



# MeVis

MeVis Medical Solutions AG, Bremen  
Annual Report 2010

## Consolidated key figures (IFRS)

FIGURES IN € k	2010	2009	Change
<b>Revenues</b>	<b>14,291</b>	<b>13,869</b>	<b>3%</b>
of which segment <sup>1</sup>			
Digital Mammography	10,724	10,048	7%
Other Diagnostics	3,572	3,876	-8%
of which billing currency <sup>1,2</sup>			
Euro	2,380	2,037	17%
US-Dollar	11,911	11,832	1%
EBITDA	3,452	4,474	-23%
EBITDA margin	24%	32%	-
EBIT	-5,427	1,633	-432%
EBIT margin	-38%	12%	-
Net financial result	-180	-465	61%
EBT	-5,607	1,168	-580%
<b>Consolidated net profit</b>	<b>-8,349</b>	<b>398</b>	<b>-2,197%</b>
<b>Earnings per share in € (basic and diluted)</b>	<b>-4.89</b>	<b>0.23</b>	<b>-2,184%</b>
Equity capital	24,789	32,607	-24%
Intangible assets	22,001	27,095	-19%
Deferred tax assets	0	1,487	-
Non-current and current liabilities	13,996	18,348	-24%
Balance sheet total	38,785	50,955	-24%
Equity ratio in %	64%	64%	-
Liquid Funds <sup>3</sup>	8,162	15,093	-46%
Employees <sup>4</sup>	178	186	-4%

<sup>1</sup> Comprised of intersegment revenues.

<sup>2</sup> Revenues are allocated to the currency according to the location of the customer; comprised of indirect sales via industry partners as well as sales to clinical end customers in the segment Distant Services. Revenues generated by MeVis Japan KK are invoiced in Euro.

<sup>3</sup> Comprised of cash, cash equivalents and securities available for sale.

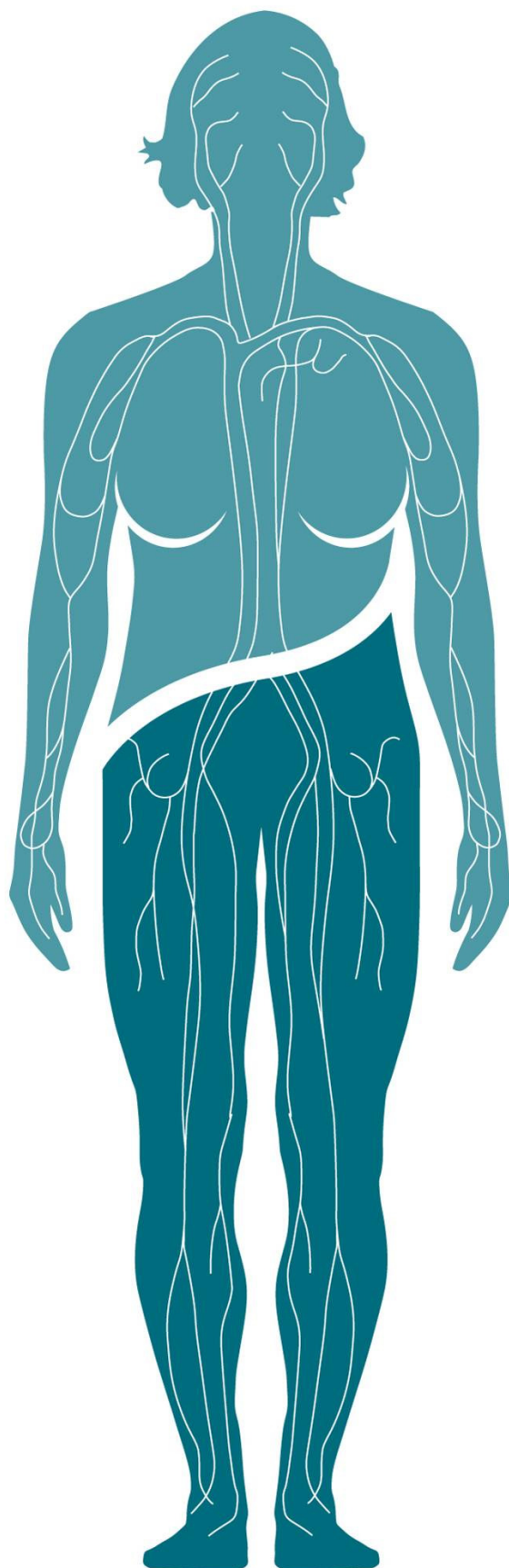
<sup>4</sup> Yearly average of full-time equivalents.

## Key share data

	as at December 31, 2010
Industry sector	Software / Medical Technology
Subscribed capital	€1,820,000.00
No. of shares	1,820,000
Last quotation on Dec. 30, 2009	€24.16
Last quotation on Dec. 31, 2010	€13.80
High/low 2010	€27.00 / €12.90
Market capitalization	€23.679 m
Treasury stock	104,124 (5.72%)
Free float	38.81%
Prime Standard (Regulated Market)	Frankfurt and Xetra
Over-the-counter markets	Frankfurt, Berlin, Dusseldorf, Munich, Stuttgart
Indices	CDAX, PrimeAS, TechnologyAS, DAXsector Software, DAXsubsector Software, GEX
ISIN / WKN / Ticker symbol	DE000A0LBFE4 / A0LBFE / M3V

## Content

Letter to the Shareholders .....	4
Report of the Supervisory Board 2010.....	8
Corporate governance report .....	12
MeVis Stock .....	16
Group management report for 2010 .....	17
Consolidated financial statements 2010.....	43
Consolidated income statement.....	44
Consolidated statement of comprehensive income .....	44
Consolidated statement of financial positions.....	45
Consolidated statement of cash flow .....	46
Statement of changes in equity .....	47
Notes to the consolidated financial statements 2010 .....	48
Changes in consolidated assets .....	90
Auditor's Report .....	94
Responsibility Statement („Bilanzeid“) .....	95
Disclaimer .....	96
Finance Calendar 2011.....	97



## Letter to the Shareholders

*Dear shareholders,  
customers, business associates and employees,*

After the fiscal year 2009 proved difficult in the wake of the financial crisis, we can look back on a slight increase in revenues in the fiscal year just concluded, which nevertheless fell short of our original expectations. Revenues from maintenance, which are increasing in importance, were boosted by 44%, whereas by contrast, revenues from new licenses declined by 10%.

Our expectations of significant growth in the company in 2010, after beginning buoyantly with notable revenue increases in the first two quarters, faded during the rest of the fiscal year: We completed the first quarter in a confident mood thanks to a slight pick-up in the US sales market and a considerable increase in revenues from new products; in the second quarter, however, growth was already principally due to increased earnings from maintenance. In response to this, we adjusted our forecast in our half-year report, now anticipating only moderate growth for the year overall, and then further reduced it to € 14 million on publication of our interim financial statements in the third quarter and the presentation at the Equity Forum in Frankfurt. Further, we warned of an increased impairment risk in view of worsening new license sales for some of the newer products. At the same time, we once again considerably intensified the cost reduction measures already in place, which had immediate effects on employee headcount for the first time. The fourth quarter of 2010 continued to be affected by unfavorable influences in license sales, and Group revenues, at € 3.4 million, were lower than in preceding quarters. In relation to the entire fiscal year, we recorded a 3% increase in revenues, to € 14.3 million.

Group-wide, our new license business has declined by 10%. The principal influences in the Other Diagnostics segment were the lack of market success in the lung business and weak sales in breast MRI. Business with the lung product Visia™ CT-Lung did not develop as planned in the fiscal year just concluded. Contrary to the original plans, revenues declined steeply. We responded to this development by recognizing a complete extraordinary impairment loss on the balance sheet items relating to this, which has had a considerable negative effect on the result, but not, however, on liquidity. We attribute the weak sales seen in breast MRI to increasingly intense competition in this specific market segment, which was increased additionally by the beginning of market consolidation in the USA.

Overall, it has become apparent that no new impulses to drive sales expansion in the license business for newer products were able to emerge. The declining momentum in the core business of digital breast diagnostics caused by increasing market saturation in the USA could not be offset by increases in license volumes in other geographic regions.

Revenues from our maintenance contract business, with group-wide growth amounting to 44%, have continued to develop positively. With approval of the three-dimensional tomosynthesis device made by our industry partner Hologic in the USA by the U.S. Food and Drug Administration (FDA), we were able to launch sales of the product in the USA at the beginning of 2011. We view this development as a significant milestone for our Digital Mammography segment; with the existing maintenance contracts for the SecurView™ diagnostic workstation, clinical end customers automatically participate in our innovations for this outstanding technology – in relation, for example, to optimization of workflow management.

In other words, the decline in our new license business for digital mammography devices due to the beginnings of market saturation in the USA can be partially compensated for by the tomosynthesis business, which we recognize in maintenance revenues.

We are continuing to pursue our product development strategy of developing disease oriented software applications at the high end of technological innovation for diseases of epidemiological importance. The early detection and diagnosis of breast cancer continues to be our core business, which, in the meantime, also includes support for surgical procedures or biopsies. With a worldwide incidence of 1.3 million per year, breast cancer is the most common tumor disease. In Germany and Europe, breast cancer accounts for almost 30 percent of all cancers in women. Our highly specialized software applications support radiologists and surgeons with diagnostic evaluation and pre-operative planning based upon the significant amount of image information that can be provided from various imaging techniques.

These include not only X-ray based techniques such as computer tomography, digital mammography, and digital tomosynthesis, but also magnetic resonance imaging (MRI) and digital sonography (ultrasound). Then there are the more modern imaging modalities, such as positron emission tomography (PET), sonoelastography and molecular imaging. For example, as part of the EU sponsored HAMAM project, we work together with the Fraunhofer MEVIS Institute and other European research institutions on innovations for multimodal breast diagnostics. The DOT MOBI project, which is sponsored by the German Federal Ministry of Education and Research, is concerned with the development of a software platform for the multimodal diagnosis of cancer and the optimization of therapies through molecular imaging.

Our longstanding, close industry partnerships with the original equipment manufacturers (OEMs) of these imaging devices, Hologic, Siemens and Invivo, have once again proven themselves in the past fiscal year in both product development and sales.

With segment revenues of € 10.7 million that increased by 7%, the segment Digital Mammography was once again the strong pillar of the Group. This is primarily the result of a further significant increase in maintenance revenues, which came to 38% of the segment revenues in the reporting period (prev. year: € 3 million or 30%). Maintenance revenues grew 44% on a Group-wide basis, and represented, at € 4.6 million, a third of total sales in the meantime (prev. year: € 3.2 million or 23%).

License sales from new products in the Other Diagnostics segment were a disappointment in a stagnating market. Segment sales declined by 8% to € 3.6 million. The primary reason for this decline, besides the continued weak sales momentum in our lung business with the Visia™ CT-Lung System, was a reduction in sales for the MRI products for breast. Maintenance revenues have also been increased in this segment, and, at € 0.5 million, amount to 14% of segment sales in the meantime (prev. year: € 0.2 million or 4%).

The large strategic importance of technological leadership led again to high investments in the future viability of MeVis products, of which € 2.9 million were capitalized as internally developed assets. In the next two years, we plan a gradual market introduction of a range of disease-oriented applications based upon our proprietary Visia™ Enterprise Technology, which will permit us to simultaneously expand existing industrial partnerships and initiate new ones. These new products relate to applications in the areas of cardiovascular diseases, neurology, breast, prostate, lung and colon, and should gradually lead to significantly higher sales and profitability in the Other Diagnostics segment following their market introduction. In 2010, we reached a notable milestone in our product development, with the completion of our initial release of our Visia™ software platform. The first Visia™ product was released to the market in Q4; Visia™ MR Core, which encompasses comprehensive functions for diagnostics on dynamic MRI image series and an interface to connect the software to a host environment. Additionally, we developed an integration interface for the software products QMass® and QFlow® from our partner company Medis medical imaging systems B.V., which was delivered to Medis in a beta version at the end of 2010. In 2010, our development partner Fraunhofer MEVIS carried out numerous developments for MMS AG for the improvement of the breast MRI products.

In addition, MeVis BreastCare saw the further development of, among other things, the diagnostics software for the ACUSON S2000 ABVS ultrasound scanner for Siemens. At MeVis BreastCare Solutions, developments focused on a number of improvements to the breast diagnostics workstation SecurView™ for Hologic.

Staff costs rose by 6% to € 10.4 million, largely due to several special factors, while the average number of full time equivalent employees declined by 4% to 177. Other operating expenses rose by 13% to € 3.7 million, despite continuing initiatives to reduce costs, which were intensified once again starting from the fourth quarter. A single, extraordinary item totaling € 0.8 million was responsible for this increase, and was related to reclassification associated with an obligation to finance a project in exchange for pre-emption rights on the research and development results. Adjusted for this special item, other operating expenses in the fiscal year were reduced by 12% to € 2.9 million.

Earnings before interest, taxes, depreciation and amortization (EBITDA) in fiscal year 2010 fell accordingly to € 3.5 million (prev. year: € 4.5 million). Adjusted EBITDA amounted to € 4.3 million, only slightly lower than that of the previous year.

In addition to the slow-down in sales growth and the extraordinary item in other operating expenses, the income situation in the Group was negatively impacted by high depreciation and amortization. Depreciation and amortization rose by 25% to € 3.6 million; approximately half of this balance is related to depreciation and amortization on capitalized development costs. The capitalization ratio, meaning the difference between capitalized development costs and amortization of capitalized development costs, increased to € 0.6 million (prev. year: € 0.5 million). That increase is clear evidence that we continue to focus on implementing our growth strategy of renewing existing products and expanding our product portfolio. In the future, our proprietary software platform, Visia™ Enterprise, will assume increasing importance in this regard.

The one-time, non-cash charge of € 5.3 million on our lung CT business led to earnings before interest and taxes (EBIT) of € -5.4 million. Operating earnings adjusted for both of these extraordinary items came to € 0.7 million. With a slightly improved financial result of € -0.2 million, pre-tax earnings for the fiscal year just concluded were therefore € -5.6 million (adjusted for extraordinary items: € 0.5 million). The higher tax expense of € 2.7 million results in a consolidated net loss for the period of € -8.4 million, which represents an earnings per share result of € -4.89.

For the current fiscal year, we anticipate a further slight decline in sales and a break-even EBIT result. Our expectation is that significant new momentum in our license business from the gradual market introduction of our new products based upon the Visia™ Enterprise technology, which, in contrast to most of our existing product portfolio, are developed independently of OEMs, and the associated positive effects on our sales and profitability trends, will begin starting in 2012. These products are to be sold by means of new industrial partnerships. We expect Visia™ Enterprise to be approved for the American market by the FDA in the second half of the current fiscal year. The planned market entry into cardiovascular imaging is a further important building block for the future growth of our company, and will primarily depend upon the success of our cooperation with the Dutch company Medis medical imaging systems B.V., in which we made investments last year in two tranches, reaching a holding of 41%. We will make a decision on a complete acquisition shortly.

Liquid funds declined to € 8.2 million as of the balance sheet date. Taking into account the outstanding balance for the acquisition of 49% of the shares of MBS KG totaling up to € 7.5 million, which is due as partial payments until 2015, we continue to believe that adequate liquidity is available in the current fiscal year.

On October 1, 2010, Dr. Robert Hannemann began his work as the company's CFO with an expanded area of responsibility. With these personnel and organizational changes, we feel well prepared in the Executive Board for the future challenges that await us.

At this point, we would like to thank all employees for their exceptional performance as well as our business associates, customers and shareholders for their confidence.

Carl J.G. Evertsz, Ph.D.

Chairman & CEO

Robert Hannemann, Ph.D.

Member of the Executive Board

Thomas E. Tynes

Member of the Executive Board

## Report of the Supervisory Board for the financial year 2010

*Dear Shareholders,*

Throughout 2010, the Supervisory Board was closely involved with the business situation and business prospects of the company and performed the duties incumbent upon it under the law, the articles of incorporation and the rules of procedure. We advised the Executive Board based upon the regular, timely, and extensive information that the Executive Board provided to us; we monitored its activities and were involved in all decisions of strategic importance for the company.



Heinz-Otto Peitgen, Ph.D.

The Supervisory Board was informed in detail about the company's operations and its strategic development both verbally and in written form. We were consulted on major decisions. After a thorough review, the Supervisory Board voted on resolutions of the Executive Board, whenever this was required as per the provisions of the law and the articles of incorporation or the rules of procedure for the Executive Board, during five regular and one extraordinary meeting of the Supervisory Board and by way of written circulation. Therefore, the Executive Board and the Supervisory Board met at six meetings of the Supervisory Board. Furthermore, the Chairman of the Supervisory Board was in regular contact with the Executive Board, particularly with its Chairman.

The Executive Board briefed the Supervisory Board on the company's business performance including its net assets, financial position and results of operations, future business policies and company planning, material events and matters of particular significance, other issues subject to disclosure, risk management actions and on other business risks which had become apparent.

In addition to the extensive and detailed analysis, discussion and advice regarding the implementation of the company's business strategy, the Supervisory Board and the Executive Board focused in the end of the reporting year on possible strategic partnerships to strengthen the company as well as potential ways to lower costs.

### *Summary of the meetings of the Supervisory Board*

#### *First meeting of the Supervisory Board on April 26, 2010*

Items on the agenda of the first meeting of the Supervisory Board in 2010 included the analysis and approval of the annual financial statements prepared in accordance with the German Commercial Code (HGB) and the management report of MMS AG as well as the MeVis Group's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the Group management report for 2009. Other items were the finalization of the report of the Supervisory Board, preparation of the annual general meeting of MeVis Medical Solutions AG on June 10, 2010, including the drafting of the resolutions to be put to the general meeting. Furthermore the Supervisory Board focused on the internal control system, early warning system for possible impairment risks, innovation strategy, and dividend policy.



#### Second meeting of the Supervisory Board on May 27, 2010

The agenda of the second meeting of the Supervisory Board in 2010 included the report of the Executive Board regarding significant events and developments of the Group in the 2009 fiscal year, the report on the company's current business situation including sales forecasts and the current risk report, a discussion regarding planning adjustments to the 2010 budget in light of changes to exchange rates and the planned acquisition of additional shares of Medis Holding B.V., Leiden, as well as a discussion of potential proactive measures to cost reduction, the distribution of regional markets, delays in completion of MeVisAP platform, depreciation policy of the company, risks arising from currency developments, recommendations of proactive measures to cost reduction. Furthermore, the Supervisory Board approved the Executive Board's plan to acquire additional shares of Medis Holding BV, Leiden.

#### Third meeting of the Supervisory Board on June 10, 2010

The agenda of the third meeting of the Supervisory Board, which was invited for waiving all procedural requirements in order to complete the open agenda items of the second Supervisory Board meeting, included the report of the Executive Board on the company's business situation, including a discussion regarding the current implementation status of actions to strengthen the company's strategic position through potential new OEM-partners, up to the scenario of joint market appearance, the impacts on existing OEM-partnerships, the analysis and discussion of the existing sales strategy as well as the company's strategy regarding foreign currency hedging.

#### Fourth meeting of the Supervisory Board on September 7 and 8, 2010

The agenda of the fourth meeting of the Supervisory Board included the Executive Board's report on the company's business situation including its net assets, financial position and results of operations for the first half of the year, the resolution on the Declaration of Compliance with the German Corporate Governance Code that was amended as of July 1, 2010, a discussion on the current status of the implementation of actions to strengthen the company's strategic development through potential partnerships, impairment risks arising from Visia LungCAD as well as a threatening situation with one OEM-Partner, which entered into competition with the company through an acquisition for the first time in August 2010. After a strategic review of the company's business model based on the assumption of continuous technological innovation of the company's products, the Supervisory Board approved the so-called framework guidelines for the Executive Board regarding the future design of strategic partnerships.

#### Fifth meeting of the Supervisory Board on November 4, 2010

The agenda of the fifth meeting of the Supervisory Board – an extraordinary meeting – included a detailed discussion of the current status of the net assets, financial position, and results of operations of the company, its subsidiaries and its investees according to the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS). With reference to the current report of the Executive Board, the disappointing development of revenues in the Other Diagnostics Segment, the risk report and the actual implementation status of actions to strengthen the company's strategic position through potential partnerships, the Supervisory Board and the Executive Board discussed the impact of impairment risks and various future scenarios on the future status of the company's net assets, financial position and results of operations.

#### Sixth meeting of the Supervisory Board on December 14, 2010

The agenda of the sixth meeting of the Supervisory Board included the Executive Board's report on the company's situation, including the net assets, liabilities, financial position and results of operations for the first three quarters, and the full-year expectations for 2010, discussion and approval of the business plan for fiscal year 2011 presented by the Executive Board, and a discussion of the current status of actions to strengthen the company's strategic position through potential partnerships. Furthermore the Supervisory Board was engaged in the following: significant changes in the competitive landscape for products of the company, strategic relevance of the MeVisAP platform, context of business development and stock price, cost adjustments for 2011 fiscal budget, impairment risks and their impact on the balance sheet, delays in

product development, Planning of revenues and sales with special reference to joint product developments with Medis for diagnostics of cardio-vascular diseases and strengthening of OEM-customer relationships.

### *Personnel changes in the Supervisory Board and the Executive Board*

The Supervisory Board member Axel Schubert, who was appointed as a member of the Supervisory Board as per the shareholders' resolution from August 28, 2006, tendered his resignation due to personal reasons as of December 31, 2010. By order of the district court of Bremen on January 10, 2011, Dr. Jens J. Kruse, Director of Corporate Finance of the private bank MM Warburg & CO, Hamburg, was appointed as a member of the Supervisory Board effective January 10, 2011. His office expires in 2011 with the scheduled election of the Supervisory Board by the annual general meeting.

Christian H. Seefeldt, who served as the Company's CFO since January 1, 2009, resigned his position on the Executive Board as of September 30, 2010 at his own request and left the company. The Supervisory Board appointed Dr. Robert Hannemann as a new member of the Executive Board effective October 1, 2010.

### *Work of the committees*

Committees were not set up, as the Supervisory Board has only three members in total.

### *Corporate governance*

The Executive Board and the Supervisory Board support the initiatives of the Government Commission on the German Corporate Governance Code, which summarizes the principles of good and responsible corporate governance, and issue joint declarations of conformance pursuant to section 161 AktG (German Stock Companies Act), which are regularly updated. The wording of the current declaration is published on the MeVis Medical Solutions website and included in the section corporate governance of this annual report.

### *Unqualified auditors' report issued for the financial statements*

The separate financial statements of MeVis Medical Solutions AG as of December 31, 2010 prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements as of December 31, 2010 prepared in accordance with the International Financial Reporting Standards (IFRS), the management report and the Group management report prepared by the Executive Board for 2010 were submitted to the statutory auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Bremen, who had been selected at the annual general meeting and appointed by the Supervisory Board, and issued with unqualified auditors' reports.

We examined the annual and consolidated financial statements prepared by the Executive Board, the management report and the Group management report prepared by the Executive Board for 2010, and the Executive Board's proposal to be submitted for approval to the annual general meeting regarding the appropriation of the current period's profit. The relevant individuals from the statutory auditor company took part in the examination and discussion, and reported to the Supervisory Board on the material results of the audit. After conducting our own review, we concurred with the statutory auditors' findings.

The Supervisory Board approved the annual financial statements as of December 31, 2010 at its meeting of April 8, 2011. The financial statements are deemed to have been duly adopted. The Supervisory Board approved the consolidated financial statements as of December 31, 2010 by circular resolution on April 19, 2010. Accordingly, the financial statements are approved and released for publication.

The Supervisory Board endorses the Executive Board's proposal to carry forward the profit of MeVis Medical Solutions AG for 2010 in the amount of € 10,367,139.05.

The disclosures stipulated by Sections 289 (4) and 315 (4) HGB (Act transposing the EU Takeover Directive) are included in the management report and the group management report. The Supervisory Board has examined and endorsed these disclosures and declarations, which it considers to be complete.

The Supervisory Board thanks the Executive Board and all employees of the MeVis Group both in Germany and abroad for their work and expresses its appreciation for their commitment and dedication in the year under review.

Bremen, April 19, 2011

for the Supervisory Board

Heinz-Otto Peitgen, Ph.D.

Chairman of the Supervisory Board

## Corporate governance report

This corporate governance report forms a supplementary part of the corporate governance declaration pursuant to Section 289a HGB.

### *Declaration of conformance for the financial year 2011*

On April 8, 2011, the Executive Board and Supervisory Board of MeVis Medical Solutions AG submitted the fourth declaration of conformance with the German Corporate Governance Code in the version of May 26, 2010, and, pursuant to Section 161 of the German Corporation Act (AktG), hereby declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of May 26, 2010 have been and will in future be met with the following exceptions:

- Contrary to the recommendations of the inclusion of a deductible within the D&O Insurance for the Supervisory Board (Section 3.8 GCGC) a deductible for Supervisory Board Members is not intended, as the statutory compensation of the Supervisory Board as an assessment base for a possible deductible is considered marginal. Based upon the regulations of the law governing the appropriateness of executive compensation valid from August 5, 2009, a deductible for members of the Executive Board was agreed in compliance with these regulations.
- To date the remuneration of the Executive Board members (Section 4.2.3) corresponds to the regulations before the recent changes of the law governing the appropriateness of Executive compensation valid from August 5, 2009. An intervention into current executive employment contracts is not stipulated. Future contracts with Executive Board members will comply with the new regulations governing the remuneration of directors. The long-term nature is to be addressed through adjustment of the existing stock option program, which shall be decided on during the next annual general meeting.
- Executive and Supervisory Board of the company are of the opinion that the specification of an age limit for members of the Executive Board (Section 5.1.2 GCGC) is not reasonable. From the point of view of the company, such a limitation does not constitute a useful selection criterion and would limit members of the Supervisory Board and shareholders in the choice of suitable candidates.
- The company currently abstains from the formation of committees with sufficient expertise (Section 5.3.1 GCGC), in particular there has been no formation of an audit committee (Section 5.3.2 GCGC) nor a nomination committee (Section 5.3.3 DCGK). Due to the specific circumstances of the company, and especially the size of the Supervisory Board of the MeVis Medical Solutions AG, the Supervisory Board does not believe that the formation and appointment of such committees as stipulated by the code is necessary or appropriate.
- The specification of an age limit for members of the Supervisory Board (Section 5.4.1 GCGC) is not deemed appropriate by the Executive Board and the Supervisory Board. From the point of view of the company, such a limitation does not constitute a useful selection criterion and would limit members of the Supervisory Board and shareholders in the choice of suitable candidates.
- As stipulated by the articles of association of the MeVis Medical Solutions AG, members of the Supervisory Board receive a fixed remuneration, which is also presented in the notes to the consolidated financial statements. The Supervisory Board sees its current task predominantly in securing the sustainability of the business model of the Company. Given the current state of development of the company, the Supervisory Board considers the relatively low fixed remuneration

to be appropriate and sufficient. The Supervisory Board does not see the need to implement a success oriented or individualized compensation scheme (Section 5.4.6 Paragraph 2 GCGC).

- Independent of sessions of the Supervisory Board, the work of the committees of MeVis Medical Solutions AG encompasses a continuous monitoring of existing processes and regulations. Therefore, the Supervisory Board is of the opinion, that an additional evaluation of its work efficiency - e.g., by means of performance evaluations (Section 5.6 GCGC) - is currently not meaningful.
- Based on a separate information and reporting directive, the Supervisory Board is being regularly informed by the Executive Board. This encompasses a detailed description of those statements, which are to be published as part of the half-year and quarterly reports. The Executive Board will submit the relevant information to the Supervisory Board in a timely manner so as to enable the Supervisory Board to submit comments to the Executive Board. Therefore, Supervisory Board and Executive Board are of the opinion that an additional discussion of the half-year and quarterly reports prior to their publication (Section 7.1.2 Phrase 2 GCGC) is not necessary.
- MeVis Medical Solutions AG is deviating from the recommendations with regards to the publication terms of Consolidated Financial Statements and Interim Reports (Section 7.1.2 Phrase 4 GCGC). The company considers the current regulations of the Frankfurt Stock Exchange for issuers listed in the Regulated Market (Prime Standard segment) to be adequate. These require companies to publish consolidated financial statements within deadlines that are longer than those contained in the Code: within four months after the end of the period under review (Section 65 (2) FWB01) for annual statements and within two months for interim financial statements (Section 66 (5) FWB01).

