipment in clinic to develop procedures for this type of surgery.

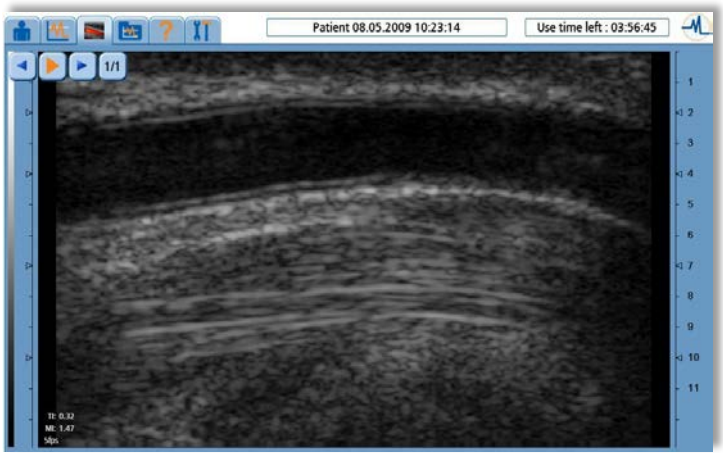
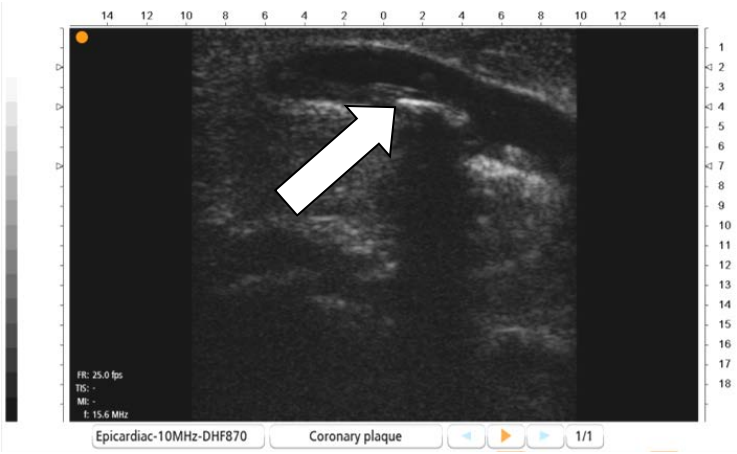
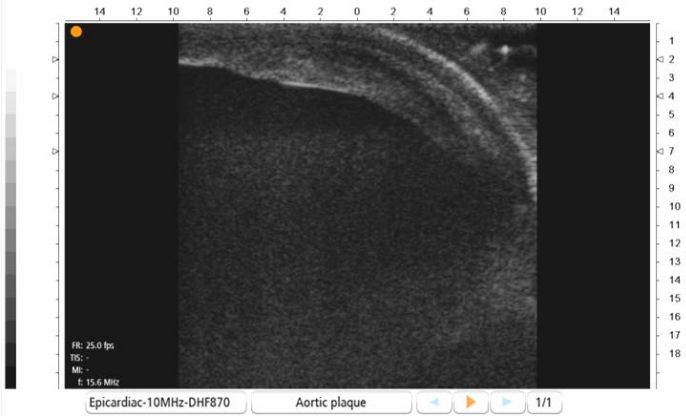


Image of a blood vessel without color Doppler.



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.



The picture shows a coronary artery with a stenosis inside the vessel wall. 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 mainly within surgery.

Chapter 3: Corporate governance

Corporate governance

Medistim is like other companies dependent upon good relations towards its contacts to succeed and it is a priority for the company. A good reputation and solid financial development is important in order 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 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 arm's 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 they directly or indirectly have 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 through 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 needs to give a notification at latest one day before the meeting. A shareholder can be represented through 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 Medistim's 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. Not all members are on election at the same time. The Board is once a year evaluating its work. The Board has during the year established an audit committee. The Board has, considering the size of the company, not seen it necessary to use other steering committee based upon the issues treated by the Board in 2016.

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 and 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 is Johan Skjølberg, which represents Salvesen & Thams Invest AS. Salvesen & Thams is Medistim's second largest shareholder. Other members are Asbjørn Buanes and Bjørn Henrik Rasmussen. Asbjørn Buanes is the 9th largest shareholder. Bjørn Henrik Rasmussen represents Follum Capital AS and is Medistim's 4th 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 for further development. 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 2016 and 2015 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 2016 and 2015. The CEO receives 12 500 shares as part of the compensation if she stay in her position until 2018, further 10.000 shares under the same conditions if in position in 2019 and 10.000 shares under the same conditions if in position in 2020. 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 immediately. 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 through 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 2017. 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.

Deputy Chairman Bjørn M. Wiggen (born 1959) holds an MBA, and has a broad background and experience from Norwegian industry, particularly within food, media and branding. He has been Managing Director of Orkla ASA, and is currently Executive Chairman of Salvesen and Thams Invest AS, where he is the biggest shareholder. Salvesen and Thams Invest AS is the second largest shareholder in Medistim with 10.2 % of the shares. Bjørn M. Wiggen is on election for a new term at the ordinary general assembly in 2018.

Lars Rønn (born 1964) works as a consultant for Russell Reynolds Associates 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 Program 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 2018.

Tove Raanes (born 1977) holds an MBA and works as a consultant for the investment companies Dyvi Invest AS (shareholder in Medistim) Varner Kapital AS, AS Vidsjå and Nore-Invest AS. Tove Raanes has experience from strategy, finance and business development from several investment companies and management consulting from McKinsey & Company. She is on election for a new term on the next ordinary general assembly in 2018.

Siri Fürst (born 1958) 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 Fürst has had management positions in Hafslund AS, Hafslund Nycomed AS and DiaGenic ASA. She has worked within the areas strategy, business development, finance and investor relations. As a consultant, Siri Fürst 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 2017.

Chapter 4: Corporate Social Responsibility in Medistim (CSR)

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 is 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. Medistim's 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 society 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. Therefore, it is 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 Norge 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 Medistim's 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 Medistim's employees at all levels including temporary employees and contractors. The Code of Conduct also applies Medistim's 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.
Medistim's employees must also have a clear understanding of how their individual behavior can influence the thrust of Medistim. Guidelines are an expression of Medistim's 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 Medistim's 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 meet 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 Medistim's Anticorruption Policy.
- In his\her work seeks to influence Medistim's 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 Medistim's 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

Medistim's 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. Medistim's worldwide operations are subject to national and international law prohibiting Medistim and Medistim's 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 Medistim's 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 Medistim's anti-corruption policy and what this entails.

Medistim's 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 Medistim's employees that they at all times fully comply with Medistim's 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 Medistim's employees are required to follow the principles given in the Group's anti-corruption policy. Medistim's companies should also take necessary steps to ensure that Medistim's 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 Medistim's 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 Medistim's 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. Medistim's employees should consult their supervisor if there is any doubt that a specific marketing or service activities are not consistent with Medistim's or the applicable third party's anti-corruption policy.
All expenses must be approved in accordance with company standard procedures, documented, and recorded in accordance with the right accounting standard.
Medistim's 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 Medistim's 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 Norge AS a member of the Ethical Trading Initiative (ETI). ETI is an organization of organizations, private and public enterprises, a driver and a resource center 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 are obliged to provide the names and contact details of the relevant partner.
In case of violation of the Code of Conduct, Medistim will in collaboration with associates 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 Medistim's partners should avoid trading 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

Chapter 5: The Annual Accounts

Income statement Medistim ASA group

1 = NOK 1000

	Note	2016	2015
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	3	262 673	249 970
Other income	3,11	5 388	1 459
Total revenue	2,3	**268 061**	**251 429**
Operational expenses			
Cost of goods sold	3	64 957	64 653
Salary and social expenses	4,5,20	89 719	79 102
Other operating expenses	4,7	45 304	44 027
Total operating expenses before depreciation and write down		**199 980**	**187 783**
OPERATING RESULT BEFORE DEPRECIATION AND WRITE DOWN		**68 081**	**63 646**
Depreciation on assets	6,11	11 726	10 642
Write downs	1,13	-	2 747
Total operating expenses		**211 706**	**201 172**
OPERATING PROFIT		**56 355**	**50 257**
FINANCIAL INCOME AND EXPENSES			
Total financial income	8,19	7 506	10 755
Total financial expenses	8,19	10 334	5 367
Net finance		**-2 828**	**5 388**
PROFIT BEFORE TAX		**53 527**	**55 645**
Tax expense	9	14 429	15 223
NET PROFIT	10	**39 098**	**40 422**

	2016	2015
COMPREHENSIVE INCOME		
Net profit	39 098	40 422
Other income and expenses for the period:		
Exchange differences arising on translation of foreign operations	216	810
TOTAL COMPREHENSIVE INCOME	**39 314**	**41 232**

Earnings pr. share		2016	2015
Basic	10	**2,15**	**2,23**
Diluted	10	**2,15**	**2,23**
Purposed dividend pr. share	10	**1,75**	**1,65**

Consolidated balance sheet Medistim ASA group

1=NOK 1000

	Note	31.12.2016	31.12.2015
ASSETS			
Non current assets			
Machinery and equipment	6	18 404	14 158
Deferred tax asset	1,9	3 173	4 018
Intangible asset R&D	1,11	31 700	35 656
Intangible asset trade name and customer agreements	11	2 697	1 319
Goodwill	1,11	14 128	14 128
Total non current assets		**70 102**	**69 280**
Current assets			
Inventory	13	59 297	46 613
Accounts receivable	14	48 328	44 831
Other receivables	14	8 257	9 387
Cash	15	31 065	48 925
Total current assets		**146 947**	**149 756**
TOTAL ASSETS		**217 049**	**219 036**
EQUITY AND LIABILITIES			
Equity			
Issued capital	16	4 585	4 585
Own shares	16	-46	-49
Share premium fund	16	41 852	41 852
Other issued equity	16	2 219	1 193
Issued capital	16	48 610	47 582
Retained earnings		118 094	108 583
Total equity		**166 704**	**156 164**
Non current liabilities			
Interest bearing loans	17	1 875	5 626
Deferred revenue	11,17	677	1 375
Total non current liabilities		**2 552**	**7 001**
Current liabilities			
Accounts payable		8 443	12 739
Income tax payable	9	11 086	12 632
Employee withholding, social security taxes and other payable	17,18	23 758	24 334
Provisions	21	150	150
Financial instruments	19	606	600
Interest bearing loans	17	3 750	5 416
Total current liabilities		**47 793**	**55 871**
Total liabilities		**50 345**	**62 872**
TOTAL EQUITY AND LIABILITIES		**217 049**	**219 036**

