
ANNUAL
REPORT
2018
MiraQ

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Medistim group

For the holding company Medistim ASA

For the group and the holding company

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 35 % 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 2018

2018 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 22% measured as the share of bypass procedures done with Medistim's devices. In addition we have strengthen our position in Asia and Europe through increased sales and installed base.

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

2018 this congress was held in Beijing, China, and Medistims equipment was given much attention through presentations in the scientific program

During 2018, we reached an important milestone when the final results from the 1000 patients prospective, multi-center registry study REQUEST was presented. This study is unique as it collects data from a large patient material for the first time to illustrate the implications that the combined use of TTFM and ultrasound imaging has for the surgical results. In this study, some of the best cardiac centers in Europe, Canada and the United States participate. The results from the REQUEST study show that 25% of the patient population had one or more surgical changes in the procedure based on ultrasound and bloodstream data. This is a high figure, indicating that using high-resolution TTFM and ultrasound imaging has great clinical benefit during the CABG procedure, even for highly experienced surgeons. We are now looking forward to 2019 when the complete analysis and publication of the study will be ready.

The MiraQ, Medistims most advanced product generation, include different versions to fit with the needs of cardiac and vascular surgery, respectively. The MiraQ 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. In 2018 we strengthened our production team in Horten and a focus is now to develop our production technology. This will be given extra focus through the prodTek project in collaboration with GE and Sensocure supported financially by the Norwegian Research Council.

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 2019
Kari Eian Krogstad
CEO Medistim ASA

Alternative resultmeasures, concepts and abbrevations

Alternative resultmeasures is used by investors, securities analysists and other interested parties. The intention with the alternative resultmeasures is to provide abetter overview of achieved results and development in the company. In addition a list of concepts and abbrivations that is relevant for the branch Medistim operates in. Below is the list of alternative resultmeasures, concepts and abbrevations Medistim uses in its reporting.

Alternative resultmeasures:

R & D expenses:	Resarch and development expenses.
Result before R & D, depreciation and write offs:	Margin after cost of goods, salary and social expenses and other operating expenses are deducted except for R & D expenses.
EBITDA:	Earnings before interest, taxes, depreciation and armortization. Corresponds to operationg income before depreciations and writedown.
EBIT:	Earnings before interest and taxes. Corresponds to operating result.
Currency neutral growtht:	Compares this years sales with preavious year sale when sale in foreign currency is recalculated using the same average currency rate in the reporting period to get a neutral comparison.
Working capital:	Inventory plus accounts receivable minus accounts payable.

Concepts and abbrevations:

VeriQ:	Medistims 3. generation systemplatform
MiraQ:	Medistims 4. Generation systemplatform
SonoQ:	Medistims basis solution for alternative markets
TTFM:	Transit Time Flow Measurement
Vascular surgery:	Surgery involving veins and arteries in the body except on the hart
CABG:	Coronary Bypass Surgery
REQUEST:	REgistry for QUality assESsmenT with Ultrasound Imaging and TTFM in Cardiac Bypass Surgery. En study initiated by Medistim ASA to collect data regarding the combined use of ultrasound imaging and TTFM.
HUFS:	High-frequency Ultrasound Imaging
CIDAC:	Comparison of intraoperative duplex ultrasound and angiography after carotid endarterectony
NICE:	British National Institute for Health and Clinical Excellence; an organization that recommends standard of care within healthcare.
AATS:	The American Association for Thoracic Surgery, an American organization focusing on thoracic surgery.
ESC	European Society of Cardiology
STS:	Society For Thorax Surgery, American organization focusing on thoracic surgery.
EACTS:	European Association for Cardio-Thoracic Surgery, Europeean organization focusing on thoracic surgery
ASCVS:	Asian Society of Cardiovascular Surgery, Asian organization focusing on cardiovascular surgery
ICC:	International Coronary Congress, organization focusing on CABG

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. Medistims equipment was in use in over 60 countries in 2018.

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 Latin American 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 2018 by increasing its market penetration especially in the US, but also in 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 2018

(Numbers for 2017 in parenthesis)

Sales

Sales for the group in 2018 ended at 325.9 MNOK (301.5 MNOK), a 8.1 % growth. There was a growth in all markets except in the smallest region the "rest of the world". In Medistim's largest market, USA, there was a growth of 8.2 %. Sales in Asia had a growth of 43.4 % while there was a decline in the "rest of the world" with 1.7 %. 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 an increase in sales of 3.0 %. Sale of own products in Europe increased with 6.5 %, while 3. party products ended at the same level as last year.

Sales of Medistim products were in 2018 254.8 MNOK (229.8 MNOK). Sales of 3.party products were in 2018 71.1 MNOK (71.7 MNOK). Average exchange rates towards USD and EUR were in 2018 respectively 8.13 and 9.60, while equivalent rates in 2017 were 8.27 for USD and 9.33 for EUR. With the same rates as in 2017 sales in 2018 would have ended at 324.0 MNOK. The volume growth in 2018 was 7.5 %. For own products the volume growth was 10.0 % while for 3.party products there was a decline of 0.4 %.

Cost of goods sold

For 2017 cost of goods sold ended at 79.4 MNOK (72.8 MNOK), and cost of goods sold represent a percentage of 24.4 % of sales (24.1 %).

Salary, social and other operating expenses

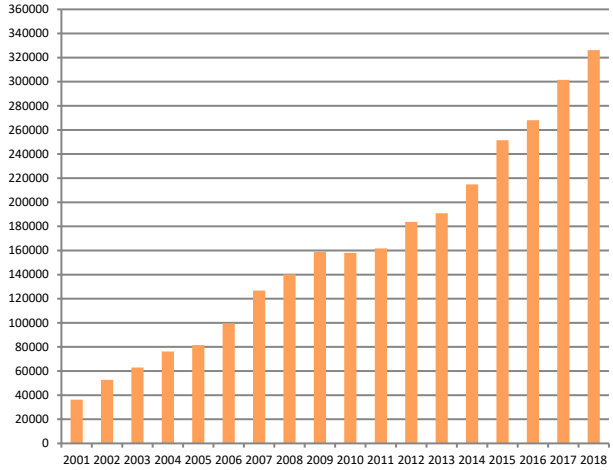
For 2018 salary and social expenses ended at 105.3 MNOK (98.3 MNOK). The increase in salary and social expenses was related to the increased employment in production capacity, full year effect of employments from 2017 in addition to general salary adjustments.

Other operating expenses in 2018 ended at 54.8 MNOK (51.7 MNOK). The increase in the expenses was related to index regulated expenses and IT expenses.

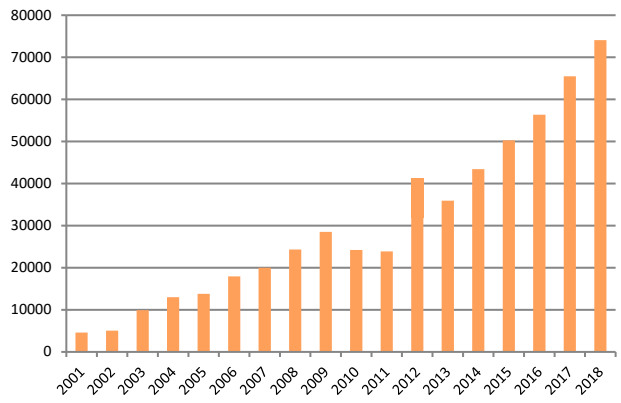
R & D expenses

During the year 10.2 MNOK (8.6 MNOK) was used within research and development (R&D). Result before R & D, depreciations and write offs was 92.7 MNOK (85.1 MNOK). This equals a margin of 28.5 % (28.2 %). In 2018 3.8 MNOK (2.2 MNOK) of the R & D expense was activated in the balance sheet.

Sales revenue per year in TNOK.



EBIT per year in TNOK.



Earnings

Operating profit before depreciation (EBITDA) for 2018 ended at 86.3 MNOK (78.7 MNOK). Result before tax and finance (EBIT) for 2018 ended at 74.0 MNOK (65.5 MNOK).

The group recorded a net financial income of 0.5 MNOK in 2018. In 2017, net financial revenue was 1.1 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 74.5 MNOK (66.6 MNOK). Result after tax ended at 57.0 MNOK (47.6 MNOK) for 2018.

Earnings per share for 2018 were NOK 3.14 (NOK 2.62). Average shares outstanding were 18.178.002 (18.161.336) by the end of December 2018.

Balance sheet

Total value of the balance sheet was 269.6 MNOK as of 31.12.2018 (251.1 MNOK). The equity by 31.12.2018 was 206.7 MNOK (183.0 MNOK).

The cash position by year-end was 47.5 MNOK (54.4 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 2018 55.8 MNOK (61.6 MNOK). By the end of 2018, the company had 148.500 own shares.

The company was in a net cash position of 38.0 MNOK by year-end 2018, and interest-bearing debt was 10.5 MNOK. Short-term debt was 55.4 MNOK.

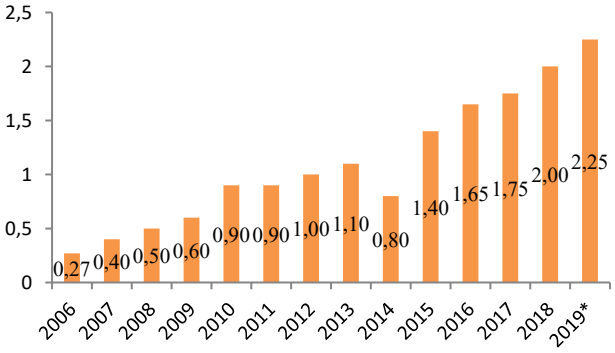
Compared to last year working capital has increased with MNOK 16.2. The reason for the increase in working capital was related to increased accounts receivables due to sales growth by the end of the year.

The company has a deferred tax asset of 2.2 MNOK related to temporarily differences in relation to book values and tax values.

Suggested distribution of profit for 2018

Result after tax for the holding company Medistim ASA was a profit of 46.1 MNOK. The Board of Directors suggest to the general assembly a dividend of NOK 2.25 per share, a total of 40.9 MNOK corrected for dividend on own shares. This is a pay ratio of 72 % (76 %). The remaining amount of 2018 profit of 5.2 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 240 MNOK in dividend to shareholders.

Dividend per share



*Suggested dividend for 2019

Continued operation

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 2018. Equity in the group was 206.7 MNOK as of 31.12.2018, which represent an equity ratio of 76.6 %.

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 2018.

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. For instance, in the USA in 2017, the Centers for Medicare and Medicaid Services started 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. In 2015 the company took the initiative to start up the registry study, REQUEST[1], which the company has supported financially with 1 million EURO. In 2018 the first final results from the study was presented at the yearly EACTS conference.

The objective for the REQUEST study is to document how often the combination of high-frequency ultrasound imaging (HFUS) and transit time flow measurement (TTFM) performed with Medistim's VeriQ C or MiraQ devices will change the surgical procedure. The REQUEST surgical coronary artery bypass grafting (CABG) protocol includes ultrasound scanning of the aorta, conduits, target coronary vessels and anastomoses, as well as TTFM graft assessment.

More than 1 000 CABG patients were included in this prospective, multicenter, registry study between April 2015 and December 2017. Seven leading cardiac surgery centers from Europe, USA and Canada, led by Coordinating Investigator, Professor David Taggart from the University of Oxford, participated. During EACTS, Professor Taggart presented the final results from this study.

The final results showed that 25 % of the patient population had one or more surgical changes made to the surgical strategy based on imaging and flow data. Of the sub-populations that went through aorta scanning and coronary target scanning, 10 % and 20 % of the patients had changes in the surgical strategy, respectively. Graft assessment with TTFM was performed in 99 % of the patients, with a result of 3 % anastomotic revision rate in 7 % of the patients. These results may be compared with previously published data showing about 4-5 % anastomotic revision rate in about 10 % of the patients.
Furthermore, the in-hospital outcomes showed a remarkably low mortality rate of 0.6 % and stroke/TIArate of 1 %.

"The final results confirmed the findings from the interim analysis presented in May. In the hands of expert cardiac surgeons, and using state-of-the-art surgical procedures, HFUS for surgical guidance and TTFM for graft assessment led to a 3 % revision rate of the anastomosis and very low level of in-hospital mortality and stroke rates", commented Professor David Taggart. "One of the striking findings is that without routine assessment in the operating room, most of these aorta and graft problems would have not been detected until after the patient had left the operating room. These results indicate that combining TTFM and HFUS in order to guide surgery, verify graft patency and to avoid or correct surgical problems intraoperatively, may play an important role in our continued endeavors to improve CABG surgery and its outcomes to the benefit of our patients. It should therefore become a standard of care."

Medistim's interest in this study has been to investigate and document the clinical value of the combined use of TTFM and HFUS. With these final results, the REQUEST study has provided new insights that may positively impact clinical outcomes and change clinical practice going forward. The data will support initiatives for further guideline recommendations as well as reimbursement. Medistim is very much encouraged by these final results, and look forward to further analysis and results to become available from this vast patient material in the future, in order to continue learning and developing this surgical procedure.