## *Transparency*

To ensure maximum possible transparency, MeVis Medical Solutions AG regularly and promptly informs the capital market, the shareholders and the general public of the Group's financial situation and new circumstances & events of importance.

The consolidated annual financial statements and any interim reports are published within the deadlines stipulated for companies listed in the Prime Standard of the regulated market: within a period of four months for the consolidated annual financial statements and within a period of two months in the case of the semi-annual and quarterly financial reports of the Group.

Press releases and ad-hoc announcements pursuant to Section 15 of the German Securities Trading Act are issued to inform about topical events and recent developments. In addition, MeVis Medical Solutions AG takes part in at least two analyst conferences per year. A financial calendar gives the scheduled dates of key and any regular events.

All information is available in German and English. The reports, information and the financial calendar are published and available online at [http://www.medis.de/mms/en/Investor\\_Relations.html](http://www.medis.de/mms/en/Investor_Relations.html).

## *Annual general meeting and shareholders*

The annual general meeting of MeVis Medical Solutions AG is called at least once a year and decides on all such matters as provided by law, such as appropriation of profit, approval of the actions of the Executive Board and Supervisory Board and the statutory auditor with binding effect upon all shareholders and the company. Each share carries one vote in shareholders' resolutions.

Each shareholder who registers in time is entitled to attend the annual general meeting or has an option of exercising his right to vote through a credit institution, association of shareholders, a proxy engaged by and bound by the instructions of Medical Solutions AG or a different proxy.

The invitation to the annual general meeting as well as the reports and information required for resolutions are published in accordance with the provisions of stock corporation law and made available online at [http://www.mevis.de/mms/en/Annual\\_General\\_Meeting.html](http://www.mevis.de/mms/en/Annual_General_Meeting.html).

### *Risk management*

Risk management is a central element of corporate governance at MeVis Medical Solutions AG. The further development of appropriate processes and systems and awareness regarding the need for active identification and management of business risks are the focus of ongoing efforts by the Executive Board. In the financial year just concluded, these efforts ensured that risks at all levels of the company could be identified, combined and analyzed, particularly in order to recognize and neutralize those risks that could jeopardize the long term economic success of the company.

The company's risk management system is geared toward coordinating the systems for monitoring, early detection and managing all business risks in accordance with the Business Control and Transparency Act. The purpose is to identify at an early stage any ongoing risks, in particular risky transactions, accounting misstatements and breaches of the law with a material effect on the net assets, liabilities, financial position and results of operations of the company or the Group.

The key element of risk management at MeVis Medical Solutions AG is to forward information about identified risks in a structured manner to those decision makers who are in position and have the necessary resources to take optimal remedial action at an early stage. Therefore, under the leadership of the Executive Board and in connection with appropriate means of communication, employees at all levels of the company actively participate in protecting the company from internal and external threats.

### *Accounting and auditing*

MeVis Medical Solutions AG prepares its consolidated financial statements and the consolidated interim financial statements in accordance with the International Financial Reporting Standards (IFRS), as applicable in the EU. The annual financial statements of MeVis Medical Solutions AG are prepared in accordance with German Commercial Code (HGB).

The financial statements are prepared by the Executive Board and audited by the statutory auditor and the Supervisory Board. The selection of the statutory auditor was made by the annual general meeting as required by legal regulations. KPMG AG Wirtschaftsprüfungsgesellschaft, Bremen was named as the statutory auditor for 2010. The Supervisory Board then appointed the statutory auditor selected by the annual general meeting. This approach ensures that no conflicts of interest affect the work of the statutory auditor.

### *Publication of Directors' Dealings pursuant to Section 15a of the German Securities Trading Act (WpHG)*

In the fiscal year ended, the MeVis Group promptly announced on its website any purchases or sales of shares in MeVis Medical Solutions AG or of related financial instruments, in particular derivatives, by members of the Executive Board and Supervisory Board of the company or other individuals with executive functions who are party to privileged information concerning the company on a regular basis and are authorized to make material business decisions, as well as by certain closely related individuals.

In the period under review, notifications of the following Directors' Dealings were published on the company's website:

Notifier	Reason for notification	ISIN	Financial instrument	Type of transaction	Date of transaction	Platform	Price in €	Count	Volume in €
Axel Schubert	Administrative or supervisory body	DE000AOLBFE4	Share	Sale	8/10/2010	Xetra	17.54	200	3,508.00
Axel Schubert	Administrative or supervisory body	DE000AOLBFE4	Share	Sale	7/19/2010	Xetra	17.405	100	1,740.50

As of the balance sheet date, the members of the Executive Board hold 354,640 shares of MeVis Medical Solutions AG, corresponding to a share capital of 19.49%. As of the balance sheet date, the members of the Supervisory Board hold 354,239 shares of MeVis Medical Solutions AG, corresponding to a share capital of 19.46%.

## MeVis Stock

### *Price trend of MeVis stock*

MeVis stock fluctuated during 2010 in a range with an average price of 19 euros, and traded weaker in the second half of the year (17 euros) than in the first half (21 euros). Whereas the stock briefly reached its annual high of 27 euros at the beginning of February, it traded at 13.80 euros at the end of the year. There was a negative performance for the full year of approximately -42% (compared to +43% on the SDAX and +3% on the TecDax). Therefore, MeVis stock was not able to decouple itself in the fourth quarter from the overall weak price performance during the year. The most likely reasons for this performance include the continued high levels of investor uncertainty regarding general macroeconomic factors and industry-specific developments such as the impact from the American health care reform. In addition, there is uncertainty as to what extent the weak sales performance in the USA can be offset by additional license business in other regional markets such as Asia.

### *Development of the shareholder structure*

The shareholder structure essentially remained unchanged in the course of 2010. As in the past, the three founders account for approximately 55% of the share capital. The company has treasury shares equivalent to 5.72%. The remaining shares are predominantly held by institutional investors. The total number of shareholders declined for the first time since the company's initial public offering (5% compared to the end of 2009).

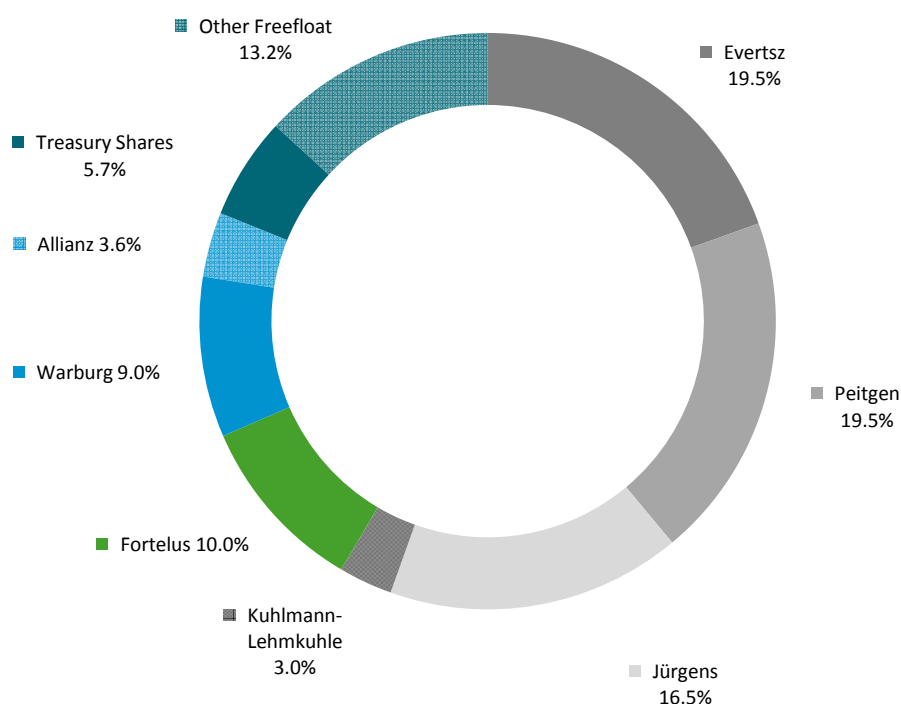


Fig.: Shareholder structure as at March 29, 2011



## Group management report for 2010

### *Business environment and performance*

#### *Business activities*

MeVis Medical Solutions AG, Bremen, (hereafter: “MMS AG” or “Company”) and its subsidiaries and affiliates develop, produce and market innovative software applications for computer-aided medical imaging.

The specialized software applications from the MeVis Group help medical practitioners to analyze diverse image data produced by a variety of imaging modalities used in diagnosis and therapy. Our clinical orientation is governed by epidemiologically important diseases. Our primary focus is on image-based early detection and diagnosis of breast cancer, which involves the provision of support for surgical interventions and biopsies as well. With a worldwide incidence of 1.3 million, breast cancer is the most common tumor disease. In Germany and Europe, breast cancer accounts for almost 30 percent of all cancers.

Building on existing expertise, software applications are adapted for use in other oncological disorders, such as disorders of the lungs, liver, brain and colon. The software solutions support all the imaging modalities available. These not only include X-ray modalities such as computed tomography, digital mammography, digital tomosynthesis, but also magnetic resonance imaging and digital sonography. Then there are the more modern imaging modalities, such as positron emission tomography (PET), sonoelastography and molecular imaging. Such systems are used predominantly by radiologists, gynecologists, surgeons and medical technicians.

MMS AG’s software products are sold by industry partner Invivo Corp., Orlando (Florida/USA), (hereafter: “Invivo”) and Koninklijke Philips Electronics N.V., Amsterdam (Netherlands), (hereafter: “Philips”) under their own brand names.. Since November 2006, Invivo has been a wholly-owned subsidiary of Philips. The software application for the diagnostic workstation DynaCAD® Breast, which MMS AG has licensed to Invivo, is used in contrast-agent-based magnetic resonance imaging of the breast and is compatible with all MRI machines made by the world’s leading equipment manufacturers.

Furthermore, MMS AG produces a specialized software application for neurological diagnostics and for supporting neurosurgical planning on the DynaSuite® Neuro diagnostic workstation, which Invivo launched at the end of 2008. This includes the possibility of three-dimensional visualization of vascular structures, which provides reference points for surgical procedures. Diffusion tensor imaging, which is also included, uses the fact that diffusion behavior of water molecules in tissue changes characteristically in some neurological diseases. By using the so-called “fiber tracking” options, nerve fiber bundles can be calculated, visualized and avoided during surgery. Besides functions to calculate the blood flow to tumors and normal brain tissue (so-called cerebral perfusion imaging), DynaSuite® Neuro also includes functional magnetic resonance imaging that allows individual sections of the brain to be assigned to specific functions such as movement or speech.

In addition, the company developed an innovative solution for Invivo – for prostate diagnostics using magnetic resonance tomography – which was launched at the end of 2009. With 64,000 new incidents each year in Germany, prostate cancer is the most common type of malignant cancer among men.

One of the most common forms of screening for this disease is to determine the PSA level (prostate specific antigen) in the blood, although a final determination must always be based upon a biopsy.

Until now, prostate biopsies were normally performed using ultrasound via the rectum (trans-rectal). However, often the tissue sample does not provide a usable result, even though the PSA level continues to rise. In these cases, new tissue samples are usually taken after another six months. The increasing use of magnetic resonance imaging (MRI) improves the diagnostic evaluation considerably.

DynaCAD® prostate software enables, for the first time, a targeted biopsy that is guided by MRI. The intervention unit DynaTRIM is used for this purpose; it allows the precise placement of a biopsy needle into the tissue by setting three degrees of freedom. During this process, MeVis software determines the best setting for the selected target position. Fewer samples must be taken when this targeted biopsy is used, resulting in significant reductions in the pain and risks associated with the procedure (as well reductions in side effects such as incontinence, impotency, etc.) In addition, tumors located in otherwise inaccessible places in the prostate can be reached using this method. If an MRI-based examination result is negative, then the probability that no tumor actually exists increases to over 75%.

According to the joint study published in November 2010, "The savings potential of innovative medical technology in healthcare 2010" (<http://bit.ly/9AwF8d>), this solution offers a healthcare economic savings potential of approximately 9 million euros annually just in Germany by avoiding biopsies and their subsequent costs. Furthermore, DynaCAD® Prostate and DynaTRIM enable the introduction of focal therapy with minimally invasive procedures, resulting in significant relief for patients with less aggressive tumors when the therapy progress is positive. More severe surgical procedures can be avoided or postponed until much later. When urologists and radiologists cooperate closely, the potential savings for the healthcare sector are therefore even significantly larger.

In addition, MMS AG offers its clinical partners a specialized service under its Distant Services arm, consisting of preoperative liver surgery planning. As part of this service, surgeons are given certain extra information that can relate to different aspects depending on the patient case. Distant Services also includes tumor diagnostics in connection with clinical studies for pharmaceutical companies.

In addition, the Company has various equity holdings. MeVis BreastCare GmbH & Co. KG, Bremen, (hereafter: "MBC KG") is run as a joint venture with the industry partner Siemens Aktiengesellschaft, Berlin and Munich, (hereafter: "Siemens"). The object of MBC KG is to produce, market and sell software and consulting services, especially in the area of multimodal diagnostic systems for the early detection, diagnosis and therapy of breast diseases. The software applications from MBC KG run on the diagnostic workstations sold by industry partner Siemens under the brand names MammoReport™, syngo BreVis™, syngo BreVis Biopsy™ and ACUSON S2000™ (ABVS).

The software applications from MBS KG are sold as diagnostic workstations by the industry partner Hologic under the brand name of SecurView™. The MeVisAP solution licensed to MBS KG by MMS AG forms the technological basis for the products developed by the subsidiary for Hologic.

Since the 3rd quarter of 2008, the 100%-owned subsidiary MeVis Medical Solutions, Inc., Pewaukee (Wisconsin/USA), (hereafter "MMS Inc.") has distributed specialized software applications under its own brand name Visia™ CT Lung System using various distribution partners in the market. MMS Inc. provides the company with sales support on the US sales market through existing industry partners, with support in networking with US clinics, in research and development and in getting approval for MeVis products in the USA.

The wholly-owned subsidiary MeVis Japan KK, Tokyo (Japan) (hereafter: "MeVis Japan") was established on September 16, 2009. MeVis Japan was set up to provide the company with sales support on the Japanese market, with support in networking with Japanese clinics, in research and development and with support in getting approval for MeVis products in Japan. Due to a lack of local management capacity, MeVis Japan is still in the start-up phase of its business operations.

## Economic environment

Diagnostic workstations with applications from the company and its subsidiaries are in use throughout the world. The overwhelming majority of the company's products fall within the market segment of breast disease diagnostics. Therefore, the company's business activities are dependent upon several factors including the development of the global economic environment for hospitals and radiological centers. This was characterized by a mixed performance during the period under review.

Sales for the company's new software applications in the 2010 fiscal year were difficult in the USA, an important market for the company, because of ongoing reluctance by clinical end users of imaging systems to make purchases. This manifested first and foremost in a deferral or reduction of investment projects of hospitals and imaging centers as well as prolonged sales cycles in the US, a key sales market.

Besides products for magnetic resonance tomography of the breast, the lung product sold in the USA under the brand name Visia™ CT Lung System was especially impacted. As a result, the expansion of the product portfolio beyond the "digital mammography" business segment was below original expectations. However, the market dynamism that existed prior to the global economic crisis has not been recovered to date in the traditional business of digital mammography, due to the increasing market saturation in the USA.

On the basis of the figures for the trend among facilities to change over from film-based, analog mammography to digital mammography published by the US public health body, the Food & Drug Administration (hereafter: "FDA"), and sales figures to date, the company continues to see itself as a leading manufacturer of diagnostic software for early detection and diagnosis of breast disease using medical imaging.

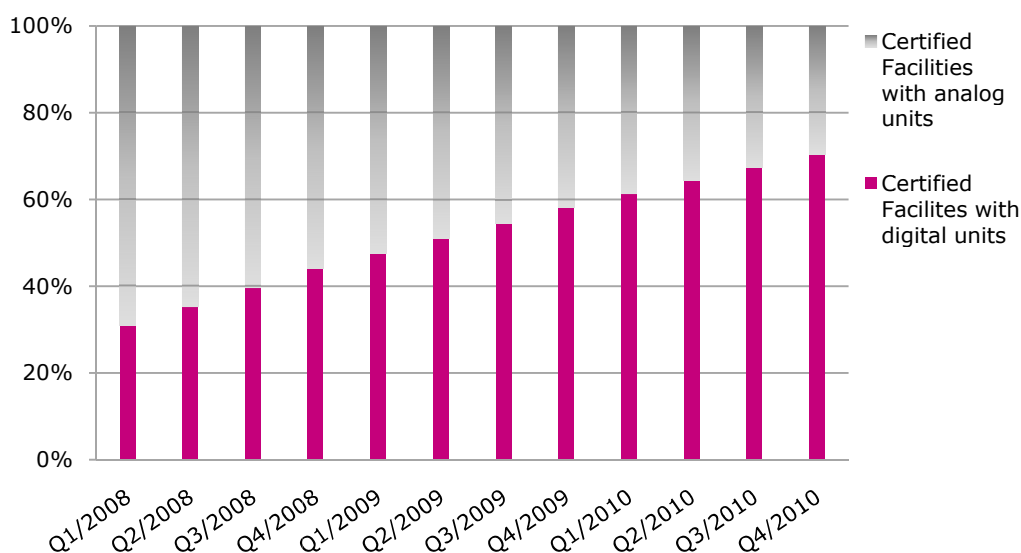


Fig.: Proportion of analog and digital FDA-certified mammography facilities in the USA

Source: <http://bit.ly/hoX56u>

While there were 8,833 mammography facilities in total in the USA at the beginning of 2007, this figure was down slightly to 8,619 as of the end of 2010 (end of 2009: 8,687). Here, a trend towards specialization in certain diagnostic areas, such as in the form of “specialized breast cancer centers,” can be seen, which is associated with reductions in the total number of facilities. Given this background, the number of cases handled in these centers will increase in the future. The company assumes that the processing time per case will continue to fall, not least because of economic reasons. As a result, so-called workflow optimization will become even more important in the future. At the same time, facility changeover from analog to digital continued apace in the period under review. In January 2010, the number of digital mammography institutions certified by the FDA was 5,246 (January 2009: 4,086), which represents approximately 60% (January 2009: 46%) of all certified institutions. At the end of 2010, 6,174 (end of 2009: 5,154) digital mammography institutions were registered by the FDA, which represents approximately 72% of all certified institutions (end of 2009: 59%).

Accordingly, the company expects the current high sales dynamic for its software applications in the US sales market to slow down, since the rate of conversion to digital systems should drop off as the market approaches full saturation.

### Performance

Besides the continued expansion of the product portfolio and the resulting higher development expenses, the Group’s business performance and results of operations, as expressed in the earnings before interest and taxes (EBIT) of € -5,427 k (prev. year: € 1,633 k), were significantly influenced by the predominantly non-cash extraordinary items that resulted as a reaction to business risks. In this respect, the Executive Board has responded to the inconsistent business performance in the past fiscal year in the two segments Digital Mammography and Other Diagnostics, primarily because the business with newer products has been considerably weaker than planned.

These extraordinary items include a € 821 k charge to other operating expenses associated with an obligation to finance a project in exchange for pre-emption rights on the research and development results and a € 5,328 k charge associated with the amortization of intangible assets in connection with the strategic acquisition of the lung CT business by MMS, Inc.

After adjusting for these extraordinary items, earnings before interest and taxes (EBIT) declined by 56% to € 722 k.

Despite the introduction in the prior year of the complex DynaSuite® Neuro and the innovative DynaCAD® Prostate software-applications, the DynaCAD® Breast diagnostic workstation remained the main source of sales for MMS AG in the prior fiscal year with approximately 54% of license sales in the Other Diagnostics segment and an overall significantly reduced level of new license business. Whereas the product DynaSuite® Neuro made a meaningful contribution to the license sales of the Other Diagnostics segment in the first full fiscal year since its market introduction, about 16% of the total, the business performance of DynaCAD® Prostate Software applications was, as expected, still very modest; it represented only 9% of the license sales in this segment. The sales generated from services for clinical partners associated with the Distant Services business unit of MMS AG was expanded significantly once again in the prior fiscal year; contributing 8% of sales in the Other Diagnostics segment.

By concentrating the business activities of MBC KG, which is consolidated with 51% in the MeVis Group, on the customized development of new software solutions for Siemens, the diagnostic software for the automatic breast volume scanner ACUSON S2000™ (ABVS) was developed and then sold by Siemens in the prior year. During fiscal year 2010, this product was sold primarily outside the USA, and in its first full year of sales already made a contribution to the license sales of the Digital Mammography segment, generating approximately 5% of the overall total. The ACUSON S2000™ (ABVS) allows automatic, user-independent and swift full-field ultrasonic breast scans to be carried out. The separation between data collection and diagnosis enables the optimization of the clinical work flow, and creates possibilities for use by medical practitioners for women’s health in individual practices.

The breast diagnostic and intervention software *syngo* BreVis and *syngo* BreVis Biopsy also made its first full year contribution to sales results in the prior year. These software applications offer a host of important clinical functions which make it easier for radiologists to diagnostically evaluate MRI image data (magnetic resonance tomography) and take a biopsy, if necessary, to confirm a diagnosis. Although magnetic resonance tomography of the breast is, in the opinion of the company, an increasingly important complementary imaging technology for the reliable diagnosis of suspicious lesions, the contribution of this product group to the overall license sales in the Digital Mammography segment was merely 2% in total. As a result, despite the market introduction of the new software applications for breast diagnosis and intervention using ultrasound and magnetic resonance tomography, the software application *syngo*™ MammoReport used in digital mammography devices from Siemens remained an important product for MBC KG, generating 8% of license revenues in the Digital Mammography segment.

MBS AG continued further development of existing products such as, for example, the software application for the SecurView™ diagnostic workstation from our industry partner Hologic. The current software generation supports innovative, so-called cross-modal workflows, by combining innovative software technologies for all imaging procedures – including three dimensional digital tomosynthesis of the breast – in a single diagnostic workstation. In that way, maintenance revenues, which represented approximately 32% of the segment sales of the Digital Mammography segment, should be secured in the medium term.

The business with the lung product sold by MMS Inc. did not perform as planned in the fiscal year just ended. In contrast to original planning, sales of the Visia™ CT Lung System declined sharply and only amounted to 8% of the segment sales in the Other Diagnostics segment. In addition, it has also become clear that sales with the lung product in such selling situations cannot be reliably planned. Therefore, as part of the Group-wide risk management process, impairment losses on capitalized intangible assets were recorded. Due to limited business activities, there was no meaningful sales contribution by MeVis Japan KK in the reporting period.

In the fiscal year just completed, the high development expenses within the MeVis Group were related to the further development of the MeVisAP platform and the new Visia™ applications as well as to the improvement of existing software applications. Please refer to the section “Research and Development” in this respect.

The MeVis Group assumes, based on its specialized product portfolio, its broad-based research, and its existing industry partnerships, that the market position it currently occupies can be sustained overall and expanded in some segments in 2011. Given the ongoing reluctance by clinical end users of the new products to make purchases, the future performance of the business with the new Visia™ applications in the areas neurology, prostate, and lung will depend to a large degree on the ability of the company to expand existing distribution channels and to find new ones. In addition, the further performance of the business with the product Visia™ CT Lung System in the USA will depend upon whether and to what extent the results of the long term clinical study, whose results were published by the U.S. National Cancer Institute in November 2010 (<http://1.usa.gov/hQVB8b>) will influence the market relevant for the company. The economic success of the planned entry into the area of cardiovascular diseases is initially dependent upon the success of the partnership with the Dutch company Medis medical imaging systems B.V., which is not consolidated by the Group because the current holding in its share capital in fiscal year 2010 was approximately 41%.

### *Sales and earnings in the Digital Mammography segment*

The **Digital Mammography** segment develops and markets software products which support breast diagnostic imaging and intervention. In fiscal year 2009, new software applications for imaging techniques were added to the original products for digital mammography such as ultrasound, magnetic resonance tomography and tomosynthesis. These products are distributed to radiological and clinical end users via the industry partners Siemens and Hologic. The **Digital Mammography** segment includes MBC KG – the 51% consolidated joint venture – and, since November 1, 2008, the wholly-owned subsidiary MBS KG, whose business had also been part of MBC KG before then.

In the fiscal year ended, the **Digital Mammography** segment showed positive performance, with a sales increase of around 7% to € 10,724 k (prev. year: € 10,048 k).

Although 2010 license sales declined by 7% to € 6,483 k (prev. year: € 6,965 k) due to reduced sales momentum, revenues from maintenance and support services increased strongly again by 34% to € 4,065 k (prev. year: € 3,042 k). Total **Digital Mammography** sales (licenses and maintenance) were thus up around 5% to € 10,548 k (prev. year: 10,007 k).

Revenues from services (consulting & training) increased in the reporting period in the segment **Digital Mammography** to € 131 k (prev. year: € 2 k), which is primarily caused by deferred revenues associated with the ABVS breast ultrasound scanner that was introduced in 2009. Hardware sales stood at € 48 k in the year under review (prev. year: € 39 k).

In fiscal year 2010, the segment **Digital Mammography** was able to report sales growth in both currencies that it uses for invoicing, the Euro and the US Dollar. The choice of currency in the indirect channel depends upon the headquarters of the relevant industry partner. Revenues invoiced in Euro increased by 8% to € 1,577 k (prev. year: € 1,464 k). Revenues invoiced in US dollars grew by 7% to € 9,147 k (prev. year: € 8,584 k).

At € 1,486 k, the balance of capitalized internally developed assets in the segment **Digital Mammography** was slightly above prior year level (€ 1,444 k), whereas amortization increased by 41% to € 1,932 k because of the previous market introduction of new products and product generations (prev. year: € 1,375 k).

Operating expenses in the segment **Digital Mammography** increased by 14% to € 4,051 k (prev. year: € 3,552 k); this increase was caused by a 4% increase in staff costs to € 3,367 k (prev. year: € 3,228 k) and higher cost of materials totaling € 360 k. The rise in staff costs with a simultaneous drop in the average number of employees to 74 (prev. year: 81) is caused by the passivation of bonus and vacation entitlements, which stood against a relief during the preceding year by reducing the corresponding accruals.

Based upon the higher amortization and operating expenses, the segment net profit from operating activities declined to € 6,227 k (prev. year: € 6,848 k).

Other operating income in the segment **Digital Mammography** went down to € 133 k (prev. year: € 604 k), which is primarily based upon extraordinary items that existed in the prior year results. Other operating expenses were reduced once again based upon the ongoing cost reduction initiatives and totaled € 954 k (prev. year: € 1,185 k).

In total, the segment net profit was reported as € 5,406 k (prev. year: € 6,267 k). Accordingly, the EBIT margin in the segment **Digital Mammography** decreased to 50% (prev. year: 62%).

### *Sales and earnings in the Other Diagnostics segment*

The **Other Diagnostics** segment comprises digital radiology products (e.g. magnetic resonance imaging (MRI), computed tomography (CT), etc.) as well as general analysis of and diagnosis based on radiological images. Other main activities in this segment include image and risk analysis for planning liver surgery and tumor diagnostics in connection with clinical studies of pharmaceuticals companies. **Other Diagnostics** includes the parent company, MMS AG, and the wholly-owned subsidiaries MMS Inc. and MeVis Japan K.K.