Cash flow statement

1 = NOK 1000

	Note	2016	2015
Cash flow from operations:			
Profit/loss after tax		39 098	40 422
Minus income tax paid	9	-12 632	-11 244
Plus this years tax expense	9	14 429	15 223
Plus depreciations	6,11	11 726	13 389
+/- Change in inventory	13	-12 684	-9 739
+/- Change in accounts receivable	14	-3 497	-4 883
+/- Change in accounts payable		-4 295	4 260
+/- Interest revenue		102	194
+/- Interest expense		-351	-509
+/- Change in other accruals		-1 424	-2 457
Net cash from operating activities		**30 472**	**44 656**
Investing activities:			
Minus investment in assets	6,11	-13 455	-11 775
Ney cash from investing activities		**-13 455**	**-11 775**
Financing activities:			
Minus dow n payment of interest bearing debt	17	-5 417	-7 082
Dividend	10	-29 950	-25 362
Purchase/sale of ow n shares		1 026	900
New loans	17	-	-
Net cash from financing activities		**-34 341**	**-31 544**
Unrealised loss foreign exchange		**-537**	**-1 887**
Net change in cash		-17 860	-550
Cash as of 01.01		48 925	49 475
Cash as of 31.12	15	**31 064**	**48 925**
Available cash and cash w ithholding			
Available cash as of 31.12	15	28 648	46 820
Cash w ithholding for taxes	15	2 416	2 105
Cash and cash equivalents as of 31.12		**31 064**	**48 925**

*Specification of other accruals 1 = NOK 1000:

Other prepayments	-1424
Total	-1424

Consolidated change in Equity for Medistim ASA

1 = NOK 1000

	Note	Share capital	Own shars	Share premium	Other paid in equity	Issued capital	Other reserves	Retained earnings	Total earnings	Total Equity
Equity as of 31.12.14		**4 585**	**-56**	**41 852**		**46 381**	**-877**	**93 593**	**92 716**	**139 097**
Net result recognised agains equity		**4 585**	**-56**	**41 852**		**46 381**	**-877**	**93 593**	**92 716**	**139 097**
Total comprehencive income for the period		-	-	-	-	-	807	40 422	41 229	41 229
Change own shares	16	-	7	-	1 193	1 200	-	-	-	1 200
Dividend	16	-	-	-	-	-	-	-25 362	-25 362	-25 362
Equity as of 31.12.15		**4 585**	**-49**	**41 852**	**1 193**	**47 581**	**-70**	**108 653**	**108 583**	**156 164**
Net result recognised agains equity		**4 585**	**-49**	**41 852**	**1 193**	**47 581**	**-70**	**108 653**	**108 583**	**156 164**
Total comprehencive income for the period		-	-	-	-	-	216	39 098	39 314	39 314
Change own shares	16	-	3	-	1 026	1 029	-3	150	147	1 176
Dividend	16	-	-	-	-	-	-	-29 950	-29 950	-29 950
Equity as of 31.12.16		**4 585**	**-46**	**41 852**	**2 219**	**48 610**	**143**	**117 952**	**118 095**	**166 704**

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 2015 this difference was -70 TNOK and the change for the year was 807 TNOK. By year-end 2016, the equivalent was 143 TNOK a change of 213 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 2016 is prepared in compliance with International Financial Reporting standard (IFRS) decided by EU and that is valid as of 31.12.2016.

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

The consolidated accounts have been compiled based on 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 is 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 31.12.2016.

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 31.12.2016.

1.9 Financial instruments

In accordance to IAS 39 financial instruments: recognition and measurement of financial instruments is defined as the 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 is 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 write-downs. 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 write-downs 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 write-downs 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 are 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 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 is accrued.

Share based payments

The Group has share based payment scheme for its CEO, the program is measured at fair value at grant date. The share-based payment for the company's top leader is a scheme by issuing shares. 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.

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 2016.

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 lifetime 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 based on temporary differences between tax values 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, the asset will 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 three 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, the effect will be 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.

IFRS 5 Assets held for sale:
Medistim had no assets held for sale in 2016 and therefore no effect on the financial statements in 2016.

IFRS 7 Financial instruments and disclosures :
Medistim has included the change in 2016 financial statements.

IFRS 11 Joint arrangements:
Medistim had no joint arrangements in 2016.

IAS 27 Equity method in separated financial statements:
Medistim owns all subsidiaries 100 % and consolidate accordingly.

IAS 16 and 38 depreciation methods:
Medistim has included the change in the 2016 financial statements.

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 9 Financial instruments: Classification and measurement of financial assets and obligations. New standard is ready and must be implemented by 2018. The effect of the standard on Medistim financial statements need to be analyzed.

IFRS 14 regulatory deferral accounts: This is only valid for companies that do not already report according to IFRS and are to convert to IFRS reporting for the first time. This will not affect Medistim consolidated accounts.

IFRS 15 Revenue for contracts with customers:
The standard is effective from 01.01.2018. The standard is not expected to have impact on Medistim financial statements since the nature of the business does not involve long time contracts with milestone deliveries. Medistim will in 2017 investigate the consequence of the standard further.

IAS 15 and IAS 16 leasing: The change in the standards is that operational leases will be treated as financial leases. This will affect Medistims balance sheet since all leases will be entered as an asset in the balance sheet with a corresponding debt. Medistim does not have the full overview of the consequence of the change in the standards, but will investigate this further in 2017. The standard is effective from 1st of January 2019.

IFRIC 22– transaction in foreign currency: The standard is effective from 01.01.2018 and provides a guide to determine when the transaction is effective and at which exchange rate when its prepaid. The standard is not expected to have any major impact on the financial statements.

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 2016 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 2016 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 31.12.2016 was MNOK 31.7. 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 3.2 by the end of 2016. 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 31.12.2016. The company is of the opinion that it is likely that the future taxable income will exceed temporarily differences. The company is optimistic about 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 212 TNOK. Confirmed losses over the last 10 years has on average been 183 TNOK. The end customers are to a large extent hospitals that have public financing. The risk for losses is therefore considered low. The group has an inventory accrual of 1.755 TNOK. 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 is 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. They have different customers, 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
B. Capital and consumable sales
C. Distribution and sales of third party products

Medistim has a flexible business model in the US and leaves it up to the customer whether they want to lease the equipment or purchase the systems and buy probes as consumable. With the MiraQ system a third option is available with a system lease and a purchase of probes as consumable.

Most customers in the US lease the equipment. When leasing equipment, 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 makes the system available 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 is defined as leasing revenue according to IFRIC. The reason is that the customer has the physical control of the equipment. The change was triggered by the establishment of a direct sales and distribution center 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 used damages the probe. The probe is marked with the chemicals one should use. In these cases, Medistim invoice the customer for a new probe. Customers entering a lease contract for the system will purchase probes in order to be able to use the system. For this reason its recorded probe revenue for the segment. In the leasing agreements, there are clauses for minimum usage per year giving Medistim the right to withdraw the equipment if these levels are not reached. In some cases, the customer wants to keep the equipment without being able to guarantee for minimum usage. In such a case a customer may purchase the equipment and this explains that there are some system revenue allocated to the segment. Minimum usage per year in the contracts is 100 procedures per year, which gives minimum revenue of USD 25.000. The contracts can be terminated within 1-3 years and yearly revenue related to the contracts was in 2016 81.9 MNOK.

Capital and consumable sales is based upon the same products as within lease of equipment. 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 represent a different risk and return on investment profile compared to leasing. For this reason it is treated as a separate segment.

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. In addition, the US is the largest market for Medistim's 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 with the largest growth potential as Asians are 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 in order 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		Capital sales\ consumables		Third party products		Elimination		Group	
1 = NOK 1000	2 016	2015	2 016	2015	2 016	2 015	2 016	2015	2 016	2015
Revenue:										
Lease revenue from systems	39 324	33 893	-	-	-	-	-	-	39 324	33 893
Lease revenue from probes	42 600	36 717	-	-	-	-	-	-	42 600	36 717
Probes	-	-	70 446	64 135	-	-	-	-	70 446	64 135
Systems	3 353	1 192	14 361	11 668	-	-	-	-	17 714	12 860
Ultrasound imaging	5 713	4 417	15 281	17 974	-	-	-	-	20 994	22 391
Ultrasound imaging probes	-	-	3 146	3 885	-	-	-	-	3 146	3 885
Third party sales	-	-	-	-	68 448	76 089	-	-	68 448	76 089
Other revenue	-	-	5 388	1 459	-	-	-	-	5 388	1 459
Total external revenue	90 990	76 219	108 622	99 121	68 448	76 089	-	-	268 060	251 429
Intercompany sales	45 269	39 899	27 477	23 556	-	-	-72 746	-63 455	-	-
Total revenue	136 259	116 118	136 099	122 677	68 448	76 089	-72 746	-63 455	268 060	251 429
Other operating expenses	12 882	13 839	26 310	23 810	6 112	6 378	-	-	45 304	44 027
Segment result before tax	18 821	12 593	27 732	32 841	6 974	10 211	-	-	53 527	55 645

Segment	Lease of equipment		Capital sales\ consumables		Third party products		Elimination		Group	
	2 016	2015	2 016	2015	2 016	2 015	2 016	2015	2 016	2015
Sale in number of units										
Procedures	46 201	40 036	-	-	n.a	n.a	-	-	46 201	40 036
Probes	1 918	1 730	6 208	5 904	n.a	n.a	-	-	8 126	7 634
Systems	6	3	71	67	n.a	n.a	-	-	77	70
Ultrasound imaging	7	6	33	49	n.a	n.a	-	-	40	55
Ultrasound imaging probes	73	52	53	69	n.a	n.a	-	-	126	121

Split of debt and assets according to operating segment

Segment	Lease of equipment		Capital sales\ consumables		Third party products		Elimination		Group	
1 = NOK 1000	2 016	2015	2 016	2015	2 016	2 015	2 016	2015	2 016	2015
Intangible assets	15 850	17 828	21 680	23 126	14 168	14 168	-	-	51 698	55 122
Tangible assets	13 177	11 481	3 530	405	1 697	2 272	-	-	18 404	14 158
Current assets	30 643	20 963	98 268	89 923	41 878	58 718	-23 842	-19 848	146 947	149 756
			-	-						
Total assets	59 670	50 272	123 478	113 454	57 743	75 158	-23 842	-19 848	217 049	219 036
Equity	73 149	66 556	32 494	30 025	61 062	59 583	-	-	166 704	156 164
Long term debt	-	-	2 552	7 001	-	-	-	-	2 552	7 001
Short term debt	24 759	21 182	36 875	38 550	10 001	15 987	-23 842	-19 848	47 793	55 871
Total debt and equity	97 908	87 738	71 920	75 576	71 063	75 570	-23 842	-19 848	217 049	219 036
Investments	6 293	6378,5	5 639	5 261	1 523	136	-	-	13 455	11 775
Depreciations	6 412	5330,5	5 003	4 484	311	828	-	-	11 726	10 642
Write dow ns	-	-	-	-	-	2 747	-	-	-	2 747