Vascular surgery is also a focus area for Medistim and the company has supported the CIDAC study by providing its equipment for the study. Dr. C Knappic, Dr. A. Zimmernann and Dr. HH Eckstein at the university hospital in Munich performed the study. The purpose of the study was to compare the use of angiogram and Medistims ultrasound imaging capability when performing carotid endarterectomy. This is a type of procedure where a stenosis inside the carotid artery is removed surgically.150 patients was included in the study and it concluded that Medistims ultrasound imaging capabilities improved reliability and images. This resulted in improved outcome for the patients. The published study is yet

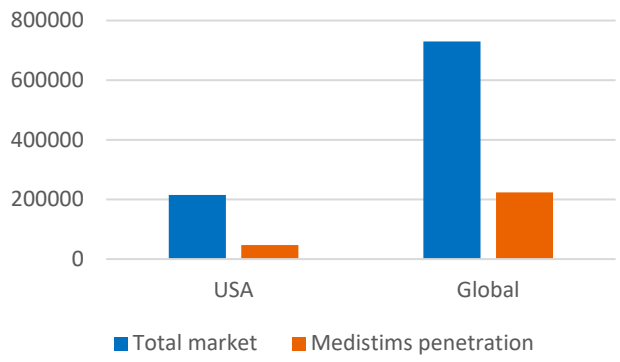
to come, but the preliminary results where presented during the yearly ESVS (European Society of Vascular Surgery) congress in 2018.

Market development

Medistim sells its products all over the world and is direct in USA, Denmark, UK, Germany, Spain and Norway where Medistim has local representation. Elsewhere in the world, the products are sold through distributors.

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 about 2.600 systems by the end of 2018. 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.



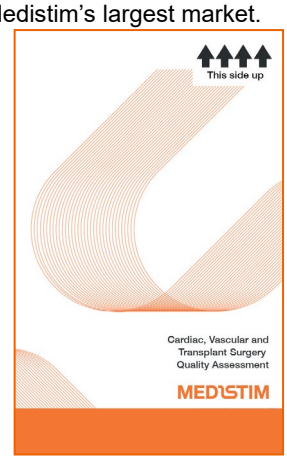
Medistim's market penetration compared to the total number of coronary bypass procedures performed

USA

In the US about 75 % 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 22 % of the total market of approximately 230.000 bypass surgery procedures performed annually.

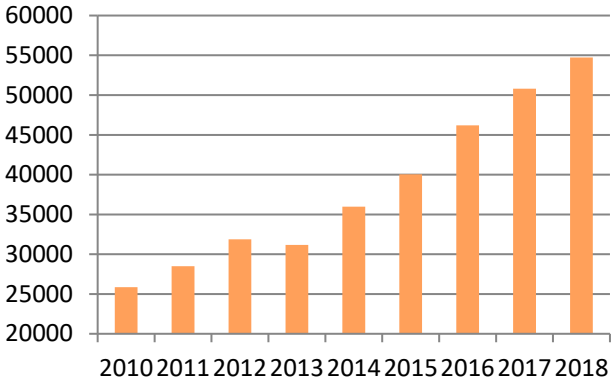
Medistim has established a unique and flexible business model for the US market. Instead of purchasing equipment and consumables, the hospital pays per procedure or lease. The equipment is placed at the customer site free of charge and the hospital must pay a monthly lease or purchase a smart-card that 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 16 sales representatives and 6 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.

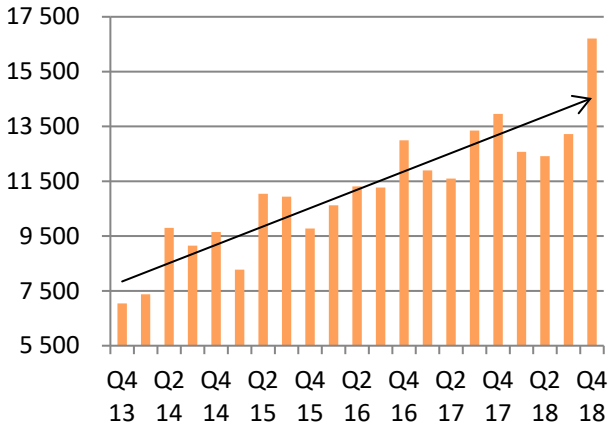


VeriQ smart-card used in the USA.

Sales in the US ended at 113.1 MNOK (104.6 MNOK). Number of procedures sold in 2018 was 54 725 (50 800), a growth of 7.7 %. In 2018 17 235 of the procedures came from capital installations (14 353). Sale of imaging procedures had a growth of 7.8 % and of the total number of procedures sold was 7 380 (6 843). Sale of flow procedures ended at 47 345 procedures and represented a 7.7 % growth (43 957).



Number of procedures per year

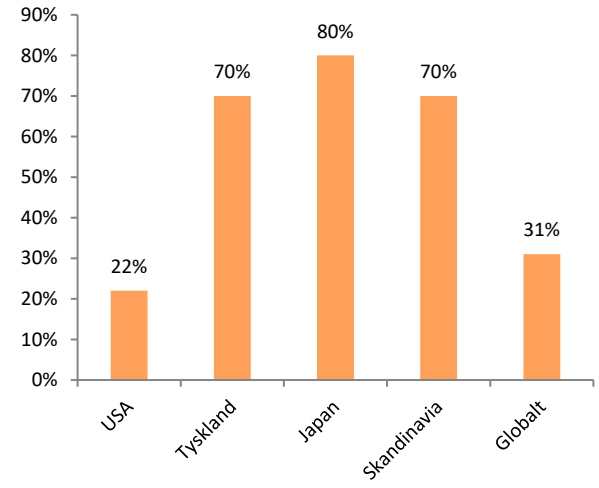


Number of procedures per quarter in the US

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 well positioned 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. Consumables are the most significant source of revenue for the group.

Direct representation in Norway, Denmark UK, Spain 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 2018 have been as expected. In both Norway and Denmark, Medistim operates as distributor for other surgical instruments as well.

Medistim has had direct representation in UK in 6 years and it has taken more time than expected to penetrate the British market. Sales ended at 2.8 MNOK compared to 1.2 MNOK in 2017. Even if the growth in percent is high the sale is still modest compared to the potential in UK. In UK, there are performed between 20.000 and 25.000 procedures per year, and in 2018, Medistim's equipment was in use in 1.750 of these.
However, Medistim is still optimistic regarding the potential in UK. The reason for this is that British NICE updated in 2018 its recommendation for the use of Medistim's equipment on a regular basis in all British hospitals that performs coronary bypass surgeries. The estimated cost saving per surgery has increased from £115 to £141 from the previous 2011 guidance. The recommendation fuels the ongoing efforts to increase the adoption of both our TTFM and high frequency ultrasound imaging in UK. A NICE guidance are highly recognized in the global market as well. Lastly, Medistim has established a solid reference center in Oxford through the REQUEST study.

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 3.3 % and ended at 40.6 MNOK. Of total revenue, about 27 % 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. Within coronary surgery there are still growth opportunities. The opportunity is to convert flow customers to become flow and imaging customers.

Medistim established a direct representation in Spain in 2017 and 2018 was the first calendar year with direct representation. The subsidiary has to local employees that serve the end customers directly.
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 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. Sales in Spain ended at 11.5 MNOK, a 123 % increase, and Medistim is satisfied with the development.

Medistim has been successful with direct sales and customer support through its other subsidiaries in other markets 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.

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 and the REQUEST results are 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 6.5 % in 2018 end ended at 83.7 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.

Japan is one of the most developed country in the world in terms of adopting and routinely applying quality assessment and surgical guidance to improve CABG surgery. Even after two decades of using the technology, health authorities implemented reimbursement 2016 when hospitals used Medistims technology during CABG surgery. It is expected that Medistims most advanced equipment, the MiraQ, will be cleared for sale in 2019.

In Asia sales increased with 43 % in 2018 and ended at 36.7 MNOK. The strong development for the year was related to growth in the Chinese market. Sales from China represented 57 % of total sales in the region and increased from MNOK 11.5 in 2017 to MNOK 22.5 in 2018. In China, the number of coronary surgeries increases with 5-10 % per year and represent a future growth market for Medistim. MiraQ is cleared for sale in 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 solution within vascular surgery when launching the MiraQ platform. 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 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 with its integrated and customized solution for vascular surgery, work focused towards this customer group that represent a large revenue potential for the company.

Focus on the vascular market is according to Medistims strategy. 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 31 %, 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 15 % of the revenue was from vascular customers, an increase from 14 % in 2017. Sales towards the vascular segment increased with 9.3 %.

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 has a License and OEM agreement with em-tec, 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 is SonoQ.

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. Sales of the SonoQ product ended at 2.9 MNOK in 2018 and was mainly sales to India.

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. Sales of third party products in 2018 ended at 71.1 MNOK .

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 2018 10.2 MNOK was invested, which is 4.0 % of sales of own products.

Development activities – development of new production technollogy

Medistim is part of a collaborative project together with GE Vingmed Ultrasound and Sensocure to develop new production technology within medical devices. The project, «Advanced Manufacturing Technologies for High Impact Medical Devices», has been granted funding of MNOK 14,4 over 3 years from the BIA Health program at the Norwegian Research Council. 2018 is the first year in the project and is

also in collaboration with University College of Southeast Norway and the research institutions SINTEF and NORNER.

Medistim see this project as a unique opportunity to develop its production technology will bring today's production of ultrasound probes to a higher level in terms of effectiveness and quality.

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.

Other affairs within the group

Events after year end

No events after 31.12.2018 has occurred that affect the evaluations made in the 2018 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 at 2.3 % (3.2 %) of total working hours. It has not been necessary to put into effect special measures in 2018. The group had 105 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. 54 of the 105 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.

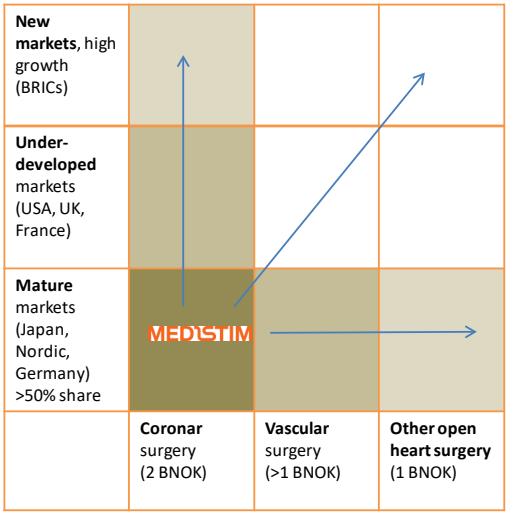
Prospects and trends

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.

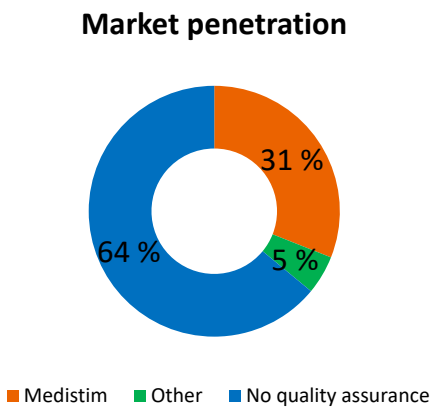


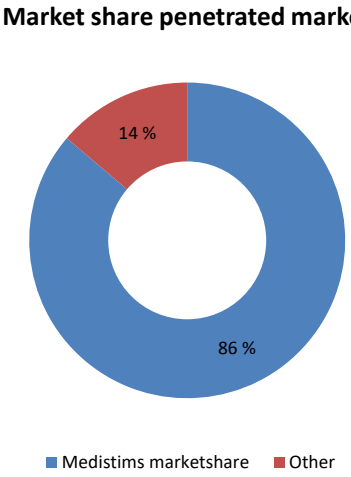
Medistim's market potential within the segments coronary bypass-vascular and other open-heart surgery

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 64 % of the surgeries performed are done without any quality assurance.

Intraoperative ultrasound imaging in combination with flow measurements increases Medistim's market potential, because it adds applications and relevance with 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 2.0 million patients worldwide since it came on the market, and the company a clear leader in its niche. The equipment is used today in over 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 strong competence and opportunity to develop the company further. With imaging technology and the MiraQ™ platform, the company has 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 and Asian market.

Oslo, 14.3.2019

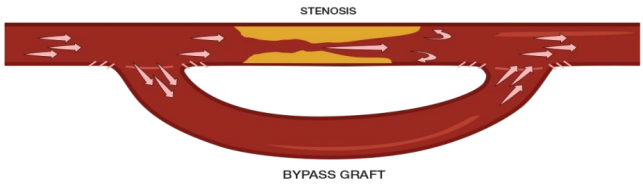
Øyvin A. Brøymer Chairman	Tove Raanes Board member	Bjørn M. Wiggen deputy chairman
Siri Fürst Board member	Lars Rønn Board member	Kari Eian Krogstad CEO

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.

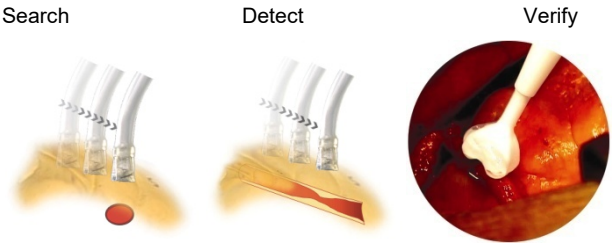


A stenosis in an artery needs to be bypassed by conecting a new graft to supply blood to the heart.