**Other Diagnostics** volumes decreased by around 8% to € 3,571 k (prev. year: € 3,876 k) in the period under review.

License sales were down disproportionately by 18% to € 2,480 k (prev. year: 3,028 k). This development is mainly attributable to a decline in business development with industry partner Invivo due to increasing competition in the field of breast MRI on the U.S. market. In contrast, revenues from maintenance and support services, which consist mostly of maintenance of existing software applications, increased by 248% to € 544 k (prev. year: € 156 k). Total sales of products in the segment **Other Diagnostics** (licenses and maintenance) were down around 5% to € 3,024 k (prev. year: 3,184 k).

Service sales (consulting & training) totaled € 351 k (prev. year: €182 k) in the segment **Other Diagnostics** while the hardware business generated sales of € 196 k in the period under review (prior year: € 454 k).

In the segment **Other Diagnostics**, invoices are generated in both Euro and US Dollars; in the indirect channel, the invoice currency depends upon the headquarters of the relevant industry partner, whereas in the direct channel it is based upon the headquarters of the relevant clinical end user. License sales invoiced in Euro increased by around 28% to € 804 k (prev. year: 628 k). Included in that value is € 9 k (prev. year: € 0 k) of revenues invoiced by MeVis Japan. In contrast, revenues invoiced in US dollars sank by 15% to € 2,765 k (prev. year: € 3,248 k).

The total value of grants in the segment **Other Diagnostics** increased to € 644 k (prev. year: € 581 k), which led to overall segment revenues totaling € 4,215 k (prev. year: € 4,457 k).

The high planned expenses to generate growth, related to the development of the MeVisAP software platform and new software applications, are predominantly recorded in the segment **Other Diagnostics**. This led to a 64% increase in the capitalized internally developed assets in the reporting period to € 1,421 k (prev. year: € 864 k). Although regular amortization of € 1,651 k increased only moderately compared to the prior year (prev. year: € 1,466 k), the segment was also negatively impacted by the extraordinary items from impairment losses totaling € 5,328 k related to the lung CT business managed by MMS, Inc.

Operating expenses in the **Other Diagnostics** segment increased by 10% to € 7,725 k (prev. year: € 7,047 k); this increase was caused by an 8% rise in staff costs to € 7,095 k (prev. year: € 6,571 k) and higher cost of materials totaling € 154 k. Staff costs were negatively impacted by changes to the Executive Board's remuneration as well as the passivation of bonus and vacation entitlements, which stood against a relief during the preceding year by reducing the corresponding accruals..

Because of the high planned expenses to generate growth and the extraordinary items regarding the impairment losses related to MMS, Inc. and weak sales totaling € 5,328 k, the segment profit and loss from operating activities declined 184% to € -9,068 k (prev. year: € -3,192 k).

Other operating income in the **Other Diagnostics** segment increased to € 1,845 k (prev. year: € 906 k), which is primarily based upon special factors associated with group internal allocations. Other operating expenses were negatively impacted primarily by the additions to provisions for anticipated losses totaling € 821 k, and increased by 44% to € 4,044 (prev. year: € 2,799 k).



In total, the segment net loss was reported as € -11,267 k (prev. year: € -5,085 k). Accordingly, the negative EBIT margin in the **Other Diagnostics** segment has further deteriorated.

The segment net loss after adjustments for the two extraordinary items, the impairment losses totaling € 5,328 k and the additional provision totaling € 821 k, was € -5,118 k. The adjusted EBIT margin was therefore -143%.

## *Results of operations*

Consolidated sales in fiscal year 2010 were positively influenced to a large degree by the rebound in maintenance revenue from the business with our industry partner Hologic, which is contained in the segment Digital Mammography.

In the period under review, sales totaled € 14,291 k (prev. year: € 13,869 k), which corresponds to sales growth of 3%. This sales growth was significantly driven by the increased revenues through maintenance contracts by 44% to € 4,605 k (prev. year: 3,199 k), while license sales were down by 10% to € 8,963 k (prev. year: 9,938 k). Based on the capitalization of development costs since 2008, own and purchased development services totaling € 2,907 k were capitalized in 2010 (prev. year: € 2,624 k). The own development work contained in this item totaling € 2,786 k (prev. year: € 2,308 k) is recognized in "Income from the capitalization of development costs" for neutralization of the costs contained in the various types of staff and material costs in connection with the various development projects.

Other operating income dropped to € 1,140 k (prev. year: € 1,828 k); this decline is caused by three factors: a reduction in income from recharges to MBC KG totaling € 263 k, a reduction in grants of € 220 k and a reduction in income related to the write-off of liabilities totaling € 60 k. Other operating income decreased to € 332 k (prev. year: € 484 k).

The total cost of materials and the cost of services purchased rose to € 690 k (prev. year: € 459 k). This increase is caused by a € 321 k increase in cost of services and a € 90 k reduction in the cost of materials. The cost of services purchased is fully related to non-capitalized research and development projects of the Fraunhofer MEVIS Institute for Medical Image Computing

Staff costs in the fiscal year just completed rose 6% to € 10,382 k (prev. year: € 9,799 k), which is mainly due to higher Executive Board remuneration totaling € 230 k and deferred bonus and vacation entitlements.. This effect was not compensated by the decline in staff numbers. The annual average number of permanent employees expressed as full-time equivalents declined to 156 (prev. year: 161), and the annual average number of student interns expressed as full-time equivalents declined to 21 (prev. year: 25).

As stated above, other operating expenses were negatively impacted by an extraordinary item. At December 31, 2010, a provision was created totaling € 821 k in connection with the obligation to finance a project in exchange for the pre-emption rights to the results of the research and development. In previous years, the Company had viewed this obligation, which results from an agreement concluded in 2007 in which the Company agreed to provide an annual financial facility of € 185 k to the Fraunhofer MEVIS Institute for a period of five years, as a financial obligation that must be disclosed in the notes to the consolidated financial statements. In the meantime, given recent developments at both the MeVis Group and Fraunhofer MeVis, the company has come to a different assessment about the financial reporting requirement of this obligation. Therefore, despite extensive cost cutting initiatives, other operating expenses increased by 13% to € 3,692 k (prev. year: € 3,273 k).



When adjusted for this extraordinary item, other operating expenses declined by 12% to € 2,871 k as a result of these ongoing cost reduction initiatives. Besides the one-time project financing for the Fraunhofer MEVIS Institute totaling € 821 k, the other operating expenses consist of rental expense totaling € 555 k (prev. year: € 546 k), legal and consulting costs totaling € 483 k (prev. year: € 808 k), costs for maintenance and energy totaling € 274 k (prev. year: € 247 k), travel expenses totaling € 190 k (prev. year: € 183 k), costs of preparing and auditing financial statements totaling € 189 k (prev. year: € 182 k), and accounting costs totaling € 111 k (prev. year: € 100 k). Other operating expenses declined to € 1,069 k (prev. year: 1,208 k).

Earnings before interest, taxes, depreciation and amortization (EBITDA) came to € 3,453 k in 2010 (prev. year: € 4,474 k). The EBITDA margin, at 24% compared to 32% in the prior year, declined accordingly.

EBITDA 2010 adjusted for extraordinary items was € 4,274 k, and the adjusted EBITDA margin therefore came to 30% (prev. year: 32%).

Depreciation and amortization and impairments increased by 213% to € 8,880 k (prev. year: € 2,841 k). On the one hand, the substantial expansion of the amortization of capitalized development expenses as a result of the introduction of new products and new product generations into the market in the prior year contributed to this increase. This expansion increased amortization expenses by € 707 k to € 1,841 k (prev. year: € 1,134 k). Furthermore, the write-down of the goodwill of MMS, Inc. totaling € 4,173 k that resulted from the impairment test of the lung CT business managed by MMS, the write-down of the residual book value of the customer base as well as software and licenses totaling € 1,155 k, led to an extraordinary item totaling € 5,328 k as of the balance sheet date.

Earnings before interest and taxes (EBIT) came to € -5,427 k (prev. year: € 1,633 k). The EBIT margin, at -38%, declined accordingly compared to the prior year result of 12%.

After adjusting for the two extraordinary items including the provision for the obligation to provide project financing to the Fraunhofer MEVIS Institute and the impairments regarding the lung CT business, adjusted EBIT was € 722 k (prev. year: € 1,633 k). The adjusted EBIT margin therefore came to 5% (prev. year: 12%).

The financial result improved in the reporting period to € -180 k (prev. year: € -465 k).

Besides the improved other financial result, the main reason for this was primarily lower interest expenses totaling € 712 k (prev. year: € 996 k), which resulted fundamentally from the imputed interest to maturity of remaining purchase price installments for the acquisition of the 49% stake in MBS KG. This is in contrast to interest income, which went down to € 389 k as the result of fewer investments of liquid funds (prev. year: € 598 k).

The balance in other financial results totaling € 130 k (prev. year: € -67 k) was influenced mainly by improved results from the change in value of financial instruments used for hedging purposes totaling € -133 k (prev. year: € -170 k) and the higher net total of foreign currency gains and losses amounting to € 332 k (prev. year: € 172 k).

Earnings before taxes (EBT) were € -5,607 k in the reporting period (prev. year: 1,168 k). Accordingly, the EBT margin (return on sales) decreased considerably to -39% compared to a prior year value of 8%.

After adjusting for the two extraordinary items including the provision for the obligation to provide project financing to the Fraunhofer MEVIS Institute and the impairments regarding the lung CT business, the adjusted EBT was € 542 k (prev. year: € 1,168 k). The adjusted return on sales therefore came to 4% (prev. year: 8%).

Deferred tax assets and liabilities for temporary differences are in principle calculated on the basis of an income tax rate of 31.2%. Deferred tax assets on the corporation income tax loss carry forwards in Germany were calculated on the basis of a 15.8% tax rate; for the trade tax loss carry forward in Germany, the tax rate used in the calculation was 15.4%. A uniform tax rate of 39% was used for the calculation regarding tax loss carry forwards in the USA.

The substantial increase in income tax expenses of € 1,972 k to € 2,742 k was primarily the result of an increase in deferred taxes to € 2,689 k (prev. year: € 459 k). This rise in deferred tax expenses at a negative pre-tax profit, in which a deferred tax income would have been expected was mainly due to a € 2,958 k impact from extraordinary items associated with impairment losses and the non-recognition of deferred tax, of which € 2,970 k resulted from deferred tax assets associated with the tax loss carry forwards of MMS, Inc. An additional € 1,988 k are related to the deferred tax assets from the tax loss carry forwards of MMS AG.

The consolidated net profit after taxes in the reporting period was therefore € -8,349 k (prev. year: € 398 k), which represents basic earnings per share of € -4.89 (prev. year: € 0.23).

### *Capital spending*

In the year under review, a total of € 3,176 k (prev. year: € 3,040 k) was spent on intangible assets, property, plant and equipment.

Spending of € 2,983 k (prev. year: € 2,720 k) on intangible assets primarily comprises capitalized development costs of € 2,907 k (prev. year: € 2,624 k) including capitalized cost of services purchased of € 121 k (prev. year: € 316 k), and also patents, licenses and other rights of € 76 k (prev. year: € 96 k).

Spending on property, plant and equipment amounted to € 193 k (prev. year: € 320 k) and consisted of € 162 k (prev. year: € 165 k) in investment on IT equipment, € 13 k (prev. year: € 110 k) on leasehold improvements, and € 18 k (prev. year: € 45 k) on office and business equipment.

### *Assets, liabilities and financial position*

As of the balance sheet date, liquid funds totaled € 8,162 k (prev. year: € 15,093 k), of which cash and cash equivalents accounted for € 5,621 k (prev. year: € 7,718 k) and for-sale securities amounted to € 2,541 k (prev. year: € 7,375 k).

While total assets rose steeply in the previous periods as a result of the Group's growth strategy, they decreased by € 12,170 k to € 38,785 k in the reporting period (prev. year: € 50,955 k). The reduction in consolidated assets was mainly due to the extraordinary item created by impairment losses in the Lung CT business and the decrease in liquid funds. This was offset by equity (reduced by the consolidated net loss) as well as a decrease in liabilities, which resulted from the payments made during the reporting period on the purchase price of the previously mentioned acquisitions.

In this context, the balance sheet changed only slightly in the year under review. The equity ratio remained constant with 64%. Equity covered 102% of property, plant and equipment (prev. year: 109%) and amounted to 166% (prev. year: 142%) of current assets, which went up to 62% compared to total assets (prev. year: 59%).

Non-current assets as of the balance sheet date were down 19% to € 24,207 k (prev. year: € 29,873 k). The decrease is due to a reduction of € 5,094 k in intangible assets to € 22,001 k (prev. year: € 27,095 k). This drop was caused by € 4,173 k in impairment losses recognized on the goodwill of MMS, Inc. and the carrying amount of the customer base, software and licenses of MMS, Inc.'s Lung CT business to the amount of € 1,155 k.

Amortization of capitalized development costs of € 1,841 k (prev. year: € 1,134 k) were offset by newly recognized development costs of € 2,907 k (prev. year: € 2,624 k) in the reporting period.

Property, plant and equipment, which primarily consists of leasehold improvements, acquired office and business equipment, as well as spending on modern IT file service technology, fell by € 265 k to € 926 k in the year under review (prev. year: € 1.191 k). Due to the successive takeover of around 41% of shares in Medis Holding B.V. during the reporting year, shares in associates of € 1,280 k were recognized for the first time.

Deferred taxes dropped to € 0 k (prev. year: € 1.487 k) on account of the reduced recognized deferred tax assets from the tax loss carry forwards.

Current assets fell by 31% to € 14,578 k (prev. year: € 21,082 k) during the period under review, mainly on account of other financial assets going down from € 5,658 k to € 2,882 k (prev. year: € 8,540 k), of which € 4,834 k are primarily due to the sale of current securities. In addition, cash and cash equivalents went down by € 2,097 k to € 5,621 k (prev. year: € 7,718 k).

The decrease in liquid funds by € 6,931 k (prev. year: € 5,164 k) was offset by the payments made during the strategic acquisition of the Lung CT business in the year under review, the 49% share in MBS KG, as well as the share in the Medis Holding B.V. to the amount of € 8,130 k (prev. year: € 4,651 k), resulting in a corresponding drop in other financial liabilities.

Trade receivables, on the other hand, increased by € 917 k to € 5,139 k (prev. year: € 4,222 k), mainly on account of MeVis Group customer's payment terms as of the balance sheet date being exceeded. Significant counterparty risks are not expected.

As a result of consolidated net loss for the year, equity dropped by 24% to € 24,789 k (prev. year: € 32,607 k). The equity ratio did not change because of the decrease in total assets and stayed at 64%. Subscribed capital was still € 1,820 k (prev. year: € 1,820 k). The share premium was almost unchanged, at € 28,513 k (prev. year: € 28,465 k), while treasury stock deducted from this figure decreased by € 367 k to € 3,789 k (prev. year: € 4,156 k). The translation reserve went up to € 149 k (prev. year: € -20 k). Retained earnings decreased by € 8,119 k to € -3,180 k (prev. year: € 4,939 k), adjusted by the changes in the revaluation reserve of € 230 k (prev. year: € 173 k). This corresponds to consolidated net loss for the period of € - 8,349 k (prev. year: profit of € 398 k).

Non-current liabilities as of the balance sheet date amounted to € 5,853 k, which is €1,172 k below the previous year (prev. year: €7,025 k). This was due to opposing effects. On the one hand, other financial liabilities went down by € 3,146 k to € 3,452 k (prev. year: € 6,598 k), which is because of the installment due in 2011 for the strategic acquisition of the 49% share in MBS KG as of December 31, 2010, being reclassified from a non-current liability in the previous year to a current liability in the reporting period. On the other hand, deferred tax liabilities increased by € 1,155 k to € 1,580 k (prev. year: € 425 k), mainly due to the increase of capitalized development costs as well as lower deferred tax assets from the tax loss carry forwards. Eventually the liability towards Fraunhofer MEVIS presumably due 2014 in the amount of € 821 k had to be disclosed as a non-current liability.

Current liabilities were down 28% to € 8,143 k (prev. year: € 11,323 k). This drop primarily resulted from other financial liabilities falling by € 3,471 k to € 4,007 k (prev. year: € 7,478 k). € 1,729 k of this amount pertained to the reduction in the remaining purchase price commitments from the acquisition of the 49% share in MBS KG, which are due shortly, and € 2,026 k to the full repayment of all remaining purchase price commitments from the strategic acquisition of the Lung CT business.

While staff liabilities rose by € 328 k to € 395 k as a result of increased bonus and holiday entitlements, current liabilities from the above-mentioned strategic acquisitions dropped in line with the purchase price payments made during the reporting period. Current liabilities to the Fraunhofer MEVIS Institute remained almost unchanged at € 180 k (prev. year: € 178 k). The negative market values of the forward currency transactions used for currency hedging decreased to € 5 k (prev. year: € 59 k) and other financial liabilities increased to € 22 k (prev. year: € 14 k).

Trade payables went up by € 196 k to € 1,317 k (prev. year: € 1,121 k). In contrast to the end of the previous year (€ 401 k), the Group had no bank borrowings as of the balance sheet date.

The rise in deferred income by € 711 k to € 2,248 k (prev. year: € 1,537 k) is primarily due to the payments received under maintenance contracts for which the corresponding maintenance services had not yet been provided.

Other liabilities dropped by € 142 k to € 268 k (prev. year: € 410 k), of which € 122 k (prev. year: € 200 k) pertained to current tax liabilities.

Income tax liabilities were down to € 67 k (prev. year: € 188 k).

Cash flow from current operating activities came to € 4,950 k (prev. year: € 3,071 k). It essentially comprises earnings before interest and taxes (EBIT) of € -5,427 k (prev. year: € 1,633 k), adjusted for depreciation of € 8,880 k (prev. year: € 2,841 k), changes in provisions of € 869 k (prev. year: € 66 k), the total of all non-cash expenses and income of € -605 k (prev. year: € 160 k), interest received of € 395 k (prev. year: € 586 k), taxes paid of € -288 k (prev. year: € -2,399 k), exchange rate differences received and paid of € 184 k (prev. year: € -67 k), changes in trade receivables and other assets of € -472 k (prev. year: € 1,911 k) and changes in trade payables and other liabilities of € 1,376 k (prev. year: € -1,624 k).

In the year under review, cash flow from investing activities came to € -6,536 k (prev. year: -9,973 k) and mainly consisted of payments for capitalized development costs of € 2,907 k (prev. year: € 2,624 k), payments for the acquisition of consolidated companies amounting to € 5,000 k (prev. year: € 2,500 k), which relate to the acquisition of the 49% share in MBS KG, payments for the acquisition of business units totaling € 2,230 k (prev. year: € 2,151 k), which relate to the acquisition of the Lung CT business as well as payments received for the sale of securities totaling € 4,770 k (prev. year: € 5,536 k).

Cash flow from financing activities, amounting to € -401 k (prev. year: € -526 k), consisted exclusively of the full repayments of (financial) credits (prev. year: € -64 k).

Change in cash and cash equivalents in the year under review came to € -1,987 k (prev. year: € -7,428 k).

### *Management and treasury systems*

Under the management of MMS AG, the strategic goal of the company and the MeVis Group is to achieve global market leadership in individual segments for specialized software applications for medical imaging, particularly early detection, diagnostics and intervention for cancer and lung diseases as well as neurological disorders by means of digital radiology. The software applications are for use with different imaging modalities, particularly digital mammography, computed tomography, magnetic resonance imaging, digital tomosynthesis and digital sonography (ultrasound).

In selling their products, the company mainly uses an indirect distribution model involving individual industry partners. The quality of the business process of MeVis Medical Solutions AG, including its establishments MBS KG and MBC KG, in relation to the development, manufacture and final inspection of diagnostic software for radiological image data and evaluation services for medical image data was certified to EN ISO 13485:2003 + AC 2007 on February 8, 2010 by the notified body Medcert GmbH.

The main financial ratios used by the company are licenses sold and sales and return on sales margins. A deviation analysis of the applicable budget parameters is performed on a monthly basis in the light of the results of a risk assessment and, where applicable, any necessary budget adjustments.

Unused liquidity is placed in low-risk investments capable of being liquidated at short or medium-term notice. As of the balance sheet date, these were predominantly various fixed-income securities, including investment-grade corporate bonds.

The Group had only few credit facilities as of the balance sheet date. Available liquid funds were primarily used for financing working capital as well as for the repayment of outstanding purchase price installments as part of acquisitions.

### *Research and development*

The market for software products for use with digital medical imaging processes is characterized by high quality requirements and, in some cases, short innovation cycles in tandem with rising technical complexity. For this reason, the product ranges developed by the company call for ongoing and forward-looking adjustment in the light of new medical and technological developments and the constant increase in data volumes to be processed. In addition, the company has an array of product developments to allow it to benefit from future market developments.

The company has only few own research capacities. The bulk of the research activities are performed by Fraunhofer MEVIS Institute for Medical Image Computing (hereafter: "Fraunhofer MEVIS" or "FME"; known prior to the period under review as "MeVis Research GmbH"). Most of the employees of the company are assigned to software development.

In the period under review, the MeVis Group's development activities concentrated on the completion of new product generations and the continuation of ongoing projects:

#### *MeVisAP technology platform and MeVisLab development environment*

The software applications of the company have to fulfill a variety of different medical and technological requirements according to their later use, and are integrated into clinical workflows in a number of ways. At the same time, all software applications in medical imaging have core functionalities in common, which are also required in many of the company's products. Examples include functions for calling up patient and report data from a data archive, for displaying this information on the monitor, for the interactive navigation through such image data, for marking image data or for recording diagnostic information. Additional fundamental software components are required for storing and sharing data in a client-server environment, for the automatic preprocessing of image data, for communicating with other servers in accordance with the DICOM standard, for memory and resource management, and so on.

Implementing these functions on the MeVisAP software platform greatly speeds up the development of new software products, since much of the functionality already exists and does not have to be redeveloped for each new product. With these synergies, the company is aiming to address the challenge of ever-shorter innovation cycles in the future. The completion of the internal platform version Visia™ Foundation in the reporting period was an important milestone. The company integrated a completely revamped user interface, a scalable and transaction-safe database backend in this software and also made it compatible with modern 64 bit Windows operating systems.

The product Visia™ MR Core was developed on the basis of Visia™ Foundation. It features comprehensive functionalities for evaluating dynamic MRI image series as well as an interface for linking the software with a host environment. The software was integrated with the radiological diagnostic environment Vitrea of Vital Images, Inc. (Minnetonka, MN, USA) via this interface and handed over to the cooperation partner Vital Images in fall 2010. The Group also developed an integration interface for the software products QMass® and QFlow® of the partner company Medis medical imaging systems B.V. and delivered a beta version to Medis at the end of 2010.

In addition to the basic functions provided by MeVisAP, complex medical software products are essentially based on innovative algorithms and methods for image processing, image analysis and visualization – which are customized to the medical need in question – as well as specific requirements relating to clinical workflows. To facilitate rapid prototyping of such methods and workflows, the research and development environment MeVisLab was created at MeVis. It enables the rapid prototyping of software applications – which are tailored to the specific medical need – with which the developed methods and workflows can be trialed, evaluated and optimized in clinical environments (“Rapid Prototyping”).

The integration of MeVisLab and MeVisAP allows for transfer of the methods, algorithms and workflows developed on the basis of MeVisLab to product development. By combining the two platforms, MeVisLab modules and module networks can be integrated faster into products that are implemented on the basis of MeVisAP. This model of dynamic integration of research and product developments significantly shortens development and innovation cycles.

MeVisLab development work focused on the integration of MeVisLab and MeVisAP as well as measures for further increasing the efficiency, performance and stability of developments in the period under review. In addition, the implementation of software libraries for a highly modular, high performance 3D visualization and for the efficient realization of parallel computing processes (multi threading, parallel processing) increased the value of MeVisLab for the development of prototypes as well as products. Some of this work was carried out within the research project DOT-MOBI, which is partly financed by third parties.

#### Breast and prostate products

In the reporting period, MMS AG used Visia™ MR Core for developing a product for evaluating dynamic MERT studies, particularly in the application areas breast, prostate and liver MRI. Furthermore, an integration for Visia™ MR Core was implemented in the radiological diagnostics and analytical system Vitrea Enterprise of the company Vital Images Inc., over which Visia™ MR Core can be accessed directly from the Vitrea environment. The integration supports the Vitrea client-server functionality, so that Visia™ MR Core can also be used on a Vitrea thin client.

The product DynaCAD® Breast was developed to a point where integration in the Intellispace breast system of Philips Healthcare is now possible. This allows the user to utilize the comprehensive DynaCAD® analysis and diagnostics tools and to download the results of the Intellispace system from a multimodal diagnostics environment.

In addition, “DynaCAD® Express”, a favorably priced breast and prostate product variation, was developed, which is aimed at medium and small-sized clinics and physician office practices.

The development partner Fraunhofer MEVIS carried out numerous developments for the improvement of breast MRI products during the year under review, including methods for segmenting pectoral muscles, for registering between current and previous images (current prior comparison) as well as for a new version of the algorithm for movement correction. Other work concentrated on developing a spectroscopy module for breast, prostate and neurological applications. Some of this development work carried on past the end of the reporting period.

MMS AG worked on the development of a MeVisAP-based workstation for the multimodal evaluation of breast examinations (particularly mammography and tomosynthesis images as well as breast MRI and 3D ultrasound image series) as part of the European research project HAMAM. This includes functions to support a patient-oriented, multimodal workflow, such as the easy detection of a lesion in another series of images, the preparation and continuation of a multimodal diagnostic report and efficient navigation among all current and previous images of a patient ("Time Line" awaiting patent).

#### Neurological products

The product DynaSuite Neuro was expanded to include a function for exporting fused data to surgical navigation systems, and the processing of high resolution images was improved. By order of MMS AG, Fraunhofer MEVIS worked on a new and improved functionality for visualizing image data, for fiber tracking and for quantifying perfusion.

#### 3D computed tomography of the lung/Visia™ CT-LungCare

Part of MMS AG's development work on a broad-based software solution for the computer-aided evaluation of 3D Lung CT images was put to the back in favor of other projects during the reporting period. The company focused on porting software technology for the computer-aided diagnosis (CAD) of lung tumors, which had been acquired in 2008. In May 2010, version 3.1 of the Visia™ Lung CAD server based on the MeVisAP software platform was released. This new version makes it possible to use CAD technology with various Windows operating systems (32 and 64 bit).

Company-financed research activities revolved around improving the quality of CAD algorithms, especially the reduction of the number of false positive results. This development almost reached the production stage by the end of 2010. Together with the CAD group at Fraunhofer MEVIS in Nijmegen, Netherlands, the expansion of the CAD method to other types of lung lesions was also researched.

#### Virtual colonoscopy

The majority of MMS AG's work on the development of a specialized software application for evaluating CT images derived from virtual colonoscopy was placed on hold in favor of other projects in the period under review. The porting of the software technology acquired in 2008 and its integration in the MeVisAP software platform was continued, but only with very little use of resources. At the present time, the company expects this product to be launched in 2012.

#### ASP services

In connection with its range of MeVis Distant Services, in which the company is involved in the preoperative planning of liver surgery, MMS AG plans to extend these services to include issues with other organs or clinical pictures. The aim is to assist surgeons in the diagnosis or preparation and planning of complex surgery. In addition, a support for the newly approved DICOM-PDF standard was implemented and released during the reporting period. This makes it possible to deliver the results of analyses and visualizations of the Distant Services to customers in one optimized format that enables the integration and long-term archiving in a PACS system.