Split of revenue, debt and assets according to geographical segment

Geographic split of segments	USA		Europe		Asia		Rest of the world		Group	
1 = NOK 1000	2 016	2015	2 016	2015	2 016	2 015	2 016	2 015	2 016	2015
Revenue	90 990	76 219	136 383	141 715	24 805	21 703	15 883	11 792	268 061	251 429
Assets	59 670	50 272	148 279	157 916	4 446	5 434	4 655	5 414	217 049	219 036
Investments	6 293	6 379	7 162	5 397	-	-	-	-	13 455	11 775
Revenue in numbers										
Procedures	46 201	40 036	-	-	-	-	-	-	46 201	40 036
Probes	1 918	1 730	3 833	4 124	1 651	1 190	724	590	8 126	7 634
Systems	6	3	40	33	20	29	11	5	77	70
Ultrasound imaging	7	6	7	20	14	16	12	13	40	55
Ultrasound imaging probes	73	52	13	21	22	28	18	20	126	121

Activated development cost is equally split between lease of equipment and capital sales and consumables in 2015 and 2016 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

1 = NOK 1000	2016	2015
Sale of third party products	68 448	76 089
Probe revenue	70 446	64 135
System revenue	17 714	12 860
Ultrasound imaging	20 994	22 391
Ultrasound imaging probes	3 146	3 885
Leasing revenue	81 924	70 610
Grants\other	5 388	1 459
Total revenue	**268 060**	**251 429**

The nature of the lease is described in note 2

Split of cost of goods sold

1 = NOK 1000	2016	2015
Third party products	41 232	41 597
Components	18 567	16 372
Development	1 312	1 382
Packing material and other materials	980	2 483
Freight	2 867	2 819
Total cost of goods sold	**64 957**	**64 653**

Note 4 Salary and social expenses

Split of salary expenses

1 = NOK 1000	2016	2015
Salary	69 406	64 266
Employeers tax	8 672	8 145
Bonus	4 878	4 699
Cost for contribution pension plan	3 027	2 997
Compensation to the Board	1 255	910
Other social costs	2 480	-1 914
Total salary and social cost	**89 719**	**79 102**

Average number of employees:

	2016	2015
USA	23	21
Germany	4	4
UK	1	1
Denmark	1	1
Norw ay	61	60
Total	**90**	**87**

Audit expenses

1 = NOK 1000

	2016	2015
Expense for compulsory audit	537	482
Expense for other services	0	9
Total audit expense	537	491

The amounts are without VAT

Note 5 Pension expenses and obligations

The contribution plan covers 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 2016 TNOK 3.012, while it was TNOK 2.997 in 2015. 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 16	Other assets 16	Total assets 2016	Machinery and equipment 15	Other assets 15	Total assets 2015
Historical cost						
Balance 1. January	41 196	10 189	51 384	37 926	9 819	47 745
Additions	7 932	539	8 471	3 616	369	3 985
Assets sold\written down	0	0	-	-346	-	-346
31.December	**49 128**	**10 728**	**59 855**	**41 196**	**10 189**	**51 384**
Accumulated depreciation						
Balance 1. January	28 236	8 989	37 225	24 475	7 994	32 469
Depreciation this year	3 451	657	4 107	3 820	938	4 758
Exchange rate differences	-101	-18	-119	58	-58	1
31. December	**31 787**	**9 664**	**41 451**	**28 237**	**8 990**	**37 226**
Book value	**17 341**	**1 064**	**18 404**	**12 959**	**1 199**	**14 158**
Depreciation in %	14-33 %	20-33 %		14-33 %	20-33 %	
Economic lifetime	3-7 år	3-5 år		3-7 år	3-5 år	
Depreciation method	lineary	lineary		lineary	lineary	

Fully depreciated assets

Some assets with total historic cost value of 4.5 MNOK is fully depreciated as of 31.12.2016 but are still in use.

Assets no longer in use

All assets were in use in 2015 and 2016 and no assets were temporarily out of use as of 31.12.2016.

Write-downs

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

Guaranties and securities

As of 31.12.2016 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 31.12.15.

Note 7 Other operating expenses

1 = NOK 1000	2016	2015
Office rent	5 457	5 471
Travel cost	9 354	10 107
Marketing	4 224	3 314
Consultants	13 402	13 448
Insurance	1 559	1 449
Freight	1 826	1 103
Communication	1 296	1 209
IT cost	3 290	3 078
Other	4 896	4 847
Total	**45 304**	**44 027**

Note 8 Financial revenue and expenses

As of 31.12.2016, the company had 5.6 MNOK in interest bearing debt. Additional cash in the group gave interest revenue of 102 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	2016	2015
Interest income	102	194
Other financial income	-	33
Gains on foreign exchange	7 404	10 527
Total financial income	**7 506**	**10 754**
Loss on foreign exchange	-9 983	-4 839
Interest cost on loans	-351	-527
Other financial expenses	-	-
Total financial expenses	**-10 334**	**-5 366**
Net financial expenses	**-2 828**	**5 388**

Note 9 Reported tax expense and temporary differences

1 = NOK 1000	2016	2015
Current income tax charge	13 594	14 831
Change in temporary differences	834	392
Income tax expense reported in income statement	14 429	15 223
Reconciling tax expense towards income before tax		
Tax expense for the year	14 429	15 223
25% of income before tax	12 767	14 901
Permanent differences and different tax rates	-1 662	-322

Specification of taxable income	**2016**	**2015**
Income before tax	53 527	55 645
Permanent and other differences	3 216	-265
Differance because of different tax rate	4 011	-615
Change in temporary differences	-3 039	1 615
Taxable income	57 715	56 380
Reported income tax	14 429	15 223
Total tax	14 429	15 223

Payable tax in the balance sheet	**2016**	**2015**
Payable tax this years profit	14 429	15 223
Prepaid tax	-2 508	-2 198
Utilizing deferred tax asset	-834	-392
Total payable tax	11 086	12 632

Specification of deferred tax		
Changes in values:	**2016**	**2015**
Fixed assets	-12 086	-16 045
Current assets	-1 429	-2 964
Other obligations	641	3 370
Total differences	-13 219	-16 074
Deferred tax asset 24 %	-3 173	-4 018
Recorded tax asset in the balance sheet	-3 173	-4 018

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. The difference in tax rates increases average tax rate in 2016 to 27.0%. See also comment in note 1.

Tax expense for the group is geographically split as follows:

1 = NOK 1000	2016	2015
Norway	9 129	13 125
Germany	2 081	1 204
USA	3 215	994
Denmark	4	-100
Total	14 429	15 223

Note 10 Earnings per share

1 = NOK 1000	2016	2015
Profit for the year	39 078	40 422
Average numbers of shares outstanding 31.12		
Ordinary issued shares	18 150	18 141
Average numbers of shares outstanding 31.12	**18 150**	**18 141**
1 = NOK 1		
Profit per share	**2016**	**2015**
Ordinary	**2,15**	**2,23**
Diluted	**2,15**	**2,23**
Paid dividend	**29 950**	**25 362**
Dividend per share	**1,65**	**1,40**
Suggested dividend per share	**1,75**	**1,65**

The company has only one class of shares. 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 2016, there were share options to CEO. The share option plan to CEO is described under chapter 3 compensation to management and note 20. By year-end the company had 186 000 own shares.

Note 11 Intangible assets

Activated R & D expenses and deferred revenue

Capitalized development costs include expenses incurred in connection with the product enhancements related to MiraQ Cardiac and MiraQ Vascular products. This is enhancements related to MiraQ system platform and probes. The new MiraQ product is module based and flexible in regard to the configuration the customer needs. In 2016 3.6 MNOK was activated in the balance sheet related to the MiraQ products. The MiraQ platform forms the basis for future models from Medistim.

Intangible assets derived from internal R & D:

1 = NOK 1000	R & D expenses in 2016	R & D expenses in 2015
Historic cost		
Historic cost	61 596	54 778
Internal additions	2 519	3 820
External additions	1 144	2 998
Skattefunn	-	-
Historic cost	**65 258**	**61 596**
Accumulated		
Accumulated	25 939	20 054
Depreciations for	7 619	5 885
Total	**33 558**	**25 939**
Net value in	**31 700**	**35 657**

When estimating the value of activated development expenses, cash flow from the development projects, the company's budget for 2017 and 3-year strategy plan for the years 2018 and 2019 is the basis for the estimation. Cash flows for more than three years are estimated based upon the products estimated lifetime. The cash flow is discounted using 16.0 % discount rate. This includes an additional yield of 12.0 % compared to risk free interest.

Ultrasound imaging transferred to new system platform MiraQ:

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 for 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. The product has been available for sale since 2009. In 2016, the equipment was used in several clinics and the product has been available for sale in Europe, USA, China and Japan. Customers using the product in clinic have given valuable feedback and experiences with the equipment during surgery.
The ultrasound-imaging module is transferred to Medistim's new technological platform, the MiraQ that will form the basis for future technological development. For this reason, the ultrasound module 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 31.12.2016 4.5 MNOK and is depreciated over 8 years. No further investments were done in the ultrasound-imaging product in 2016.

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 Medistim's 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. In 2014 there was invested another 0.8 MNOK and the purpose is to develop probes of the same kind only in smaller sizes. The new probe sizes where completed during 2015 and further 3.73 MNOK was activated. Further enhancements where developed in 2016 and another 1.70 MNOK was activated in 2016. Book value as of 31.12.2016 was 6.8 MNOK. Expected lifetime for the PV probes are 8 years.

4th generation of systems; the MiraQ:

Entering into 2016, Medistim had invested 22.0 MNOK in the new system platform that represent Medistims 4th generation of systems within flow measurement and imaging to ensure quality and guiding during surgery. The new platform has a flexibility that will allow customer adaption and new applications. The technological improvements have secured and strengthen Medistim's leading position. The product, MiraQ Cardiac, based upon the new platform, was launched by the end of 2014. The MiraQ Vascular system was introduced in 2015 together with the new vascular flow probes late 2015. In total it was invested 3.05 MNOK in vascular project in 2015. In 2016 another 1.9 MNOK was invested in the product. Besides product enhancement, the investments was related to Clarence for sale in China and Japan. Book value for the MiraQ platform by year-end was 19.7 MNOK. Expected lifetime for the product is 8 years.

Summary:

The projects have been tested yearly for write-downs. In the test, cash flow for the expected lifetime of the products is used. It is proven through the tests that the projects will give an economic benefit that exceed the book value. The R & D expense for 2016 was in total 9.3 MNOK compared to 11.0 MNOK in 2015. In 2016 3.6 MNOK of the R & D expense was activated in the balance sheet while 6.8 MNOK was activated in the balance sheet in 2015. As of 31.12.2016, 0.7 MNOK was recorded in the balance sheet as deferred revenue and 0.7 MNOK was recorded as revenue in the P & L in 2016. In total 5.7 MNOK of the R & D expenses was recorded in the P & L in 2016. Similar expense was 4.2 MNOK in 2015. 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.