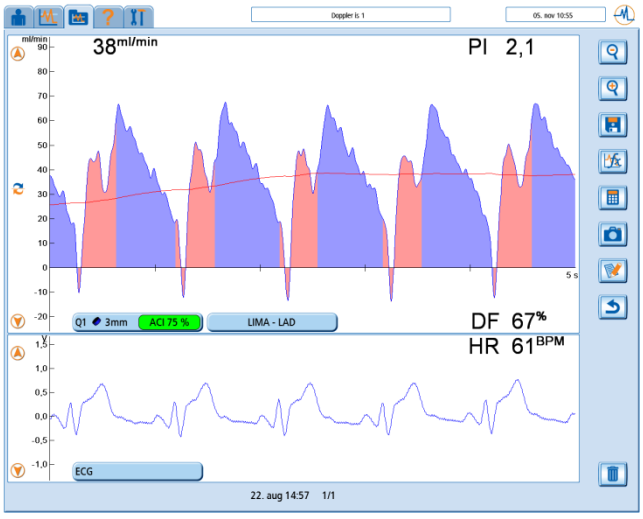
MiraQ™ system unit and probes in different sizes.

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.

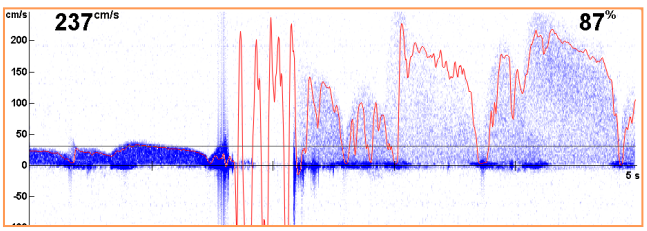
In addition to blood flow measurements, using the transit time principle (TTFM) the equipment provides a tool for the surgeon to search for vessels and to decide the level of stenosis in a diseased vessel by using Doppler technology. Vessels can be hard to locate because of fat tissue and arteries located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



Doppler probe searches and locate, Quickfitprobe verify blood flow.



Correct blood flow visualized using VeriQ touch screen.



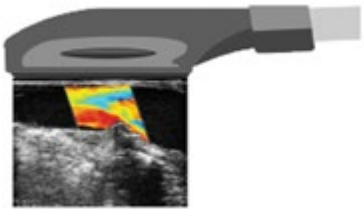
A shift in the Doppler curve that identifies a stenosis.

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

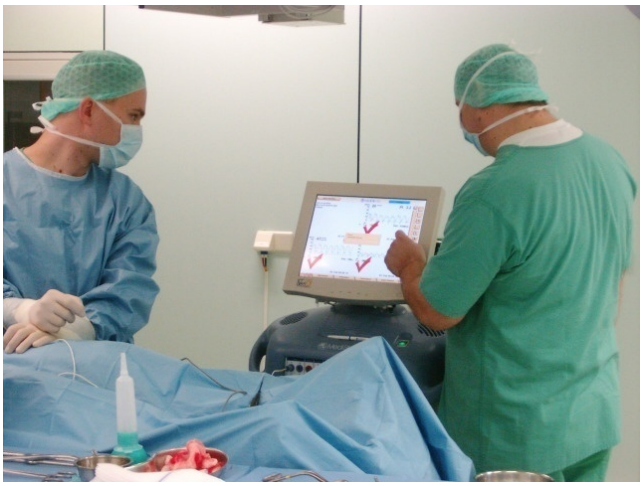


The imaging probe is used to visualize blood flow

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

Medistim completed during 2014 its 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 2018 all MiraQ products was cleared for sale in the US, China 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..

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.

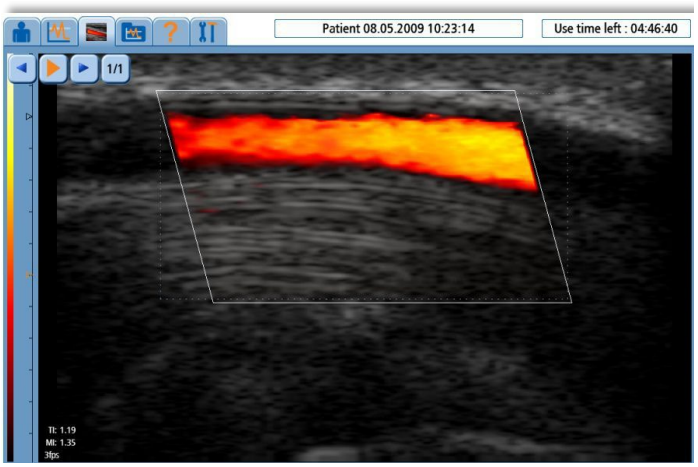


Image of a blood vessel using color Doppler.

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.

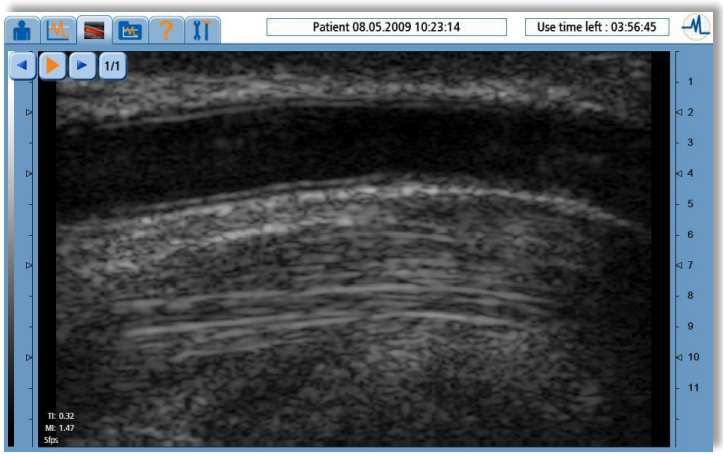
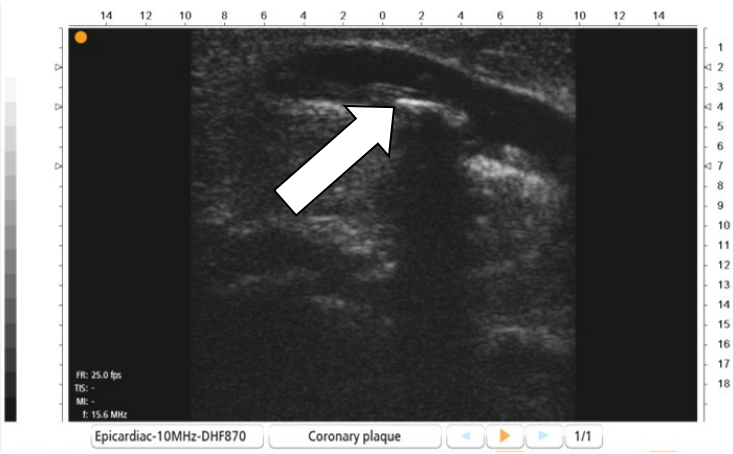
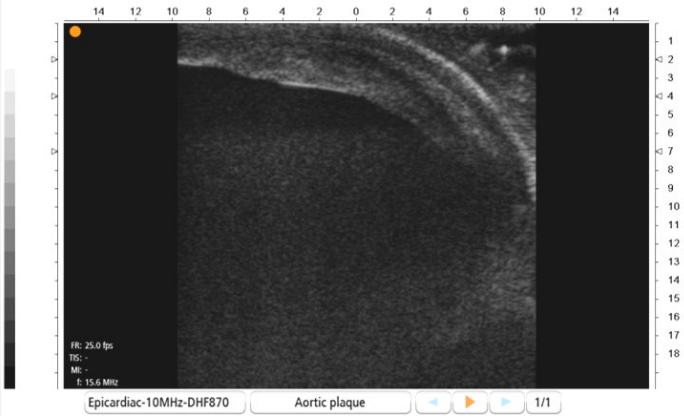


Image of a blood vessel without color Doppler.



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 functions as 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 2018.

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 Bjørn Henrik Rasmussen, which represents Follum Capital AS . Follum Capital AS Medistim's 4th largest shareholder. Other members are Asbjørn Buanes and Kristin Eriksen. Asbjørn Buanes is the 9th largest shareholder. Kristin Eriksen represents Salvesen & Thams Invest which is Medistim's 2end 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 2018 and 2017 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 2018 and 2017. The CEO receives 10 000 shares as part of the compensation if she stay in her position until 2020, further 12.500 shares under the same conditions if in position in 2021 and 12.000 shares under the same conditions if in position in 2022. 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 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. Øyvin 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. Øyvin Brøymer is on election for a new term at the ordinary general assembly in 2019. He controls 100 % of the shares in Intertrade Shipping AS. Intertrade Shipping AS is the largest shareholder in Medistim and holds 21.8 % of the shares in the company.

Deputy Chairman Bjørn M. Wiggen (born 1959) was chosen as deputy chairman in 2014 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 2020.

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.. He is on election for a new term on the next ordinary general assembly in 2020. Rønn was first time elected as board member in 2012

Tove Raanes (born 1977) holds an MBA and works as a consultant for the investment companies Nore-Invest AS and Dyvi Invest AS (shareholders in Medistim) abd Varner Kapital 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 2020. Raanes was first time elected as board member in 2014.

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 Consilium Consulting Group from autumn 2011 and a Consilium 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 2019.

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	2018	2017
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	3	323 010	296 053
Other income	3,11	2 880	5 408
Total revenue	2,3	**325 890**	**301 461**
Operational expenses			
Cost of goods sold	3	79 381	72 782
Salary and social expenses	4,5,20	105 314	98 281
Other operating expenses	4,7	54 857	51 705
Total operating expenses before depreciation and write down		**239 553**	**222 768**
OPERATING RESULT BEFORE DEPRECIATION AND WRITE DOWN		**86 337**	**78 693**
Depreciation on assets	6,11	12 361	13 223
Total operating expenses		**251 913**	**235 991**
OPERATING PROFIT		**73 977**	**65 470**
FINANCIAL INCOME AND EXPENSES			
Total financial income	8,19	7 977	8 838
Total financial expenses	8,19	7 475	7 696
Net finance		**502**	**1 142**
PROFIT BEFORE TAX		**74 479**	**66 612**
Tax expense	9	17 423	19 038
NET PROFIT	10	**57 055**	**47 574**

	2018	2017
COMPREHENSIVE INCOME		
Net profit	57 055	47 574
Items that may be reclassified to profit and loss		
Exchange differences arising on translation of foreign operations	1 916	-223
TOTAL COMPREHENSIVE INCOME	**58 971**	**47 351**

Earnings pr. share		2018	2017
Basic	10	**3,14**	**2,62**
Diluted	10	**3,14**	**2,62**
Purposed dividend pr. share	10	**2,25**	**2,00**

Annual report 2018

Consolidated balance sheet Medistim ASA group

1=NOK 1000

	Note	31.12.2018	31.12.2017
ASSETS			
Non current assets			
Machinery and equipment	6	32 198	25 744
Deferred tax asset	1,9	2 212	2 608
Intangible assets	1,11	39 732	42 482
Other long term receivable	23	5 000	1 500
Total non current assets		**79 142**	**72 334**
Current assets			
Inventory	13	63 843	62 722
Accounts receivable	14	70 807	55 807
Other receivables	14	8 309	5 791
Cash	15	47 490	54 411
Total current assets		**190 450**	**178 731**
TOTAL ASSETS		**269 592**	**251 065**
EQUITY AND LIABILITIES			
Equity			
Issued capital	16	4 585	4 585
Own shares	16	-39	-43
Share premium fund	16	41 852	41 852
Other issued equity	16	3 627	2 780
Issued capital	**16**	**50 025**	**49 174**
Other reserves	16	1 833	-83
Retained earnings	16	154 854	133 893
Retained earnings		**156 687**	**133 810**
Total equity		**206 712**	**182 984**
Non current liabilities			
Interest bearing loans	17,23	7 500	10 500
Total non current liabilities		**7 500**	**10 500**
Current liabilities			
Accounts payable		11 937	13 524
Income tax payable	9	11 430	13 328
Other short term liabilitiees	18	28 863	25 738
Provisions	21	150	150
Financial instruments	19,23	-	-35
Interest bearing loans	17,23	3 000	4 875
Total current liabilities		**55 380**	**57 581**
Total liabilities		**62 880**	**68 081**
TOTAL EQUITY AND LIABILITIES		**269 592**	**251 065**

Cash flow statement

1 = NOK 1000

	Note	2018	2017
Cash flow from operations:			
Profit/loss after tax		57 055	47 574
Minus income tax paid	9	-16 621	-16 329
Plus this years tax expense	9	17 423	19 038
Plus depreciations	6,11	12 361	13 223
+/- Change in inventory	13	-1 121	-3 425
+/- Change in accounts receivable	14	-15 000	-7 479
+/- Change in accounts payable		-1 588	5 081
+/- Interest revenue		97	54
+/- Interest expense		977	-490
+/- Change in other accruals		2 209	4 357
Net cash from operating activities		**55 792**	**61 603**
Investing activities:			
Minus investment in assets	6,11	-16 372	-14 481
Ney cash from investing activities		**-16 372**	**-14 481**
Financing activities:			
Minus dow n payment of interest bearing debt	17,23	-4 875	-5 250
Dividend	10	-36 358	-31 782
Purchase/sale of ow n shares		-	561
Other financing activities	23	-3 500	-1 500
New loans	17	-	15 000
Net cash from financing activities		**-44 733**	**-22 971**
Unrealised loss foreign exchange		**-1 608**	**-804**
Net change in cash		-6 921	23 347
Cash as of 01.01		54 411	31 064
Cash as of 31.12	15*	**47 490**	**54 411**
Available cash and cash w ithholding			
Available cash as of 31.12	15*	43 500	50 582
Cash w ithholding for taxes	15*	3 990	3 829
Cash and cash equivalents as of 31.12		**47 490**	**54 411**

* Se also Not 15. The group has a credit facility of 17.5 MNOK. The facility was not used by year end.