## MBS

The breast diagnostics workstation SecurView™ was adapted for the latest Windows platforms. New functions for the evaluation of tomography images were developed and the processing speeds of large amounts of data were improved just in time for the approval of the new tomosynthesis imaging technology by the US regulatory authority FDA at the beginning of 2011. Support for the recently approved generic tomosynthesis imaging format, now accepted as DICOM standard, was also developed. The expansion of digital communication options between the diagnostic workstations for radiologists, the specialized SecurView™ diagnostic workstation for medical technical assistants and the latest mammography device by Hologic (Dimensions) was targeted to improve workflows within an optimized workflow management in clinics. Next to a number of practical improvements, diagnosis was also made easier by indicating various breast-specific parameters such as volume and density.

## MBC

The product *syngo* MammoReport was greatly advanced by porting it to a 64 bit operating system as well as adding a so-called multi application and multi modality mode – in other words the synchronized parallel operation of ABVS (ultrasound) and *syngo* BreVis (MRI). In addition, a 2D MammoViewer prototype has been developed on the basis of Siemens' *syngo.via* platform.

The diagnostics software for the ACUSON S2000 ABVS ultrasound scanner has also been developed further. The main new features include the integration in the multi modal software application *syngo* MammoReport as well as various improvements to its user-friendliness and performance.

Furthermore, the number of target systems for *syngo* BreVis was increased significantly. *Syngo* BreVis is a software application for MRI-based breast diagnostics. Intervention is possible directly at the workstation of the imaging device (acquisition workplace). Apart from supporting East Asian languages and Chinese as well as other intervention tools, the software now provides dedicated support for sagittally recorded breast data (in other words the side view).

## Staff

The Group had 155 permanent employees as of the balance sheet date (prev. year: 169). In addition, the Group engaged student testers on a temporary basis, equating to 20 full-time equivalents (prev. year: 25).

On annual average, the company had a workforce of 224 (prev. year: 239), of which 163 were permanent employees (prev. year: 167) and 61 student testers on a temporary basis (prev. year: 72).

The majority of employees received only fixed remuneration in the past fiscal year. The company paid special remuneration such as gratuities and bonuses at its own discretion in individual cases.

The annual general meeting on August 22, 2007, resolved, by amendment resolution of the annual general meeting on September 28, 2007, to conditionally increase the capital of the company by € 130 k and to implement a stock option program for employees and members of the management of MeVis Group.

This resolution authorizes the Executive Board to issue a total of up to 105,000 stock options to employees in one or more tranches until December 31, 2011. To date, two tranches (2007 and 2009) totaling up to 40,491 stock options have been issued to employees of the MeVis Group. Exercise of options is subject to a two-year holding period and a share price performance target. The target for the first tranche is a MeVis stock price of € 63.25; the target for the second tranche is a 15 percent improvement of the MeVis stock performance compared to the TecDAX from the time the stock options have been issued.



## *Remuneration report*

The remuneration for the Executive Board consists of fixed and variable components. The fixed remuneration for Executive Board member Dr. Carl J.G. Evertsz is paid partly by MBC Verwaltungsgesellschaft mbH (taking into account any remuneration he receives from MMS AG) and for the rest by MMS AG. All other Executive Board members are remunerated exclusively by MMS AG. In the reporting year, the performance-based remuneration of Thomas E. Tynes mainly comprised a one-off payment as compensation for the cancellation of his subscription right on MMS AG stocks granted to him in his previous contract.

The bonuses for Executive Board members are always measured by the level of achievement of a target catalogue agreed upon with the Supervisory Board and are capped at 1.5 times of gross remuneration. The Supervisory Board determines the bonuses for individual Executive Board members at its discretion, but they must never exceed € 100 k.

The members of the Executive Board – with the exception of Dr. Carl J. G. Evertsz – will be taking part in a stock option program, which acts as a variable remuneration component providing a long-term incentive.

The employment contracts of two of the Executive Board members stipulate transitional payments of up to four monthly salaries should their contracts not be extended and the company fails to comply with the termination period of four months prior to the end of the contracts.

Total remuneration paid to the Executive Board in the year under review came to € 738 k (prev. year: € 458 k) and is explained in Note 39 to the consolidated financial statements, whereas € 50 k of the increase can be put down to the full inclusion of the remuneration paid by MBC KG (prev. year: proportionate).

## *Declaration on Corporate Governance*

The following partial statement of the declaration pursuant to section 289a of the German Commercial Code contains a reference to the current declaration of conformance pursuant to section 161 of the German Stock Corporation Act (AktG) and the German Corporate Governance Code (GCGC), relevant details of corporate governance practices as well as a description of Executive Board and Supervisory Board procedures.

### *Declaration of conformance pursuant to section 161 AktG and the German Corporate Governance Code GCGC*

The Executive Board and Supervisory Board regularly issue joint declarations of conformance pursuant to section 161 AktG. The wording of the current declaration is included in the corporate governance report. All current and previous declarations of conformance can also be accessed at all times on the company website at [http://www.mevis.de/mms/Corporate\\_Governance.html](http://www.mevis.de/mms/Corporate_Governance.html).

### *Material corporate governance practices*

Corporate governance of MeVis Medical Solutions AG, as a German stock corporation listed in the Prime Standard, is dictated first and foremost by the German Stock Corporation Act and secondly by the recommendations of the Corporate Governance Code as last amended.

Being a manufacturer of medical software products, the statutory provisions of the German Medical Devices Act (MPG), MDD 93/42/EEC (Medical Device Directive) and ISO 13485:2003 (Medical devices – Quality management systems – Requirements for regulatory purposes) apply to us.

Quality and quality management are cornerstones of our corporate governance. The quality management system is geared toward meeting our quality objectives and the quality requirements and expectations of our customers in relation to function, handling, reliability and availability, economy, and punctuality.

The company's quality management system is certified to EN ISO 13485:2003 + AC 2007 by the notified body MEDCERT in the development, manufacture and final inspection of diagnostic software for radiological image data and evaluation services for medical image data.

#### Executive Board and Supervisory Board procedures

The Executive Board manages the company on its own responsibility with the aim of creating sustainable value. It runs the company in accordance with the statutory provisions, the company's articles and the rules of procedure for the Executive Board and works in good faith with the other executive bodies

The Executive Board sets out the corporate objectives and strategies and, based on them, determines the corporate policy. The Executive Board of MeVis Medical Solutions AG is currently composed of three members, who were appointed by the Supervisory Board in accordance with the company's articles. The principle of overall responsibility applies; that is, the members of the Executive Board share responsibility for management. The Executive Board works in a cooperative manner and the members keep each other up-to-date on important measures and events in their respective areas. In addition, internal meetings between the entire Executive Board and mid-level management take place at least once a week.

The Supervisory Board has issued a book of rules of procedure for the Executive Board, which documents all the rules of procedure and transactions that require approval, and sets forth the individual mandates of the executives in an executive organization chart.

The Supervisory Board is composed of three members, elected from among the shareholders, pursuant to the company's articles. Official Supervisory Board meetings take place at least four times a year. The members of the Executive Board generally take part in the meetings of the Supervisory Board and report verbally and in writing on the individual items on the agenda and answer the Supervisory Board members' questions. The members of the Supervisory Board also discuss certain matters outside the official Supervisory Board meetings or pass resolutions by circulation. The Supervisory Board has issued rules of procedure by which it is to abide.

In particular, the chairman of the Supervisory Board meets regularly with the Executive Board and answers topical questions. In addition, outside these meetings, the chairman informs it of the latest developments.

The company does not appoint committees at this time. It believes that there is no need or point in setting up committees on account of the size of the Supervisory Board, which allows for work to be done efficiently.

The Executive Board and Supervisory Board are committed to the company's interests. In the fiscal year ended, there were no conflicts of interest to be promptly disclosed to the Supervisory Board.

#### Remuneration of executive bodies

MeVis Medical Solutions AG follows the recommendation of the German Corporate Governance Code to disclose individually the remunerations for the Executive Board and the Supervisory Board. The remuneration report is explained in Note 39 to the consolidated financial statements.

## Corporate disclosures

### Composition of the subscribed capital

As of the balance sheet date, the company had subscribed capital of € 1,820 k, which consisted of 1,820,000 no-par registered shares with voting rights.

### Shares in capital exceeding 10% of the voting rights

- In accordance with the share register dated December 31, 2010, Dr. Carl J.G. Evertsz, Schumannstrasse 12, 28213 Bremen, holds roughly 19.5% of the voting rights.
- In accordance with the share register dated December 31, 2010, Dr. Hartmut Jürgens, Grohner Bergstrasse 11, 28759 Bremen, holds roughly 16.5% of the voting rights.
- In accordance with the share register dated December 31, 2010, Prof. Dr. Heinz-Otto Peitgen, Am Jürgens Holz 5, 28355 Bremen, holds roughly 19.5% of the voting rights.
- In accordance with a report received from Fortelus Special Situations Master Fund Ltd, George Town, Cayman Islands, dated April 30, 2008 pursuant to section 21(1) of the German Securities Trading Act, the share of voting rights jointly held by Fortelus GP Ltd, c/o M&C Corporate Services Ltd, Ugland House, PO Box 309, George Town, Grand Cayman, Cayman Islands, Fortelus Special Situations Fund LP, registered office 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA, and Fortelus Special Situations Fund Ltd, c/o M&C Corporate Services Ltd, Ugland House, PO Box 309, George Town, Grand Cayman, Cayman Islands, stands at around 10.2%.

### Provisions governing the appointment and dismissal of members of the Executive Board and amendments to the articles of association

The members of the Executive Board are appointed and dismissed in accordance with sections 84 and 85 of the German Stock Corporation Act. Amendments to the articles of association are governed by sections 133 and 179 et seq. of the German Stock Corporation Act. Section 119(1) No. 5 of that Act stipulates that any amendments to the articles of association require a resolution of the shareholders. Under section 9(5) of the articles, the Supervisory Board may make amendments to the wording of the articles of association.

### Authorization of the Executive Board to issue or buy back shares

At the company's annual general meeting held on August 22, 2007, the shareholders passed a resolution, by amendment resolution of the annual general meeting on September 28, 2007, authorizing the Executive Board to issue, in one or more tranches before December 31, 2011, subject to the Supervisory Board's approval, subscription rights for a total of up to 130,000 of the company's registered no-par-value ordinary shares to employees and members of the management of the company and other entities in which the company directly or indirectly holds a majority of the capital and to create conditional capital of € 130 k.

In accordance with the resolution passed by the shareholders at the annual general meeting on June 10, 2010, the Executive Board is authorized, subject to the Supervisory Board's approval, to increase the company's share capital on a cash or non-cash basis by a total of up to € 910 k by issuing new registered no-par-value shares in one or more tranches on or before June 9, 2015. The Executive Board is also authorized, subject to the Supervisory Board's approval, to exclude the subscription rights of shareholders in certain cases. According to the resolution of the annual general meeting on June 10, 2010, the authorization, subject to the Supervisory Board's approval, issued to the Executive Board pursuant to section 5 (5) of the articles of association by the annual general meeting on September 28, 2007, agenda point 2, to increase the company's share capital on a cash or non-cash basis by a total of up to € 650 k by issuing registered no-par value shares in one or more tranches on or before September 27, 2012, was annulled.

In addition, the Executive Board is authorized to acquire treasury stock up to a total of 10% of the company's share capital held on the date on which the resolution was passed by the annual general meeting on June 10, 2010. Including any other treasury stock already held by or attributable to the company in accordance with sections 57a et seq. of the German Stock Corporation Act, the shares thus acquired may not exceed 10% of the company's total share capital.

This authorization does not extend to trading in the company's treasury stock. The authorization may be exercised in whole or in part, in one or more tranches and for one or several purposes. It may also be exercised by dependent entities or by entities in which the company holds a majority interest or by third parties for its or their account. The authorization expires at the end of June 9, 2015. Upon taking effect, this resolution rendered void the resolution passed by the shareholders on July 9, 2008.

#### Material changes containing a change-of-control clause applicable in the event of any takeover bid

- As a 49% partner in MBC KG, Siemens Aktiengesellschaft is entitled to request the transfer of the limited-partnership share held by MMS AG in MBC KG as well as its share in MeVis BreastCare Verwaltungsgesellschaft mbH at a reasonable price if a third party either directly or indirectly acquires a controlling interest as defined in section 17 of the German Stock Corporation Act in MMS AG and competes with Siemens Aktiengesellschaft.
- As a licensee of MMS AG, Invivo Corp. has a right to terminate the license contract entered into by it with MMS AG in the event of any change of control within MMS AG if the new controlling party does not acknowledge the obligations under the license contract.

### Risk report

In the fiscal year ended, the MMS AG continued its efforts to further enhance its risk management processes. Regular management meetings continue to be an important tool for detecting at an early stage any risks to its assets as well as changes in the business performance of the individual segments and Group members and other risks to its going-concern status.

The company's risk management system is geared toward coordinating the processes for monitoring, early detection and managing all business risks in accordance with the Business Control and Transparency Act (hereinafter "KonTraG"). The purpose is to identify at an early stage any risks, in particular risky transactions, accounting misstatements and breaches of the law with a material effect on the assets, financial and earnings of the company or the Group and to minimize potential negative effects.

The Accounting Law Reform Act (hereafter: "BilMoG") came into force on May 29, 2009. BilMoG aims to improve the informative value of annual financial statements prepared in accordance with German commercial law. According to the Act, this is achieved by adapting German accounting rules so as to be similar to the International Financial Reporting Standards (hereafter: "IFRS"). The Reform Act further states the mandates of Supervisory Boards and Executive Board of capital market companies in concrete terms. This includes in particular their responsibilities and monitoring duties in relation to internal risk management, including the internal auditing system.

It is on this legal basis that MMS AG continues to expand its risk management system. A monitoring system is at the core of this risk management system. It ensures that existing risks are recorded, analyzed and assessed, and also that risk-related information is passed on to the right decision-maker in a systematic manner.

Based on the risk analysis in connection with the stock-market flotation of the company, the risk management system documents and regularly updates risk scenarios arising out of operations and based on the environment. The company has identified the following main risks:

#### Business-related risks

- Dependence on key customers

The company and its subsidiaries and affiliates generate a substantial portion of their revenue from business with a small number of individual customers (original equipment manufacturers, "OEMs"). These customers, which at the same time cover much of the global market in their respective fields, are thus of considerable importance for the company's commercial success. If the Group does not succeed in retaining the positive business relationships with these key customers, this will have a detrimental effect on MMS AG's assets, liabilities, financial position and profit or loss.

- Dependence on customers' success

A large part of the company's products are not consumer products. MMS AG predominantly sells software to the producers of clinical end-customer products required for the operation or production of the medical equipment which they distribute. The company's success is thus contingent upon its customers' ability to market their own products successfully. The same applies in principle to indirect marketing through sales partners. If such products are not distributed successfully or if the customer is not able to obtain the necessary permits for its products, this will also impact future demand for the products of the company and its subsidiaries and affiliates. This could result in actions such as write-downs on interests.

- Expiring exclusive agreements

On January 1, 2012, the long-term exclusive agreement with the OEM partner Hologic for the sale of the product SecurView™ will expire. The customer Hologic will then be able for the first time to supply the market with alternative diagnostic workstations not acquired from MBS KG. This could have a negative impact on the new license business of MBS KG and therefore on the investment income of MMS AG, which could in turn significantly impair the assets, liabilities, financial position and profit or loss of the company. However, the company currently does not expect any material changes to the number of new licenses sold based on the new contractual regulations.

- New customer business

MMS AG plans to further expand its business by acquiring new large customers and sales partners. With this in mind, the company has been developing new products and also started to expand its business processes. As it has little experience in dealing with these new customers and their markets, the management expects an increased business risk despite carrying out extensive checks in advance. Any delays in delivering products to these business partners and their customers or any business relationships that are less successful than anticipated would also have a negative impact on the sales and profit and loss of MMS AG.

- Leading OEMs are stepping up their platform development activities

MMS AG has been focusing its developments on its proprietary software platform Visia™ Enterprise for some years now. The company is now noticing that leading OEMs are increasing their development activities in similar areas. As a result, the demand situation for the proprietary MeVis platform may develop differently than anticipated by the company, which could considerably impair the marketability of Visia™ products. In daily clinical use, compatibility issues may also arise between clinical applications developed by MeVis and third-party platforms, which could have a negative effect on demand from clinical end users for MeVis applications. Both would have serious consequences for the assets, liabilities, financial position and profit or loss of the company.

- Product liability risks

Despite consistent quality assurance, the risk of defects in the company's products cannot be ruled out. In such cases, the company or its subsidiaries may be exposed to warranty claims on the part of its contractual partners or product liability claims. In addition, disputes relating to warranty or

product liability claims could result in a loss of confidence in the market and thus harm MMS AG's reputation.

- Risks in connection with the utilization of brands

It is possible that further designations such as third-party brands, names and company names exist, which are similar to those used or registered as brands by the company or its subsidiaries for similar or identical goods and services. Therefore there is a possibility of conflicts arising with third parties with respect to brands or designations (e.g. product or company names), which may result in the MMS AG not being permitted to use the designation or brand name in question. This would also entail the risk of liability for damages on the part of the company or its subsidiaries.

- Risks in connection with the utilization of patents and industrial property rights

MMS AG and its subsidiaries own a number of German, European and US patents and patent applications. In addition, MBC KG holds a German utility patent. The risk of third parties breaching the industrial property rights of the company or its subsidiaries cannot be ruled out. Nor can the risk of the MeVis Group companies breaching third-party patents and industrial property rights be ruled out.

- Exchange rate risks

The MeVis Group offers its services on an international basis and, hence, outside the euro currency zone, particularly in the US market. The sales of the company and its subsidiaries are invoiced in the currency of the territory in which the customer has its head office. To date, the vast majority of services are being invoiced in US dollars. Although part of this exposure is hedged, it is not possible to exclude exchange rate risks which may have a detrimental effect on the MeVis Group's profit or loss, particularly in connection with medium and long-term contracts which it customarily enters into with its customers.

- Liquidity risk

Liquidity risks could result in the group not being able find the necessary financial means for meeting its financial obligations arising during the course of its operations or from the purchase price payments for strategic acquisitions. The securing of liquidity therefore forms an integral part of the ongoing liquidity management at MeVis Group. It also takes into account possible special factors from project-related costs. The company avails itself of possibilities such as managing finances within the Group by means of intercompany loans. Furthermore, the company had sufficient credit facilities at banks to avoid any financing or liquidity bottlenecks in the reporting year. On the balance sheet date, the Group had more than € 8.2 million in liquid funds (prev. year: € 15.1 million). In the current fiscal year, liquidity is going to drop again as planned due to further payment obligations from acquisitions and project-related operating expenses and staff costs. A decrease in anticipated revenues could also result in the company requiring additional liquidity.

#### Risks in connection with research and development

- Availability of qualified executives and staff

The availability of qualified employees in sufficient numbers to underpin the Group's current efforts entails a risk in light of the current situation in the relevant segment of the labor market.

The business of the company and its subsidiaries largely involves the development and production of customized and innovative software applications.

The expertise is centered on development. The MeVis Group is therefore dependent upon highly qualified staff for the specification, development and testing of the software produced. In particular, the Group employs individuals with the special know-how in specific areas such as software development for medical technical applications, which is essential to the business.

Such specialists are not widely available on the open labor market; plus training is not usually product-specific, meaning that thorough induction is necessary. Depending on the function, the loss of even one of these individuals without someone suitable to take their place can have a negative impact on the business and the assets, liabilities, financial position and profit or loss of the company.

If the company fails to hold on to the required qualified executives and staff or highly qualified individuals long-term or fails to replace outgoing staff promptly and adequately, this could have negative implications for sales and the profit or loss of the company. For this reason, a training concept is in development, which will provide executives and staff with further qualifications. In addition, concepts will be drawn up to highlight appropriate prospects and incentives for executives and staff.

#### Market risks

- Risks arising from the necessity for ongoing product optimization

In order to remain competitive, the MeVis Group must improve its products on an ongoing basis to bring them into line with market trends taking regional requirements into account, and incorporate the latest technological developments in diagnostic, therapy and intervention methods. It is not possible to exclude the risk of future technological advances rendering the software developed by the MeVis Group obsolete. If the MeVis Group is unable to continue updating its software products in line with the swift and dynamic technological advances in the individual areas of application, this may have an adverse effect on order intake and thus on the assets, liabilities, financial position and profit or loss of the company or its subsidiaries.

On the whole, the Executive Board sees no risks to the company as a going concern.

#### *Accounting risk management system and internal control system*

In general, the risk management system and the internal control system also include the accounting processes as well as all risks and controls in relation to accounting. This concerns all elements of the risk management system and internal control system, which may have significant impact on the company's annual financial statements.

The purpose of the risk management system in relation to the accounting processes is the identification and assessment of risks that may conflict with the aim of compliance of the annual financial statements with the standards. Any risks identified must be assessed in terms of their effect on the annual financial statements; if necessary, a specialist must be consulted. The objective of the internal control system in this context is to ensure with sufficient certainty – by implementing appropriate controls – that standards-compliant annual financial statements are prepared in spite of the risks identified.

The company has an internal control and risk management system covering the (Group) accounting process, in which suitable structures and processes are defined, and implemented in the organization. Prompt and accurate accounting is ensured for all transactions. Statutory standards and accounting standards are complied with, and the relevance and impacts on the annual financial statements of amendments to the laws and accounting standards are analyzed, adopted and implemented on a continuous basis. The staff involved is regularly trained in this work.

Both the risk management system and internal control system at MeVis Medical Solutions AG also cover all subsidiaries of material importance for the consolidated financial statements along with all the processes relevant for preparing the financial statements. The controls relevant for accounting focus on

risks of material misstatements in the financial reporting. Materiality of misstatements is assessed on the basis of the probability of occurrence and the financial impact on sales, EBIT and balance sheet total.

Essential elements of risk management and control in accounting are clear assignment of responsibilities and controls in the process of preparing the financial statements, transparent guidelines on accounting and the preparation of financial statements, appropriate access controls for the IT systems of relevance to the financial statements, and the clear control of responsibilities where external specialists are involved.

The principle of dual control and the division of functions are also important control principles in the MMS AG's accounting process. The identified risks and measures taken as a result are updated in the quarterly reports and reported to the management. The effectiveness of internal controls for accounting is reviewed at least once a year, primarily as part of the process of preparing the financial statements.

### *Material events occurring after the balance sheet date*

In the first quarter of 2011, the Executive Board appointed an external service provider to help it with obtaining a partner which will provide significant strategic and financial support to the company. The Supervisory Board was informed of the business and strategic reasons for the project. The main motive for the planned search for a strategic partner is to secure and expand the industrial partnerships in line with MeVis Group's marketing strategies. The company has currently not decided on the extent of potential strategic partnerships and transaction structures; they are dependent on several conditions.

### *Outlook and opportunities*

MMS AG develops specialized software applications for the global medical imaging market. Its products and services help medical practitioners to analyze medical image data. MMS AG believes that the segments which it targets in the market for medical imaging technology will undergo steady and sustained growth in the medium term.

The report "US Markets for Computer-Aided Diagnostic Imaging Products" from the Medtech Insight Division of Elsevier Business Intelligence, Inc. published in January 2010 estimates market growth of the computer-aided diagnostic imaging (CAD) segment at a compound annual growth rate (CARG) of 11.1% up to 2013. According to the report, the market segment will have a volume of approximately USD 185.3 million by 2013 (<http://tiny.cc/9VLTr>).

According to the study "X-Ray Systems Market to 2016 – The Digital X-Ray Systems Segment to be the Growth Driver" published in December 2010 by the market research organization Global Business Intelligence (<http://bit.ly/eZFNd>), at a compound annual growth rate (CAGR) of 4%, the global market for radiological systems will go up to around USD 4.8 billion between 2009 and 2016. The main growth drivers are the changeover from the old installed analogue technology and the increasing growth of the developing markets.

Going by the study "US Markets for Diagnostic Imaging Systems 2011" published by the Millennium Research Group of Toronto in January 2011, the compound annual growth rate (CAGR) of the US diagnostic imaging market will be approximately 5% in the coming five years as a total of 32 million people will join the health insurance system by 2014 as a result of the US healthcare reforms. This will push up the number of image-based examinations, which should in the end lead to a rise in the number of installed imaging devices. Computer tomographs and magnetic resonance tomographs will be the main growth drivers (<http://bit.ly/ej4RmV>). In the opinion of the company, the digitalization of image-based breast diagnostics will advance at different paces in countries outside the USA. This paves the way for the Group to work regional markets in this segment in a targeted manner in conjunction with the industry partners.



MMS AG believes that these developments will not only drive growth in the medical imaging market in general but, above all, lead to a steady increase in the importance of specialized software applications of the type developed by MMS AG and other market operators. This applies especially to the digitization of established imaging modalities, as the display, analysis and editing of digital image data demands software applications, while analog images can generally be viewed without any software. Also, the demands being made of the software are growing, since the technical advances in many imaging techniques are resulting in a steady improvement in the temporal and spatial resolution of the image data, and therefore leading to a considerable increase in data volumes.

Even so, as previously mentioned in the risk report, the company fundamentally relies on the products of its industry partners, on which the products of the company run, continuing to maintain and extend their position in the global market in fiscal year 2011 and beyond. Given the deep recession in the USA – a key market segment for the company – and the debate among health policy-makers surrounding the medical importance of early detection programs for breast cancer, MMS AG cannot rule out a delay in the number of license sales planned by its industry partners for 2011. The effects of the US healthcare reform and the IT investment decisions market participants may make as a result could have a significantly negative impact on the company's growth and results of operations in the current fiscal year.

The Executive Board of the company is convinced however that the success of the multimodal *syngo* MammoReport diagnostics workstation for the industrial partner Siemens and especially the multimodal SecurView™ diagnostics workstation for the industrial partner Hologic are going to create strong impulses that will help stabilize license sales of the company and its subsidiaries, even outside the established sales markets.

The Visia™ development projects also provide MMS AG with a full pipeline, which will allow the company to cement its leading position in the market for disease-oriented software solutions for medical imaging.

As the company is dependent on the success of its industrial partners in the indirect sales model, it is impossible once again in the current fiscal year to reliably forecast future sales developments.

On January 15, 2010 the company entered into a contract with Reiber Consultancy B.V., Rotterdam (Netherlands) to merge business activities, coupled with the phased acquisition of a holding of up to 100% in Medis Holding B.V., Leiden (Netherlands), (hereafter: "Medis Holding"). Medis Holding holds a 100% stake in Medis medical imaging systems, B.V., Leiden (Netherlands), (hereafter: "Medis"). Equity may be invested in Medis Holding B.V. in three fixed phases up to 2011 along with a subsequent earn-out. In the first half of 2010, approximately 41% of shares in Medis Holding were acquired successively. MMS AG holds an option to purchase the remaining shares.

Under the terms of the business merger, Medis gets access to the technology platform MeVisAP and to the development environment MeVisLAB, which forms the heart of the MeVis Group's multi-modal software solutions. Medis develops software solutions which enable cardiologists, technicians and researchers to quantify cardiovascular image data accurately. Medis products are designed for the diagnosis of cardiovascular disease using magnetic resonance imaging (MRI), computed tomography (CT), X-rays and intravascular ultrasound. Medis has a subsidiary operating in Raleigh (NC/USA).

#### Consolidated sales and consolidated net profit forecast 2011/2012

In view of the dropping number of new licenses sold in 2010, the Executive Board of MMS AG expects a slight reduction in consolidated sales in the current fiscal year. The digital mammography business segment will remain the main sales driver with around 70% to 75%. Consolidated earnings before interest and taxes (EBIT) should be slightly positive on account of the ongoing savings regarding operating expenses, the reduced number of employees and the lower risk of impairment losses resulting from the balance sheet adjustment on December 31, 2010. Thus, the operating profitability of Digital Mammography will be markedly higher than that of Other Diagnostics in 2011 as well. Group liquidity came to € 8.2 million as of the balance sheet date.