Expected cash flow from the activated products gives a net present value of MNOK 153,2 as shown below. A change in the analysis of discount rate or operating margin gives the following change in value:

Discount rate	16,0 %	27,0 %	37,0 %
Estimated value in MNOK	153,2	105,7	80,3
Operating margin	20,0 %	10,0 %	5,0 %
Estimated value in MNOK	153,2	64,7	20,2

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	2016	2015
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 2017 and 3-year strategy plan for the years 2018 and 2020 with the assumption of 2 % growth in 2021 compared to 2020. 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 is important for the company to maintain know how 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 for 2017. The margin level is adjusted down in 2016 because of the weakening of the Norwegian currency. This is expected to be normalized in 2018 and the company also has the possibility to adjust prices if exchange rates changes.

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 it will vary from 5 % to 2 %. 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.

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 1.6 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 11.0% to 5.0% everything else equal, goodwill needs to be written down. A change in the discount rate from 16.0 % to 37.0 % everything else equal triggers a write down of goodwill.

Discount rate	16,0 %	27,0 %	37,0 %
Estimated value in MNOK	83,9	55,7	45,7
Operating margin	11,0 %	7,5 %	5,0 %
Estimated value in MNOK	68,5	55,0	40,0

Trade name and customer agreements:

Medistim entered a license and an OEM agreement with em-tec GmbH in 2015. With the agreement, Medistim obtains exclusive, eternal, worldwide rights to market and sell em-tec's transit time flow measurement (TTFM) technology for use on human blood vessels within cardiac-, vascular- and transplant surgery. em-tec's flow measurement device is designed as a basic, entry-level customer solution that meets lower price-point market segments and fills a gap within Medistim's product portfolio. The first Medistim labeled device was launched in 2016. As compensation for these rights, Medistim paid 2.7 MNOK, which was recorded in the balance sheet as of 31.12.2016. The rights are exclusive and eternal, but will be depreciated over 5 years. The depreciation will be effective from 2017, since the Medistim labeled product where launched by the end of 2016.

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.	34 910	24 760	10 150	98 064	5 625
Medistim Deutschland GmbH	14 622	3 661	10 962	36 574	6 247
Medistim Danmark Aps	2 203	1 403	800	3 492	12
Medistim UK Ltd	2 119	7 272	-5 154	2 956	-242
Medistim Norge AS	43 721	11 734	31 987	69 259	5 526
Total	**97 575**	**48 830**	**48 745**	**210 345**	**17 168**

Medistim Norge AS has offices at Økern in Oslo. Medistim USA Inc has offices in Minneapolis in the USA. Medistim Deutschland GmbH has offices in Munich in Germany, Medistim Denmark has offices in Copenhagen Denmark and Medistim UK has offices in London UK. Book value of goodwill related to the acquisition of Medistim Norge AS was as of 31.12.2016 14 128 TNOK. Goodwill at the time of acquisition was 16 097 TNOK. None of the subsidiaries are listed at a stock exchange. The US, Danish and German subsidiaries are well established and creates a profit in 2016. Medistim UK had an operating profit of 77 TNOK in 2016. The deficit in 2016 is related to loss on foreign exchange on debt to Medistim ASA. Medistim US had a 17.3 MNOK debt towards Medistim ASA by year-end 2016. Medistim UK, Medistim Denmark, Medistim Germany and Medistim Norge had a debt towards Medistim ASA with 6.8 MNOK, 0.1 MNOK 2.0 MNOK and 0.3 MNOK respectively. Medistim has by year-end 2017 established a direct operation in Spain with offices registered in Barcelona. The new subsidiary will be in operation from 2017.

Note 13 Inventory

Spesification of inventory (1=NOK 1000)	2016	2015
Raw material	26 056	19 031
Work in progress	1 789	0
Finished goods	10 491	10 397
Spare parts	2 749	2 374
Third party products	19 986	16 266
Inventory provision	-1 773	-1 455
Total	**59 298**	**46 613**

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 2016 has increased compared to 2015. The increase is related to the fact that the company is maintaining the new product line for the MiraQ products and must maintain the VeriQ product until all approvals for MiraQ are in place. In addition it is necessary for the company to keep an additional security inventory for critical components on own developed products to secure deliveries. See also note 17 as inventory is used as security for loan.

Spesification of inventory provision (1=NOK 1000)	2016		2015	
	Gross value	Provision	Gross value	Provision
Demonstration products	794	596	272	204
Spare parts	1 955	978	2 102	1 051
Third party products	200	200	200	200
Total	**2 949**	**1 774**	**2 574**	**1 455**

Note 14 Accounts receivable and other receivable

Accounts receivable

1 = NOK 1000	2016	2015
Accounts receivable	48 540	45 664
Provision for bad debt	-212	-833
Total	**48 328**	**44 831**

Provision for bad debt

1 = NOK 1000	2016	2015
Inbound provision	833	833
Utilised provision	-621	-
Total	**212**	**833**

Aging accounts receivable

1 = NOK 1000	Not due	0-30 days	31 - 60 days	61 - 90 days	More than 91 days	Total
Year 2015	34 811	5 383	1 676	408	3 386	45 664
Year 2016	29 870	4 545	3 395	2 247	8 484	48 540

All receivables are due within one year. Confirmed losses on receivables was in 2016 1 164 TNOK. For 2015 the confirmed losses was 70 TNOK. There is an accrual of 212 TNOK to cover unforeseen losses. The accrual is based upon previous experience and status as of 31.12.2016. Historically the group losses have been limited. End customers are often public hospitals with government funding and the risks for losses are low. However, days sales outstanding is high compared to other businesses, something that the aging receivables confirm. See also note 17 as receivables is used as security for loan. Other receivables are shown below:

Other receivables

1 = NOK 1000	2016	2015
Prepaid insurance	419	32
Prepaid rent	-	837
Other pre-payments	1 727	1 092
Deferred income	1 016	1 454
Unrealised value hedging contracts	-	3 161
Inbound VAT receivable/ prepaid tax	2 054	2 648
Demo units\returns	270	-
Other	2 771	163
Total	**8 257**	**9 387**

Note 15 Cash and cash equivalents

1 = NOK 1000	2016	2015
Available cash in bank	28 172	46 137
Restricted cash in bank	2 893	2 788
Cash and cash equivelents	31 065	48 925
Credit limit	-	-
Cash and cash equivelents in cashflow analisys	**31 065**	**48 925**

Restricted cash as of 31.12.2016 was 2 893 TNOK and was related to tax withheld from salaries. As of 31.12.2015 the restricted cash was 2 788 TNOK related to tax withheld on salaries. The group had interest revenue on excess cash and the interest rate was 1.0 % by the end of 2016. The holding company had a credit facility of 7.5 MNOK. The credit facility was not in use as of 31.12.2015 or 31.12.2016.

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 2016:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.2016	18 337 336	NOK 0.25	NOK 4 548 334.00
Changes	-	NOK 0.25	NOK -
Share capital 31.12.16	**18 337 336**	**NOK 0.25**	**NOK 4 584 334.00**

The Board of Directors received by the shareholders meeting the 19th of April 2016 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 2017 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 2017. See below for changes in the equity for the last year.

Status for the commissions as of 31.12.2016:

	Capital increase	Medistim shares
Commission given at the shareholders meeting in 2016	1 833 733	1 833 733
Commissions used	-	-
Status for the commissions as of 31.12.2016	**1 833 733**	**1 833 733**

Annual report 2016

The company owned 186 000 Medistim shares as of 31.12.2016. Number of Medistim shares by 01.01.2016 was 196 000. The change through the year is shown below:

Change in Medistim shares

Number of shares as of 31.12.2015	196 000
Change of own shares	-10 000
Number of shares as of 31.12.2015	186 000

The 20 largest shareholders in the company were as of 31.12.2016:

Shareholder	Number of shares	Shares in %	Nationality
INTERTRADE SHIPPING	3 850 000	21,00 %	NOR
SALVESEN & THAMS INV	1 862 500	10,16 %	NOR
FOLLUM CAPITAL AS	1 000 000	5,45 %	NOR
SKAGEN VEKST	850 072	4,64 %	NOR
PROTECTOR FORSIKRING Aksjer	784 155	4,28 %	NOR
GRANDEUR PEAK*	674 271	3,68 %	USA
STENSHAGEN INVEST AS V/Lars Hatletveit	636 729	3,47 %	NOR
Skandinaviska Enskil A/C CLIENTS ACCOUNT	606 559	3,31 %	DNK
BUANES ASBJØRN JOHN	519 936	2,84 %	NOR
DYVI INVEST AS	446 154	2,43 %	NOR
CITIBANK EUROPE PLC S/A SEB SA UCITS	398 275	2,17 %	LUX
BNP Paribas Securiti S/A ITALIAN RESIDENT	395 334	2,16 %	ITA
VERDIPAPIRFONDET HAN NORGE	346 154	1,89 %	NOR
VEVLEN GÅRD AS	343 959	1,88 %	NOR
SEB PRIME SOLUTIONS SKANDINAVISKA ENSKIL	262 419	1,43 %	LUX
RBC Investor service S/A LUX-NON-RES/DOM	259 063	1,41 %	LUX
REGENTS OF THE UNIVE The Bank of New York	255 048	1,39 %	USA
HOLBERG NORDEN VERDIPAPIRFONDET V/HOLBERG FONDSFORVA	253 010	1,38 %	NOR
Danske Invest Norge	250 000	1,36 %	NOR
BANK JULIUS BÄR & CO	200 000	1,09 %	CHE
Total 20 largest shareholders	14 193 638		
Total number of shares outstanding	18 337 336		
20 largest shareholders in %	77,40 %		

* Includes 4 different Grandeur Peak funds

Board members and management team with shares in the company:

Shareholder	Number of shares	In % of total	Position
Tove Raanes via Trane AS	1 990	0,010 %	Board member
Bjørn Wiggen (holds 24 % of the shares in Salvesen og Thams Invest AS	1 862 500	10,16 %	Deputy chairman
Roger Morberg	6 438	0,031 %	VP sales
Erik Swensen	40 000	0,22 %	VP development
Thomas Jakobsen	70 000	0,38 %	CFO
Kari Eian Krogstad	90 000	0.49 %	CEO
Siri Fürst	2 000	0.010 %	Board member
Øyvin A. Brøymer (Intertrade Shipping)	3 850 000	21.00 %	Chairman
Anders Lillebø	5 000	0,03 %	Production man.

There were no share options outstanding as of 31.12.2016 except form the share program to CEO described under chapter 3 Corporate Governance under compensation to management and note 20.

Note 17 Deferred revenue

1 = NOK 1000	Balance sheet value	Balance sheet value
	2016	2015
Deferred revenue - OFU funds	676	1 375

1 = NOK 1000	2016	2015
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. 2016 was the 7th year of releasing revenue to the P & L and the remaining 0.7 MNOK will be released to the P & L in 2017.