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 31.12.16		**4 585**	**-46**	**41 852**	**2 219**	**48 610**	**143**	**117 951**	**118 094**	**166 704**
Total comprehencive income for the period		-	-	-	-	-	-223	47 574	47 351	47 351
Change ow n shares	16	-	3	-	561	564	-3	150	147	711
Dividend	16	-	-	-	-	-	-	-31 782	-31 782	-31 782
Equity as of 31.12.17		**4 585**	**-43**	**41 852**	**2 780**	**49 174**	**-83**	**133 893**	**133 810**	**182 984**
Total comprehencive income for the period		-	-	-	-	-	1 916	57 055	58 971	58 971
Sharebased payments	16	-	4	-	848	852	-	263	263	1 115
Other corrections		-	-	-	-	-	-	-	-	-
Dividend	16	-	-	-	-	-	-	-36 358	-36 358	-36 358
Equity as of 31.12.18		**4 585**	**-39**	**41 852**	**3 628**	**50 026**	**1 833**	**154 853**	**156 686**	**206 712**

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 2017 this difference was -83 TNOK and the change for the year was -233 TNOK. By year-end 2018, the equivalent was 1 833 TNOK a change of 1 916 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 2018 is prepared in compliance with International Financial Reporting standard (IFRS) decided by EU and that is valid as of 31.12.2018.

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.

The accounting principles for the group for 2018 are the same as for the principles used in 2017 for the group except for the new standards IFRS 9 and IFRS 15 that has been implemented as of 01.01.2018.

1.2 Principal changes implemented from 01.01.2018

IFRS 15 Revenue for contracts with customers:
The standard establishes a framework for revenue recognition based upon the principle that revenue is recognized when a service or goods are transferred to the customer. The standard introduces a five step model in order to determine this.

The new standard has not resulted in any changes in the revenue recognition, since revenue still is recognized at the time when service and goods are transferred. Medistim uses the modified retrospective method for comparable numbers. See also under 1.16 and note 1 for more details related to the groups principles for revenue recognition.

IFRS 9 Financial instruments:
In order for a financial asset to be measured at amortized cost in accordance with IFRS 9, the instrument's cash flows must be payable by interest and principal. All other instruments shall be measured at fair value with changes in value recognized either in the ordinary result or as other income or expenses

Classification and measurement of financial assets and obligations. The implementation of the standard has not caused changes in the classification and measurement of financial assets or liabilities. The group uses the simplified method related to accruals for losses related to customer receivables. The new model for assessing and writing down assets has not resulted in any material effects.

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 does not have any major impact on the financial statements.

1.3 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 comprehensive income. In case of assets held for sale in foreign subsidiaries, the accumulative exchange rate difference is recorded in the income statement.

1.4 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.

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.

1.5 Cash and cash Equivalents

Cash includes cash in hand and cash in bank accounts.
Cash equivalents are short-term investments that immediately

1.6 Accounts receivable

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

1.7 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.

1.8 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.

1.9 Leasing

(i) The group as a lessee

Finance leases

There was no financial lease in the group as of 31.12.2018.

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 31.12.2018.

1.10 Financial instruments

The most important financial instruments 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.

Other financial derivatives for the group are receivables, cash, loans, leasing agreements and supplier debt. These are commented under note 19.

1.11 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.

1.12 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.

1.13 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.

1.14 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.

1.15 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.

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.

1.16 Revenue recognition

Revenue from the sale of third party products, own developed systems and consumables are recognized when goods are delivered to the customer and the customer controls the product. Revenue recognition occurs at fair value at agreed price. Revenue from agreements covering several shipments, is distributed according to the various deliveries in accordance with the 'stand alone' selling price. Variable remuneration from agreements dependent on the use are recognized when the claim for compensation arises.

Revenue from customer contracts that include lease of systems is distributed as the different deliveries occurs according to the agreement. Fixed remuneration allocated to rented equipment is recognized linearly over the lease period, and variable payment allocated to rented equipment is recognized as it occurs and according to agreement. Revenue is recognized when goods are delivered or when it is due as a variable deliverable according to the agreement.

Variable remuneration in customer agreements occurs in agreements containing a rental of equipment. Remuneration is then directly linked to the customer's use of the system by payment in relation to the order / purchase of smart cards that open the system. Revenue is recognized as income on delivery of the smart cards, as they cover consumption for a time period.

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

1.17 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 as either financial income or financial expence.

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.

1.18 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. Extraordinary in 2018 was that CFO received shares. 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.

1.19 Interest bearing loans and borrowings.

Loan and loan expenses is recorded in the balance sheet and expensed in the P & L at amortized cost. If a loan and loan expenses is related to an asset, and the real value of the asset is lower, the asset is written down to its real value. There was no value adjustment of assets in 2018.

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.

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 in 2019 that is relevant for Medistim ASA.

IFRS 16 Rental agreements:

The standard introduces a model that requires the tenant to account for a right of a use and a lease for leases with a duration of more than 12 months, provided that the underlying asset is not of low value. The right to use will be depreciated during the following period over the rental period. Depreciation of utility rights is presented together with other depreciation in the income statement. Lease payments will be distributed according to the new standard between installments and interest. The interest rates will be presented as a financial expense in the income statement. Implementation of IFRS 16 implies that presentation of lease payments is changed from other operating expenses, to interest expenses and depreciation. The distribution of the cost will change as a result of the liability being treated as an annuity loan, ie a higher proportion of interest expenses in the first half of the rental period.

Total rental expenses included in other operating expenses amounted to 6.1 million as of 31.12.18, under IFRS 16, these expenses will be divided between increased depreciation and increased financial expenses, adjusted for the effect of changed accruals on financial expenses.

The implementation method will be retrospective method. The effect of the implementation will be an increase in assets of about 40 MNOK with an equally increase in debt. See note 21 Other obligations for further information about Medistim's lease obligations.

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

Notes to the accounts

Note 1 Revenue

Group revenue can be split in three different categories that have different risk and return on investment profile. The split is according to the company's internal reporting structure. The activities are split in the following areas:

A. Revenue from capital and consumable sales
B. Revenue from lease of equipment
C. Distribution and sales of third party products

A. Capital and consumable sales:

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 and revenue is recognized at delivery. The consumables probes is a separate delivery and revenue are recognized accordingly. Payment terms varies from 30 to 90 days. The group is obliged to repair or replace defect products that are within ordinary warranty as described in note 21.

B. Reveue from lease of systems and probes:

The group has a range of contracts rerlated to lease of system and probes and can be split in two categories

- Payment per procedures
- Lease of system and sale of probes

Payment per procedure:

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

Remuneration is variable and recognized as income in line with the Group's right to earn remuneration. The right to earn remuneration is related to the actual use of the system. The distribution of rental income is based on the life expectancy of the system and normal consumption of probes at a capital sale. This gives a distribution of revenue by 48% to system rent and 52% to probes.

The individual agreement contains a minimum use clause. The duration of the agreement is 1-3 years, but divided into 12-month cycles, so minimum usage applies for 12 months at a time. Any under-execution is recognized as income when the 12-month period expires

Rental of systems:

Rental of system and sale of probes when needed. The system revenue is equally split over the agreement period. Probe revenue is recognized when the probe is delivered to the customer.

Other terms in the agreements:

If a customer does not handle the equipment properly or complies with the minimum clause, the customer is liable towards Medistim. It happens that customers - after repair or too low consumption - want to keep the equipment. In such cases, the customer may purchase the equipment. In this case, this is registered as a system sale.

C. Third party sales:

Sale of other third party medical equipment is recognized when the equipment is delivered. Payment from customers are manly due within 30 days.

Se note 2 for split of revenue.

Note 2 Segments

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The Group's activities are divided into strategic business units that are organized and managed separately. The division is also in accordance with the Group's internal reporting structure. A geographical division to monitor the US with the greatest potential, Europe where market penetration is strongest and Asia with the largest future growth potential is important for the company to follow market trends and is therefore a natural reporting structure.

The activities are split in the following areas:

A. Lease of equipment and sale of capital and consumables sales in the USA
B. Capital and consumable sales outside USA
C. Distribution and sales of third party products

Lease of equipment and sale of capital and consumables sales in the USA:
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. Most customers in the US lease the equipment.
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

Capital and consumable sales outside USA:
Medistim has the highest market penetration in Europe, while Asia is the region with highest future market growth and potential as western lifestyle is adopted in the region.

Distribution of third party products:
Distribution and sale of third party products is a separate segment. The group sells third party products in Norway and Denmark. The product portfolio is carefully selected to fit the same customer segment.

Split of revenue between coronary surgery and vascular surgery:
The company has in addition to coronary surgery a strategy and focus towards vascular surgery. The principles for guiding and quality assurance within vascular surgery is the same as within coronary surgery. The difference is that within coronary surgery the surgeons focus is to supply the hart with blood, while within vascular surgery the focus is to ensure blood flow in other parts in the body or organs. The vascular market has gained increased focus from the company in order to ensure that the products from the company gets a foothold within more than just coronary surgery. It is therefore natural to separate sales between the two areas to follow up the development in coronary- and vascular surgery. The business model is identical in the two segments.

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	USA		Outside USA		Third party products		Elimination		Group	
1 = NOK 1000	2 018	2 017	2 018	2 017	2 018	2 017	2 018	2017	2 018	2017
Revenue:										
Lease revenue from systems	36 920	36 236	-	-	-	-	-	-	36 920	36 236
Lease revenue from probes	39 997	39 255	-	-	-	-	-	-	39 997	39 255
Probes	10 308	8 070	85 684	78 850	-	-	-	-	95 992	86 920
Systems	10 101	7 564	22 409	15 770	-	-	-	-	32 510	23 334
Ultrasound imaging	13 582	11 006	26 358	20 976	-	-	-	-	39 940	31 982
Ultrasound imaging probes	2 239	2 460	4 302	4 177	-	-	-	-	6 541	6 637
Third party sales	-	-	-	-	71 110	71 690	-	-	71 110	71 690
Other revenue	-	-	2 880	5 408	-	-	-	-	2 880	5 408
Total external revenue	113 147	104 590	141 633	125 181	71 110	71 690	-	-	325 890	301 461
Intercompany sales and purchase	55 682	49 813	38 503	33 058	-	-	-94 185	-82 871	-	-
Total revenue	168 829	154 403	180 136	158 239	71 110	71 690	-94 185	-82 871	325 890	301 461
Other operating expenses	16 133	15 103	32 953	30 831	5 771	5 771	-	-	54 857	51 705
Segment result before tax	29 566	26 711	36 842	30 724	8 071	9 177	-	-	74 479	66 612

Segment	USA		Outside USA		Third party products		Elimination		Group	
	2 018	2 017	2 018	2 017	2 018	2 017	2 018	2017	2 018	2017
Sale in number of units										
Procedures	54 725	50 800	-	-	n.a	n.a	-	-	54 725	50 800
Probes	1 984	1 896	6 980	6 638	n.a	n.a	-	-	8 964	8 534
Systems	15	17	89	78	n.a	n.a	-	-	104	95
Ultrasound imaging	15	11	61	45	n.a	n.a	-	-	76	56
Ultrasound imaging probes	79	73	70	64	n.a	n.a	-	-	149	137

1) Probe revenue from lease agreements is presented under lease revenue from probes

Split of sales between coronary- and vascular surgery and 3 party products	2 018	2017
All numbers in NOK 1000		
Sales within coronary surgery	218 005	196 138
Sales within vascular surgery	36 775	33 633
Sales of 3. party products	71 110	71 690
Total sales	325 890	301 461

Split of debt and assets according to operating segment

Segment	USA		Outside USA		Third party products		Elimination		Group	
1 = NOK 1000	2 018	2 017	2 018	2 017	2 018	2 017	2 018	2017	2 018	2017
Intangible assets	11 993	13 098	20 783	17 824	14 168	14 168	-	-	46 944	45 090
Tangible assets	12 032	11 727	18 510	11 931	1 656	2 086	-	-	32 198	25 744
Current assets	66 339	48 598	107 625	110 039	46 103	44 212	-29 617	-22 617	190 450	180 231
Long term debt	-	-	7 500	10 500	-	-	-	-	7 500	10 500
Short term debt	17 244	13 580	58 089	58 580	9 664	8 038	-29 617	-22 617	55 380	57 581
Investments	4 967	3183	11 405	8 469	-	2 829	-	-	16 372	14 481
Depreciations	6 204	6838	5 743	5 981	414	404	-	-	12 361	13 223

Split of revenue and assets according to geographical segment

Geographic split of segments	USA		Europe		Asia		Rest of the world		Group	
1 = NOK 1000	2 018	2 017	2 018	2 017	2 018	2 017	2 018	2 017	2 018	2017
Revenue	113 147	102 131	154 822	150 318	38 650	26 954	19 271	19 600	325 890	299 002
Assets	90 364	73 423	160 371	165 504	12 269	8 195	6 588	3 944	269 592	251 065
Investments	4 967	3 183	11 405	11 298	-	-	-	-	16 372	14 481
Revenue in numbers										
Procedures	54 725	50 800	-	-	-	-	-	-	54 725	50 800
Probes	1 984	1 896	4 425	4 057	1 743	1 666	812	915	8 964	8 534
Systems	15	17	38	41	39	23	12	14	104	95
Ultrasound imaging	15	11	16	17	30	16	15	12	76	56
Ultrasound imaging probes	79	73	30	36	24	16	16	12	149	137