This figure will continue dropping as planned in 2011, particularly as up to € 3.4 million in payment obligations are falling due from the strategic acquisition of the 49% share in MBS KG. If the company was to also acquire the remaining stocks in Medis Holding B.V., this would place an additional burden on liquidity if it was unable to pay for these shares with its own treasury stock.

The Executive Board will review and adjust its forecast during the course of the fiscal year based on business developments in the first half of the year. For fiscal year 2012, the Executive Board expects an improvement in sales and earnings for the MeVis Group compared to the current fiscal year. However, the company still plans to invest large sums, mainly in the technology platform MeVisAP at MMS AG and the finalization of its new software applications. The delay of the launch or an insufficient amount of sales channels would have a negative impact on its sales and earnings development in 2012. In this case, the company would require additional liquidity.

Bremen, March 31, 2011

Carl J.G. Evertsz, Ph.D.

Chairman & CEO

Robert Hannemann, Ph.D.

Member of the Executive Board

Thomas E. Tynes

Member of the Executive Board

## MeVis Medical Solutions AG, Bremen

### Consolidated financial statements 2010

Consolidated income statement.....	44
Consolidated statement of comprehensive income .....	44
Consolidated statement of financial positions.....	45
Consolidated statement of cash flow .....	46
Statement of changes in equity .....	47
Notes to the consolidated financial statements .....	48
Changes in consolidated assets .....	90
Auditor's Report .....	94
Responsibility Statement („Bilanzaid“) .....	95

## Consolidated income statement

for the period January 1 through December 31, 2010

FIGURES IN € k	Notes	2010	2009
<b>Revenues</b>	10	<b>14,291</b>	13,869
Income from the capitalization of development expenses	11	2,786	2,308
Other operating income	12	1,140	1,828
Cost of material	13	-690	-459
Staff costs	14	-10,382	-9,799
Other operating expenses	15	-3,692	-3,273
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>		<b>3,453</b>	4,474
Depreciation, amortization and impairment of intangible and tangible assets	16	-8,880	-2,841
<b>Earnings before interest and tax (EBIT)</b>		<b>-5,427</b>	1,633
Share of profit of associates	5	13	0
Interest income		389	598
Interest expenses		-712	-996
Other net financial result		130	-67
<b>Net financial result</b>	17	<b>-180</b>	-465
<b>Earnings before taxes (EBT)</b>		<b>-5,607</b>	1,168
Income tax	18	-2,742	-770
<b>Consolidated net loss/profit for period</b>		<b>-8,349</b>	398
<b>Earnings per share in €</b>	19		
Basic		-4.89	0.23
Diluted		-4.89	0.23

## Consolidated statement of comprehensive income

for the period January 1 through December 31, 2010

FIGURES IN € k	Notes	2010	2009
<b>Consolidated net profit for period</b>		<b>-8,349</b>	398
Changes in the currency translation reserve	24	169	-95
Changes in fair value of available-for-sale financial instruments	24	-76	76
Deferred tax on changes in fair value		23	-23
<b>Other comprehensive income</b>		<b>116</b>	-42
<b>Total comprehensive income</b>		<b>-8,233</b>	356

## Consolidated statement of financial positions

as of December 31, 2010

FIGURES IN € k	Notes	2010	2009
<b>Non-current assets</b>			
Intangible assets	20	22,001	27,095
Property, plant and equipment	20	926	1,191
Interest in associated companies	5	1,280	0
Deferred tax assets	18	0	1,487
Other financial assets	22	0	100
		<b>24,207</b>	<b>29,873</b>
<b>Current assets</b>			
Inventories	21	86	130
Trade receivables	22	5,139	4,222
Income tax receivables		470	356
Other financial assets	22	2,882	8,540
Other assets	22	380	116
Cash and cash equivalents	23	5,621	7,718
		<b>14,578</b>	<b>21,082</b>
<b>ASSETS</b>		<b>38,785</b>	<b>50,955</b>
<b>Equity capital</b>			
	24		
Subscribed capital		1,820	1,820
Capital reserve		28,513	28,465
Revaluation reserve		1,276	1,506
Treasury shares		-3,789	-4,156
Cumulated fair value changes of available-for-sale financial instruments		0	53
Currency translation reserve		149	-20
Retained earnings		-3,180	4,939
		<b>24,789</b>	<b>32,607</b>
<b>Non-current liabilities</b>			
Provisions	25	821	0
Other financial liabilities	26	3,452	6,598
Deferred taxes	18	1,580	425
Other liabilities		0	2
		<b>5,853</b>	<b>7,025</b>
<b>Current liabilities</b>			
Provisions	25	236	188
Trade payables		1,317	1,121
Bank borrowings	27	0	401
Other financial liabilities	28	4,007	7,478
Deferred income	29	2,248	1,537
Other liabilities	30	268	410
Income tax liabilities		67	188
		<b>8,143</b>	<b>11,323</b>
<b>EQUITY AND LIABILITIES</b>		<b>38,785</b>	<b>50,955</b>

## Consolidated statement of cash flow

for the period January 1 through December 31, 2010

FIGURES IN € k	Notes	2010	2009
<b>Earnings before interest and tax (EBIT)</b>		<b>-5,427</b>	<b>1,633</b>
+ Depreciation and amortization	16	8,880	2,841
- Profits from sale of marketable securities		0	-23
+/- Increase/decrease in provisions		869	66
+/- Other non-cash expenses/income		-605	160
+ Interest received		395	586
- Interest paid		-6	-37
- Tax paid		-564	-3,026
+ Tax received		276	627
+/- Exchange rate differences received/paid		184	-67
+/- Decrease/increase in inventories		44	24
+/- Decrease/increase in trade receivables and other assets		-472	1,911
-/+ Decrease/increase in trade payables and other liabilities		1,376	-1,624
<b>= Cash flow from operating activities</b>		<b>4,950</b>	<b>3,071</b>
- Purchase of property, plant and equipment		-193	-320
- Purchase of intangible assets (excl. development cost)		-76	-96
- Purchase in associates accounted for using the equity method		-900	0
- Payments for capitalized development cost		-2,907	-2,624
- Investments in subsidiaries		-5,000	-2,500
- Investments in business units		-2,230	-2,151
- Investments in marketable securities		0	-7,818
+ Proceeds from sale of marketable securities		4,770	5,536
<b>= Cash flow from investing activities</b>		<b>-6,536</b>	<b>-9,973</b>
- Purchase of treasury shares		0	-462
- Repayment of borrowings		-401	-64
<b>= Cash flow from financing activities</b>		<b>-401</b>	<b>-526</b>
<b>Change in cash and cash equivalents</b>		<b>-1,987</b>	<b>-7,428</b>
<b>Effect of exchange rates on cash and cash equivalents</b>		<b>-110</b>	<b>-111</b>
<b>+ Cash and cash equivalents at the beginning of the period</b>		<b>7,718</b>	<b>15,257</b>
<b>= Cash and cash equivalents at the end of the period</b>	<b>23</b>	<b>5,621</b>	<b>7,718</b>

This item comprises cash and cash equivalents.

## Statement of changes in equity

for the period January 1 through December 31, 2010

FIGURES IN € k	Subscribed capital	Capital reserve	Revaluation reserve	Treasury shares	Cumulative change in fair value for sale of available assets	Currency translation differences	Retained earnings	Total
Balance on January 1, 2009	1,820	28,363	1,679	-3,694	0	75	4,368	32,611
Purchase of treasury shares	0	0	0	-462	0	0	0	-462
Transfer to retained earnings according to amortization	0	0	-173	0	0	0	173	0
Change in fair value of stock options	0	102	0		0	0	0	102
Consolidated net profit for the year	0	0	0	0	53	-95	398	356
Balance on December 31, 2009	1,820	28,465	1,506	-4,156	53	-20	4,939	32,607
<b>Balance on January 1, 2010</b>	<b>1,820</b>	<b>28,465</b>	<b>1,506</b>	<b>-4,156</b>	<b>53</b>	<b>-20</b>	<b>4,939</b>	<b>32,607</b>
Disposal of treasury shares	0	0	0	367	0	0	0	367
Transfer to retained earnings according to amortization	0	0	-230	0	0	0	230	0
Change in fair value of stock options	0	48	0		0	0	0	48
Consolidated net profit for the year	0	0	0	0	-53	169	-8,349	-8,233
<b>Balance on December 31, 2010</b>	<b>1,820</b>	<b>28,513</b>	<b>1,276</b>	<b>-3,789</b>	<b>0</b>	<b>149</b>	<b>-3,180</b>	<b>24,789</b>

## MeVis Medical Solutions AG, Bremen

### Notes to the consolidated financial statements

#### *Basic information on the Group*

##### **1. General disclosures**

MeVis Medical Solutions AG ("MMS AG" for short) is the parent company of the MeVis Group. It was incorporated at the end of 1997 and commenced business in 1998. It has its registered office in Bremen/Germany. Its address is Universitaetsallee 29, 28359 Bremen.

The consolidated financial statements as of December 31, 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The provisions contained in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards in conjunction with § 315a(1) of the German Commercial Code (HGB) as well as the supplementary provisions of German commercial law were observed. The requirements have been observed in full and result in the presentation of a true and fair view of the assets, liabilities, financial position and profit or loss of the MeVis Group.

The fiscal year of MMS AG and its consolidated subsidiaries is the same as the calendar year. The balance sheet date for the consolidated financial statements matches the balance sheet date for the parent company.

In principle, the consolidated financial statements are prepared based on the recognition of assets and liabilities at amortized cost. This does not apply to derivative financial instruments or available-for-sale assets, which are recognized at their fair value as of the balance sheet date. The currency used in the consolidated financial statements is the Euro; unless otherwise stated, all figures are quoted in thousands of Euro (€ k). The income statement is prepared using the total cost method. In accordance with IAS 1, the current/non-current distinction is applied to assets and liabilities. Non-current assets and liabilities are defined as those which are not due for settlement in less than one year. Deferred taxes are always recognized as non-current assets or liabilities.

The consolidated financial statements as of December 31, 2010 were approved for submission to the Supervisory Board by MMS AG's Executive Board on April 6, 2011. The Supervisory Board is responsible for examining the consolidated financial statements and stating whether it approves them. The consolidated financial statements are to be published on April 19, 2010.

##### **2. Group's business activities**

The MeVis Group develops and distributes innovative software products for medical imaging. Software development activities are performed partly by the Group's own employees, and are partly outsourced to a research institute. The MeVis Group primarily operates in the area of IT support for clinical radiology and surgery.

Within this area, it specializes in developing software for image-based processes for diagnostics and therapy for breast cancer, liver surgery, vascular diagnostics, diagnostics and therapy for lung diseases as well as diagnostics and therapy for neurological disorders. The Group works with leading medical technology companies to incorporate the results of these research and development activities in marketable products. At the same time, it establishes companies to develop and distribute certain software products.



### 3. MMS AG's segments

MMS AG operates in the following two segments: Digital Mammography and Other Diagnostics. The Digital Mammography segment comprises the activities of the joint venture MBC KG and the wholly-owned subsidiary MBS KG. The Other Diagnostics segment engages in the development and marketing of diagnostic software, which is sold by MMS AG and MMS Inc. Due to the local distribution of realized sales the MeVis Group differentiates the geographical areas USA and Europe/Others.

### *Basis of preparation*

### 4. Principles of consolidation

The consolidated financial statements include the annual financial statements of MMS AG and its subsidiaries. Subsidiaries are companies controlled by MMS AG. An entity is assumed to be controlled if MMS AG directly or indirectly holds more than half of the voting rights in the company and it is possible for MMS AG to determine the entity's business and financial policies in such a way that the Group is able to derive advantages from such entity's activities.

Newly acquired companies are consolidated using the purchase method. Accordingly, the acquisition costs of the business combination are allocated to the identifiable assets acquired and the identifiable liabilities and contingent liabilities assumed, on the basis of their fair values as of the date of acquisition. Ancillary acquisition costs are recorded through profit or loss as they are incurred. Any excess in acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. If the fair values of the assets, liabilities and contingent liabilities acquired exceed the purchase price (negative goodwill), this amount is recognized in the income statement. The acquired entities are consolidated as of the date of acquisition.

Where the acquisition is achieved by successive share purchases, and MMS AG obtains the possibility of exercising control over the company, the provisions contained in IFRS 3 governing the full remeasurement of the assets and liabilities as of the date on which the possibility to exercise control is acquired are applied. Goodwill or any negative differences to be recognized in profit and loss are calculated separately for each acquisition. Any change in the fair values of the assets and liabilities between the date on which the shares are acquired and the date on which the possibility of acquiring control is obtained are recognized in the revaluation reserve within consolidated equity.

Shares in entities whose business activities are co-managed by MMS AG and another company (joint ventures) are consolidated on a proportionate basis. For this purpose, the assets, liabilities, income and expense of the joint-venture company are consolidated in accordance with the Group's share in such entity. Capital consolidation within the scope of proportionate consolidation follows the rules for full consolidation.

An associated company is a company on which the Group exercises material influence and which is neither a subsidiary nor a share in a joint venture. Material influence is the ability to affect the financial and business policy decisions of the company in which the investment is held. However, the Group does not control such financial and business policies either individually or in conjunction with other parties. Using as a basis the cost of acquisition as of the date on which the shares were acquired, the changes in the equity of the associated companies are increased or decreased in accordance with the equity method of accounting to the extent that these shares are attributable to MMS AG.

Intragroup balances and transactions including interim results are eliminated. The separate financial statements included in the consolidated financial statements have been prepared using uniform recognition and measurement principles.

## 5. Companies consolidated

In addition to MMS AG, all subsidiaries are consolidated in full. Joint-venture companies are consolidated on a pro rata basis. Shares in associates are accounted for using the equity method of accounting. The following section details the subsidiaries included in the consolidated financial statements and the companies consolidated on a proportionate basis as well as the associated companies:

### Subsidiaries

Name and location of company	Share in %
MeVis Medical Solutions Inc., Pewaukee, Wisconsin (USA)	100.0
MeVis BreastCare Solutions GmbH & Co. KG, Bremen	100.0
MeVis BreastCare Solutions Verwaltungs-GmbH, Bremen	100.0
MeVis Japan KK, Tokyo (Japan)	100.0

As it is included in the consolidated financial statements of MMS AG, which is responsible for ensuring compliance with the other conditions specified in § 264b of the German Commercial Code, MBG KG is exempt from the duty to prepare consolidated financial statements in accordance with the rules applicable to joint stock companies and a management report as well as the duty to disclose these documents.

### Joint-venture companies consolidated on a proportionate basis

Name and location of company	Share in %
MeVis BreastCare Verwaltungsgesellschaft mbH, Bremen	51.0
MeVis BreastCare GmbH & Co. KG, Bremen	51.0

MeVis Medical Solutions AG holds 51% of MeVis BreastCare GmbH & Co. KG, a joint venture forged with Siemens Aktiengesellschaft.

As of December 31, 2010, Siemens AG continued to hold 49% of the capital of MeVis BreastCare GmbH & Co. KG. In addition, Siemens AG has a call option which it may exercise at any time with respect to a further 2% share in MeVis BreastCare GmbH & Co. KG. In accordance with the provisions contained in the deed of partnership, a 2/3 majority is required for material decisions, meaning that the potential exercise of this option will not have any effect on the MeVis Group's scope for exerting influence on the company. Accordingly, MeVis BreastCare GmbH & Co. KG is a joint venture and therefore consolidated at 51%. MeVis BreastCare Verwaltungsgesellschaft mbH is the general partner of MeVis BreastCare GmbH & Co. KG. The investment ratios and consolidation correspond to those of MeVis BreastCare GmbH & Co. KG.

For the purposes of proportionate consolidation, the following proportionate assets and liabilities as well as income and expense were included in the MeVis Group's consolidated financial statements as of December 31, 2010 and the previous year:

Figures in € k	2010	2009
Current assets	1,589	1,178
Current liabilities	403	377
Non-current assets	723	620
Non-current liabilities	185	160
Expenses	2,305	2,417
Revenues	2,255	2,369

#### Associated companies reported under the equity method

Name and location of company	Share in %
Medis Holding B.V., Leiden (Netherlands)	41.09

On January 15, 2010 MMS AG entered into a contract with Reiber Consultancy B.V., Rotterdam (Netherlands) to merge business activities, coupled with the phased acquisition of a holding of up to 100% in Medis Holding B.V., Leiden (Netherlands), (hereafter also "Medis"). Medis Holding holds a 100% stake in Medis medical imaging systems, B.V., Leiden (Netherlands). Equity may be invested in Medis Holding B.V. in three fixed phases up to 2011 along with a subsequent earn-out. In the first of these, a cash contribution of € 400 k was agreed and made upon conclusion of the contract, which corresponds to a holding of around 14%. Another 27% of the shares in Medis were acquired in a second step on May 31, 2010. The purchase price consists of a cash component of € 500 k and an exchange of shares, whereby own shares valued at € 367 k were issued.

Under the terms of the business merger, Medis gets access to the technology platform MeVisAP and to the development environment MeVisLAB, which forms the heart of the MeVis Group's multimodal software solutions. Medis develops software solutions which enable cardiologists, technicians and researchers to quantify cardiovascular image data accurately. Medis products are designed for the diagnosis of cardiovascular disease using magnetic resonance imaging (MRI), computed tomography (CT), X-rays and intravascular ultrasound. Medis operates a subsidiary in Raleigh (NC/USA).

As of December 31, 2010 Medis Holding B.V. generated consolidated earnings of € 25 k after taxes. Earnings from associated companies of € 13 k apply to the MeVis Group based on the phased acquisition which stands at 41%.

The following information is derived from the Medis consolidated financial statements prepared according to IFRS (without taking into account the differences between the acquisition cost of MMS AG and the pro-rata shareholders' equity of Medis determined under the equity method):

Figures in € k	2010	2009
Current assets	1,784	1,229
Current liabilities	1,357	1,606
Non-current assets	1,001	941
Non-current liabilities	0	0
Expenses	4,037	5,368
Revenues	4,061	3,297

The fiscal year of Medis corresponds to the fiscal year of MMS AG. This information does not refer to the proportion applicable to MeVis, but is disclosed at the full amounts.

With regard to the third step of the (potential) acquisition of shares in Medis Holding B.V., the contract dated January 15, 2010 (including amendments) granted MMS AG a purchase option for the remaining 58.9%, which can be exercised in the period from April 15 to May 1, 2011. No option premium was payable. MMS AG has the right to acquire the shares by issuing its own shares or in exchange for cash at its discretion. The exercise amount is € 1,767 k less the negative consolidated 2010 EBIT of Medis (€ 191 k). Based on an earn-out clause, an additional exercise amount of up to € 5,000 k may be added which is determined according to the consolidated EBIT of Medis for the years of 2011 through 2014 and is limited to a maximum of 50% of the EBIT for those years.

The purchase option was valued on December 31, 2010 based on current Company planning for Medis using a Monte Carlo simulation. The measurement of the purchase option complies with IAS 39. Accordingly it was initially recognized at fair value when the option was granted. It will be measured at the respective current fair value on each subsequent balance sheet date.

The measurement is based on the purchase contract, the planning calculation for Medis and the audited annual financial statements of Medis prepared according to IFRS as of December 31, 2010. It was assumed that the purchase option will be exercised at the end of its term on May 1, 2011.

The applied discount rate was 7.45%, or 5.95% for the terminal value. The based price derived from the fixed purchase price, planned EBIT and variable purchase price components is € 1,654 k on the valuation date.

Based on the Monte Carlo simulations and the base price, the fair value of the purchase option on December 31, 2010 is € 0 k.

## 6. Currency translation

The annual financial statements of the subsidiary MMS Inc. are prepared in US dollar as that company's functional currency, and translated into Euro, which is the reporting currency, as of December 31, 2010. As MMS Inc. is an economically independent entity, its assets and liabilities are converted to the reporting currency at the exchange rate on the balance sheet date. Income and expense are translated at the average exchange rate and equity capital at historical exchange rates into the reporting currency (Euro). Differences arising from the currency translation of equity capital and translation differences between the income statement and balance sheet are recorded in shareholders' equity without affecting profit or loss.

In 2010 the Japanese subsidiary MeVis Japan KK actively engaged in business operations to a minor extent for the first time. Its assets and liabilities were also translated into the reporting currency using the exchange rate on the balance sheet date. Income and expense are translated at the average exchange rate and shareholders' equity at historical exchange rates into the reporting currency (Euro). Due to the limited operating activities to date, it will be necessary to examine to what extent the company remains economically independent in the future.

The annual average exchange rates are the average exchange rates for the respective fiscal year. The USD/EUR exchange rates underlying currency translation are as follows:

Currency	End-of-year exchange rate		Annual average exchange rate	
	Dec. 31, 2010	Dec. 31, 2009	2010	2009
USD/€	1.3362	1.4406	1.3257	1.3948
JPY/€	108.65	133.16	116.24	130.34

Transactions in currencies other than the functional currency are translated at the exchange rate prevailing on the date of the transaction. Currency translation gains and losses arising from fluctuations in exchange rates for foreign-currency transactions are reported in the net financial result.

## *Recognition and measurement methods*

### **7. Recognition and measurement policies**

#### **Recognition of sales**

Sales are recognized when it is likely that the economic benefits from the transactions will flow to the MeVis Group and the amount is reasonably assured.

As a matter of principle, the MeVis Group distinguishes between the recognition of revenues from the sale of licenses, the provision of services and the sale of hardware.

Revenues from the sale of goods and products are recognized when all of the following conditions are satisfied:

- the significant risks and rewards of ownership of the good and products sold have been transferred to the buyer,
- the company does not retain any control over the goods and products,
- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the sale will flow to the company (collectibility)
- the costs to be incurred in respect of the transaction can be measured reliably.

Revenues from the provision of services are recognized when:

- the amount of income can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the company (collectibility),
- the percentage of completion of the transaction can be reliably measured on the balance sheet date and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

As a matter of principle, the above conditions for the sale of goods and products are applied to the sale of software and licenses, i.e. the revenue is recognized once the software is sold. In some cases, contracts for the sale of software include services which are not provided until after the sale of the software. Such "multi-component contracts" are split into revenue components and the resultant revenue recognized in accordance with the percentage of completion. Revenue components already paid but not yet recognized are deferred.

This has the following specific ramifications for the MeVis Group:

#### **Software and licenses**

License fees and royalties resulting from the utilization of software are recognized in accordance with the economic purpose of the agreement. In the absence of any agreement to the contrary, revenues are recognized on a straight-line basis over the duration of the license agreement.

The granting of unrestricted rights of utilization for a fixed amount (single licenses) constitutes a sale for economic purposes and is recognized as revenue in full.

#### **Hardware**

Revenues from the sale of hardware are recognized upon transfer of risk.

### **Consulting services**

Revenues from the provision of consulting services are recognized in the period in which the service in question is provided.

### **Maintenance**

Revenues from maintenance contracts are recognized in the period in which the service in question is provided. If the selling price of software includes partial amounts for after-sales service (e.g. maintenance), these amounts are deferred and recognized on a pro rata temporis basis over the periods in which the services are provided.

### **Training**

As a matter of principle, the above conditions on the sale of services apply, i.e. the revenues are recognized once the service is provided.

### **Recognition of expenses**

Expenses are recognized in profit and loss in the period in which the corresponding depreciation is caused.

### **Research and development expenses**

The costs of research activities – that is, for activities undertaken to make new scientific or technical findings – are recognized in full by MeVis as an expense.

In contrast, the costs of development activities – that is, when the results of research are incorporated into a plan or a draft for the production of new products and processes – are capitalized, on the condition that the development expenses can be reliably measured, that the product or process is technically and economically feasible and that future economic benefit is likely. In addition, MeVis must have the intention and sufficient resources to conclude the development and to utilize or sell the asset.

Therefore, the development expenses incurred for the MeVis Group's software products after the software specifications have been defined and agreed upon with the customer are capitalized or when the marketability of the future products has been adequately demonstrated by market analyses and agreement with the sales partners. In connection with this, individual and overhead costs attributable to the development activities are capitalized up until completion of the product and then written down over a period of 2-3 years.

Developments that are not yet ready for use are subject to an annual impairment test. Impairment tests are also conducted in case of indicators of possible impairment (triggering events).

### **Interest income**

Interest income is recognized upon arising.

### **Interest expense**

Borrowing costs are recognized as expense unless the borrowing costs can be directly allocated to the construction, acquisition or manufacture of a qualifying asset. An asset is regarded as qualifying if it takes more than six months to get ready for its intended use or sale. The borrowing costs of the MeVis Group largely arise on acquisitions of assets which were completed in 2008 and for which the payment of the purchase price in installments was agreed (imputed interest on liabilities). Revolving lines of credit are only used sporadically when required.

### Goodwill

Goodwill acquired through business combinations is not subject to depreciation and amortization; instead, an impairment test of goodwill is carried out once a year. An impairment test is also carried out if events or circumstances (triggering events) occur, which could indicate possible impairment. Goodwill is carried at cost less any accumulated amortization for impairment. Annual impairment testing is conducted on December 31.

Impairment testing of goodwill is carried out at the level of cash generating units (CGU for short) or the groups of cash generating units constituting the lowest level at which goodwill is monitored by Company management. To test for impairment, the acquired goodwill is allocated to the CGU or group of CGUs which are expected to benefit from the synergy arising from the business combination. For the material goodwill of the MeVis Group, the applicable CGUs are identical to the legal entities MMS Inc. and MBS KG. If the carrying amount of the CGU or group of CGUs to which the goodwill was allocated exceeds the recoverable value, the excess is written down. The recoverable value is the higher of the fair value less cost to sell and the value in use of the CGU. These values are essentially based on discounted cash flow valuations.

No reversals of amortization of goodwill are conducted in future periods if the recoverable amount exceeds the carrying amount of the CGU or the group of CGUs to which goodwill is allocated.

### Intangible assets

Intangible assets consist of software and other intangible assets, patents, licenses and similar rights produced by the Company. The Company depreciates intangible assets with a limited useful life on a straight-line basis over the expected useful life to the estimated residual value. The expected useful life of software, patents, licenses and similar rights is generally three to five years.

Intangible assets acquired through business combinations relate to customer relationships and technology in particular. Their expected useful lives are between ten years for customer relationships and up to seven years for technology.

Intangible assets with an unlimited useful life and intangible assets not ready for use are not subject to scheduled depreciation; rather, an impairment test is carried out once a year.

### Property, plant and equipment

Property, plant and equipment are shown at acquisition/production cost less scheduled, utilization-related depreciation and amortization as well as extraordinary reductions in value.

The cost of acquisition consists of the purchase price plus ancillary and subsequent acquisition costs less discounts received on the purchase price.

Scheduled straight-line depreciation is calculated on the basis of the following estimated useful lives of the assets:

	Useful life in years
IT equipment	3
Business equipment	3 - 10
Leasehold improvements	5 - 10

Allowance is made for any impairment losses over and above the depreciation resulting from use of the asset in question. In accordance with IAS 36, such impairment losses are calculated by reference to comparisons with discounted future cash flows. If the reasons for extraordinary depreciation and amortization cease to apply, the assets in question are written up to a maximum of their amortized cost.

#### **Financial assets**

A financial instrument is a contract that leads to the development of a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets consist of receivables (excluding income tax receivables) and other financial assets, cash and cash equivalents and derivatives with a positive fair value.

They are recognized and measured in accordance with IAS 39. Accordingly, financial assets are recognized in the consolidated balance sheet if they give the MeVis Group the contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the contractual obligations are settled, suspended or expire.