Interest bearing debt

1 = NOK 1000			Balance sheet value	Balance sheet value
	Interest rate	last due date	2016	2015
Secured loan				
Loan from DNB	NIBOR + 2,50 %	18.06.18	5 625	9 375
Loan from DNB	NIBOR + 2,50 %	06.07.16	-	1 667
Total long term debt			5 625	11 042
Total long term debt			5 625	11 042
Long term debt due within one year			-3 750	-5 416
Total long term debt with due date more than one year			1 875	5 626

The 10 MNOK loan from 2013 had a zero balance as of 31.12.2016. The 15 MNOK loan from 2014 had a remaining balance of 5.6 MNOK as of 31.12.2016. 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 31.12.2016 16.3 MNOK for assets, 49.6 MNOK for accounts receivables and 56.9 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	2016	2015
Accrual for public taxes	6 318	6 113
Accrual for holiday pay	5 113	4 907
Accrual for salaries, commission and board men	6 626	6 154
Accrual for customer and supplier obligations	4 078	3 064
Unrealised exchange rate differences	1 328	3 003
Other	294	742
Accrual for write down of products	-	350
Total	23 758	24 334

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 31.12.2016 5.6 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 EUR and USD and expenses mostly in NOK. Efforts are made to neutralize net exposure up to 12 months in the future by entering hedging contracts. The development in NOK towards USD and EUR is continuously monitored. By the end of 2016, the company had secured 6 hedging contracts for EUR. The contracts are due by the end of each month with EUR 150.000 until June 2017. Total amount of hedging contracts in EUR as of 31.12.2016 was EUR 0.9 mill. that gave an unrealized loss of 45 TNOK. For USD, there were also 6 hedging contracts with the amount of USD 150.000 per month until June 2017. Total amount of hedging contracts in USD was as of 31.12.2016 USD 0,9 mill. that gave an unrealized loss of TNOK 561. The hedging contracts are entered to reduce the exchange risk towards USD and EUR. Unrealized gain or loss related to the contracts is recorded in the balance sheet as of 31.12.2016 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 2017	Amount per month	Total value of contracts in currency	Average rate on contracts	Rate as of 31.12.2016	Unrealised gain\loss in NOK
USD	6	150 000	900 000	8,00	8,62	(560 880)
EUR	6	150 000	900 000	9,04	9,09	(45 540)
Total unrealized loss						**(606 420)**

The group had an unrealized gain on accounts receivables of TNOK 407 related to receivables in USD and EUR.

The group had 74% of its revenue in USD or EUR, while 56 % of the expenses were in NOK. Comparable numbers for 2015 was 70 % and 57 %. The share of revenue in foreign currency has increased, and is expected to increase in the future, because of growth in the direct operations in the US, Germany, Denmark, UK and Spain. The share of expenses in NOK are reduced for the same reason. This may vary 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:

	Change in exchange rate	Effect on P & L	Effect on equity
Year 2016	+ 5 %	TNOK 5 589	TNOK 6 470
	-5 %	TNOK 5 057	TNOK 5 857
Year 2015	+5 %	TNOK 4 570	TNOK 5 097
	-5 %	TNOK 4 134	TNOK 4 661

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 31.12.2016 16.3 MNOK for assets, 38.4 MNOK for accounts receivables and 37.3 MNOK for inventory. The group has not been able to document hedge accounting and the contracts are categorized 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 31.12.2016.

Credit risk:
The group is at some extent exposed towards credit risk. 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 2016	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	-	3 750	1 876	-	5 626
Accounts receivable	8 443	-	-	-	8 443
Other debt	17 774	17 220	-	-	34 994
Total	**26 217**	**20 970**	**1 876**	**-**	**49 063**

Overview of debt

1 = NOK 1000

Year 2015	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	-	7 082	3 960	-	11 042
Accounts receivable	-	-	-	-	-
Other debt	37 277	17 754	-	-	55 031
Total	**37 277**	**24 836**	**3 960**	**-**	**66 073**

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	2016			2015		
	Original value	Gain\loss	Book value	Original value	Gain\loss	Book value
Financial assets						
Cash	31 142	-77	31 065	48 512	413	48 925
Accounts receivable	47 921	407	48 328	44 130	701	44 831
Other financial assets	-	-	-	-	-	-
Own shares	2 737	-	2 737	2 887	-	2 887
Forward currency contracts	-	-606	-606	-	-600	-600
Financial debt						
Accounts payable	8 483	(40)	8 443	12 519	-	12 739
Interest bearing loan						
Bank loans	5 625	-	5 625	11 042	-	11 042
Forward currency contracts	-	-	-	-	-	-

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 2015 or 2016.

Note 20 Transactions towards close related partners

Compensation to management
The management group consists of 10 people 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	Sharebased compensation	Other	Total
Hæge Johanne Krogh Wetterhus	VP marketing	1 196 179	66 964	85 932	-	4 392	1 353 467
Anne Waaler	VP medical	654 974	66 964	66 576	-	3 303	791 817
Roger Reino Morberg	VP sales	1 454 603	66 964	81 348	-	4 392	1 607 307
Erik Sw ensen	VP development	1 113 691	66 964	72 612	-	4 392	1 257 659
Tone Ann Veiteberg	VP QA\Reg	983 432	66 964	68 520	-	4 392	1 123 308
Ole Jørgen Robsrud	CEO Medistim Norge	1 139 475	142 857	71 124	-	4 392	1 357 848
Anders Lillebø	VP production	1 132 795	66 964	80 052	-	4 392	1 284 203
Mike Farbelow	Presisdent Medistim US	1 638 820	453 600	83 697	-	-	2 176 117
Kari Eian Krogstad	CEO Medistim Group	2 236 878	357 143	85 932	540 000	4 392	3 224 345
Thomas Jakobsen	CFO Medistim Group	1 610 375	133 929	74 844	-	4 392	1 823 540
Total		13 161 222	1 489 314	770 637	540 000	38 439	15 999 612

There are no special agreements towards any in the management team in case of leaving the company. All members of the team have a two-way arrangement of 3 months' notice. The exception is management in the US that has no notice period. The management group has the same pension plan as for other employees. 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 92.576. Management in the US has a contribution plan. Bonus accrued to the CEO in 2016 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. Neither the board, CEO nor other employees in the group have loans from the company. Bonus was accrued in 2016 but not paid.

Compensation to the board was 1000 TNOK in 2016 and 1000 TNOK in 2015. The chairman received 300 TNOK as compensation in 2016 and 2015. The four board members received a total 175 TNOK each as compensation in 2016 and 2015, a total of 700 TNOK.
CEO has an agreement with the Board that she receives up to 32.500 Medistim shares as part of compensation if in position until 2019. The Shares is received by the CEO free of charge and last shares will be received in 2020. The shares is expensed in the company by using the share price and number of shares granted. This expense is spread in equal portions over the vesting period. In 2016, TNOK 1.176 was expensed in the accounts related to the arrangement. In February, the Board decided to grant another 10.000 shares if CEO is in position by end 2019. The shares for 2016 was transferred to CEO in the beginning of 2017. See also overview below.

Year	2016	2017	2018	2019	2020
Number of shares	10 000	10 000	12 500	10 000	10 000
Share price at the time of the grant	23	23	33,6	50,5	73,5
Value in NOK	230 000	230 000	420 000	505 000	735 000
Expensed in the accounts	1 175 947	518 333	336 667	245 000	

The nomination committee leader received a compensation of 15 TNOK, while the two other members received 10 TNOK each. In total, the nomination committee received 35 TNOK as compensation.

Transactions with close related parties

All transactions between the companies within the group are according to the arm's length principal. Intercompany goods and services sold between the companies was 72 476 TNOK in 2016. In 2015 this was 67 457 TNOK. The split between goods and services was as follows:

	2016	2015
1 =NOK 1000		
Goods	68 866	63 456
Services	3 880	4 001
Total	72 746	67 457

Medistim ASA sold in 2016 goods for 68 866 TNOK to Medistim Deutschland GmbH, Medistim US Inc, Medistim Denmark Aps, Medistim UK Ltd and Medistim Norge AS. Medistim Deutschland, Medistim US Inc, Medistim Denmark Aps, Medistim UK Ltd and Medistim Norge AS are distributors for Medistim ASA in respectively Germany, USA, Denmark, UK and Norway for Medistim's own developed products. Medistim Norge AS purchased administrative services for 2 322 TNOK from Medistim ASA. Medistim ASA purchased administrative services for 1 558 TNOK from Medistim US.

Medistim ASA sold goods to in 2015 to Medistim Deutschland GmbH, Medistim US Inc, Medistim Denmark Aps and Medistim Norge AS for 63 456 TNOK. Medistim Norge AS purchased administrative services from Medistim ASA for 2 321 TNOK in 2015. Medistim ASA purchased administrative services for 1 680 TNOK from Medistim US.

Medistim ASA had a receivable as of 31.12.2016 towards Medistim Denmark Aps of 126 TNOK, a receivable towards Medistim Norge AS of 304 TNOK, a receivable towards Medistim UK Ltd of 6 816 TNOK and a receivable towards Medistim US Inc of 17 299 TNOK. Medistim ASA had a debt as of 31.12.2016 towards Medistim US of 640 TNOK.

Note 21 Other obligations

1 = NOK 1000	**2016**	**2015**
Warranty 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 3.4 MNOK. In Horten yearly rent it 789 TNOK, while yearly rent for the US office is 593 TNOK. In Oslo and Horten the rental agreement expires in 2020 and 2018 respectively and total lease obligation is 13.18 MNOK. In the USA the rental agreement expire year-end 2019 and total lease obligation is 1.8 MNOK. The rental is adjusted yearly according to National indexes for goods and services.

Split of lease obligation:

Within 1 year	TNOK	4 782
Within 2 – 5 years	TNOK	14 980
More than 5 years	TNOK	14 980

Leased equipment

The cost for leased equipment was 1 442 TNOK in 2016 and 1 414 TNOK in 2015.
The group is leasing office equipment and cars. Office equipment is operationally leased and the last lease exceeds in August 2020. The leasing cost was 129 TNOK in 2016 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 2016 was 1 315 TNOK and there were no prepayments related to the car leases. Last lease for the cars exceeds September 2020. The lease obligation within one year is 1442 TNOK. Lease

obligation as of 31.12.2016 for the coming 3 years was 2 541 TNOK. Total obligation as of 31.12.2016 was 2 859 TNOK and last lease exceeds in September 2020.

The company has no other obligations with specific governants.

Note 22 Exchange rates foreign currency

Currency	Rate 01.01.2016	Average rate	Rate 31.12.2016
USD	8.8090	8.3987	8.6200
DKK	128.91	124.78	122.22
EUR	9.6190	9.2899	9.0863
GBP	13.072	11.3725	10.6130

Note 23 Events after 2016

The Board of directors has no knowledge about other events after 2016 that will affect the annual report and financial statement for 2016.