Note 3 Split of cost of goods sold

1 = NOK 1000	2018	2017
Third party products	41 900	42 146
Components	31 546	24 290
3.party services	2 005	1 412
Packing material and other materials	1 059	1 016
Freight	2 870	3 918
Total cost of goods sold	**79 381**	**72 782**

Note 4 Salary and social expenses

1 = NOK 1000	2018	2017
Salary	79 898	76 598
Employeers tax	10 783	9 502
Bonus	7 736	5 968
Cost for contribution pension plan	3 979	3 285
Compensation to the Board	1 359	1 301
Other social costs	1 558	1 627
Total salary and social cost	**105 314**	**98 281**

Average number of employees:

	2018	2017
USA	22	22
Germany	4	4
UK	1	1
Spain	2	2
Denmark	1	1
Norw ay	75	73
Total	**105**	**103**

Audit expenses

1 = NOK 1000

	2018	2017
Expense for compulsory audit	867	739
Expense for other services	181	57
Total audit expense	1 048	796

The amounts are without VAT

Note 5 Pension expenses and obligations

The contribution plan covers 5 % of salary up to 7,1 G and 8 % of G between 7,1 and 12. 1G is the base amount in the social security system. The cost for the contribution plan was in 2018 TNOK 3.979, while it was TNOK 3.285 in 2017. 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	Maskiner og utstyr 18	Andre drifts-midler 18	Sum 2018 driftsmidler	Maskiner og utstyr 17	Andre drifts-midler 17	Sum 2017 driftsmidler
Historical cost						
Balance 1. January	59 041	13 062	72 103	49 128	10 727	59 855
Additions	10 249	2 347	12 596	9 913	2 336	12 249
Assets sold\w ritten dow n	-490	0	-490	0	0	-
31.December	**68 800**	**15 409**	**84 208**	**59 041**	**13 063**	**72 103**
Accumulated depreciation						
Balance 1. January	35 803	10 557	46 360	31 787	9 664	41 451
Depreciation this year	4 952	882	5 834	4 081	868	4 949
Assets sold\w ritten dow n	-92	-	-92			-
Exchange rate differences	5	86	92	65	-24	40
31. December	**40 658**	**11 352**	**52 010**	**35 803**	**10 557**	**46 360**
Book value	**28 142**	**4 057**	**32 198**	**23 237**	**2 506**	**25 744**
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	lineært	lineært		lineært	lineært	

Fully depreciated assets

Some assets with total historic cost value of 4.6 MNOK is fully depreciated as of 31.12.2018 but are still in use.

Assets no longer in use

All assets were in use as of 31.12.2018.

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 31.12.2018 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 31.12.2017.

Note 7 Other operating expenses

1 = NOK 1000	2018	2017
Office rent	6 053	6 127
Travel cost	10 098	9 227
Marketing	5 514	4 387
Consultants	17 067	16 670
Insurance	1 560	1 623
Freight	1 315	1 798
Communication	1 087	1 299
IT cost	6 347	4 712
Other	5 816	5 862
Total	**54 857**	**51 705**

Note 8 Financial revenue and expenses

As of 31.12.2018, the company had 10.5 MNOK in interest bearing debt. Additional cash in the group gave interest revenue of 97 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	2 018	2 017
Interest income	97	75
Other financial income	47	-
Gains on foreign exchange	7 833	8 763
Total financial income	**7 977**	**8 838**
Loss on foreign exchange	-6 930	-7 144
Interest cost on loans	-523	-502
Other financial expenses	-22	-50
Total financial expenses	**-7 475**	**-7 696**
Net financial expenses	**502**	**1 142**

Note 9 Reported tax expense and temporary differences

1 = NOK 1000	2018	2017
Current income tax charge	17 028	18 571
Change in temporary differences	396	468
Income tax expense reported in income statement	17 423	19 038
Reconciling tax expense towards income before tax		
Tax expense for the year	17 423	19 038
23% of income before tax	17 111	15 986
Permanent differences and different tax rates	-312	-3 052
Specification of taxable income	**2018**	**2017**
23 % income tax of profit before tax	17 130	15 987
Permanent and other differences	461	670
Differance because of different tax rate	310	2 078
Utilizing losses carry forward	(374)	552
Income tax expense	17 423	19 038
Payable tax in the balance sheet	**2018**	**2017**
Payable tax this years profit	17 423	19 038
Prepaid tax	-5 597	-5 243
Utilizing deferred tax asset	-396	-466
Total payable tax	11 430	13 329
Specification of deferred tax		
Changes in values:	**2018**	**2017**
Fixed assets	-5 191	-8 422
Current assets	-4 754	-3 316
Other obligations	-108	399
Total differences	-10 053	-11 340
Deferred tax asset 22 % in 2019 and 23 % in 2017	-2 212	-2 608

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 2018 to 23.4%.

Tax expense for the group is geographically split as follows:

1 = NOK 1000	2018	2017
Norway	11 079	11 220
Germany	2 393	2 235
USA	3 807	5 466
Denmark	144	117
Total	17 423	19 038

Note 10 Earnings per share

1 = NOK 1000	2018	2017
Profit for the year	57 055	47 574
Average numbers of shares outstanding 31.12		
Ordinary issued shares	18 179	18 161
Average numbers of shares outstanding 31.12	**18 179**	**18 161**
1 = NOK 1		
Profit per share	**2018**	**2017**
Ordinary	**3,14**	**2,62**
Diluted	**3,14**	**2,62**
Paid dividend	**36 358**	**31 782**
Dividend per share	**2,00**	**1,75**
Suggested dividend per share	**2,25**	**2,00**

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 2018, 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 158 500 own shares.

Note 11 Intangible assets

Activated R & D expenses and trade name

In 2018 3.8 MNOK was activated in the balance sheet related to the MiraQ products. The MiraQ platform forms the basis for future models from Medistim. All development activity is in the holding company.

Intangible assets derived from internal R & D:

1 = NOK 1000	R & D expenses in 2018	Trade name 2018	R & D expenses in 2017	Trade name 2017
Historic cost				
Historic cost 31.12.	67 490	2 158	65 258	2 697
Internal additions	2 647	-	1 828	-
External additions	1 131	-	404	-
Historic cost	**71 268**	**2 158**	**67 490**	**2 697**
Accumulated				
Accumulated	41 293	-	33 558	-
Depreciations for	5 989	539	7 735	539
Total	**47 282**	**539**	**41 293**	**539**
Net value in	**23 986**	**1 619**	**26 197**	**2 158**

Depreciation time for activated R & D is 3 to 8 years. Trade name is depreciated over 5 years.

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. Book value as of 31.12.2018 was 4.4 MNOK. Expected lifetime for the PV probes are 8 years.

4th generation of systems; the MiraQ:

Entering into 2018, Medistim had invested 26.8 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. In 2017 2.2 MNOK was invested in the product In 2018 1 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 16.5 MNOK. Expected lifetime for the product is 8 years.

Summary:

In total 6.4 MNOK of the R & D expenses was recorded in the P & L in 2018. Similar expense was 6.4 MNOK in 2017.

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	**2018**	**2017**
Acquisition of Medi-Stim Norge AS	7 960	7 960
Acquisition of Kir-Op AS	6 168	6 168
Total goodw ill 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 2019 and 3-year strategy plan for the years 2020 and 2022 with the assumption of 2 % growth in 2023 compared to 2022. 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 15.3 % discount rate. This includes an additional yield of 11.8 % 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 11.8 %. 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 3.5 %. Including risk free interest of 3.5 % the total discount rate in 2018 is set to 15.3%.

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 15.3 % to 27.0 % everything else equal triggers a write down of goodwill.

Discount rate	15,3 %	21,0 %	27,0 %
Estimated additional value in MNOK	34,0	11,3	-1,6
Operating margin	13,1 %	7,5 %	5,0 %
Estimated additional value in MNOK	34,0	-0,4	-14,1

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, 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 will be depreciated over 5 years, since it is a 5 year agreement. The depreciation was effective from 2017, since the Medistim labeled product where launched by the end of 2016. Book value by year end 2018 was 1.6 MNOK.

Note 12 Shares in subsidiaries

All subsidiaries are 100 % owned and Medistim has all votes.

1 = NOK 1000

Unit	Assets	Debt	Equity	Sales	Profit
Medistim USA Inc.	49 510	16 475	33 035	118 755	12 418
Medistim Deutschland GmbH	14 031	1 408	12 623	40 632	7 182
Medistim Danmark Aps	3 840	2 029	1 811	7 469	497
Medistim Spain S.L	10 805	12 316	-1 512	11 502	1 529
Medistim UK LTD	3 846	10 093	-6 247	2 829	97
Medistim Norge AS	43 939	7 921	36 018	67 741	6 069
Total	**125 971**	**50 242**	**75 729**	**248 929**	**27 791**

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, Medistim Spain S.L has offices in Barcelona and Medistim UK has offices in London UK. Book value of goodwill related to the acquisition of Medistim Norge AS was as of 31.12.2018 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, Spanish and German subsidiaries are well established and creates a profit in 2018. Medistim UK has turned previous losses to a TNOK 97 profit in 2018. Medistim US had a 8.1 MNOK debt towards Medistim ASA by year-end 2018. Medistim UK, Medistim Denmark, Medistim Germany, Medistim Spain and Medistim Norge had a debt towards Medistim ASA with 10.1 MNOK, 0.0 MNOK 0.2 MNOK 11.0 MNOK and 0.1 MNOK respectively.

Note 13 Inventory

Spesification of inventory (1=NOK 1000)	2018	2017
Raw material	19 667	21 689
Work in progress	12 438	9 136
Finished goods	14 493	12 602
Spare parts	1 615	2 348
Third party products	16 765	18 569
Inventory provision	-1 136	-1 621
Total	**63 843**	**62 723**

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 2018 is at the same level compared to 2017. 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)	2018		2017	
	Bruttoverdi	Avsetning	Bruttoverdi	Avsetning
Demonstration products	512	384	986	739
Spare parts	1 102	551	1 362	681
Third party products	200	200	200	200
Total	**1 814**	**1 135**	**2 548**	**1 620**

Note 14 Accounts receivable and other receivable

Accounts receivable

1 = NOK 1000	2018	2017
Accounts receivable	71 019	56 019
Provision for bad debt	-212	-212
Total	**70 807**	**55 807**

Provision for bad debt

1 = NOK 1000	2018	2017
Inbound provision	212	212
Utilised provision	-	-
Total	**212**	**212**

Aging accounts receivable

1 = NOK 1000		Not due	0-30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Year 2017	Expected loss ir	0,00 %	0,00 %	1,00 %	2,00 %	2,00 %	
	Book value of re	38 411	4 637	4 976	3 590	4 405	56 019
	Expected credit	-	-	50	72	90	212
	Total	38 411	4 637	4 926	3 518	4 315	55 807
Year 2018	Expected loss ir	0,00 %	0,00 %	1,00 %	2,00 %	2,00 %	
	Book value of re	52 921	6 963	3 484	3 474	4 177	71 019
	Expected credit	-	-	35	81	96	212
	Total	53 133	6 963	3 449	3 393	4 082	70 808

All receivables are due within one year. 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	2018	2017
Other pre-payments	2 748	542
Deferred income	1 684	-
Inbound VAT receivable/ prepaid tax	2 286	2 298
Demo units\returns	-	270
Other	1 592	2 681
Total	**8 309**	**5 791**

Note 15 Cash and cash equivalents

1 = NOK 1000	2018	2017
Available cash in bank	43 500	50 582
Restricted cash in bank	3 990	3 829
Cash and cash equivelents	47 490	54 411
Credit limit	17 500	17 500
Cash available	61 000	68 082

Restricted cash as of 31.12.2018 was 3 990 TNOK and was related to tax withheld from salaries. As of 31.12.2017 the restricted cash was 3 372 TNOK related to tax withheld on salaries. The group had interest revenue on excess cash and the interest rate was 0.5 % by the end of 2018. The holding company had a credit facility of 17.5 MNOK. The credit facility was not in use as of 31.12.2017 or 31.12.2018.

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 2018:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.2017	18 337 336	NOK 0.25	NOK 4 548 334.00
Changes	-		NOK -
Share capital 31.12.17	**18 337 336**	**NOK 0.25**	**NOK 4 584 334.00**

The Board of Directors received by the shareholders meeting the 25th of April 2018 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 2019 in the price range of NOK 0.25 to NOK 150 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 2019. See below for changes in the equity for the last year.

Status for the commissions as of 31.12.2018:

	Capital increase	Medistim shares
Commission given at the shareholders meeting in 2018	1 833 733	1 833 733
Commissions used	-	-
Status for the commissions as of 31.12.2018	**1 833 733**	**1 833 733**

The company owned 158 500 Medistim shares as of 31.12.2018. Number of Medistim shares by 01.01.2018 was 176 000.