All customary purchases and sales of financial assets are recognized on the settlement date. Financial assets are initially recognized at their fair value plus transaction costs. Transaction costs arising in connection with the acquisition of financial assets at fair value through profit or loss are immediately taken to the income statement. Receivables which bear little or no interest are initially recognized at the present value of the expected future cash flow. Subsequent measurement is determined in accordance with the following categories of financial asset:

Financial assets at fair value through profit or loss comprise financial assets held for trading or designated financial assets. Derivative financial instruments are assigned to this measurement category. Changes in the fair value of financial assets in this category are recognized in the income statement upon such change arising.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not traded in an active market.

Loans and receivables are recognized at amortized cost. This category includes trade receivables, financial receivables included in other financial assets and loans as well as cash and cash equivalents.

Available-for-sale (AFS) financial assets are recognized at fair value in equity. Valuation changes are recorded in a separate shareholders' equity item without affecting profit or loss until the assets are disposed of (AFS reserve). Portfolio securities bearing interest at fixed rates are allocated to this category.

Interest income from items in this category is calculated using the effective interest method.

#### **Inventories**

Inventories solely comprise assets held for sale in the ordinary course of business, which are recognized at cost. If the net realizable value of the inventories drops below their initial cost, they are depreciated to this value. In the event of an increase in the net realizable value of inventories for which impairment expense has previously been recognized, the resultant reversal amount is deducted from the cost of materials.



## **Taxes**

The Company applies IAS 12, Income Taxes. According to the liability method provided for under IAS 12, deferred tax assets and liabilities are recognized for the future tax consequences of differences between amounts included in the financial statements (for income and expenditure and assets and liabilities) and those included in the tax assessment. The MeVis Group recognizes in the income statement the effects of changes in tax rates on deferred taxes in the period in which the legislative process on which the change in the tax rate is based is largely concluded. In the event of changes in items recognized in equity, these are also recognized in equity in the period in which the change occurred. MeVis recognizes deferred tax assets to the extent that taxable profits are likely to arise in future. Deductible temporary differences and unused tax losses are allowable against these.

Income taxes include all taxes imposed on the Group's taxable profit. The item "income taxes" in the income statement includes current and deferred income taxes. Current income taxes primarily comprise domestic trade tax and corporation income tax.

## **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Movements in the MeVis Group's equity capital are reported in the statement of changes in consolidated equity.

## **Pension provisions**

In the case of defined benefit plans, the cost of provision is determined using the projected unit credit method, and an actuarial valuation is conducted as of each balance sheet date. Actuarial gains and losses exceeding the greater of 10% of the fair value of the Group's defined benefit obligations or 10% of the fair value of the plan assets are recognized in profit and loss over the expected average remaining working lives of the plan participants. Past service cost is recognized immediately in profit and loss to the extent that the benefits are already vested and otherwise amortized on a straight-line basis over the average period until the benefits become vested.

For defined benefit plans, the amount recognized in the balance sheet is the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and past service cost, and reduced by the fair value of plan assets as of the balance sheet date. If the calculation of the balance sheet amount as set out above results in an asset, the amount recognized is limited to the net total of unrecognized actuarial gains and losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

## **Other provisions**

Provisions are set aside to allow for obligations resulting from past events which will probably lead to a future outflow of resources embodying economic benefits required to settle the obligations, the amount of which can be reliably estimated. Provisions are measured in accordance with IAS 37 on the basis of the best possible estimate of the cost of settling the present obligation as of the balance sheet date. If the outflow of economic resources required to settle an obligation is not expected to arise until after more than one year, the provisions equal the present value of the expected cash outflow.

### **Share-based payments**

Equity-settled share-based payments awarded to the Executive Board, management and the employees are recognized at the fair value of the equity instrument on the grant date. The fair value of the liability is recognized under personnel expenses. This is also allocated over the vesting period.

The agreement on the granting of stock options with one member of the Executive Board in the past, for which the fair value had fallen to € 0 k in the previous year, was cancelled in the year under review. The following information on stock options for the Executive Board only applies to the previous year.

The fair value of all payments is calculated using a Monte Carlo simulation. The main determinants of the value of staff options are the value of the stocks as well as the price at which the option may be exercised, i.e. the strike price. The difference between the value of the underlying financial instrument and the strike price is the "intrinsic value" of the option.

In addition to modeling movements in the underlying financial instrument (or the basis for measuring the variable payment for the member of the Executive Board), allowance is also made in connection with the measurement of the fair value of the assets for possible exits of option holders (or eligible persons) from the Company and – in the case of the employee option program – the premature exercise of the options. To cover these eventualities, the Company has derived further relevant input variables for the simulation models on the basis of statistical distribution models which model these decisions.

The Company uses so-called "exponential distribution" to calculate the probability of an option holder leaving the Company prematurely or the holder of an employee option exercising the option prior to the expiry of its term.

The average service periods, i.e. the service periods of members of the Executive Board and of employees, are analyzed as a basis for determining these probabilities. For this purpose, the Company has utilized freely available market studies. An average service period of 5.7 years for members of the Executive Board was assumed on the basis of this analysis. With respect to the Company's employees, an average service period of 7.5 years is assumed. This was calculated on the basis of a historical departure rate of 7% p.a. for staff at the MeVis Group.

### **Financial liabilities**

Financial liabilities comprise originated liabilities and the negative fair values of derivative financial instruments. Originated liabilities are recognized in the consolidated balance sheet if the MeVis Group has a contractual obligation to transfer cash or any other financial assets to another entity. An originated liability is initially recognized at the fair value of the consideration received or the value of the cash received less any transaction costs. It is subsequently measured at amortized cost using the effective interest method.

Derivative financial instruments are recognized at their fair value through profit or loss. The negative fair values of derivative financial instruments are recognized under other financial liabilities.

Financial liabilities are derecognized when the contractual obligations are settled, suspended or expire.

## Grants

The MeVis Group has received development grants from customers and from public bodies. These are reported under other liabilities and released to the income statement as soon as the expenses for which the grants have been received are incurred by the MeVis Group. The installments received are reported under other operating income.

## Leases

A lease is classified as an operating lease if, in principle, all risks and opportunities associated with ownership are retained by the lessor. Payments in connection with operating leases are recognized in the income statement as expense on a straight-line basis over the duration of the lease.

## 8. Material judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS necessitates the use of estimates and judgments of individual matters by management. The estimates are based on past experience and further relevant factors on the premise of the business as a going concern.

The main items of the balance sheet subject to management estimates are intangible assets with a definite useful life (€ 9,366 k; 2009: € 10,502 k) and property, plant and equipment (€ 926 k; 2009: € 1,191 k) with estimated useful lives. In addition to the development expenses included in the intangible assets with a definite useful life with € 5,102 k (prior year: € 3,977 k), the proceeds that can be generated through the use of these developments have to be estimated. With regard to trade receivables (€ 5,139 k; 2009: € 4,222 k), management does not expect any defaults given the limited number of customers. Deferred tax assets include deferred taxes for tax loss carry forwards (€ 191 k; 2009: € 1,909 k) of MMS AG and also MMS Inc. in the prior year. The use of the tax loss carry forwards depends on generating future taxable income. The provisions (€ 1,057 k; 2009: € 188 k) mainly relate to liabilities from the grant obligation to Fraunhofer MEVIS and warranty costs, the actual amount of which is uncertain. Material estimates with respect to the underlying measurement model as well as various parameters such as staff length of service, movements in the stock price or probability of exercise are applied to the stock options reported under shareholders' equity (€ 257 k; 2009: € 210 k).

At least once a year, the Group conducts impairment testing of existing goodwill (€ 12,635 k; 2009: € 16,593 k). The respective carrying amount of the goodwill is compared to the recoverable value of the corresponding CGU. Calculation of the recoverable value of a CGU involves estimates of the corresponding cash flow and appropriate discount interest on the part of the management.

Actual amounts could differ from amounts based on estimates and assumptions.

## 9. Effects of new accounting standards

MMS AG's consolidated financial statements as of December 31, 2010 including the previous year's figures have been prepared in accordance with IFRS as endorsed by the European Union as of December 31, 2010.

The applied recognition and measurement principles generally correspond to the methods used in the prior year. The Group has also applied the following new / revised standards relevant to the business activities of the Group, for which application first became mandatory in the 2010 fiscal year:

■ IFRS 3 "Business Combinations" (revised 2008):

The revised IFRS 3 applies to business combinations where the acquisition date falls at the beginning of the first reporting period of the fiscal year beginning on or after July 1, 2009, or later.

IFRS 3 (2008) is based on the following key principles:

- The acquirer obtains control of the acquiree on the acquisition date and, from this point forward, recognizes all assets and liabilities of the acquiree regardless of the participation rate.
- The identifiable assets acquired and liabilities assumed in a business combination are generally recognized at fair value on the acquisition date.
- Shares held by the acquirer on the acquisition date that did not lead to control over the acquiree must be included in the acquisition cost of the acquiree at fair value on the acquisition date and any resulting gain or loss must be brought into income.

The most important changes compared to IFRS 3 (2004) can be summarized as follows:

- Business combinations on a contractual basis and business combinations of mutual entities are included in the scope of IFRS 3 (2008).
- The definition of a business has been broadened: The mere ability to operate a group of activities and assets as a business is sufficient for the existence of a business.
- Conditional purchase price payments must be recognized as part of the purchase price at fair value on the acquisition date.
- An accounting policy choice was introduced for the measurement of non-controlling interests. Accordingly non-controlling interests can be measured proportionately to the pro-rata share of the fair value of the acquiree's identifiable net assets or at their fair value.
- Incidental acquisition costs are recognized as expenses.

The amended IFRS 3 would apply upon exercising the option for the remaining 58.9 % of Medis Holding B.V. in 2011; here the concrete impact on the net assets, financial position and results of operations of the MeVis Group can only be determined when the option is exercised.

■ IAS 27 "Consolidated and Separate Financial Statements" (amended 2008):

The amended standard requires that changes in the Group investment in a subsidiary where control is retained be accounted for as an equity transaction. If the Group loses control of the subsidiary, the residual holding in the former subsidiary is recognized at fair value; any resulting gain or loss is recognized in profit or loss. The amendment to IAS 27 is mandatory for fiscal years of the Group beginning on or after July 1, 2009. This standard is of fundamental importance to the MeVis Group.

The Group has also applied the following new or revised standards and interpretations for the first time in the 2010 fiscal year when they became mandatory. However, they had no or at least no material impact on the consolidated financial statements:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" (amended 2008)
- Amendments to IFRS 1 "Additional Exemptions for First-time Adopters"
- Amendment to IFRS 2 "Share-based Payments: Group Cash-settled Share-based Payment Transactions"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items"
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distribution of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers".
- Collective standard "Improvements to IFRS 2008 - Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations"
- Collective standard: "Improvements to IFRS 2009 - IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16"

The following standards and interpretations were also published and have been approved by the EU prior to the preparation of the consolidated financial statements. However, application of these standards is not mandatory as of December 31, 2010 and MMS AG did not elect early application. No material impact on future consolidated financial statements of MMS AG is expected:

- IAS 24 "Related Party Disclosures" (revised 2009)
- Amendments to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"
- Amendments to IAS 32 "Classification of Rights Issues"
- Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- Collective standard: "Improvements to IFRS 2010 – IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 31, IAS 32, IAS 34, IAS 38, IAS 39, IFRIC 13"

## Notes to the consolidated income statement

### 10. Revenues

Revenues break down by type as follows:

Figures in € k	2010	2009
Software and licenses	8,963	9,938
Maintenance (software service contracts)	4,605	3,198
Services (consulting and training)	479	240
Hardware	244	493
	<b>14,291</b>	<b>13,869</b>

The breakdown by segments is disclosed in the segment report (see Note 35).

### 11. Income from the capitalization of development costs

Pursuant to IAS 38, development expenses incurred for development work by Group staff were capitalized in the amount of € 2,786 k (2009: € 2,308 k). € 121 k (2009: € 316 k) of development expenses incurred for third-party services were also capitalized. Further details are provided in Note 20. Research and development expenses in the 2010 fiscal year totaled € 6,877 k (2009: € 7,524 k).

### 12. Other operating income

Figures in € k	2010	2009
Grants	644	864
Income from the derecognition of liabilities	80	140
Income from recharges	76	339
Off-period income	8	1
Others	332	484
	<b>1,140</b>	<b>1,828</b>

### 13. Cost of materials

Figures in € k	2010	2009
Cost of materials	330	420
Cost of services purchased	360	39
	<b>690</b>	<b>459</b>

### 14. Staff costs

Figures in € k	2010	2009
Wages and salaries	8,500	8,031
Social security charges and expenditure on old age pensions and support	1,882	1,768
	<b>10,382</b>	<b>9,799</b>

Social security and old-age pension and related expenses include the employer contribution to the government pension plan for employees of € 700 k (2009: € 843 k). The annual average headcount was 224 (2009: 239). This is equivalent to an average of 177 full-time positions (2009: 186). Of the 224 employees, 29 (2009: 31) apply to the company MeVis BreastCare GmbH & Co. KG. consolidated on a proportionate basis. The annual averages include 61 (2009: 72) testers and temporary workers at the Group level.

#### 15. Other operating expenses

Figures in € k	2010	2009
Project financing Fraunhofer MEVIS	821	0
Rental expense	555	546
Legal and consulting costs	483	808
Travel expense	190	183
Cost of preparing and auditing financial statements	189	182
Maintenance	150	134
Energy costs	124	113
Accounting	111	100
Warranty expense	90	126
Insurance	87	57
Supervisory Board remuneration	80	80
Advertising	75	78
Cost of annual general meeting	61	19
Cleaning expense	44	39
Telephone expense	39	38
Internet expense	34	28
External work	22	70
Office supplies	20	26
Contributions	16	17
Personnel recruiting	1	45
Others	500	584
	<b>3,692</b>	<b>3,273</b>

#### 16. Depreciation, amortization and impairment of intangible and tangible assets

Figures in € k	2010	2009
Amortization of patents and licenses, similar rights and customer base	1,243	1,168
Amortization of capitalized development costs	1,841	1,134
Depreciation of property, plant and equipment	468	539
Impairment goodwill MMS Inc. (LungCAD)	4,173	0
Impairment of other intangible assets of MMS Inc. (LungCAD)	1,155	0
<b>Total amortization/depreciation</b>	<b>8,880</b>	<b>2,841</b>

## 17. Interest income / interest expense and other net financial result as well as earnings from associated companies

The MeVis Group's net financial result for the 2010 fiscal year amounted to € -180 k (2009: € -465 k). This comprises interest income from the investment of cash and cash equivalents, which totaled € 389 k (2009: € 598 k), interest expense of € 712 k (2009: € 996 k) and other the net financial result of € 130 k (2009: € -67 k). The other financial result mainly consists of the revaluation of derivative financial instruments in the amount of € 133 k (2009: € -170 k), the balance of exchange rate gains and losses of € 332 k (2009: € 172 k) and expenses for the safekeeping of securities in the amount of € 69 k (2009: € 69 k).

## 18. Income taxes

Figures in € k	2010	2009
Current income taxes reporting period	51	429
Current income taxes previous period	2	-118
Deferred taxes	2,689	459
	<b>2,742</b>	<b>770</b>

Deferred tax assets and liabilities for temporary differences are calculated on the basis of an income tax rate of 31.2% (2009 30%).

Deferred tax assets on loss carry forwards are calculated on the basis of the applicable tax rate. In Germany this is 15.4% for trade tax loss carry forwards and 15.8% for corporation tax loss carry forwards. In the United States, a uniform tax rate of 39% is applied.

Figures in € k	2010	2009
Earnings before taxes (EBT)	-5,607	1,168
Theoretical tax 31.2% (30.0%)	-1,749	350
Derecognition / non-recognition of deferred taxes for tax losses carried forward	4,958	0
Differences in tax rates for foreign subsidiaries	-448	-42
Exchange rate differences	-64	29
Tax effects off-period	-43	344
Non-deductible expenses	20	27
Extraordinary operating income MBS KG	80	110
Other	-12	-48
<b>Effective tax expense</b>	<b>2,742</b>	<b>770</b>
Effective tax rate	-48.9%	65.9%



Deferred income taxes break down as follows as of the balance sheet date:

Figures in € k	2010	2009
<b>Deferred tax assets</b>		
Tax loss carry forwards	1,064	1,909
Intangible assets and property, plant and equipment	0	50
Provisions	266	14
Derivatives	2	18
Inventories	671	1,605
Others	57	152
<b>Deferred tax assets gross</b>	<b>2,060</b>	<b>3,748</b>
Offsetting	-2,060	-2,261
<b>Deferred tax assets</b>	<b>0</b>	<b>1,487</b>
<b>Deferred tax liabilities</b>		
Intangible assets and property, plant and equipment	3,615	2,516
Derivatives	25	64
Others	0	83
<b>Securities (directly recognized in equity)</b>	<b>0</b>	<b>23</b>
<b>Deferred tax liabilities gross</b>	<b>3,640</b>	<b>2,686</b>
Offsetting	-2,060	-2,261
<b>Deferred tax liabilities</b>	<b>1,580</b>	<b>425</b>

Deferred taxes on loss carry forwards break down as follows:

Figures in € k	2010	2009
Corporation tax loss carry forwards of the companies	4,270	3,225
Trade tax loss carry forwards of the companies	1,752	5,840
<b>Deferred tax assets gross</b>	<b>6,022</b>	<b>1,909</b>
Non-recognized deferred tax assets on loss carry forwards	4,958	0
<b>Deferred tax assets on tax loss carry forwards net</b>	<b>1,064</b>	<b>1,909</b>

Since the budgeted results were not achieved and in view of new tax loss carry forwards, deferred tax assets are only to be recognized insofar as the losses can be utilized subject to minimum taxation on the one hand and, on the other hand, they are offset by deferred tax liabilities from temporary differences. Recognition in the prior year was based on the Group's tax planning. Developments in the year under review led to a reassessment of the likelihood that the losses would be utilized, resulting in expenses of € 4,958 k from the derecognition and non-recognition of deferred taxes on loss carry forwards.

## 19. Earnings per share

Earnings per share equal the profit on continuing activities or profit (after tax) divided by the weighted average number of shares outstanding during the year under review. Earnings per share (fully diluted) are calculated on the assumption that all securities, stock options and stock awards with a potentially dilutionary effect are converted or exercised.

As the criteria for exercising the options had not been satisfied as of the balance sheet date, it can be assumed that no options had been exercised by the employees and that no shares had been awarded to Mr. Tynes. Accordingly, they are not included in the calculation of earnings per share, which means that diluted earnings per share are identical to basic earnings per share.

The weighted average number of shares outstanding is calculated on the basis of shares redeemed and reissued subject to chronological weighting.

	2010	2009
Consolidated net loss (previous year: -profit) in € k	-8,349	398
Weighted average of shares outstanding during the reporting period	1,708,074	1,699,820
Basic earnings per share in €	-4.89	0.23
Diluted earnings per share in €	-4.89	0.23

## Notes to the consolidated balance sheet

### 20. Intangible assets and property, plant and equipment

Movements in production and acquisition costs and cumulative amortization on intangible assets (including goodwill) and depreciation on property, plant and equipment for the 2010 and 2009 fiscal years are set out in the statement of changes in assets in Appendices 1 and 2 to the Notes.

The main additions in the 2010 fiscal year relate to the capitalization of internally generated intangible assets.

#### Net carrying amounts

Figures in € k	Assets and licenses			
	Acquired intangible assets with a definite useful life	Internally generated intangible assets with a definite useful life	Goodwill	Total
Balance on Dec. 31, 2009	6,525	3,977	16,593	27,095
Balance on Dec. 31, 2010	4,264	5,102	12,635	22,001

The change in intangible assets with a definite useful life mainly results from the capitalization of development expenses and the impairment of CGU MeVis Medical Solutions Inc.

In accordance with IAS 38, software development costs of € 2,907 k (2009: € 2,624 k) were capitalized in the 2010 fiscal year as internally generated intangible assets with a definite useful life. These comprise own work capitalized of € 2,786 k (2009: € 2,308 k) and directly capitalized purchased services of € 121 k (2009: € 316 k). Depreciation and amortization of € 1,841 k (2009: € 1,134 k) was attributable to capitalized development expenses in the year under review.

Goodwill was assigned to specific cash generating units (CGUs) on the acquisition date for the purpose of future impairment tests. These correspond to the legal entities which respectively represent parts of the segments in our segment reporting. Annual impairment testing is conducted as of December 31. The cash generating units along with their respective goodwill as of the balance sheet date are shown at their carrying amounts in the following table.

Carrying amounts by cash generating units

Figures in € k

	31.12.2010	31.12.2009
	Goodwill	Goodwill
<b>Digital Mammography</b>		
MeVis BreastCare Solutions GmbH & Co. KG	12,489	12,489
<b>Other Diagnostics</b>		
MeVis Medical Solutions AG	146	147
MeVis Medical Solutions, Inc.	0	3,957

Goodwill was tested for any indication of impairment as of December 31, 2010. Under IAS 36, an impairment loss must be recognized if the recoverable amount of the cash generating unit is lower than its carrying amount. Fair value less cost to sell of the cash generating unit, calculated using the DCF method, was used as the recoverable amount. This was based on the realizable cash flows forecast by the Company over a detailed planning period of 5 years. The chosen planning period reflects expected short and medium-term market trends. In addition, a going-concern value was determined for the cash generating unit. The going-concern value equals the present value of the free cash flows after the end of the detailed planning period.

For the purposes of impairment tests, a growth rate of one percent in the cash flows is assumed for the period after the detailed planning phase. Since cash flows are generated almost entirely in the US dollar area, the calculation was done in US dollars.

Each calculation was based on the fair value less cost to sell. The discount rate used was 11.25% after taxes (2009: 10.25% after taxes).

Impairment tests according to IAS 36 for CGU MeVis BreastCare Solutions GmbH & Co. KG and MeVis Medical Solutions AG indicated no impairment losses for the 2010 fiscal year.

The impairment test for CGU MeVis Medical Solutions Inc. as of December 31, 2010 led to an impairment loss equal to the carrying amount of the goodwill as well as other intangible assets acquired with the purchase of the "R2 Image Checker CT" business in 2008.

The impairment loss totals € 5,327 k, with € 4,266 k applying to the carrying amount of the goodwill and € 1,061 k to the carrying amount of the customer base, software and licenses as of December 31, 2010.

This impairment loss was required since sales in the lung CT business could not be increased in 2010, contrary to expectations. In preparing the budgets for the coming years based on sales generated in the past, it also became clear that a reliable sales budget cannot be prepared based on current information.

Movements in property, plant and equipment in the 2010 fiscal year were mainly influenced by investment in leasehold improvements as well as office and business equipment. Spending on property, plant and equipment totals € 193 k (2009: € 320 k).

## 21. Inventories

Inventories include hardware of € 1 k (2009: € 9 k) and dongles for the activation of software in the amount of € 66 k (2009: € 60 k). The inventory also includes licenses of € 19 k (2009: € 61 k) sold with the product Visia™ Image Checker CT. Inventories are recognized in the income statement when the corresponding revenues are realized.

## 22. Trade receivables, other financial assets and other assets

### Trade receivables

An adjustment of € 32 k was made to trade receivables overdue as of the reporting date, which corresponds to the nominal amount of the receivable. No material change in the creditworthiness of the individual debtors was identified and it is therefore assumed that the unadjusted amounts owing will be paid in due course. The average age of the overdue receivables of € 3,604 k (2009: € 2,069 k) is 75 days (2009: 75 days). The Group does not hold any collateral for these outstanding items.

All trade receivables totaling € 5,139 k (2009: € 4,222 k) are due for settlement within one year.

#### Figures in € k

Thereof: not impaired as of the balance sheet date and overdue during the following time bands								
	Carrying amount	of which impaired:	not overdue	less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days
Trade receivables								
as of Dec. 31, 2010	5,139	0	1,535	851	170	943	1,640	0
as of Dec. 31, 2009	4,222	0	2,153	583	259	714	435	78

In 2010 no trade receivables were derecognized. Nor did the Group receive any payments towards previously derecognized receivables.

### Other financial assets

#### Figures in € k

	2010		2009	
	Total	of which current	Total	of which current
Loans and receivables	10	10	763	763
Derivatives	136	136	214	114
Securities	2,541	2,541	7,375	7,375
Accrued interest	102	102	207	207
Other	93	93	81	81
	<b>2,882</b>	<b>2,882</b>	<b>8,640</b>	<b>8,540</b>

Loans and receivables are due from Fraunhofer MEVIS at € 10 k (2009: € 205 k), the MBC minority shareholder at € 0 k (2009: € 533 k) and shareholders at € 0 k (2009: € 25 k).

The securities held are a widely diversified portfolio of fixed-income corporate and government bonds with nominal interest rates between 4.25% and 6.75% p.a. and staggered maturities up to 2014. Since investment in securities is for the purpose of cash management, the securities are listed on an exchange and it is not intended to hold the securities to maturity, these were categorized as "available-for-sale" and classified in general as current assets.

As of the balance sheet date, the Group had 6 (2009: 12) forward currency transactions and 4 (2009: 0) options transactions denominated in USD in 2010.

All forward currency transactions have a term of up to one year, while forward currency transactions with a fair value of € 100 k and a remaining term of more than one year were reported under non-current assets in the prior year.

The other financial assets of € 2,882 k (2009: € 8,540 k) are due for settlement within one year within the following maturity bands:

Figures in € k	of which: with a term to maturity of						
	Carrying amount	of which impaired:	less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days
Other financial assets							
<b>as of Dec. 31, 2010</b>	2,882	0	200	306	332	302	1,742
<b>as of Dec. 31, 2009</b>	8,540	0	0	28	1,051	583	6,878

The fair value of current receivables and other financial assets equals their carrying amount.

#### Other assets

Other assets mainly include other current tax receivables of € 30 k (2009: € 55 k) as well as deferred items of € 97 k (2009: € 54 k).

With respect to receivables and other assets, there is no evidence as of the balance sheet date that the debtors will not meet their payment obligations.

### 23. Cash and cash equivalents

The assets contained in this item are due for settlement in 0 to 3 months and comprise demand deposits and overnight deposits of € 5,619 k (2009: € 7,715 k) subject to interest of between 0.13% p.a. and 1.05% p.a. In addition, there is cash on hand of € 2 k (2009: € 3 k).

### 24. Shareholders' equity

The changes in subscribed capital, the share premium, the revaluation reserve, the treasury shares, the cumulative change in fair value of available-for-sale assets for the translation reserve and consolidated retained earnings are shown in the statement of changes in shareholder's equity.

#### Subscribed capital

The share capital of MMS AG totals € 1,820 k (2009: € 1,820 k) and is comprised of 1,820,000 (2009: 1,820,000) shares without par value. As of December 31, 2010 there was authorized capital of € 910 k and also contingent capital of € 130 k.

There were no changes in subscribed capital during the year under review. The resolution regarding authorized capital was confirmed by the annual general meeting on June 10, 2010.

#### Share premium

The share premium of € 28,512 k (2009: € 28,465 k) primarily comprises the premium on the equity issue of € 28,080 k arising from the MMS AG stock-market flotation in 2007. Net flotation expenses of € 1,139 k were deducted from shareholders' equity. This includes tax relief of € 505 k. The sale of treasury shares in 2007 resulted in an increase of € 1,314 k. In addition, the Group share premium includes an amount of € 257 k attributable to stock options. The stock options have a term of 5 years as of the date on which they are granted and may only be exercised after a vesting period of 2 years. The exercise price payable by the option holder equals the average closing price of the share in XETRA trading for the last five trading days period to the end of the subscription period in which the options in question were granted.