Oslo, 14.3.2017

Øyvin A. Brøymer Chairman	Tove Raanes Board member	Bjørn M. Wiggen Deputy Chairman
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

Annual report 2016 for the holding company

Medistim ASA

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Medistim ASA
Økernveien 94
P.B 6471 Etterstad 0605 Oslo
0605 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 Denmark 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. A sixth subsidiary was established in the beginning of 2017. The company is named Medistim Spain S.L and is located in Barcelona in Spain.

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 2016 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 2016. 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 807 in 2016 (507 in 2015) which is 7.6 % of total work time in 2016 (4.6 % in 2014). 3 employees were on long-term sick leave for matters outside the workplace, which represented 389 workdays. No specific measures have been necessary to implement in this regard. On average, there were 46 employees in 2016.

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 29 women employed of a total of 46 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, no specific measures have been made.

Share capital and number of shareholders

The share capital in Medistim ASA was as of 31.12.16 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 650 shareholders and had 186 000 Medistim shares by 31.12.2016.

Profit for the year and key figures

Sales ended at 130.5 MNOK (122.1 MNOK). Profit before tax ended at 48.7 MNOK (41.7 MNOK). Medistim received a dividend from its subsidiary in Germany and Norway with 22.2 MNOK in 2016 (5.4 MNOK). No group contribution was received in 2016 or 2015.

Total assets in the balance sheet was for the company 175.0 MNOK as of 31.12.2016 compared to 182.7 MNOK as of 31.12.2015. Equity in the company was as of 31.12.2016 115.1 MNOK and 103.9 MNOK as of 31.1.2.2015. The equity ratio as of 31.12.2016 was 65.7 %.

By year-end 2016, the company had 7.3 MNOK in cash. The company's ability to finance its activities and investments are satisfactory. The same is the case for the company's financial and cash position. Cash flow from operating activities was 36.2 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 economic 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 the management.

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

Salary and benefits to management and leading employees

The Board of Directors set terms and conditions for the CEO. The CEO set the terms and conditions for the management team and leading employees. The principles for setting the terms to the CEO and leading employees are the same. The principles for 2016 and 2015 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 2016 and 2015. The exception is CEO that receive 12 500 shares as part of the compensation if she stay in her position until 2018, further 10.000 shares if in position until 2019 and further 10.000 shares if in position until 2020. 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 2016

After the launch of vascular products late 2015 in Europe and the launch of the same products in the US in 2016, focus for the development resources has been to establish and optimize the production line for the new products.

The launch of the new vascular solution is in line with Medistims strategy, as stated earlier by the company. The global vascular market represents a significant opportunity for Medistim and is estimated to represent approximately 600,000 procedures annually. In comparison, cardiac bypass surgery, a segment where Medistim has its strongest position with a global market penetration of 30%, represent 700,000 procedures annually. Medistim estimate that the vascular market has an annual potential of NOK 1 billion. The company is well positioned in the vascular market in the Nordic countries and in Germany, but has so far only a modest coverage in the vascular segment in other countries. Of total sales of own products in 2016 10 % of the sales was to vascular customers.

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 46.201 procedures (surgeries) in 2016. This represents 17.5 % 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 flexible and offers procedural sales, lease of the equipment and 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.

After a flat trend in 2013, extra focus was set on the company's commercial strategy. This has given positive results. The US company is showing double-digit growth third year in a row.
Focus and goal in 2017 is to increase usage per installation, create new customer relations and establish a customer base for the new product MiraQ that was launched in the US in 2016.

The company has ambitions in the U.S. market that is expected to be met in the coming years.

Medistim continues the positive trend in its direct markets in Europe. In UK and Germany, there was an 18.7 % growth in sales compared to last year. In Norway and Denmark Medistim is maintaining its position in these fully penetrated markets. Medistim also initiated the establishing of a direct operation in Spain in 2016. In Spain Medistim has a high market penetration within coronary surgery that creates a good basis for probe revenue for the new company.

Despite the challenging economic situation in many European countries, sales through distributors to installed base and investments in Medistim products is maintained. MiraQ upgrade capabilities is well received in the European market and there is a large potential within the vascular market.

In Asia China represented for the first time the country with highest revenue for Medistim. In 2016, 52 % of the sales in Asia was from China. In previous years, Japan represented the largest portion of the revenue. Sales in Japan has been stabile over many years. 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.

Asia is a good market for Medistims combined product with flow and ultrasound imaging and more than 40 % of sales of the product outside the USA was sold in the Asian market.

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 the Asian markets. Medistim have good representation through its distributors and is well positioned to meet the expected growth in the region.

About 20,000 coronary bypass surgery procedures are performed annually in Japan, and more than 80% of these procedures are guided and controlled by the use of blood flow measurement and intraoperative ultrasound imaging technology from Medistim. This makes Japan the most developed country in the world in terms of adopting and routinely applying quality assessment and surgical guidance to improve CABG surgery.

An important milestone in 2016 was that the health authorities in Japan, the Ministry of Health, Labour and Welfare approved a reimbursement of YEN 25,000 [EUR 225] when blood flow of the graft is controlled, using either transit time flow measurement or high-resolution epicardial ultrasonography intraoperatively. Medistim achieves reimbursement for the use of the technology after almost two decades of developing routine use in Japan. This is a great encouragement and affirmation of the value that is put on the clinical value of the technology. Hopefully this could lead to more countries acknowledging the value of reimbursing the quality assessment and guidance aspects of CABG and other vascular surgery

Medistim is in the process of seeking clearance for sale of MiraQ in Japan and China. It is expected that clearance will be in place during 2017.

In Latin America, Brazil is the country with the largest potential for Medistim’s products.
In the Middle East and Africa, Medistim’s imaging products, has been well received, led by Saudi Arabia.

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 public 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 guidelines as «standard of care». This is the case for both international organizations, but also for national organizations and guidance for clinical practice.

Medistim recognizes the value of clinical documentation and had enrolled over 600 patient by end 2016 in the registry study REQUEST(1), that the company also supports financially.
The prospective, multicenter, registry study of about 1,000 patients will provide new data on how the use of Medistim's devices for flow measurement and intraoperative imaging can be employed to optimize decision making during coronary artery bypass grafting (CABG) and become routine clinical practice. Similar data has not been collected and analyzed earlier. Therefore, the results from the study could be crucial for increased acceptance for the combined usage of TTFM blood flow measurements and ultrasound imaging during coronary bypass surgery.
It is anticipated that about 1,000 patients will be enrolled in 2017. The interest amongst hospitals in joining the REQUEST registry study has been very encouraging, and the participants represent some of the most advanced coronary bypass programs in the world.
Medistim's interest in sponsoring the REQUEST study with about 1 million Euro is consistent with the company's many years of close collaboration with coronary surgeons worldwide and a continued commitment to help advance medicine in this field.
At the end of the study, Medistim hope to establish a consensus for a recommended workflow to optimize decision making during CABG, and hopefully, gain guideline endorsements for such use of flow measurement and imaging data, in the USA as well as other countries.

Medistim entered a License and OEM agreement with em-tec in 2015, where Medistim obtains exclusive, eternal, worldwide rights to market and sell em-tec's transit time flow measurement (TTFM) technology for use on human blood vessels within cardiac-, vascular- and transplant surgery. em-tec's flow measurement device is designed as a basic, entry-level customer solution that meets lower price-point market segments and fills a gap within Medistim's product portfolio. The first Medistim labeled device, SonoQ, was launched in 2016.

One of the most important target markets for the SonoQ is India, a market with about 150,000 coronary artery bypass procedures per year, which is very low compared to the population size of 1.3 billion, and therefore expected to grow.

Medistim is the market leader with high-end products for surgical guidance and blood flow measurement in cardiac-, vascular and transplant surgery, but have been lacking an entry-level device to reach some emerging market product segments. SonoQ represents a basic model that could increase the adaptation in price sensitive markets like India. Medistim is optimistic in regard to future cooperation with Indian surgeons and support their efforts in achieving best possible surgical outcomes.

1) REgistry for QUality assESsmenT with Ultrasound Imaging and TTFM in Cardiac Bypass Surgery

Annual report 2016

Position, Competition and outlook

Medistim's flow meters have been in use in more than 1.5 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 about 30 % of the total number of bypass 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 5 % of the procedures performed. This means that in about 65 % of the cases where bypass surgery is performed there is no equipment in use to verify blood flow. This market represents Medistim's largest opportunity.

With Medistim's new MiraQ Cardiac and MiraQ vascular systems, 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 organization. There are large expectations towards the ultrasound imaging product and new products under development on the MiraQ platform.

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 apply for the holding company.

The financial report per 31st of December 2016 has been prepared according to Norwegian accounting principles (NGAAP) as do the comparable numbers for 2015. The board of Directors and Managing Director confirm to the best of their knowledge that the condensed set of financial statements for the period 1st of January to 31st of December 2016 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 2016 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 2016.

Allocation of profit

The Board of Directors suggests that the profit for 2016 of 41 715 TNOK is allocated to ordinary shareholder dividend of NOK 1.75 per share, which amounts to 31.794 TNOK corrected for own shares. The remaining 9.951 TNOK is allocated to other equity. Free equity as of 31.12.2016 was 32 000 TNOK after 31 764 TNOK was allocated to dividend.