The 20 largest shareholders in the company were as of 31.12.2018:

Shareholder	Number of shares	Shares in %	Nationality
INTERTRADE SHIPPING AS	4 003 500	21,83 %	NOR
SALVESEN & THAMS INVEST AS	1 862 500	10,16 %	NOR
SWEDBANK ROBUR SMABOLAGSFOND	1 375 246	7,50 %	GBR
Skandinaviska Enskilda Banken AB	1 041 753	5,68 %	DNK
FOLLUM CAPITAL AS	1 000 000	5,45 %	NOR
State Street Bank and Trust Comp	877 215	4,78 %	USA
Skandinaviska Enskilda Banken S.A.	743 220	4,05 %	LUX
GRANDEUR PEAK INTERNATIONAL *	674 271	3,68 %	USA
Skandinaviska Enskilda Banken AB	574 005	3,13 %	SWE
BUANES	494 936	2,70 %	NOR
HSBC TTEE MARLB EUROPEAN TRUST	420 656	2,29 %	GBR
HOLBERG NORGE	398 656	2,17 %	NOR
Danske Bank A/S	292 035	1,59 %	DNK
BNP Paribas Securities Services	270 201	1,47 %	FRA
RBC INVESTOR SERVICES BANK S.A.	267 823	1,46 %	LUX
Danske Invest Norge Vekst	250 000	1,36 %	NOR
NN PARAPLUFONDS 1 N.V.	213 326	1,16 %	BEL
Bank Julius Bär & Co. AG	200 000	1,09 %	CHE
Danske Bank A/S	178 310	0,97 %	DNK
MP PENSJON PK	174 500	0,95 %	NOR

Total 20 largest shareholders	15 312 153
Total number of shares outstanding	18 337 336
20 largest shareholders in %	83,50 %

* 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	0,01 %	Board member
Roger Morberg	6 438	0,03 %	VP sales
Bjørn Wiggen (holds 24 % of the shares in Salvesen og Thams Invest AS	1 862 500	10,16 %	Deputy chairman
Erik Swensen	40 000	0,22 %	VP development
Thomas Jakobsen	75 000	0,38 %	CFO
Kari Eian Krogstad	112 500	0.54 %	CEO
Siri Fürst	2 000	0.010 %	Board member
Øyvin A. Brøymer (Intertrade Shipping)	4 003 500	21.83 %	Chairman
Helge Børslid	1 000	0,01 %	VP operations
Anne Waaler	6 651	0,03 %	VP medical dep.

There were no share options outstanding as of 31.12.2018 except form the share program to CEO described under chapter 3 Corporate Governance under compensation to management and note 20.

Note 17 Interest bearing debt

Interest bearing debt

1 = NOK 1000	Interest rate	last due date	Balance sheet value 2018	Balance sheet value 2017
Secured loan				
Loan from DNB	NIBOR + 1,95 %	18.06.18	-	**1 875**
Loan from DNB	NIBOR + 1,90 %	18.10.22	**10 500**	**13 500**
Total long term debt			**10 500**	**15 375**
Total long term debt			**10 500**	**15 375**
Long term debt due w ithin one year			**-3 000**	**-4 875**
Total long term debt with due date more than one year			**7 500**	**10 500**

Medistim borrowed another 15.0 MNOK in 2017 and the remaining balance of the loan was 10.5 MNOK by 31.12.2018. 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 31.12.2018 27.9 MNOK for assets, 65.1 MNOK for accounts receivables and 55.3 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	2018	2017
Accrual for public taxes	9 010	7 955
Accrual for holiday pay	5 864	5 379
Accrual for salaries, commission and board men	9 816	6 000
Accrual for customer and supplier obligations	428	1 743
Other	3 179	4 660
Deferred revenue	565	-
Total	**28 863**	**25 738**

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 31.12.2018 10.5 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 2018, the company had no hedging contracts for EUR or USD. In January 8 hedging contracts of EUR 0,25 million each was entered. Total amount of the hedging contracts was EUR 2,0 million. The hedging contracts are entered to reduce the exchange risk towards currencies. Unrealized gain or loss related to the contracts is recorded in the balance sheet 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.

The group had an unrealized loss on accounts receivables of TNOK 1 746 related to receivables in USD and EUR.

The group had 79% of its revenue in USD or EUR, while 59 % of the expenses were in NOK. Comparable numbers for 2017 was 76 % and 58 %. 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 2018	+ 5 %	TNOK 8 206	TNOK 10 296
	-5 %	TNOK 7 428	TNOK 9 319
Year 2017	+5 %	TNOK 6 887	TNOK 8 065
	-5 %	TNOK 6 231	TNOK 7 409

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 31.12.2018 27.9 MNOK for assets, 65.1 MNOK for accounts receivables and 55.3 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 31.12.2018.

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 17.5 MNOK to secure available cash.

Real value of financial instruments:

Overview of debt

1 = NOK 1000

Year 2018	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	-	3 000	- 7 500	-	10 500
Accounts receivable	11 937	-	- -	-	11 937
Other debt	23 149	17 294	- -	-	40 443
Total	**35 085**	**20 294**	**7 500**	**-**	**62 880**

Overview of debt

1 = NOK 1000

Year 2017	Within 3 months	Between 3-12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans	-	4 875	10 500	-	15 375
Accounts receivable	13 524	-	-	-	13 524
Other debt	20 256	18 925	-	-	39 181
Total	**33 781**	**23 800**	**10 500**	**-**	**68 081**

All of the financial instruments 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	2018			2017		
	Original value	Gain\loss	Book value	Original value	Gain\loss	Book value
Financial assets						
Cash	48 133	643	47 490	54 009	402	54 411
Accounts receivable	72 553	1 746	70 807	56 408	899	57 307
Own shares	2 737	-	2 737	2 737	-	2 737
Forward currency contracts	-	0	0	-	35	35
Financial debt						
Accounts payable	12 029	92	11 937	13 600	-76	13 524
Interest bearing loan						
Bank loans	10 500	-	10 500	15 375	-	15 375

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 2017 or 2018.

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	Share based compensa	Other	Total
Hæge Johanne Krogh Wetterhus	VP Marketing	1 231 821	97 500	71 376	-	4 392	1 405 089
Anne Waaler	VP Medical	1 183 915	75 000	71 160	-	4 392	1 334 467
Roger Reino Morberg	VP Sales	1 576 699	300 000	71 376	-	4 392	1 952 467
Erik Sw ensen	VP Development	1 154 584	75 000	68 916	-	4 392	1 302 892
Tone Ann Veiteberg	VP QA\Reg	1 040 553	75 000	61 512	-	4 392	1 181 457
Ole Jørgen Robsrud	CEO Medistim Norge AS	1 190 506	40 000	71 376	-	4 392	1 306 274
Helge Børslid	VP Operations	980 332	160 000	56 844	-	4 392	1 201 568
Mike Farbelow	President Medistim USA	1 667 804	731 700	97 983	-	100 389	2 597 876
Kari Eian Krogstad	CEO	2 427 460	960 000	71 376	900 000	4 392	4 363 228
Thomas Jakobsen	CFO	1 682 888	225 000	71 376	395 000	4 392	2 378 656
Total		14 136 562	2 739 200	713 295	1 295 000	139 917	19 023 974

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 7.1 G and 8 % of salary for G between 7.1 and 12. 1G equals NOK 96.883. Management in the US has a contribution plan. Bonus accrued to the CEO in 2017 was 960 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 2018 but not paid.

Compensation to the board was 1 215 TNOK in 2018 and 1 150 TNOK in 2017. The chairman received 375 TNOK as compensation in 2018 and 350 TNOK in 2017. The four board members received a total 210 TNOK each as compensation in 2018, a total of 840 TNOK. In 2017 they received 200 TNOK each, a total of 800 TNOK.

CEO has an agreement with the Board that she can receive up to 34.500 Medistim shares as part of compensation if in position until 2021. The Shares is received by the CEO free of charge and last shares will be received in 2022. The shares is expensed in the company by using the share price and number of shares granted. This expense is allocated over the vesting period. In 2018, TNOK 820 was expensed in the accounts related to the arrangement. See also overview below.

Year	2020	2021	2022
Number of shares	10000	12500	12000
Share prices at the time of grant	73,5	79	77
Value	735000	987 500	924 000

In 2019 1\3 of the value of the respective shares in 2020,2021 and 2022 will be expensed including social taxes and the yearly amount is TNOK 1 006. The shares are transferred to CEO at 0 per share.

In 2018 12 500 shares where transferred to CEO at NOK 0 per share. At the grant of the 12 500 shares the share price was NOK 33.6 per share. At the point of transfer of the shares the share price was NOK 72.0 per share.

The nomination committee leader received a compensation of 20 TNOK, while the two other members received 15 TNOK each. In total, the nomination committee received 50 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 94 185 TNOK in 2018. In 2017 this was 84 614 TNOK. The split between goods and services was as follows:

	2018	2017
1 =NOK 1000		
Goods	92 443	81 130
Services	1 742	1 742
Total	94 185	82 872

Medistim ASA sold in 2018 goods for 92 443 TNOK to Medistim Deutschland GmbH, Medistim US Inc, Medistim Denmark Aps, Medistim UK Ltd, Medistim Spain S.L and Medistim Norge AS. Medistim Deutschland, Medistim US Inc, Medistim Denmark Aps, Medistim UK Ltd, Medistim Spain S.L and Medistim Norge AS are distributors for Medistim ASA in respectively Germany, USA, Denmark, UK, Spain and Norway for Medistim's own developed products. Medistim Norge AS purchased administrative services for 1 742 TNOK from Medistim ASA.

Medistim ASA sold goods to in 2017 to Medistim Deutschland GmbH, Medistim US Inc, Medistim Denmark Aps, Medistim Spain S.L and Medistim Norge AS for 82 872 TNOK. Medistim Norge AS purchased administrative services from Medistim ASA for 1 742 TNOK in 2017.

Medistim ASA had a receivable as of 31.12.2018 towards Medistim Denmark Aps of 30 TNOK, a receivable towards Medistim Norge AS of 120 TNOK, a receivable towards Medistim UK Ltd of 9 063 TNOK, a receivable towards Medistim Spain S.L of 10 659 TNOK and a receivable towards Medistim US Inc of 7 903 TNOK.

Note 21 Other obligations and lease contracts

1 = NOK 1000	**2018**	**2017**
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, Bromsveien 17 in Horten and in 14000 25ave. N. Suite 108 in Plymouth in Minneapolis, Minnesota, USA. In Oslo and Horten the rental agreement expires in 2020 and 2027 respectively. In the USA the rental agreement expire year-end 2019. The rental is adjusted yearly according to National indexes for goods and services.

Split of lease obligation:

Within 1 year	TNOK	4 864
Within 2 – 5 years	TNOK	20 864
More than 5 years	TNOK	11 410

Leased equipment

The cost for leased equipment was 1 579 TNOK in 2018 and 1 666 TNOK in 2017.
The group is leasing office equipment and cars. Office equipment is operationally leased and the last lease exceeds in April 2022. The leasing cost was 109 TNOK in 2018 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 2018 was 1 470 TNOK and there were no prepayments related to the car leases. Last lease for the cars exceeds September 2021. The lease obligation within one year is 1470 TNOK. Lease obligation as of 31.12.2018 for the coming 3 years was 1 864 TNOK. Total obligation as of 31.12.2018 was 1 864 TNOK and last lease exceeds in September 2021.

The company has no other obligations with specific governants.

Note 22 Exchange rates foreign currency

Currency	Rate 01.01.2018	Average rate	Rate 31.12.2018
USD	8.2050	8.1338	8.6885
DKK	132.18	128.75	133.22
EUR	9.8403	9.5962	9.9483
GBP	11.0910	10.8463	11.1213

Note 23 Specification of financial activities

1 = NOK 1000	Interestbearing short term debt	Long term interestbearing	Financial instruments	Other financial receivable	Total 2017
At 1st of January 2017	5 250	1 875	606	0	7 731
Cash flow s	-5 250	13 500		1 500	9 750
Debt becomming current in 2018	4 875	-4 875			0
Effects of foreign exchange	-	-	-641	-	- 641
31.December 2017	**4 875**	**10 500**	**-35**	**1 500**	**16 840**

1 = NOK 1000	Interestbearing short term debt	Long term interestbearing	Financial instruments	Other financial receivable	Total 2018
At 1st of January 2018	4 875	10 500	-35	1 500	16 840
Cash flow s	-4 875			3 500	-1 375
Debt becomming current in 2018	3 000	-3 000			0
Effects of foreign exchange	-	-	35	-	35
31.December 2018	**3 000**	**7 500**	**0**	**5 000**	**15 500**

Other long term receivable from 2017 of NOK 1 500 000 is reclassified to give correct comparison.

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Note 24 Events after 2018

The Board of directors has no knowledge about other events after 2018 that will affect the annual report and financial statement for 2018.

Oslo, 14.3.2019

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 2018 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, Medistim Spain S.L and is located in Barcelona in Spain and Medistim Norge AS located at Økernveien 94 in Oslo. Medistim ASA is the holding company in the Medistim Group.

Medistims business is focused towards cardiac and vascular surgery. Cardiac and vascular diseases are the most common cause of death in the western world and have an increasing trend in Asian countries where western lifestyle is adopted. On a global scale, it's performed about 700.000 cardiac bypass surgeries per year and about 600.000 vascular procedures per year. Medistim has a world leading position within quality control of cardiac surgery. Medistim strengthen its leading position within quality control of coronary bypass surgery in 2018 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 2018. 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 531 in 2018 (797 in 2017) which is 3.5 % of total work time in 2018 (5.4 % in 2017). 3 employees were on long-term sick leave for matters outside the workplace, which represented 356 workdays. No specific measures have been necessary to implement in this regard. On average, there were 61 employees in 2018.

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 39 women employed of a total of 61 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 31.12.18 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 over 600 shareholders and had 158 500 Medistim shares by 31.12.2018.

Profit for the year and key figures

Sales ended at 171.1 MNOK (154.3 MNOK). Profit before tax ended at 55.7 MNOK (47.8 MNOK). Medistim received a dividend from its subsidiary in Germany and Norway with 14.9 MNOK in 2018 (9.3 MNOK). No group contribution was received in 2018 or 2017.