The share premium of MMS AG of € 28,080 k is not available for dividend distribution.

#### Revaluation reserve

In connection with the acquisition of the 49% interest in MBS KG from Siemens AG and the subsequent full consolidation of MBS KG in 2008, the assets and liabilities of MBS KG were completed remeasured. Where this increase was attributable to the 51% interest in MBS KG already held by the Group, the difference was recognized within the revaluation reserve. The amount of € 1,688 k comprises intangible assets of € 2,411 k net of deferred taxes of € 723 k. Amounts equaling the depreciation and amortization recognized on these assets are reclassified as retained earnings on a proportionate basis.

Figures in € k	2010
Status as of Jan. 1, 2010	1,506
- Transfer of the amount corresponding to write-downs and the associated deferred taxes to retained earnings, without an impact on profit and loss	-230
Status as of Dec. 31, 2010	1,276

#### Treasury shares

In accordance with a resolution passed by the shareholders at the annual general meeting on September 28, 2007, the Company was authorized to buy back own shares pursuant to § 71(1) No. 8 of the Stock Corporation Act (AktG) in an amount of up to 10% of its current share capital (€ 1,300 k) on or before March 27, 2009. MMS AG held a total of 37,800 treasury shares as of December 31, 2007. The Executive Board decided on March 4, 2008 to initially buy back a further volume of up to 53,200 of the Company's own shares via the stock market on or before August 30, 2008. As a result of this stock buy-back program, the Company acquired 53,200 treasury shares for a total amount of € 1,502 k as of June 17, 2008.

In connection with the acquisition of the software product Colotux for a total of € 220 k on October 23, 2008, half of an initial installment towards the purchase price of € 110 k was settled in the form of treasury shares (total of 1,832 shares at a price of € 55 k) in mid November 2008.

In accordance with a new resolution passed by the shareholders at the annual general meeting on July 9, 2008 concerning the acquisition of the Company's own stock in accordance with § 71(1) No. 8 of the Stock Corporation Act, the Company was authorized to acquire up to ten percent of its current share capital (€ 1,820 k) on or before January 8, 2010. On November 4, 2008, the Executive Board decided to buy up to a further 91,000 of the Company's own shares through the stock market. As a result of this stock buy-back program, the Company acquired 33,682 treasury shares for a total amount of € 1,163 k as of March 31, 2009. With the end of the stock buy-back program on March 31, 2009 MMS AG held a total of 122,850 treasury shares (6.75% of share capital). With the second stage in the acquisition of Medis shares on May 31, 2010, a total of 18,726 treasury shares were transferred to the seller. 104,124 treasury shares were therefore held on December 31, 2010. This corresponds to 5.72% of the current share capital.

### Translation reserve

The translation reserve arises from the translation of the annual financial statements of MMS Inc. and MeVis Japan KK from the local currency (US dollar and Yen) to the reporting currency (Euro).

### Cumulative change in fair value of available-for-sale assets

The changes in the fair value of fixed-income securities categorized as available-for-sale are recognized under cumulative changes in fair value.

### Retained earnings

Retained earnings include statutory reserves pursuant to § 150 of the Stock Corporation Act of € 5 k. In accordance with § 150(2) of the Stock Corporation Act no further statutory reserves are necessary. In addition, this item includes retained earnings from previous years and the earnings for the current fiscal year.

## 25. Provisions

Provisions for pensions reported in the balance sheet break down as follows:

Figures in € k	2010	2009
<b>Defined benefit obligation</b>	<b>194</b>	<b>97</b>
Reinsurance	-194	-97
<b>Reported in balance sheet</b>	<b>0</b>	<b>0</b>

Provisions for pensions relate to defined benefit plans. The extent of the pension benefits varies in principle according to the conversion of remuneration and an annual interest rate of 4%. The underlying discount rate is 4.56% (2009: 5.4%). Pension and related benefits as well as the expenditure necessary to cover these obligations are generally valued and accounted for according to the projected unit credit method stipulated in IAS 19 "Employee Benefits". Future annual increases in income and entitlements by the time a pension can first be drawn are not taken into account.

The change in the present value of entitlements determined pursuant to IAS 19 is shown in the following table:

Figures in € k	2010	2009
<b>Defined benefit obligation at the beginning of the fiscal year</b>	<b>97</b>	<b>39</b>
Employee's share	80	48
Employer's share	17	10
Actuarial gains and losses	0	0
<b>Defined benefit obligation at the end of the fiscal year</b>	<b>194</b>	<b>97</b>

A reduction of 0.5 percentage points in the interest rate for calculation purposes, to 4.06%, would increase the defined benefit obligation (DBO) disclosed above to € 224 k as of the December 31, 2010 valuation date.

An increase of 0.5 percentage points in the interest rate for calculation purposes, to 5.06%, would decrease the defined benefit obligation (DBO) disclosed above to € 184 k as of the December 31, 2010 valuation date.

Total expenses on defined benefit plans reported within staff costs break down as follows:

Figures in € k	2010	2009
Past service cost: present value of benefit entitlements earned in the fiscal year	97	58
Interest expense: interest on the entitlements already vested	5	2
<b>Net pension expenditure on benefit obligations</b>	<b>102</b>	<b>60</b>

To secure the employees' pension claims, the MeVis Group has taken out reinsurance, which is pledged to the individual employees. The employees are entitled to the higher of the pension claim or reinsurance coverage. As of December 31, 2010, the fair value of reinsurance amounted to € 217 k, and the excess of reinsurance over the defined benefit obligation amount was not capitalized due to the limit imposed by IAS 19 (asset ceiling).

Movements in other non-current provisions were as follows in the 2010 fiscal year:

Figures in € k	Status Jan. 1, 2010	Utilization	Reversal	Addition	Currency translation effect	Status Dec. 31, 2010
Honorous contracts	0	0	0	821	0	821
<b>Other provisions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>821</b>	<b>0</b>	<b>821</b>

The provisions for contingent liabilities mainly relate to liabilities from the grant obligation to Fraunhofer MEVIS for research and development projects. These were reported as contingent liabilities under financial liabilities in the previous years. Based on the reevaluation by the Executive Board of the probability of avilment without corresponding compensation, which takes the diverging developments of the MeVis Group on the one hand and Fraunhofer MEVIS on the other hand into account, the obligation (nominal amount € 925 k) was recognized as a liability at its present value in 2010. Avilment by MMS AG is expected in 2014.

Movements in other current provisions were as follows in the 2010 fiscal year:

Figures in € k	Status Jan. 1, 2010	Utilization	Reversal	Addition	Currency translation effect	Status Dec. 31, 2010
Warranty provisions	188	85	0	90	2	195
Discounts	0	0	0	41	0	41
<b>Other provisions</b>	<b>188</b>	<b>85</b>	<b>0</b>	<b>131</b>	<b>2</b>	<b>236</b>

The warranty provisions relate to contractual warranty obligations to customers. The rebates relate to the sale of license to a customer where agreed price reductions were not taken into account.



## 26. Other non-current financial liabilities

Figures in € k	2010	2009
Liability from 49% acquisition of MBS KG	3,276	6,296
Liability to Fraunhofer MEVIS	175	297
Other	1	5
	<b>3,452</b>	<b>6,598</b>

Non-current other financial liabilities mainly arise from the acquisition of the 49% share in MBS KG in 2008.

Of the total purchase price for 49% of the shares in MBS KG, a sum of € 2,500 k, was due immediately upon the contract being signed. The other purchase price installments are discounted at interest rates appropriate to the applicable terms, of between 4.26% and 4.95%. The amounts due as of 2012 are recorded here, while those due for payment in 2011 (€ 3,405 k) are recognized as current liabilities.

The liability to Fraunhofer MEVIS relates to the acquisition of the "MeVisLab" software package, which is being used within the MeVis Group as a software platform. This liability will be redeemed with quarterly payments of € 46 k until the end of the year 2012. The amount due for payment in 2011 is reported within other current financial liabilities. Generally speaking, the liability is recognized at its present value on the basis of an interest rate of 5.5%.

## 27. Bank borrowings

The bank borrowings reported in the prior year were repaid in the year under review.

## 28. Other current liabilities

Other current financial liabilities contain the following items:

Figures in € k	2010	2009
Liability from 49% acquisition of MBS KG	3,405	5,134
Liability from acquisition of "R2 Image Checker CT" business	0	2,026
Staff liabilities	395	67
Liabilities to Fraunhofer MEVIS	180	178
Derivative financial instruments	5	59
Miscellaneous other financial liabilities	22	14
<b>Other financial liabilities</b>	<b>4,007</b>	<b>7,478</b>

Reference should be made to Note 26 for details of the liability from the acquisition of the 49% stake in MBS KG.

Staff liabilities primarily comprise the cost of accrued vacation entitlements and bonuses.

The derivative financial instruments relate to the negative market values of forward currency transactions concluded to hedge foreign currency transactions.

The liabilities to Fraunhofer MEVIS mainly relate to the current portion of the liabilities from the "MeVisLab" acquisition discussed in Note 26.

## 29. Deferred income

This item comprises income components paid but not recognized under multi-component contracts. In addition, payments received under maintenance contracts are deferred if the corresponding maintenance services have not yet been provided.

## 30. Other liabilities

Miscellaneous other liabilities contain the following items:

Figures in € k	2010	2009
Current tax liabilities	122	200
Liabilities from grants	0	91
Miscellaneous other liabilities	146	119
<b>Miscellaneous other liabilities</b>	<b>268</b>	<b>410</b>

The current tax liabilities comprise sales tax as well as payroll and church tax.

## 31. Contingent liabilities

MMS AG is under an obligation to grant a loan of up to € 820 k to the joint venture MBC KG, which is consolidated on a proportionate basis, at standard bank conditions in the event that the latter company's capital requirements exceed the capital contributions paid in by the partners. The MeVis Group's share in this obligation stands at € 418 k.

## 32. Financial obligations

Figures in € k	Total	Less than 1		
		year	1 to 5 years	Over 5 years
Rental contracts	529	424	105	0
Leases	274	90	184	0
<b>Total financial obligations</b>				
<b>December 31, 2010</b>	<b>803</b>	<b>549</b>	<b>271</b>	<b>0</b>
Rental contracts	1,084	517	567	0
Leases	72	37	35	0
Liability from the Fraunhofer MEVIS grant	925	555	370	0
<b>Total financial obligations</b>				
<b>December 31, 2009</b>	<b>2,081</b>	<b>1,109</b>	<b>972</b>	<b>0</b>

The rental contracts comprise solely leases for office space for limited periods of time. In the fiscal year, rental expenses of € 555 k (2009: € 525 k) were incurred by the Group and are shown within other operating expenses. The rental contracts provide for a non-terminable sublease with MBC KG for the duration of the agreed term of the contracts of five years. As a result, the Group will receive minimum payments of € 156 k from its joint venture partner over the next few years (of which € 70 k in one year and € 86 k between one and five years). In the year under review, income of € 68 k from costs recharged to MBC KG from the non-consolidated part is included in other operating income.

All of the leases of the MeVis Group in 2010 are operating leases for passenger vehicles and copying stations. Economic ownership of the leased assets remains with the respective lessor. The MeVis Group recognizes lease payments as expense. In 2010, other operating expenses totaled € 26 k (2009: € 21 k).

The Fraunhofer MeVis grant obligation refers to the annual financial facility of € 185 k available to Fraunhofer MEVIS over a period of five years as consideration for the purchase by MMS AG of the MeVisLab software package in 2007. As a result of a reassessment regarding the risk to the Group resulting from this agreement, the obligation was recognized as a provision in 2010 while it was reported as a contingent liability in the prior year.

### 33. Management of financial risks

The Group's international business operations expose it first and foremost to fluctuations in exchange rates. It is Company policy to exclude or limit these risks by concluding hedging transactions. Major national banks whose creditworthiness is continuously verified by leading rating agencies serve as partners for the conclusion of hedging transactions.

In accordance with IFRS, derivative financial instruments are recognized at their fair value. IFRS provides for strict hedge accounting rules with respect to the correlation between the hedging instrument and the hedged item and for documenting hedge relationships. In the periods described here, the Company engaged in hedges, not at the individual transaction level but on the basis of expected payment transactions on a portfolio basis. Accordingly, a clear allocation of hedging instrument to hedged item is not possible. Consequently, hedge accounting as provided for in IAS 39 is not utilized by the Company. Any changes in fair value are recognized in profit and loss.

In addition to the aforementioned exchange rate risk, the MeVis Group is exposed to financial risks in the form of liquidity and default risk.

The MeVis Group provides the details stipulated by IFRS 7, such as the source of risks from financial instruments and the methods used to manage risk, in the Group management report.

#### Management of exchange rate risk

Where necessary, the Group enters into different types of currency contracts to manage exchange rate risk resulting from the cash flow from (expected) business activities denominated in foreign currencies. The transaction risk is measured in each relevant foreign currency. The Group's exchange rate exposure is due to its global business activities, particularly the sale of its products to US customers which are invoiced in US dollars.

As of the balance sheet date, the Group had 6 (2009: 12) forward currency transactions and 4 (2009: 0) options transactions denominated in USD in 2010. The fair value of the contracts is calculated by the banks.

The scope and the market values of the derivatives were as follows as of the balance sheet date:

Forwards for hedging purposes				
expected revenues	Nominal value	Market value	Nominal value	Market value
Figures in € k	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009
Currency options	1,504	55	0	0
Currency forwards	2,330	76	5,045	155

The forward contracts have different maturities between January 31, 2011 and December 31, 2011.

The option transactions have different maturities between January 27, 2011 and October 27, 2011.

### **Liquidity risk**

The Group requires sufficient cash and cash equivalents to settle its financial obligations. Liquidity risks arise when customers are unable to meet their obligations to the MeVis Group in the course of normal business. As of the balance sheet date, the Group has cash and cash equivalents of € 5,621 k (2009: € 7,718 k) as well as securities available for sale in the amount of € 2,541 (2009: € 7,375).

Liquidity risk is managed on the basis of rolling liquidity planning.

### **Default risk**

Default risk, i.e. the risk of counterparties failing to meet their payment obligations, are managed by means of credit approvals, the definition of maximum limits and monitoring processes.

To manage this risk, the Company periodically reviews its customers' solvency.

The Company does not expect any defaults on the part of its business partners with a favorable credit rating. As five customers account for most of the Group's revenues, credit risk is concentrated to a significant extent on the one customer group. As the Group has maintained business relations with these customers, all of which have a very good credit rating and enjoy high renown, for several years and no defaults have arisen to date, the Executive Board does not see any significantly heightened risk of default. Provision has been made in the balance sheet for the maximum default risk.

### **Fair value of financial instruments**

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (except in the case of foreclosure or liquidation proceedings).

A three-stage system is used to measure fair value, which must be implemented in this particular sequence (fair-value hierarchy):

1. Listed market prices of identical assets or liabilities on active markets
2. Information other than listed market prices capable of being observed directly (e.g. prices) or indirectly (e.g. derived from prices).
3. Measurement of fair value using methods of financial mathematics (discounted cash flows, option price models).

Listed market prices (category 1) are available for the Group's securities, and other observable information (category 2) for derivatives. Category 3 applies to the remaining financial instrument of the Group.

The following methods and assumptions are used to estimate the fair value of the individual classes of financial instruments:

### **Non-current financial liabilities**

The fair value of the non-current financial liabilities is calculated using the discount cash flow method based on an interest rate of up to 5.0% p.a. appropriate to the applicable term.

### **Financial assets and current financial liabilities**

The carrying amounts of cash and cash equivalents, other financial assets and current financial liabilities are more or less equal to their fair values on account of the relatively short settlement period for these items. Where no listed market prices are available, the fair value of the publicly traded financial instruments is estimated on the basis of the listed market prices of identical or similar assets.

In the case of all other financial instruments for which no listed market prices are available, the fair value is based on the expected cash flow or the net asset value of the item in question. All carrying amounts are more or less the same as the fair value of the items in question.

#### Derivative financial instruments

Derivatives used as hedging instruments with positive (negative) fair values are classed as other current or non-current financial assets or liabilities depending on their term. They are recognized based on market prices on the balance sheet date.

The carrying amounts, measurement and fair values of the financial instruments are presented by valuation categories below:

Figures in € k	IAS 39 category	Carrying amount as of Dec. 31, 2010	Recognized in accordance with IAS 39				Fair value as of Dec. 31, 2010
			Amortized cost	Cost	Fair value in equity	Fair value in P/L	
Assets							
Trade receivables	LaR	5,139	5,139	0	0	0	5,139
Other financial assets	AfS	2,541	0	0	2,541	0	2,541
Other financial assets	LaR	205	205	0	0	0	205
Other financial assets	FAPL	136	0	0	0	136	136
Cash and cash equivalents		5,621	5,621	0	0	0	5,621
Equity and liabilities							
Other non-current financial liabilities	FLAC	3,452	3,452	0	0	0	3,452
Trade payables	FLAC	1,317	1,317	0	0	0	1,317
Other current financial liabilities	FLPL	5	0	0	0	5	5
Other current financial liabilities	FLAC	4,002	4,002	0	0	0	4,002
Of which aggregated by IAS 39 category:							
Loans and Receivables	LaR	5,344	5,344	0	0	0	5,344
Financial Assets Available for Sale	AfS	2,541	0	0	2,541	0	2,541
Financial Assets at Fair Value through Profit or Loss	FAPL	136	0	0	0	136	136
Financial Liabilities measured at amortized Costs	FLAC	8,771	8,771	0	0	0	8,771
Financial Liabilities at Fair Value through Profit or Loss	FLPL	5	0	0	0	5	5

Figures in € 000s	IAS 39 category	Carrying amount as of Dec. 31, 2009	Recognized in accordance with IAS 39				Fair value as of Dec. 31, 2009
			Amortized cost	Cost	Fair value in equity	Fair value in P/L	
Assets							
Trade receivables	LaR	4,222	4,222	0	0	0	4,222
Other financial assets	AfS	7,375	0	0	7,375	0	7,375
Other financial assets	LaR	1,051	1,051	0	0	0	1,051
Other financial assets	FAPL	214	0	0	0	214	214
Cash and cash equivalents		7,718	7,718	0	0	0	7,718
Equity and liabilities							
Other non-current financial liabilities	FLAC	6,598	6,598	0	0	0	6,598
Trade payables	FLAC	1,121	1,121	0	0	0	1,121
Bank borrowings	FLAC	401	401	0	0	0	401
Other current financial liabilities	FLPL	59	0	0	0	59	59
Other current financial liabilities	FLAC	7,419	7,419	0	0	0	7,419
Of which aggregated by IAS 39 category:							
Loans and receivables	LaR	5,273	5,273	0	0	0	5,273
Financial assets available for sale	AfS	7,375	0	0	7,375	0	7,375
Financial assets at fair value through profit or loss	FAPL	214	0	0	0	214	214
Financial liabilities measured at amortized costs	FLAC	15,539	15,539	0	0	0	15,539
Financial liabilities at fair value through Profit or Loss	FLPL	59	0	0	0	59	59

The contractually agreed (non-discounted) interest and capital payments for the originated financial liabilities break down as follows as of the balance sheet date:

Figures in € k	Carrying amount Dec. 31, 2010	Cash flows 2011		Repay- ment	Cash flows 2012-2015		Repay- ment	Total	
		Fixed interest rate	Floating interest rate		Fixed interest rate	Floating interest rate		Fixed interest rate	Floating interest rate
Other financial liabilities	7,454	203	0	4,002	403	0	3,452	606	0
									7,454

Figures in € k	Carrying amount Dec. 31, 2009	Cash flows 2010		Repay- ment	Cash flows 2011-2014		Repay- ment	Total	
		Fixed interest rate	Floating interest rate		Fixed interest rate	Floating interest rate		Fixed interest rate	Floating interest rate
Other financial liabilities	14,017	281	0	7,419	854	0	6,598	1,135	0
Bank borrowings	401	0	0	401	0	0	0	0	0
									401

Net gains/losses by category break down as follows:

Figures in € k	From dividends and interests	From subsequent measurement			Net result	
		at fair value	Currency translation	Derecognition of liabilities	2010	2009
Loans and receivables (LaR)	98	-32	332	0	398	477
Financial assets available for sale (AFS)	291	0	0	0	291	293
Derivatives	0	-133	0	0	-133	-170
Financial liabilities measured at amortized costs (FLAC)	-712	0	0	80	-632	-856
					<b>-76</b>	<b>-256</b>

#### Sensitivity analysis

To reflect market risks, IFRS 7 prescribes sensitivity analyses showing the effects of hypothetical changes in the relevant risk variables on earnings and shareholders' equity. The MeVis Group is mainly exposed to exchange rate risk, but not to interest rate risk since the financial liabilities bear interest at fixed rates. Securities bearing interest at fixed rates can also be sold at short notice in case of corresponding general interest rate changes. Examining the receivables portfolio as of December 31, 2010 indicates elasticity of € 1,038 k (2009: € 833 k) for a 10% change in the rate on the reporting date. On the basis of these measurement bands, there is elasticity of € 357 k (2009: € 248 k) for cash and cash equivalents as of December 31, 2010.

Around 70% of business volume denominated in US dollars is hedged by means of currency forwards; however, these do not qualify as hedge accounting due to the absence of any correlation to the underlying transaction. On the basis of the market values of the hedges as of December 31, 2010, an increase of 10% in the underlying exchange rate would cause the net financial result to rise by € 341 k (2009: € 600 k) while a decrease of -10% would cause it to decline by € 250 k (2009: € 388 k).

Fixed-interest assets and liabilities are subject to the risk of fair value fluctuations depending on the level of interest rates prevailing on the market. This is of relevance for the MeVis Group with regard to the liability arising from the acquisition of 49% of the shares in MBS KG. An increase in the level of interest rates by one percentage point would reduce the fair value of the liability by € 93 k (2009: € 198 k); a corresponding decrease in interest rates would lead to a fair value increased by € 97 k (2009: € 203 k).

#### Disclosures on capital management

The objectives of capital management are derived from the financial strategy and include the provision of liquidity and access to the capital markets at all times.

The capital structure is managed to take account of any changes in economic conditions and risks arising from the underlying assets.

To this end, equity is viewed in the light of prevailing risk and, if necessary, adjusted by means of dividend policy, capital repayments and equity issues. Capital is monitored by reference to the ratio of net financial liabilities/receivables to economic capital. Net financial liabilities/receivables comprise cash plus financial assets net of financial liabilities. Economic capital equals the equity reported in the balance sheet.

Figures in € k	Dec. 31, 2010	Dec. 31, 2009
Bank borrowings	0	401
Other financial liabilities	7,459	14,076
<b>Gross financial liabilities</b>	<b>7,459</b>	<b>14,477</b>
Cash and cash equivalents	5,621	7,718
Other financial assets	2,882	8,640
<b>Gross financial receivables</b>	<b>8,503</b>	<b>16,358</b>
<b>Net financial receivables</b>	<b>1,044</b>	<b>1,881</b>
<b>Economic capital</b>	<b>24,789</b>	<b>32,607</b>

Given the international nature of the MeVis Group's activities, different regional legal and regulatory requirements must be observed in the individual jurisdictions. The status of and any changes in these rules are monitored both locally and centrally and taken into account in capital management.

#### 34. Disclosures on the cash flow statement

The cash flow statement breaks down into cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Net cash inflow from operating activities is calculated using the indirect method.

Cash and cash equivalents comprise cash on hand and demand deposits.

#### 35. Segment reporting

As of December 31, 2010 the activities of the MeVis Group were subdivided into the reportable segments of Digital Mammography and Other Diagnostics. The management of each of these segments reports directly to the Executive Board of MMS AG in its capacity as the responsible corporate entity.

Segment net profit and loss, which correspond to earnings before interest and tax (EBIT), constitutes the key benchmark for assessing and controlling the earnings position of a particular segment.



Segmentation is as follows:

	Digital Mammography		Other Diagnostics		Other/Consolidation and reconciliation		MeVis Group	
	Jan. 1 – Dec. 31		Jan. 1 – Dec. 31		Jan. 1 – Dec. 31		Jan. 1 – Dec. 31	
Figures in € k	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	10,724	10,048	3,567	3,821	0	0	14,291	13,869
Intersegment revenues	0	0	4	55	-4	-55	0	0
<b>Revenues</b>	<b>10,724</b>	<b>10,048</b>	<b>3,571</b>	<b>3,876</b>	<b>-4</b>	<b>-55</b>	<b>14,291</b>	<b>13,869</b>
Grants	0	283	644	581	0	0	644	864
<b>Total segment revenues</b>	<b>10,724</b>	<b>10,331</b>	<b>4,215</b>	<b>4,457</b>	<b>-4</b>	<b>-55</b>	<b>14,935</b>	<b>14,733</b>
Other capitalized costs	1,486	1,444	1,421	864	-121	0	2,786	2,308
Amortization / Depreciation	-1,932	-1,375	-1,651	-1,466	31	0	-3,552	-2,841
Impairments	0	0	-5,328	0	0	0	-5,328	0
Operating expenses	-4,051	-3,552	-7,725	-7,047	704	341	-11,072	-10,258
<b>Segment net profit and loss</b>	<b>6,227</b>	<b>6,848</b>	<b>-9,068</b>	<b>-3,192</b>	<b>610</b>	<b>286</b>	<b>-2,231</b>	<b>3,942</b>
Other operating income	133	604	1,845	906	-1,482	-546	496	964
Other operating expenses	-954	-1,185	-4,044	-2,799	1,306	711	-3,692	-3,273
<b>Result of operating activities</b>	<b>5,406</b>	<b>6,267</b>	<b>-11,267</b>	<b>-5,085</b>	<b>434</b>	<b>451</b>	<b>-5,427</b>	<b>1,633</b>
<b>Segment assets</b>	<b>15,334</b>	<b>20,322</b>	<b>38,401</b>	<b>56,554</b>	<b>-14,952</b>	<b>-25,921</b>	<b>38,783</b>	<b>50,955</b>
<b>Segment liabilities</b>	<b>5,539</b>	<b>4,979</b>	<b>15,334</b>	<b>18,997</b>	<b>-6,100</b>	<b>-5,628</b>	<b>14,773</b>	<b>18,348</b>

Revenues in the segments of Digital Mammography and Other Diagnostics are predominantly achieved with customers accounting for a share of total revenues in excess of 10%.

For a breakdown of external revenues by geographical regions, please refer to the presentation on business performance in the consolidated management report.

Segment assets in the field of digital mammography can be assigned to the location of assets in the geographical region of Germany. Assets of the Other Diagnostics segment are assignable to the geographical regions of Germany and the United States as well as Japan. Germany accounts for € 36,181 k (2009: € 48,969 k) and the USA for € 1,853 k (2009: € 7,585 k). Segment assets in Japan total € 367 k (2009: € 0 k).

### 36. Related parties

The Group enters into transactions with related parties, the details of which are set out below. These transactions form part of its usual business activities and are subject to arm's length conditions.

Fraunhofer MEVIS performs research and development activities for MMS AG. These had a volume of € 529 k in 2010 (2009: € 735 k). In addition, MMS AG acquired the MeVisLab software from Fraunhofer MEVIS for € 925 k in 2007. This amount must be paid in five annual installments of € 185 k each. Income of € 74 k (2009: € 56 k) was generated from the staff costs recharged to Fraunhofer MEVIS.

MMS AG also assumed a grant obligation of € 925 k to Fraunhofer MEVIS for research purposes as part of the MeVisLab contract. This was reported as a contingent liability until 2009. Since 2010 the grant obligation is reported by MMS AG as a provision at fair value (€ 821 k).

Related parties also include the joint ventures MBC KG and MeVis BreastCare Verwaltungs-GmbH.