Oslo, 14.3.2017

Øyvin A. Brøymer Chairman	Tove Raanes Board member	Bjørn M. Wiggen Deputy Chairman
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

Income statement Medistim ASA

1 = NOK 1000	Note	2016	2015
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	1	127 047	119 062
Other income	1,4	3 415	3 015
Total revenue		**130 462**	**122 077**
Operational expenses			
Cost of goods sold		21 670	21 358
Salary and social expenses	2	41 692	35 988
Depreciation on assets	3	10 842	9 327
Other operating expenses	2,4,14	25 193	23 998
Total operating expenses		**99 397**	**90 672**
OPERATING PROFIT		**31 064**	**31 405**
FINANCIAL INCOME AND EXPENSES			
Financial income			
Contribution from subsidiaries	6	22 200	5 400
Other financial income	12	6 724	9 449
Financial expenses	12	11 312	4 524
NET FINANCE		**17 612**	**10 325**
PROFIT BEFORE TAX		**48 676**	**41 730**
Tax expense	5	6 961	10 161
NET PROFIT		**41 715**	**31 569**
ALLOCATIONS			
Dividend	11	31 764	29 933
Other equity	11	9 951	1 636
TOTAL ALLOCATION		**41 715**	**31 569**
Earnings per share		**2016**	**2015**
Ordinary		**2,30**	**1,74**
Diluted		**2,30**	**1,74**
Dividend per share		**1,75**	**1,65**

Balance Sheet Medistim ASA

1 = NOK 1000	Note	31.12.16	31.12.15
ASSETS			
Non current assets			
Intangible assets			
Deferred tax	5	2 614	3 016
Marketing rights	4	2 697	1 319
R & D	3,4	31 700	35 656
Fixed assets			
Machinery	3	15 635	11 380
Office equipment	3	702	609
Financial assets			
Shares in subsidiaries	6	37 306	37 278
Other long term receivables	6	2 888	3 418
Total non current assets		**93 542**	**92 676**
Current assets			
Inventory	8	33 744	24 030
Accounts receivables	7,16	36 758	43 962
Other receivables	7,16	3 685	3 029
Cash	9	7 294	18 970
Total current assets		**81 480**	**89 991**
TOTAL ASSETS		**175 022**	**182 667**
EQITY AND LIABILITY			
Equity			
Issued capital			
Share capital	10,11	4 584	4 584
Share premium fund	10,11	40 253	40 253
Other paid in equity	11	2 226	1 200
Other equity			
Retained earnings	11	67 990	57 907
Total equity		**115 054**	**103 944**
Liabilities			
Accruals for obligations			
Deferred income	4	677	1 375
Total accruals		**677**	**1 375**
Other long term debt			
Long term debt from bank	15	1 875	5 626
Total other long term debt		**1 875**	**5 626**
Short term debt			
Interest bearing short term debt	15	3 750	5 416
Accounts payable		3 803	6 768
Payable tax	5	6 558	9 563
Employee w ithholding, social security taxes		3 144	2 829
Dividend	11	31 765	29 933
Other short term debt	13,16	8 396	17 213
Total short term debt		**57 416**	**71 722**
TOTAL EQUITY AND LIABILITY		**175 022**	**182 667**

Cash Flow Statement for Medistim ASA

1 = NOK 1000	Note	2016	2015
Cash flow from operations:			
Profit/loss before tax		48 676	41 730
Minus income tax paid		-9 562	-7 241
Plus depreciations		10 842	9 327
+/- Change in inventory		-9 714	-7 643
+/- Change in accounts receivable		7 204	-8 455
+/- Change in accounts payable		-2 964	4 401
+/- Change in other accruals		-8 237	8 313
Net cash from operating activities		**36 245**	**40 432**
Investing activities:			
Minus investment in assets		-12 555	-11 640
Purchase of own shares		-	900
Ney cash from investing activities		**-12 555**	**-10 740**
Financing activities:			
Minus down payment of long term debt		-5 416	-7 082
Dividend	11	-29 950	-25 362
Net cash from financing activities		**-35 366**	**-32 444**
Net change in cash		-11 676	-2 752
Cash as of 01.01		18 970	21 722
Cash as of 31.12		**7 294**	**18 970**
Available cash and cash withholding			
Available cash as of 31.12	9	5 659	17 335
Cash withholding for taxes	9	1 635	1 635
Cash and cash equivalents as of 31.12		**7 294**	**18 970**

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 products. Services are recognized as revenue at the time the service is performed.

Current assets and short-term debt

Current assets and short-term debt are 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 are valued 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 Denmark 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 component cost price.

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 has been 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 (24 %) 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 benefits. 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 is 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	2016	2015
USA	44 690	39 899
Asia	24 781	21 703
Europe	50 377	52 076
Rest of the world	10 614	8 399
Total sale	**130 462**	**122 077**

Other income amounted to 3 415 TNOK in 2016. 699 TNOK was reversal of deferred income from OFU funds and 2 316 TNOK was income from services provided to subsidiaries and 400 TNOK was sales of Medistim designed components.

Note 2 Salaries and other benefits

Specification of salary and social expenses

1 = NOK 1000	2016	2015
Salaries	33 753	28 505
Payroll tax	5 371	4 988
Other benefits	2 568	2 495
Total salary expenses	**35 988**	**35 988**

The total number of employees was through the year 46.

Medistim has a pension plan for all its employees. This is a contribution plan that covers 5 % of salary up to 6 G and 8 % of G between 7 and 12. 1G is the base amount (NOK 92.576) in the social security system. The cost for the contribution plan was in 2016 TNOK 1 676, while it was TNOK 1 585 in 2015.

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

Compensation to management

Medistim ASA **Management team**	**Position**	**Salary**	**Bonus**	**Pension**	**Other**	**Total**
Hæge Johanne Krogh Wetterhus	VP marketing	1 196 179	66 964	85 932	4 392	1 353 467
Anne Waaler	VP medical	654 974	66 964	66 576	3 303	791 817
Roger Reino Morberg	VP sales	1 454 603	66 964	81 348	4 392	1 607 307
Erik Swensen	VP development	1 113 691	66 964	72 612	4 392	1 257 659
Tone Ann Veiteberg	AQ/Reg manager	983 432	66 964	68 520	4 392	1 123 308
Anders Lillebø	VP production	1 132 795	66 964	80 052	4 392	1 284 203
Kari Eian Krogstad	CEO	2 236 878	357 143	85 932	544 392	3 224 345
Thomas Jakobsen	CFO	1 610 375	133 929	74 844	4 392	1 823 540
Total		**10 382 927**	**892 857**	**615 816**	**574 047**	**12 465 647**

Of other compensation to CEO Kari Krogstad of NOK 544 392, was NOK 540 000 related to her shares received through her share program. There are no special agreements towards any in the management team in case of leaving the company. All in the team has a two-way arrangement of 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 except for CEO. The CEO will receive up to 32 500 shares as part of compensation if in position in 2019. Bonus was accrued in the accounts as of 2016, but not paid.

Under other benefits it is included an expense of TNOK 1176 related to CEO share option. CEO receives shares over a time period if in position as CEO. The share program is described in the annual report under the chapter "salary and benefits to management and leading employees". The expense for the share option is calculated based upon the share price at the time of the granted option. The expense is distributed in equal rates over the vesting period. The share program is described in detail under note 20 in the group accounts.

Compensation to the Board of Directors:

1 = NOK 1000

	Compensation
Chairman Øyvin Brøymer	300
Deputy chairman Bjørn Wiggen	175
Board member Siri Fürst	175
Board member Tove Raanes	175
Board member Lars Rønn	175
Total compensation to the Board of Directors	1000

Compensation to auditor

1 = NOK 1000

	2016	2015
Expenses for auditing	390	326
Compensation for other services	41	4
Total compensation to auditor	431	330

The amounts are without VAT

Note 3 Assets and depreciation

1 = NOK 1000	Plant and Machinery	Equipment	Total fixed Assets	Activated Development	Total
Historic cost as of 1/1	34 969	6 564	41 533	60 580	102 113
Additions	7 128	443	7 571	3 664	11 235
Historic cost as of 31/12	42 097	7 007	49 105	64 244	113 348
Accumulated depreciation as of 1	23 591	5 954	29 545	24 924	54 469
Ordinary depreciation	2 872	351	3 223	7 619	10 842
Accumulated depreciation as of3	26 462	6 305	32 768	32 543	65 311
Book value at 31/12	**15 635**	**702**	**16 337**	**31 701**	**48 037**

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 2016.

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 is 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 2016 was in total 9.3 MNOK compared to 11.0 MNOK in 2015. In 2016 3.6 MNOK of the R & D expense was activated in the balance sheet while 6.8 MNOK was activated in the balance sheet in 2015. The activated expense in 2016 were related to the coronary and vascular products on the MiraQ platform. As of 31.12.2016 0.7 MNOK was recorded in the balance sheet as deferred revenue and 0.7 MNOK was recorded as revenue in the P & L in 2016. The company did not receive any OFU funds in 2015 or 2016. In total 5.7 MNOK of the R & D expenses was recorded in the P & L in 2016. Similar expense was 4.2 MNOK in 2015. The expensed R & D was the rest value of all R & D expenses after activated R & D was deducted. Activated expenses related to the ultrasound imaging and the MiraQ platform is depreciated over 8 years and the deferred income related to the project is released to the P & L within the same timeframe.

Medistim entered a license and an OEM agreement with em-tec GmbH in 2015. With the agreement, Medistim obtains exclusive, eternal, worldwide rights to market and sell em-tec's transit time flow measurement (TTFM) technology for use on human blood vessels within cardiac-, vascular- and transplant surgery. em-tec's flow measurement device is designed as a basic, entry-level customer solution that meets lower price-point market segments and fills a gap within Medistim's product portfolio. The first Medistim labeled device was launched in 2016. As compensation for these rights, Medistim paid 2.7 MNOK, which was recorded in the balance sheet as of 31.12.2016. The rights are exclusive and eternal, but will be depreciated over 5 years. The depreciation will be effective from 2017, since the Medistim labeled product where launched by the end of 2016.

Note 5 Income tax and temporary differences

1 = NOK 1000	**2016**	**2015**
Current income tax charge for the year before deferred tax asset is utilised	6 558	9 563
Change in deferred tax	403	598
Income tax expense reported	**6 961**	**10 161**

Reconciling income tax expense against profit

Income tax expense for the year	6 961	10 161
25 % of profit before tax	12 169	11 267
permanent differences	-5 208	-1 106

Specification of taxable income:	**2016**	**2015**
Profit before tax	48 676	41 730
Permanent differences	-21 268	-4 990
Change in temporary differences	-1 175	-1 321
Estimated income tax:	**26 233**	**35 419**

Payable tax in balance sheet:	**2016**	**2015**
Tax on profit for the year	6 558	9 563
Total payable tax	**6 558**	**9 563**

Specification of deferred tax asset

Differences in accounting and tax values	**2016**	**2015**
Fixed assets	-11 761	-15 170
Current assets	230	-317
Accrual for obligations	641	3 422
Total differences	-10 890	-12 065
Deferred tax asset 24 %	**2 614**	**3 016**
Deferred tax asset in balance sheet	**2 614**	**3 016**

Deferred tax asset in the balance sheet was reduced from the year before with 0.4 MNOK and was recorded at 2.6 MNOK. Deferred tax asset consist of temporary differences in valuation of assets. All deferred tax asset is recorded in the balance sheet as of 31.12.2016, since it is likely that the company will have future taxable income that will exceed temporary differences.