Total assets in the balance sheet was for the company 206.2 MNOK as of 31.12.2018 compared to 197.1 MNOK as of 31.12.2017. Equity in the company was as of 31.12.2018 124.1 MNOK and 117.8 MNOK as of 31.1.2.2017. The equity ratio as of 31.12.2018 was 60.2 %.

By year-end 2018, the company had 12.9 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 45.2 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 enters 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 2018 and 2017 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 2018 and 2017. The exception is CEO that receive 10.000 shares as part of the compensation if she stay in her position until 2020, further 12.500 shares if in position until 2021 and further 12.000 shares if in position until 2022. 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 2018

The focus on the vascular solutions are 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 31 %, 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 2018 15 % of the sales was to vascular customers. For comparison this was 14 % in 2017.

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 54.725 procedures (surgeries) in 2018. This represents 22.0 % of the US market. In the US, about 75 % 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.

The companys efforts with direct representation in the USA has given positive results and there has been a double-digit growth since 2014. In 2018 the currency neutral growth was 10.0 %. Focus and goal in 2019 is to increase usage per installation, create new customer relations and establish a customer base on the MiraQ product platform. 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 largest direct market in Europe, Germany, with a currency neutral growth of 3.3 %. The growth came mainly from the vascular market.
In Norway and Denmark Medistim is maintaining its position in these fully penetrated markets. Medistim also had in 2018 a positive year in Spain with a 123 % sales growth. In Spain Medistim has a high market penetration within coronary surgery that creates a good basis for probe revenue for the company that was established in 2017. Future growth potential is within vascular surgery and converting flow customers to flow and imaging customers.

Medistim has had direct representation in UK in 6 years and it has taken more time than expected to penetrate the British market. Sales ended at 2.8 MNOK compared to 1.2 MNOK in 2017. Even if the growth in percent is high the sale is still modest compared to the potential in UK.
Medistim is still optimistic regarding the potential in UK. The reason for this is that British NICE updated in 2018 its recommendation for the use of Medistim's equipment on a regular basis in all British hospitals that performs coronary bypass surgeries. In UK Medistim has a low market penetration and this is an opportunity for Medistim. In addition Medistism has a solid reference center in the UK in Oxford that had a central role in the REQUEST study.

Despite the challenging economic situation in many European countries, sales in direct markets and 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 2018 there was a 6.5 % growth in sales of own products in direct markets and through distributors.

Asia is an important market for Medistim. 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.

Japan is one of the most developed country in the world in terms of adopting and routinely applying quality assessment and surgical guidance to improve CABG surgery. However, even after to decades of using the technology and developing routine use a reimbursement was introduced in 2016 to all hospitals using Medistims equipment during coronary surgery.

In Asia sales increased with 43 % in 2018 and ended at 36.7 MNOK. The strong development for the year was related to growth in the Chinese market and sales increased with 95 % compared to 2017. In China, the number of coronary surgeries increases with 5-10 % per year and represent a future growth market for Medistim. MiraQ is cleared for sale in China.

In Latin America, Brazil is the country with the largest potential for Medistim's products. In other markets Medistim has had a positive development in Australia.

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. In 2015 the company took the initiative to start up the registry study, REQUEST[1], which the company has supported financially with 1 million EURO. In 2018 the first final results from the study was presented at the yearly EACTS conference.

The objective for the REQUEST study is to document how often the combination of high-frequency ultrasound imaging (HFUS) and transit time flow measurement (TTFM) performed with Medistim's VeriQ C or MiraQ devices will change the surgical procedure. The REQUEST surgical coronary artery bypass grafting (CABG) protocol includes ultrasound scanning of the aorta, conduits, target coronary vessels and anastomoses, as well as TTFM graft assessment.

More than 1 000 CABG patients were included in this prospective, multicenter, registry study between April 2015 and December 2017. Seven leading cardiac surgery centers from Europe, USA and Canada, led by Coordinating Investigator, Professor David Taggart from the University of Oxford, participated. During EACTS, Professor Taggart presented the final results from this study.

The final results showed that 25 % of the patient population had one or more surgical changes made to the surgical strategy based on imaging and flow data. Of the sub-populations that went through aorta scanning and coronary target scanning, 10 % and 20 % of the patients had changes in the surgical strategy, respectively. Graft assessment with TTFM was performed in 99 % of the patients, with a result of 3 % anastomotic revision rate in 7 % of the patients. These results may be compared with previously published data showing about 4-5 % anastomotic revision rate in about 10 % of the patients.
Furthermore, the in-hospital outcomes showed a remarkably low mortality rate of 0.6 % and stroke/TIArate of 1 %.

Medistim's interest in this study has been to investigate and document the clinical value of the combined use of TTFM and HFUS. With these final results, the REQUEST study has provided new insights that may positively impact clinical outcomes and change clinical practice going forward. The data will support initiatives for further guideline recommendations as well as reimbursement. Medistim is very much encouraged by these final results, and look forward to further analysis and results to become available from this vast patient material in the future, in order to continue learning and developing this surgical procedure.

Vascular surgery is also a focus area for Medistim and the company has supported the CIDAC study by providing its equipment for the study. Dr. C Knappic, Dr. A. Zimmernann and Dr. HH Eckstein at the university hospital in Munich performed the study. The purpose of the study was to compare the use of angiogram and Medistims ultrasound imaging capability when performing carotid endarterectomy. This is a type of procedure where a stenosis inside the carotid artery is removed surgically.150 patients was included in the study and it concluded that Medistims ultrasound imaging capabilities improved reliability and images. This resulted in improved outcome for the patients. The published study is yet to come, but the preliminary results where presented during the yearly ESVS (European Society of Vascular Surgery) congress in 2018.

Medistim is part of a collaborative project together with GE Vingmed Ultrasound and Sensocure to develop new production technology within medical devices. The project, «Advanced Manufacturing Technologies for High Impact

Medical Devices», has been granted funding of MNOK 14,4 over 3 years from the BIA Health program at the Norwegian Research Council. 2018 is the first year in the project and is also in collaboration with University College of Southeast Norway and the research institutions SINTEF and NORNER.

Medistim see this project as a unique opportunity to develop its production technology will bring today's production of ultrasound probes to a higher level in terms of effectiveness and quality.

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.

Position, Competition and outlook

Medistim's flow meters have been in use in more than 2 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 over 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 and in. 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 2018 has been prepared according to Norwegian accounting principles (NGAAP) as do the comparable numbers for 2017. 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 2018 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 2018 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 2018.

Allocation of profit

The Board of Directors suggests that the profit for 2018 of 46 143 TNOK is allocated to ordinary shareholder dividend of NOK 2.25 per share, which amounts to 40.924 TNOK corrected for own shares. The remaining 5.219 TNOK is allocated to other equity.

Oslo, 14.3.2019

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 2018

Income statement Medistim ASA

1 = NOK 1000	Note	2018	2017
SALES REVENUE AND OPERATIONAL EXPENSES			
Revenues			
Sales revenue	1	169 404	151 889
Other income	1,4	1 742	2 441
Total revenue		**171 146**	**154 330**
Operational expenses			
Cost of goods sold		35 315	29 268
Salary and social expenses	2	54 792	48 240
Depreciation on assets	3	11 243	12 019
Other operating expenses	2,4,14	29 647	27 922
Total operating expenses		**130 997**	**117 448**
OPERATING PROFIT		**40 149**	**36 882**
FINANCIAL INCOME AND EXPENSES			
Financial income			
Contribution from subsidiaries	6	14 860	9 300
Other financial income	12	7 668	8 403
Financial expenses	12	7 021	6 770
NET FINANCE		**15 507**	**10 933**
PROFIT BEFORE TAX		**55 656**	**47 815**
Tax expense	5	9 513	9 395
NET PROFIT		**46 143**	**38 420**
ALLOCATIONS			
Dividend	11	40 924	36 322
Other equity	11	5 219	2 098
TOTAL ALLOCATION		**46 143**	**38 420**

Earnings per share	**2018**	**2017**
Ordinary	**2,54**	**2,12**
Diluted	**2,54**	**2,12**
Dividend per share	**2,25**	**2,00**

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Balance Sheet Medistim ASA

1 = NOK 1000	Note	31.12.18	31.12.17
ASSETS			
Non current assets			
Intangible assets			
Deferred tax	5	1 039	1 683
Marketing rights	4	1 618	2 158
R & D	3,4	23 986	26 197
Fixed assets			
Machinery	3	26 826	21 045
Office equipment	3	720	948
Financial assets			
Shares in subsidiaries	6	37 306	37 306
Other long term receivables	6	6 803	7 277
Total non current assets		**98 298**	**96 614**
Current assets			
Inventory	8	38 928	38 835
Accounts receivables	7,16	50 732	37 379
Other receivables	7,16	5 272	3 109
Cash	9	12 933	21 172
Total current assets		**107 865**	**100 496**
TOTAL ASSETS		**206 163**	**197 109**
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	3 632	2 784
Other equity			
Retained earnings	11	75 673	70 224
Total equity		**124 143**	**117 845**
Liabilities			
Other long term debt			
Long term debt from bank	15	7 500	10 500
Total other long term debt		**7 500**	**10 500**
Short term debt			
Interest bearing short term debt	15	3 000	4 875
Accounts payable		7 060	6 791
Payable tax	5	8 871	8 464
Employee w ithholding, social security taxes		8 466	3 651
Dividend	11	40 925	36 323
Other short term debt	13,16	6 199	8 661
Total short term debt		**74 521**	**68 764**
TOTAL EQUITY AND LIABILITY		**206 163**	**197 109**

Annual report 2018

Cash Flow Statement for Medistim ASA

1 = NOK 1000	Note	2018	2017
Cash flow from operations:			
Profit/loss before tax		55 656	47 815
Minus income tax paid		-8 464	-6 558
Plus depreciations		11 243	12 019
+/- Change in inventory		-93	-5 091
+/- Change in accounts receivable		-13 353	-621
+/- Change in accounts payable		269	2 988
+/- Change in other accruals		-94	-3 008
Net cash from operating activities		**45 164**	**47 543**
Investing activities:			
Minus investment in assets		-14 046	-11 632
Ney cash from investing activities		**-14 046**	**-11 632**
Financing activities:			
Minus dow n payment of long term debt		-3 000	-5 250
Dividend	11	-36 358	-31 782
New loans		-	15 000
Net cash from financing activities		**-39 358**	**-22 032**
Net change in cash		-8 240	13 879
Cash as of 01.01		21 173	7 294
Cash as of 31.12		**12 933**	**21 173**
Available cash and cash w ithholding			
Available cash as of 31.12	9	10 820	19 538
Cash w ithholding for taxes	9	2 113	1 635
Cash and cash equivalents as of 31.12		**12 933**	**21 173**

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 (22 %) 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

All employees a defined pension plan.

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.

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.

Annual report 2018
Notes to the accounts

Note 1 Geographic split of sales

1 = NOK 1000	2018	2017
USA	56 441	49 812
Asia	36 924	26 954
Europe	63 392	62 176
Rest of the world	14 389	15 388
Total sales	**171 146**	**154 330**

Other income amounted to TNOK 1 742 and was income related to services towards subsidiaries. For 2017 other income amounted to 2 441 TNOK in 2017. 699 TNOK was reversal of deferred income from OFU funds and 1 742 TNOK was income from services provided to subsidiaries.

Note 2 Salaries and other benefits

Specification of salary and social expenses

1 = NOK 1000	2018	2017
Salary	43 293	39 477
Social taxes	6 881	5 844
Other salary and social expenses	4 618	2 919
Total salary expenses	**54 792**	**48 240**

The total number of employees was through the year 61.

Medistim has a pension plan for all its employees. This is a contribution plan that covers 5 % of salary up to 7.1 G and 8 % of G between 7.1 and 12. 1G is the base amount (NOK 96.883) in the social security system. The cost for the contribution plan was in 2018 TNOK 2 340, while it was TNOK 1 796 in 2017.

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 group**	**Position**	**Salary**	**Bonus**	**Pension**	**Other**	**Total**
Hæge Johanne Krogh Wetterhus	VP marketing	1 231 821	97 500	71 376	4 392	1 405 089
Anne Waaler	VP medical	1 183 915	75 000	71 160	4 392	1 334 467
Roger Reino Morberg	VP sales	1 576 699	300 000	71 376	4 392	1 952 467
Erik Swensen	VP development	1 154 584	75 000	68 916	4 392	1 302 892
Tone Ann Veiteberg	VP regulatory	1 040 553	75 000	61 512	4 392	1 181 457
Helge Børslid	VP operations	980 332	160 000	56 844	4 392	1 201 568
Kari Eian Krogstad	CEO	2 427 460	960 000	71 376	904 392	4 363 228
Thomas Jakobsen	CFO	1 682 888	225 000	71 376	399 392	2 378 656
Total		**11 278 252**	**1 967 500**	**543 936**	**1 330 136**	**15 119 824**

Of other compensation to CEO Kari Krogstad of NOK 739 392 , was NOK 735 000 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 34 500 shares as part of compensation if in position in 2021. Bonus was accrued in the accounts as of 2018, but not paid.