As of the balance sheet date, the following receivables were due from and the following liabilities owing to related parties:

Figures in € k	2010	2009
Members of managements		
Receivables	0	8
Liabilities	0	0
Members of the Supervisory Board		
Receivables	0	8
Liabilities	31	0
Fraunhofer MEVIS		
Receivables	298	205
Liabilities	574	475
Joint ventures		
Receivables	21	12
Liabilities	7	13

### 37. Notification of changes in voting rights in accordance with the German Securities Trading Act (WpHG)

As of the reporting date, MMS AG had received the following compulsory disclosures in accordance with §§ 21 et seq. of the German Securities Trading Act (WpHG) concerning changes in the voting rights held in MMS AG:

- 1) On November 15, 2007, we were notified by Prof. Dr. Heinz-Otto Peitgen, Am Jürgens Holz 5, 28355 Bremen, in accordance with § 21(1a) of the German Securities Trading Act that his share of the voting rights stood at 17.67% on November 15, 2007, i.e. the first day of admission.
- 2) On November 15, 2007, we were notified by Dr. Carl J.G. Evertsz, Schumannstraße 12, 28213 Bremen, in accordance with § 21(1a) of the German Securities Trading Act that his share of the voting rights stood at 17.67% on November 15, 2007, i.e. the first day of admission.
- 3) On November 20, 2007, we were notified by cominvest Asset Management GmbH, Platz der Einheit 1, 60327 Frankfurt am Main, in accordance with § 21 (1), § 22 (1) Sentence 1 No. 6 and § 32 (2) of the German Investment Act (InvG) that its share of the voting rights had exceeded the reporting threshold of 3% on November 19, 2007 and now stands at 4.75%.
- 4) On November 21, 2007, we were notified by Allianz Global Investors Kapitalanlagegesellschaft mbH, Mainzer Landstraße 11-13, 60329 Frankfurt am Main, in accordance with § 21(1) Sentence 1 of the German Securities Trading Act that its share of the voting rights had exceeded the reporting threshold of 3% on November 19, 2007, and now stands at 4.95%.
- 5) On December 13, 2007, we were notified by Dr. Hartmut Jürgens, Grohner Bergstraße 11, 28759 Bremen, in accordance with § 21(1) of the German Securities Trading Act that his share of the voting rights had exceeded the reporting threshold of 15% on December 13, 2007, and now stands at 16.53%.

- 6) On April 11, 2008 MMS AG announced in accordance with § 26(1) Sentence 2 of the German Securities Trading Act that its treasury stock had exceeded the threshold of 3% on April 11, 2009 and stood at 3.04% on that day (equivalent to 55,333 shares).
- 7) On April 30, 2008, we received the following notification from Fortelus Special Situations Master Fund Ltd., George Town, Cayman Islands:

In accordance with § 21(1) of the German Securities Trading Act, the share of voting rights held by Fortelus Special Situations Master Fund Ltd., George Town, Cayman Islands, exceeded the thresholds of 3% and 5% on November 19, 2007, standing at 112,000 voting rights (equivalent to 6.15% of all voting rights) as of that date.

In accordance with § 21(1) of the German Securities Trading Act, the share of voting rights held by Fortelus GP Ltd., c/o M&C Corporate Services Ltd., Ugland House, PO Box 309, George Town, Grand Cayman, Cayman Islands, Fortelus Special Situations Fund LP, registered office 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA, and Fortelus Special Situations Fund Ltd., c/o M&C Corporate Services Ltd., Ugland House, PO Box 309, George Town, Grand Cayman, Cayman Islands, exceeded in the aggregate the thresholds of 3% and 5% on November 19, 2007, and the aforementioned entities held 112,000 voting rights (equivalent to 6.15% of all voting rights) as of that date. The voting rights are held by Fortelus Special Situations Master Fund Ltd., George Town, Cayman Islands, and attributable to the aforementioned entities in accordance with § 22(1) Sentence 1 No. 1 of the German Securities Trading Act.

In accordance with § 21(1) of the German Securities Trading Act, the share of voting rights held by Fortelus Special Situations Master Fund Ltd., George Town, Cayman Islands, exceeded the threshold of 10% on April 2, 2008, standing at 186,037 voting rights (equivalent to 10.22% of all voting rights) as of that date.

In accordance with § 21(1) of the German Securities Trading Act, the share of voting rights held by Fortelus GP Ltd., c/o M&C Corporate Services Ltd., Ugland House, PO Box 309, George Town, Grand Cayman, Cayman Islands, Fortelus Special Situations Fund LP, registered office 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA, and Fortelus Special Situations Fund Ltd., c/o M&C Corporate Services Ltd., Ugland House, PO Box 309, George Town, Grand Cayman, Cayman Islands, exceeded in the aggregate the threshold of 10% on April 2, 2008, and the aforementioned entities held 186,037 voting rights (equivalent to 10.22% of all voting rights) as of that date. The voting rights are held by Fortelus Special Situations Master Fund Ltd., George Town, Cayman Islands, and attributable to the aforementioned entities in accordance with § 22(1) Sentence 1 No. 1 of the German Securities Trading Act.

- 8) On June 17, 2008, MMS AG announced in accordance with § 26(1) Sentence 2 of the German Securities Trading Act that its treasury stock had exceeded the threshold of 5% on June 17, 2009 and stood at 5.0% on that day (equivalent to 91,000 shares).
- 9) On November 4, 2008, we were notified by Mr. Peter Kuhlmann-Lehmkuhle, Oyten, Germany, in accordance with § 21(1) of the German Securities Trading Act that his share in the voting rights had exceeded the threshold of 3% on October 30, 2009, and now stands at 3.0027% (equivalent to 54,650 shares).
- 10) On November 3, 2008, we were notified by M.M. Warburg & CO KGaA, Hamburg, Germany, in accordance with § 21(1) of the German Securities Trading Act that its share in the voting rights had exceeded the threshold of 5% on October 31, 2008, and now stands at 5.070% (equivalent to 92,282 shares).

5.070% of the voting rights (equivalent to 92,282 shares) are attributable to M.M. Warburg & CO Gruppe KGaA in accordance with § 22(1) Sentence 1 No. 1 of the German Securities Trading Act.

- 11) On November 4, 2008, we were notified by M.M. Warburg & CO KGaA, Hamburg, Germany, in accordance with § 21(1) of the German Securities Trading Act that its share in the voting rights had fallen below the threshold of 5% on November 4, 2008 and now stands at 4.899% (equivalent to 89,161 shares).

4.899% of the voting rights (equivalent to 89,161 shares) are attributable to M.M. Warburg & CO Gruppe KGaA in accordance with § 22(1) Sentence 1 No. 1 of the German Securities Trading Act.

- 12) On October 2, 2009, we were notified by cominvest Asset Management GmbH, Platz der Einheit 1, 60327 Frankfurt am Main, in accordance with § 21(1) of the German Securities Trading Act that its share in the voting rights had fallen below the threshold of 3% on September 30, 2009 and now stands at 2.98% (equivalent to 54,300 shares).

2.48% of the voting rights (equivalent to 45,200 shares) are attributable to the company in accordance with § 22(1) Sentence 1, No. 6 of the German Securities Trading Act.

- 13) On April 12, 2010 we were notified by M.M. Warburg & CO KGaA, Hamburg, Germany in accordance with § 21(1) of the German Securities Trading Act that its share in the voting rights of MeVis Medical Solutions AG, Bremen, Germany, ISIN: DE000A0LBFE4, WKN: A0LBFE had exceeded the threshold of 5% on April 7, 2010 and now stands at 5.015% (equivalent to 91,275 voting rights).

We were also notified on April 12, 2010 by M.M. Warburg & CO KGaA, Hamburg, Germany in accordance with § 21(1) of the German Securities Trading Act that the share of the voting rights held by M.M. Warburg & CO Gruppe (GmbH & Co.) KGaA, Hamburg in MeVis Medical Solutions AG had exceeded the threshold of 5% on April 7, 2010 and now stands at 5.015% (equivalent to 91,275 voting rights).

All of these voting rights are attributable to M.M. Warburg & CO Gruppe (GmbH & Co.) KGaA in accordance with § 22(1) Sentence 1 No. 1 of the German Securities Trading Act. The assigned voting rights are held through the following controlled entity: M.M. Warburg & CO KGaA.

- 14) On April 15, 2010 we were notified by M.M. Warburg & CO KGaA, Hamburg, Germany in accordance with § 21(1) of the German Securities Trading Act that its share in the voting rights of MeVis Medical Solutions AG, Bremen, Germany, ISIN: DE000A0LBFE4, WKN: A0LBFE had fallen below the threshold of 5% on April 13, 2010 and now stands at 4.994% (equivalent to 90,885 voting rights).

We were also notified on April 15, 2010 by M.M. Warburg & CO KGaA, Hamburg, Germany in accordance with § 21(1) of the German Securities Trading Act that the share of the voting rights held by M.M. Warburg & CO Gruppe (GmbH & Co.) KGaA, Hamburg in MeVis Medical Solutions AG had fallen below the threshold of 5% on April 13, 2010 and now stands at 4.994% (equivalent to 90,885 voting rights).

All of these voting rights are attributable to M.M. Warburg & CO Gruppe (GmbH & Co.) KGaA in accordance with § 22(1) Sentence 1 No. 1 of the German Securities Trading Act. The assigned voting rights are held through the following controlled entity: M.M. Warburg & CO KGaA.

### 38. Corporate bodies of MeVis Medical Solutions AG

#### Executive Board

Carl J.G. Evertsz, Ph.D Chairman  Bremen	From Sep. 6, 2006	<ul style="list-style-type: none"> <li>- Managing Director of subsidiary MeVis BreastCare Verwaltungsgesellschaft mbH, Bremen</li> <li>- Managing Director of MeVis BreastCare Solutions Verwaltungs -GmbH, Bremen</li> <li>- Director of MeVis Medical Solutions, Inc., Pewaukee, Wisconsin / USA</li> <li>- Director of MeVis Japan KK, Tokyo / Japan</li> <li>- Member of the Board of Trustees of Fraunhofer MEVIS</li> </ul>
Thomas E. Tynes Pewaukee, Wisconsin / USA	From Sep. 1, 2007	<ul style="list-style-type: none"> <li>- Director of MeVis Medical Solutions, Inc., Pewaukee, Wisconsin / USA</li> <li>- Officer of Eye Prosthetics of Wisconsin, Inc., Brookfield, Wisconsin / USA</li> </ul>
Christian H. Seefeldt Berlin	From Jan. 1, 2009 until Sept. 30, 2010	<ul style="list-style-type: none"> <li>- Managing Director of MeVis BreastCare Solutions Verwaltungs-GmbH, Bremen</li> <li>- Director of MeVis Medical Solutions, Inc., Pewaukee, Wisconsin / USA</li> <li>- Director of MeVis Japan KK, Tokyo / Japan</li> <li>- Member of the Shareholders' Committee of MeVis BreastCare GmbH &amp; Co. KG, Bremen</li> </ul>
Robert Hannemann, Ph.D. Bremen	From Oct. 1, 2010	<ul style="list-style-type: none"> <li>- Managing Director of MeVis BreastCare Solutions Verwaltungs -GmbH, Bremen</li> <li>- Director of MeVis Medical Solutions, Inc., Pewaukee, Wisconsin / USA</li> <li>- Director of MeVis Japan KK, Tokyo / Japan</li> <li>- Member of the Shareholders' Committee of MeVis BreastCare GmbH &amp; Co. KG, Bremen</li> </ul>

#### Supervisory Board

Prof. Dr. Heinz-Otto Peitgen Chairman Bremen	From Sep. 6, 2006	<ul style="list-style-type: none"> <li>- Director of Fraunhofer MEVIS Institute, Bremen</li> <li>- Member of the Board of Governors at the Jacobs University, Bremen</li> <li>- Member of the Board of Trustees of the Center for Art and Media, Karlsruhe</li> <li>- Member of the Shareholders' Committee of MeVis BreastCare GmbH &amp; Co. KG, Bremen</li> </ul>
Axel Schubert Deputy Chairman Bremen	From Sep. 6, 2006 until Dec. 31, 2010	<ul style="list-style-type: none"> <li>- Lawyer</li> <li>- Director of Stiftung Bremer Wertpapierbörse, Bremen</li> <li>- Chairman of the Supervisory Board of Scoach Europa AG, Frankfurt am Main</li> <li>- Chairman of the Board of Directors of Scoach Schweiz AG, Zurich/Switzerland</li> <li>- Chairman of the Board of Directors of Scoach Holding S.A., Luxembourg/Luxembourg</li> </ul>

Dr. Peter Zencke Heidelberg	From Aug. 21, 2007	<ul style="list-style-type: none"> <li>- Member of the Supervisory Board of SupplyOn AG, Munich</li> <li>- Member of the Board of Directors of the Indian School of Business, Hyderabad / India</li> <li>- Member of the research council of the Institute of Media and Communication Management of the University of St. Gallen, St. Gallen, Switzerland</li> </ul>
Dr. Jens J. Kruse Deputy Chairman Hamburg	From Jan. 1, 2011	<ul style="list-style-type: none"> <li>- Head of Corporate Finance of private bank M.M. Warburg &amp; CO, Hamburg</li> <li>- Member of the Supervisory Board of Biesterfeld AG, Hamburg</li> </ul>

Shares in the company held by members of its corporate bodies as of December 31, 2010 are as follows:

	Number of shares	% of share capital
<b>Executive Board</b>		
Dr. Carl J.G. Evertsz*	354,640	19.49
Thomas E. Tynes	625	0.03

\* In addition to the shares held directly by Dr. Evertsz, 500 shares are held directly via an asset management company in which Dr. Evertsz holds a share

	Number of shares	% of share capital
<b>Supervisory Board</b>		
Prof. Dr. Heinz-Otto Peitgen	354,039	19.45
Axel Schubert	500	0.03

### 39. Remuneration of Executive Board and Supervisory Board

#### Executive Board remuneration

The members of the Executive Board received the following remuneration in 2010:

	Fixed remuneration	Performance-related remuneration	Components with long-term incentive characteristic	Pecuniary benefits from non-cash benefits	Total
<b>Figures in €</b>	Salary	Bonus	Stock options		
Dr. Carl J.G. Evertsz	207,215.10	0.00	0	9,195.24	216,410.34
Thomas E. Tynes	200,770.07	115,453.78	0	0.00	316,223.85
Dr. Robert Hannemann	40,350.00	8,750.00			49,100.00
Christian H. Seefeldt	156,000.00	0.00	0	0.00	156,000.00
<b>Total</b>	<b>604,335.17</b>	<b>124,203.78</b>	<b>0</b>	<b>9,195.24</b>	<b>737,734.19</b>

After resigning from office in 2010, Mr. Seefeldt also received an agreed amount of € 39 k as part of the € 156 k total remuneration.

The members of the Executive Board received the following remuneration in 2009:

	Fixed remuneration	Performance- related remuneration	Components with long-term incentive characteristic	Pecuniary benefits from non-cash benefits	Total
Figures in €	Salary	Bonus	Stock options		
Dr. Carl J.G. Evertsz	151,018.00	0.00	0	11,497.20	162,515.20
Christian H. Seefeldt	156,000.00	0.00	0	0,00	156,000.00
Thomas E. Tynes	125,466.00	0.00	0	13,809.87	139,275.87
<b>Total</b>	<b>432,484.00</b>	<b>0.00</b>	<b>0</b>	<b>25,307.07</b>	<b>457,791.07</b>

Mr. Dr. Evertsz receives his remuneration from MMS AG and MBC KG. The corresponding expenses of MBC KG were included in the above figures in full for 2010 (2009: proportionate).

Pecuniary damage liability insurance with coverage of € 2,000 k was concluded at the expense of the Company for the benefit of the members of the Executive Board and Supervisory Board.

#### Supervisory Board remuneration

Remuneration for the members of the Supervisory Board is governed by § 10 of MMS AG's articles, which provides for the members of the Supervisory Board to receive a fixed amount of € 17,500.00 at the end of the fiscal year. The chairman of the Supervisory Board receives twice this amount and his deputy one-and-a-half times this amount. Persons joining or leaving the Supervisory Board during the year receive a proportionate share of this amount.

In addition, the members of the Supervisory Board are reimbursed for all expenses which they incur in attending meetings of the Supervisory Board plus any sales tax due on the reimbursed amount.

Pecuniary damage liability insurance with coverage of € 2,000 k was concluded at the expense of the Company for the benefit of the members of the Supervisory Board. This coverage also includes the members of the Executive Board.

#### 40. Stock option plans

The compensation agreement with the Executive Board member Thomas E. Tynes was amended in 2010. It originally called for issuing shares of MMS AG valued at € 100 k to € 500 k, depending on reaching certain EBIT limits.

Since these limits were not reached at any time, a one-time payment of € 100 k was agreed upon as compensation. The stock option program for the Executive Board member was thereby settled.

At MMS AG's annual general meeting of August 22, 2007, the shareholders passed a resolution to create contingent capital of € 130 k in order to issue up to 130,000 stock options to staff or members of the Executive Board on or before December 31, 2011.

0 options were granted to the staff in 2010 (2009: 20,191).

By resolution of the Executive Board of December 19, 2008 and on approval of the Supervisory Board of February 14, 2009, a second tranche of up to 20,191 stock options has been issued at an exercise price of €37.45. 182 employees had subscription rights.

MMS AG is entitled to settle the stock options in cash form – in other words, a combination model is in place. In view of the fact that there are no discernible restrictions to the issue of shares to settle the stock options and the Company currently does not have any preference for settling the stock options in cash form, they have been measured in accordance with the principles for equity-settled options.

The options lapse in the event that the holder leaves the Company. The vesting period is 2 years in the case of employee options. Accordingly, the expense incurred in connection with the employee option program must be spread over 2 years.

The fair value of the employee options was determined based on a Monte Carlo simulation, estimating the normal distribution of the yield on the future stock price. The nominal distribution is described by the parameters "mean value" and "variance", which were derived from the MeVis share price trend and volatility.

This simulation puts the total fair value of employee options at € 257 k (2009: € 270 k). Expense equaling the fair value is released to the income statement over the vesting period of 2 years. This results in an expense of € 48 k for the 2010 fiscal year (2009: expense of € 125 k).

All outstanding stock options have a term of five years as of the date they are granted. As the stock option program of MMS AG expires on December 31, 2011, the maximum term of the outstanding options is less than nine years (until January 1, 2016).

	Beginning of reporting period	Change	End of reporting period
Outstanding stock options	89,579	485	90,064
Options granted	40,421	0	40,421
Options forfeited	-7,819	-1,510	-9,329
Options exercised	0	0	0
Options lapsed	-2,925	0	-2,925
<b>Total</b>	<b>119,256</b>	<b>-1,025</b>	<b>118,231</b>
<i>of which exercisable options</i>	<i>0</i>	<i>0</i>	<i>0</i>

#### 41. German Corporate Governance Code

Executive Board and Supervisory Board of MMS AG issued the declaration of conformity stipulated by § 161 of the German Stock Corporation Act (AktG), confirming that the recommendations of the Government Commission on the German Corporate Governance Code have been and will be complied with, disclosing which recommendations have not been and will not be followed, and made it available to shareholders on the MeVis Group's website. The declaration of conformity for the year under review is dated July 1, 2010 and is also available on the MeVis Group's website ([http://www.mevis.de/mms/Corporate\\_Governance.html](http://www.mevis.de/mms/Corporate_Governance.html)).

#### 42. Fees paid for services provided by the statutory auditor KPMG AG Wirtschaftsprüfungsgesellschaft

Figures in € k	2010	2009
Audit of financial statements	134	169
Other auditing/measuring activities	7	0
Tax advisory	64	71
<b>Total</b>	<b>205</b>	<b>240</b>



#### 43. Events after the balance sheet date

In the first quarter of 2011, the Executive Board appointed an external service provider to help it with obtaining a partner which will provide significant strategic and financial support to the Company. The Supervisory Board was informed of the business and strategic reasons for the project. The main motive for the planned search for a strategic partner is to secure and expand the industrial partnerships in line with MeVis Group's marketing strategies. The Company has currently not decided on the extent of potential strategic partnerships and transaction structures; they are dependent on several conditions. Based on the contract, the service provider is entitled to monthly fixed remuneration and performance-based variable remuneration.

Bremen, March 31, 2011

Carl J.G. Evertsz, Ph.D.  
Chairman & CEO

Robert Hannemann, Ph.D.  
Member of the Executive Board

Thomas E. Tynes  
Member of the Executive Board

## Changes in consolidated assets

for the period of January, 1 through December 31, 2010

Figures in € k	Cost of acquisition or manufacturing				Balance on Dec. 31, 2010
	Balance on Jan.1, 2010	Additions	Disposals	Changes from currency translations	
<b>I. Intangible assets</b>					
Licenses and similar rights	4,189	76	0	59	4,324
Customer Base	5,082	0	0	78	5,160
Development expenses	5,215	2,907	0	59	8,181
Goodwill	16,593	0	0	309	16,902
	<b>31,079</b>	<b>2,983</b>	<b>0</b>	<b>505</b>	<b>34,567</b>
<b>II. Property, plant and equipment</b>					
Other equipment, furniture and office equipment					
Leasehold improvements	735	13	0	0	748
IT equipment	1,576	162	60	10	1,688
Furniture and office equipment	487	18	0	3	508
	<b>2,798</b>	<b>193</b>	<b>60</b>	<b>13</b>	<b>2,944</b>
	<b>33,877</b>	<b>3,176</b>	<b>60</b>	<b>518</b>	<b>37,511</b>

Cumulative depreciation and amortization					Carrying amounts		
Balance on Jan.1, 2010	Depreciation and amortization	Impair- ments	Disposals	Changes from currency translations	Balance on Dec. 31, 2010	Balance on Dec. 31, 2010	Balance on Dec. 31, 2009
2,220	611	401	0	43	3,275	1,049	1,969
526	632	754	0	33	1,945	3,215	4,556
1,238	1,841	0	0	0	3,079	5,102	3,977
0	0	4,173	0	94	4,267	12,635	16,593
<b>3,984</b>	<b>3,084</b>	<b>5,328</b>	<b>0</b>	<b>170</b>	<b>12,566</b>	<b>22,001</b>	<b>27,095</b>
239	153	0	0	0	392	356	496
1,178	230	0	60	1	1,349	339	398
190	85	0	0	2	277	231	297
<b>1,607</b>	<b>468</b>	<b>0</b>	<b>60</b>	<b>3</b>	<b>2,018</b>	<b>926</b>	<b>1,191</b>
<b>5,591</b>	<b>3,552</b>	<b>5,328</b>	<b>60</b>	<b>173</b>	<b>14,584</b>	<b>22,927</b>	<b>28,286</b>

## Changes in consolidated assets

for the period of January, 1 through December 31, 2009

Figures in € k	Cost of acquisition or manufacturing				Balance on Dec. 31, 2009
	Balance on Jan.1, 2009	Additions	Disposals	Changes from currency translations	
<b>I. Intangible assets</b>					
Licences and similar rights	4,139	96	0	-46	4,189
Customer Base	5,124	0	0	-42	5,082
Development expenses	2,612	2,624	0	-21	5,215
Goodwill	16,732	0	0	-139	16,593
	<b>28,607</b>	<b>2,720</b>	<b>0</b>	<b>-248</b>	<b>31,079</b>
<b>II. Property, plant and equipment</b>					
Other equipment, furniture and office equipment					
Leasehold improvements	625	110	0	0	735
IT equipment	1,414	165	0	-3	1,576
Furniture and office equipment	443	45	0	-1	487
	<b>2,482</b>	<b>320</b>	<b>0</b>	<b>-4</b>	<b>2,798</b>
	<b>31,089</b>	<b>3,040</b>	<b>0</b>	<b>-252</b>	<b>33,877</b>

Cumulative depreciation and amortization				Carrying amounts		
Balance on Jan. 1, 2009	Additions	Disposals	Changes from currency translation	Balance on Dec. 31, 2009	Balance on Dec. 31, 2009	Balance on Dec. 31, 2008
1,533	730	0	-43	2,220	1,969	2,606
94	438	0	-6	526	4,556	5,030
104	1,134	0	0	1,238	3,977	2,508
0	0	0	0	0	16,593	16,732
<b>1,731</b>	<b>2,302</b>	<b>0</b>	<b>-49</b>	<b>3,984</b>	<b>27,095</b>	<b>26,876</b>
109	130	0	0	239	496	516
847	331	0	0	1,178	398	567
112	78	0	0	190	297	331
<b>1,068</b>	<b>539</b>	<b>0</b>	<b>0</b>	<b>1,607</b>	<b>1,191</b>	<b>1,414</b>
<b>2,799</b>	<b>2,841</b>	<b>0</b>	<b>-49</b>	<b>5,591</b>	<b>28,286</b>	<b>28,290</b>

## Auditor's Report

We have audited the consolidated financial statements prepared by MeVis Medical Solutions AG, Bremen – comprising the consolidated income statement, statement of comprehensive income, consolidated statement of financial positions, consolidated cash flow statement, statement of changes in equity, and notes to the consolidated financial statements – as well as the consolidated management report for the financial year from January 1 until December 31, 2010. The preparation of the consolidated financial statements and consolidated management report in accordance with IFRS as endorsed in the EU and, in supplementation, with the regulations as set forth in Section 315a Paragraph 1 of the German Commercial Code (HGB) is the responsibility of the Executive Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting principles and in the consolidated management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and consolidated management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidation, the definition of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board as well as evaluating the overall presentation of the consolidated financial statements and the consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with IFRS as endorsed in the EU and, by way of supplementation, in accordance with the provisions of the German Commercial Code (§ 315a (1) HGB). The consolidated management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Bremen, April 8, 2011

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Heuermann	Bultmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

## Responsibility Statement („Bilanzzeit“)

Responsibility statement required by section 37y no. 1 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with sections 297(2) sentence 4 and 315(1) sentence 6 of the Handelsgesetzbuch (HGB – German Commercial Code) for the consolidated financial statements and the group management report:

“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.”

Bremen, April 8, 2011

MeVis Medical Solutions AG

Carl J.G. Evertsz, Ph.D.  
Chairman & CEO

Robert Hannemann, Ph.D.  
Member of the Executive Board

Thomas E. Tynes  
Member of the Executive Board

## Disclaimer

### *Forward-looking statement*

This report contains forward-looking statements which are based on management's current estimates of future developments. Such statements are subject to risks and uncertainties, which MeVis Medical Solutions AG is not able to control or estimate with any precision, e.g. future market conditions and the general economic environment, the behavior of other market participants, the successful integration of new acquisitions and government acts. If any of these uncertainties or imponderabilities materialize or if the assumptions on which these statements are based prove to be incorrect, this may cause actual results to deviate materially from those expressly or implicitly contained in these statements. MeVis Medical Solutions AG does not intend and is under no obligation to update the forward-looking statements in the light of any events or developments occurring after the date of this report.

### *Deviations for technical reasons*

Deviations may occur between the accounting data contained in this report and that submitted to the electronic Bundesanzeiger for technical reasons (e.g. conversion of electronic formats). In the case of any doubt, the version submitted to the electronic Bundesanzeiger will prevail.

This report is also available in a German-language version. In case of any doubt, the German-language version takes priority over the English-language one.

The report is available for downloading in both languages on the Internet at [http://www.mevis.de/mms/en/Financial\\_Reports.html](http://www.mevis.de/mms/en/Financial_Reports.html).



## Finance Calendar 2011

Date	Event
May 30, 2011	Interim report for Q1 2011
June 15, 2011	Annual general meeting, Bremen
August 29, 2011	Interim report for H1 2011
August 29, through August 31, 2011	9th DVFA-Small Cap Conference, Frankfurt am Main
November 21, 2011	Interim report for Q3 2011
November 21 through 23, 2011	German Equity Forum, Frankfurt am Main

## Contact

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