Note 6 Shares in subsidiaries

Medistim ASA has investments in the following subsidiaries:
1 = NOK 1000

Unit	Country	Segment	Ownership	Balance sheet value	Profit in 2016
Medistim USA Inc.	USA	Lease and sale within bypass surgery and vascular surgery	100 %	135	5 625
Medistim Deutschland GmbH	Germany	Capital sales within bypass surgery and vascular surgery	100 %	188	6 247
Medistim Norge AS	Norway	Sale of 3 pary products and capital sales within bypass surgery and vascular surgery	100 %	36 953	5 526
Medistim UK LTD	UK	Capital sales within bypass surgery and vascular surgery	100 %	1	-242
Medistim Spain S.L		Capital sales within bypass surgery and vascular surgery	100 % The company will be operative from 2017	28	0
Medistim Danmark Aps	Denmark	Sale of 3 pary products and capital sales within bypass surgery and vascular surgery	100% - Owned indirectly through Medistim Norge AS with book value of TNOK 1 103		12
Total				**37 306**	**17 168**

Medistim Norge AS has a subsidiary Medistim ASA owns indirectly through Medistim Norge AS in Denmark. The company is named Medistim Denmark 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.	34 910	24 760	10 150	98 064	5 625
Medistim Deutschland GmbH	14 622	3 661	10 962	36 574	6 247
Medistim Danmark Aps	2 203	1 403	800	3 492	12
Medistim UK Ltd	2 119	7 272	-5 154	2 956	-242
Medistim Norge AS	43 721	11 734	31 987	69 259	5 526
Totalt	**97 575**	**48 830**	**48 745**	**210 345**	**17 168**

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 Denmark has offices in Copenhagen in Denmark. Medistim Spain S.L was established with offices in Barcelona in 2017. Book value of goodwill related to the acquisition of Medistim Norge AS was as of 31.12.2016 14 128 TNOK. Goodwill at the time of acquisition was 16 097 TNOK. None of the subsidiaries are listed at a stock exchange. Of Medistim UK's debt of 7 272 TNOK, 2 888 TNOK is a long-term debt towards Medistim ASA. The debt is part of a cash transfer to finance and establish the company. No interest has been charged on this debt. Medistim ASA received from its German and Norwegian subsidiary a dividend of 5.7 MNOK and 16.5 MNOK respectively in 2016.

Note 7 Account receivables and other receivables

Accounts receivable

1= NOK 1000	2016	2015
Accounts receivable	36 837	44 697
Provision for bad debt	-115	-735
Total	**36 758**	**43 962**

All receivables are due within one year. Losses in 2016 were 1 050 TNOK and losses in 2015 were 0 TNOK. It is recorded an accrual of 115 TNOK to cover expected losses. Historically the company has small losses on receivables. Other receivables are shown below.

Other receivables

1= NOK 1000	2016	2015
Pre payments	769	837
Prepaid taxes and VAT	2 054	2 192
Accrued revenue	1 016	-
Other	-154	0
Total other receivables	**3 685**	**3 029**

Note 8 Inventory

1= NOK 1000	2016	2015
Components	27 845	16 631
Finished goods	7 472	8 654
Inventory accrual	-1573	-1255
Total	**33 744**	**24 030**

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	2016	2015
Demonstration units	596	204
Service parts	977	1051
Total	**1573**	**1255**

Note 9 Cash in Bank

Restricted cash amounted to 1 754 TNOK as of 31.12.2016 and was related to tax withheld on salary paid to employees. The comparable amount as of 31.12.2015 was 1 635 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 2016:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.2016	18 337 336	NOK 0.25	NOK 4 548 334.00
Changes in share capital	-	NOK 0.25	NOK -
Share capital 31.12.16	**18 337 336**	**NOK 0.25**	**NOK 4 584 334.00**

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 2017 in the price range of NOK 0.25 to

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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 2017. See note 11 for changes in the equity for the last year.

Status for the commissions as of 31.12.2016:

	Capital increase	Medistim shares
Commission given at the shareholders meeting in 2016	1 833 733	1 833 733
Commissions used	-	-
Status for the commissions as of 31.12.2016	**1 833 733**	**1 833 733**

The company had 186 000 Medistim shares as of 31.12.2016.

Change in Medistim shares	
Number of shares as of 31.12.2015	196 000
Change in own shares	-10 000
Number of shares as of 31.12.2015	186 000

The 20 largest shareholders in the company were as of 31.12.2016:

Shareholder	Number of shares	Shares in %	Nationality
INTERTRADE SHIPPING	3 850 000	21,00 %	NOR
SALVESEN & THAMS INV	1 862 500	10,16 %	NOR
FOLLUM CAPITAL AS	1 000 000	5,45 %	NOR
SKAGEN VEKST	850 072	4,64 %	NOR
PROTECTOR FORSIKRING Aksjer	784 155	4,28 %	NOR
GRANDEUR PEAK*	674 271	3,68 %	USA
STENSHAGEN INVEST AS V/Lars Hatletveit	636 729	3,47 %	NOR
Skandinaviska Enskil A/C CLIENTS ACCOUNT	606 559	3,31 %	DNK
BUANES ASBJØRN JOHN	519 936	2,84 %	NOR
DYVI INVEST AS	446 154	2,43 %	NOR
CITIBANK EUROPE PLC S/A SEB SA UCITS	398 275	2,17 %	LUX
BNP Paribas Securiti S/A ITALIAN RESIDENT	395 334	2,16 %	ITA
VERDIPAPIRFONDET HAN NORGE	346 154	1,89 %	NOR
VEVLEN GÅRD AS	343 959	1,88 %	NOR
SEB PRIME SOLUTIONS SKANDINAVISKA ENSKIL	262 419	1,43 %	LUX
RBC Investor service S/A LUX-NON-RES/DOM	259 063	1,41 %	LUX
REGENTS OF THE UNIVE The Bank of New York	255 048	1,39 %	USA
HOLBERG NORDEN VERDIPAPIRFONDET V/HOLBERG FONDSFORVA	253 010	1,38 %	NOR
Danske Invest Norge	250 000	1,36 %	NOR
BANK JULIUS BÄR & CO	200 000	1,09 %	CHE
Total 20 largest shareholders	14 193 638		
Total number of shares outstanding	18 337 336		
20 largest shareholders in %	77,40 %		

* Includes 4 different Grandeur Peak funds

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Board members and management team with shares in the company:

Shareholder	Number of shares	In % of total	Position
Tove Raanes via Trane AS	1 990	0,010 %	Board member
Bjørn Wiggen (holds 24 % of the shares in Salvesen og Thams Invest AS	1 862 500	10,16 %	Deputy chairman
Roger Morberg	6 438	0,031 %	VP sales
Erik Swensen	40 000	0,22 %	VP development
Thomas Jakobsen	70 000	0,38 %	CFO
Kari Eian Krogstad	90 000	0.49 %	CEO
Siri Fürst	2 000	0.010 %	Board member
Øyvin A. Brøymer (Intertrade Shipping)	3 850 000	21.00 %	Chairman
Anders Lillebø	5 000	0,03 %	Production man.

There were no share options outstanding as of 31.12.2016 except form the share program to CEO described under chapter 3 Corporate Governance under compensation to management.

Note 11 Change in equity

1 = NOK 1000	Share capital	Own shares	Premium fund	Other paid in equity	Other equity	Total
Equity 31.12.15	4 584	(49)	40 253	1 200	57 957	103 946
Change in equity						
Change own shares	-	3	-	1 026	150	1 179
Other corrections	-	-	-	-	-20	-20
Profit for 2016	-	-	-	-	41 715	41 715
Dividend to shareholders	-	-	-	-	-31 765	-31 765
Equity 31.12.16	**4 584**	**-47**	**40 253**	**2 226**	**68 036**	**115 054**

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 up to 12 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 6 EUR contracts and 6 USD contracts. Each contract is due by the end of the month with EUR 150.000 until June 2017.

Total amount of hedging contracts in EUR as of 31.12.2016 was EUR 0.9 mill. with an unrealized loss of 45 TNOK.
For USD, the hedging contracts amounted to 0.9 mill. USD as of 31.12.2016 with an unrealized loss of 561 TNOK. The hedging contracts are entered to secure sales in foreign currency. Unrealized gain or loss related to the contracts is recorded in the balance sheet as of 31.12.2016 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	2016	2015
Foreign exchange gain	6 693	9 338
Foreign exchange loss	10 998	3 985
Total	**-4 305**	**5 353**

Note 13 Specification of short-term debt

1= NOK 1000	2016	2015
Bonus program distributor	480	-
Bonus and commission	1141	2125
Holiday allow ance	3 813	3 560
Goods received not invoiced	442	32
Board compensation	1175	850
Debt tow ards subsidiary	-	9 572
REQUEST accrual	801	730
Accrual for guarantees	150	150
Other	394	194
Total short term debt	**8 396**	**17 213**

Note 14 Other operating expenses

1 = NOK 1000	2016	2015
Office rental	4 744	4 837
Travel expense	2 800	2 422
Marketing	2 186	2 307
Consultancy fee	7 659	6 460
Insurance	734	624
Freight	760	405
Communication	2 348	2 552
Regulatory/QA	420	1 298
Production material	969	973
Other	2 573	2 120
Total other operating expenses	**25 193**	**23 998**

Note 15 Long-term debt and loan security

Medistim ASA had 5.6 MNOK in long-term debt by the end of 2016. 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 2018. Loan due within 12 months is shown as short-term debt in the balance sheet.

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 31.12.2016 16.3 MNOK for assets, 36.7 MNOK for accounts receivables and 33.7 MNOK for inventory. See also note 12 for status related to hedging contracts.

Note 16 Receivables and debt towards subsidiaries

1 = NOK 1000	2016	2015
Account receivable	23 700	20 867
Other receivable	2 888	3 418

Short term debt	639	10 180

Note 17 Events after 2016

The Board of directors has no knowledge about events after 2016 that will affect the annual report and financial statement for 2016.

Oslo, 14.3.2017

Øyvin A. Brøymer Chairman	Tove Raanes Board member	Bjørn M. Wiggen Deputy Chairman
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

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

We hereby confirm that the annual accounts for the group and the company for 2016 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 14.3.2017
Board of Director's in Medistim ASA

Øyvin A. Brøymer Chairman	Tove Raanes Board member	Bjørn M. Wiggen Deputy Chairman
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

BDO AS
Munkedamsveien 45
Postboks 1704 Vika
0121 Oslo

To the General Meeting of Medistim ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medistim ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of key audit matter	How the key audit matter was addressed in the audit
Revenue The Group revenue recognition policy for sales in the Americas is different from the policy used for sales in the rest of the world. The Group's deliveries outside the Americas is treated as sale of goods, and recognized on delivery. In the Americas, the sales model briefly is payment for use of the equipment. Thus, revenue from the American market is treated as operating leases. Equipment located at the end customer is recognized as assets in the consolidated balance sheet, and amortized over the estimated useful life. The difference between the two models, and the complexity this cause in the accounting, has lead us to focus on this during our audit. We refer to the description in the accounting policies and note 2 to the Group financial statements.	We have assessed the appropriateness of management's choice of revenue recognition policies, and the application of this. Our work include review and evaluation of procedures and systems related to the Company and the Group revenues. We have obtained an understanding of the relevant internal controls, and performed audit procedures to verify that the revenue recognition has been made in accordance with the policies described. We have evaluated the sufficiency of the revenue recognition policies description in the notes to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the annual report and statements on Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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 statements on 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, 15 March 2017
BDO AS

Steinar Andersen
State Authorised Public Accountant (Norway)

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

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