Under other benefits it is included an expense 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	375
Deputy chairman Bjørn Wiggen	210
Board member Siri Fürst	210
Board member Tove Raanes	210
Board member Lars Rønn	210
Total compensation to the Board of Directors	1 215

Compensation to auditor

1 = NOK 1000

	2018	2017
Expenses for auditing	542	402
Compensation for other services	65	57
Total compensation to auditor	607	459

The amounts are without VAT

Note 3 Assets and depreciation

1 = NOK 1000	Maskiner og anlegg	Driftsmidler	Sum varige driftsmidler	Aktivert utvikling	Merkenavn	Sum
Anskaffelseskost pr. 1/1	50 857	7 648	58 505	66 476	2 697	127 678
Tilgang	10 068	202	10 270	3 778	-	14 048
Anskaffelseskost pr. 31/12	60 925	7 850	68 775	70 254	2 697	141 726
Akkumulert av/nedskr. pr 1/1	29 811	6 701	36 512	40 278	539	77 330
Ordinære avskrivning	4 287	430	4 717	5 989	539	11 245
Akkumulert av/nedskr. pr. 31/12	34 099	7 130	41 229	46 267	1 078	88 574
Bokført verdi pr. 31/12	**26 826**	**720**	**27 546**	**23 986**	**1 619**	**53 151**

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 2018.

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 2018 was in total 10.2 MNOK compared to 8.6 MNOK in 2017. In 2018 3.8 MNOK of the R & D expense was activated in the balance sheet while 2.2 MNOK was activated in the balance sheet in 2017. The activated expense in 2018 were related to the coronary and vascular products on the MiraQ platform. The company did not receive any new OFU funds in 2018 or 2017.

In total 6.4 MNOK of the R & D expenses was recorded in the P & L in 2018. Similar expense was 6.4 MNOK in 2017. 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.

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 was effective from 2017, since the Medistim labeled product where launched by the end of 2016. Book value as of 31.12.2018 was 1.6 MNOK.

Note 5 Income tax and temporary differences

1 = NOK 1000	2018	2017
Current income tax charge for the year before deferred tax asset is utilised	8 871	8 462
Change in deferred tax	642	930
Income tax expense reported	**9 513**	**9 392**
Reconciling income tax expense against profit :		
Income tax expense for the year	9 513	9 392
23 % of profit before tax	12 801	11 476
permanent differences	-3 288	-2 083

Specification of taxable income:	**2018**	**2017**
Profit before tax	55 656	47 815
Permanent differences	-14 466	-9 001
Change in temporary differences	-2 621	-3 557
Estimated income tax:	**38 569**	**35 257**

Payable tax in balance sheet:	**2018**	**2017**
Tax on profit for the year	8 871	8 462
Total payable tax	**8 871**	**8 462**

Specification of deferred tax asset

Differences in accounting and tax values	**2018**	**2017**
Fixed assets	-4 860	-7 244
Current assets	-559	-987
Accrual for obligations	700	912
Total differences	-4 719	-7 319
Deferred tax asset 22 %	**1 038**	**1 683**
Deferred tax asset in balance sheet	**1 038**	**1 683**

Deferred tax asset in the balance sheet was reduced from the year before with 0.7 MNOK and was recorded at 1.0 MNOK. Deferred tax asset consist of temporary differences in valuation of assets. All deferred tax asset is recorded in the balance sheet as of 31.12.2018, 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 2018
Medistim USA Inc.	USA	Lease and sale within bypass surgery and vascular surgery	100 %	135	12 418
Medistim Deutschland GmbH	Germany	Capital sales within bypass surgery and vascular surgery	100 %	188	7 182
Medistim Norge AS	Norway	Sale of 3 pary products and capital sales within bypass surgery and vascular surgery	100 %	36 953	6 069
Medistim UK LTD	UK	Capital sales within bypass surgery and vascular surgery	100 %	1	97
Medistim Spain S.L		Capital sales within bypass surgery and vascular surgery	100 % The company will be operative from 2017	28	1 529
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		497
Total				**37 306**	**27 791**

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.	49 510	16 475	33 035	118 755	12 418
Medistim Deutschland GmbH	14 031	1 408	12 623	40 632	7 182
Medistim Danmark Aps	3 840	2 029	1 811	7 469	497
Medistim Spain S.L	10 805	12 316	-1 512	11 502	1 529
Medistim UK LTD	3 846	10 093	-6 247	2 829	97
Medistim Norge AS	43 939	7 921	36 018	67 741	6 069
Total	**125 971**	**50 242**	**75 729**	**248 929**	**27 791**

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 Nottingham in UK and Medistim Denmark has offices in Copenhagen in Denmark. Medistim Spain S.L has offices in Barcelona. Book value of goodwill related to the acquisition of Medistim Norge AS was as of 31.12.2018 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 10 093 TNOK, 1 803 TNOK is a long-term debt towards Medistim ASA. The debt is part of a cash transfer to finance and establish a the company. No interest has been charged on this debt. Medistim ASA received from its German and Norwegian subsidiary a dividend of 6.86 MNOK and 8.0 MNOK respectively in 2018.

Note 7 Account receivables and other receivables

Accounts receivable

1= NOK 1000	2018	2017
Accounts receivable	50 847	37 494
Provision for bad debt	-115	-115
Total	**50 732**	**37 379**

All receivables are due within one year. Losses in 2018 were 13 TNOK and losses in 2017 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	2018	2017
Pre payments	1 032	186
Prepaid taxes and VAT	2 286	1 875
Accrued revenue	1 684	-
Other	270	1 049
Total other receivables	**5 272**	**3 109**

Note 8 Inventory

1= NOK 1000	2018	2017
Components	28 404	33 173
Finished goods	11 459	7 083
Inventory accrual	-935	-1421
Total	**38 928**	**38 835**

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	2018	2017
Demonstration units	384	739
Service parts	551	682
Total	**935**	**1421**

Note 9 Cash in Bank

Restricted cash amounted to 2 113 TNOK as of 31.12.2018 and was related to tax withheld on salary paid to employees. The comparable amount as of 31.12.2017 was 1 995 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.

Annual report 2018

Change in issued share capital in 2018:

	Number of shares	Par value per share	Share capital in NOK
Share capital 01.01.2017	18 337 336	NOK 0.25	NOK 4 548 334.00
Changes	-		NOK -
Share capital 31.12.17	**18 337 336**	**NOK 0.25**	**NOK 4 584 334.00**

The Board of Directors received by the shareholders meeting the 25th of April 2018 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 2019 in the price range of NOK 0.25 to NOK 150 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 2019. See below for changes in the equity for the last year.

Status for the commissions as of 31.12.2018:

	Capital increase	Medistim shares
Commission given at the shareholders meeting in 2018	1 833 733	1 833 733
Commissions used	-	-
Status for the commissions as of 31.12.2018	**1 833 733**	**1 833 733**

The company owned 158 500 Medistim shares as of 31.12.2018. Number of Medistim shares by 01.01.2018 was 176 000. The change through the year is shown below:

The 20 largest shareholders in the company were as of 31.12.2018:

Shareholder	Number of shares	Shares in %	Nationality
INTERTRADE SHIPPING AS	4 003 500	21,83 %	NOR
SALVESEN & THAMS INVEST AS	1 862 500	10,16 %	NOR
SWEDBANK ROBUR SMABOLAGSFOND	1 375 246	7,50 %	GBR
Skandinaviska Enskilda Banken AB	1 041 753	5,68 %	DNK
FOLLUM CAPITAL AS	1 000 000	5,45 %	NOR
State Street Bank and Trust Comp	877 215	4,78 %	USA
Skandinaviska Enskilda Banken S.A.	743 220	4,05 %	LUX
GRANDEUR PEAK INTERNATIONAL *	674 271	3,68 %	USA
Skandinaviska Enskilda Banken AB	574 005	3,13 %	SWE
BUANES	494 936	2,70 %	NOR
HSBC TTEE MARLB EUROPEAN TRUST	420 656	2,29 %	GBR
HOLBERG NORGE	398 656	2,17 %	NOR
Danske Bank A/S	292 035	1,59 %	DNK
BNP Paribas Securities Services	270 201	1,47 %	FRA
RBC INVESTOR SERVICES BANK S.A.	267 823	1,46 %	LUX
Danske Invest Norge Vekst	250 000	1,36 %	NOR
NN PARAPLUFONDS 1 N.V.	213 326	1,16 %	BEL
Bank Julius Bär & Co. AG	200 000	1,09 %	CHE
Danske Bank A/S	178 310	0,97 %	DNK
MP PENSJON PK	174 500	0,95 %	NOR

Total 20 largest shareholders	15 312 153
Total number of shares outstanding	18 337 336
20 largest shareholders in %	83,50 %

* 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	0,01 %	Board member
Roger Morberg	6 438	0,03 %	VP sales
Bjørn Wiggen (holds 24 % of the shares in Salvesen og Thams Invest AS	1 862 500	10,16 %	Deputy chairman
Erik Swensen	40 000	0,22 %	VP development
Thomas Jakobsen	75 000	0,38 %	CFO
Kari Eian Krogstad	112 500	0.54 %	CEO
Siri Fürst	2 000	0.010 %	Board member
Øyvin A. Brøymer (Intertrade Shipping)	4 003 500	21.83 %	Chairman
Helge Børslid	1 000	0.001 %	VP operations
Anne Waaler	6 651	0,03 %	VP medical dep.

There were no share options outstanding as of 31.12.2018 except form the share program to CEO described under chapter 3 Corporate Governance under compensation to management and note 20.

Note 11 Change in equity

1 = NOK 1000	Share capital	Own shares	Premium fund	Other paid in capital	Other equity	Total
Equity 31.12.17	4 584	(44)	40 253	2 784	70 267	117 845
Change in equity:						
Change own shares	-	4	-	848	263	1 115
Other corrections	-	-	-	-	-35	-35
Profit 2018	-	-	-	-	46 143	46 143
Dividend to shareholders	-	-	-	-	-40 925	-40 925
Equity 31.12.18	**4 584**	**-40**	**40 253**	**3 632**	**75 713**	**124 143**

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. In January 2019 8 EUR contracts with EUR 250.000 per contract was secured. Each contract is due by the end of the month with EUR 250.000 until August 2019.

Unrealized gain or loss related to the contracts is recorded in the balance sheet 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	2018	2017
Foreign exchange gain	7 583	8 378
Foreign exchange loss	6 520	6 229
Total	**1 063**	**2 149**

Note 13 Specification of short-term debt

1= NOK 1000	2018	2017
Bonus program distributor	-	480
Bonus and commission	3156	1616
Holiday allow ance	-	4 222
Goods received not invoiced	449	38
Board compensation	1215	1150
Debt tow ards subsidiary	98	98
REQUEST accrual	-	669
Accrual for guarantees	150	150
Other	1131	238
Total short term debt	**6 199**	**8 661**

Note 14 Other operating expenses

1 = NOK 1000	2018	2017
Office rental	5 227	5 276
Travel expense	3 100	3 002
Marketing	2 937	2 136
Consultancy fee	8 643	8 630
Insurance	573	711
Freight	575	536
Communication	5 171	4 252
Other	3 421	3 379
Total other operating e	**29 647**	**27 922**

Note 15 Long-term debt and loan security

Medistim ASA had 10.64MNOK in long-term debt by the end of 2017 The interest on the loan is 3 months NIBOR plus 1.9 %. Last down payment on the loan is due in the fourth quarter of 2022. 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 17.5 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 31.12.2018 27.5 MNOK for assets, 50.7 MNOK for accounts receivables and 38.9 MNOK for inventory. See also note 12 for status related to hedging contracts.

Note 16 Receivables and debt towards subsidiaries

1 = NOK 1000	2018	2017
Account receivable	26 166	15 619
Other receivable	5 803	5 776
Short term debt	992	98

Note 17 Events after 2018

The Board of directors has no knowledge about events after 2018 that will affect the annual report and financial statement for 2018.

Oslo, 14.3.2019

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 2018 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 14.3.2019
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

Independent Auditor's Report

To the General Meeting in Medistim ASA

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 2018, income statement, statement of comprehensive income, statement of changes in equity and cash flows 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 2018, and income statement, statement of comprehensive income, statement of changes in equity and cash flows 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 Medistim ASA as at 31 December 2018, 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 Medistim ASA as at 31 December 2018, 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 and the Group 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 2018. 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 the key audit matter	How the key audit matter was addressed in the audit
Revenue The Group revenue recognition policy for sales in the United States of America (USA) is different from the policy used for sales in the rest of the world. The Group's deliveries outside the USA represents sales of goods, and revenue is recognized upon delivery. In addition to revenue from sale of goods, the sales model in the USA briefly described is payment for use of equipment and consumables. Equipment located at the end customer is recognized as assets in the groups and parent company`s balance sheet, and amortized over the estimated useful life. Consumables is recognized upon delivery, unless consideration is variable. The difference between the sales models, and the complexity this cause in the accounting - including assessment of possible IFRS 15 effects - has lead us to focus specifically on this during our audit. We refer to the description in the accounting policies and note 1 and 2 to the Group financial statements.	We have assessed the appropriateness of management's revenue recognition policies, and the application of these policies. Our work includes review and evaluation of procedures and systems related to the Company and Group revenues. We have obtained an understanding of the relevant internal controls and tested these controls, and performed additional audit tests to verify that the revenue recognition has been performed in accordance with the policies described. Further, we have evaluated the sufficiency of the description of revenue recognition policies in the notes to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the Annual Report which include the Board of Directors' report, statements on Corporate Governance and 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 for the parent company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to:
https://revisorforeningen.no/revisjonsberetninger

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 the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

BDO AS

Steinar Andersen
State Authorised Public Accountant

Note: Translation from Norwegian prepared for information purposes only.