Medicover Holding S.A.
Interim Report
January–September 2001

Highlights

• Revenue amounted to €7.3 million (4.8 million) for the quarter, a continued strong increase of 51 percent versus the corresponding period last year.

• Revenue for the nine months amounted to €21.7 million (14.1 million), an increase of 55 percent versus the corresponding period last year.

• Prepaid membership rose to 83,800 (65,000), up 2,500 for the quarter and 18,800 or 29 percent versus the corresponding period last year.

• The operating loss amounted to €0.3 million (-0.5 million) for the quarter and €0.7 million (-1.8 million) for the nine months.

• Operating profit before depreciation amounted to €0.2 million (-0.2 million) for the quarter and €0.8 million (-0.8 million) for the nine months.

• The loss after tax for the quarter amounted to €1.6 million (-2.1 million), equivalent to €0.13 (0.18) per share, and to €4.7 million (-11.2 million) for the nine months, or €0.40 (-0.95) per share.

• The acquisition of First Medical Clinic of Prague, the leading corporate healthcare provider in the Czech Republic, was finalised after the conclusion of the reporting period.

To our shareholders

I am pleased to report that we were able to maintain our revenue growth versus last year, even though we saw an expected slowdown in the growth trend during the third quarter. This was achieved amidst a tougher economic situation in Europe in general and Poland in particular. Third-quarter revenue increased by 51 percent from the corresponding period in 2000, to €7.3 million. Revenue for the nine months was €21.7 million, a 55-percent increase compared with the corresponding period last year.

The total number of prepaid members again grew after a slow second quarter, rising by 2,500 to a total of 83,800. Most of this growth, or 2,100 members, was in Poland.

As expected, the slowing Polish economy and static membership in the second quarter, together with a depreciation of the Polish currency, resulted in a slight decrease in Polish revenue compared with the previous quarter.

The operating result for the quarter weakened to a loss of €0.3 million, versus a loss of €0.1 million for the second quarter and €0.5 million for the third quarter last year. The operating loss for the nine months amounted to €0.7 million, against €1.8 million for the corresponding period last year.

Operating profit before depreciation amounted to €0.2 million for the quarter and €0.8 million for the nine months, compared with a loss of €0.8 million for the first nine months of 2000.

Medical costs amounted to €4.4 million or 59.7 percent, against €4.4 million or 57.2 percent for the second quarter. The percentage increase was driven by additional fixed medical costs in new facilities to accomodate further growth. During the quarter we expanded capacity through new facilities in Warsaw, Lodz and Budapest. Scale efficiencies continue to reduce variable medical costs. Distribution, selling and marketing costs amounted to €1.0 million for the quarter and €3.0 million for the nine months, representing 13.6 percent of revenue. This compares with €0.7 million in the third quarter of 2000 and €2.2 million for the first nine months of 2000, or 15.7 percent of revenue.

Administrative costs amounted to €1.8 million for the quarter, or 24.3 percent of revenue, and €5.3 million or 24.5 percent for the nine months. This compares with €1.6 million for the third quarter of 2000 (33.3 percent of revenue) and €4.7 million for the first nine months of 2000 (33.4 percent of revenue).

Investment activities

Investment activities showed a net loss of €0.7 million for the quarter, mainly driven by reduced values of Russian bonds, compensated only partly through gains on the remaining Russian equity portfolio. Investment management costs continue to decline and will fall further during the coming quarter. No valuation changes occurred in the portfolio in the third quarter.

Most of the companies in the portfolio are performing in line with expectations, with those directly dependent on consumer demand primarily experiencing the result of a weaker economy.

Naturally, the present economic climate will impact our exit horizons. We no longer expect to finalise the two anticipated exits this year. How much longer the overall exit period will be largely depends on the extent of the present downturn in the global and regional economies, where we, however, focus on value realisation. We still maintain our view, however, that the years leading up to eu accession for the Central European countries will involve a significant degree of trade buyer activity.

Liquidity

Net debt was reduced by €0.5 million during the quarter, from €12.3 to 11.8 million. Including undrawn loan facilities, €11.5 million of cash or readily convertible instruments was available to the company.

Financial costs

Interest charges amounted to a net of €0.3 million for the quarter, versus €0.5 million in the corresponding quarter of the previous year. For the nine months, interest charges amounted to a net of €0.7 million, versus €0.9 million in 2000. Overall debt levels are comparable with the prior period, with interest received on loan investments and cash balances offsetting interest charges.

Operational review

Poland

Medicover Poland grew its revenue by 49 percent compared with the third quarter last year, to €5.4 million. Revenue for the nine months amounted to €16.1 million, against €10.3 million last year, a 56 percent increase. Compared with the second quarter 2001, however, revenue fell by €0.2 million or 4 percent. The decrease is a function of static membership reported for the second quarter, together with a depreciation of the zloty against the Euro of around 8 percent during the third quarter.

It is encouraging to report resumed growth in Polish membership, with 2,100 members joining during the quarter. We continue to experience a satisfactory level of new sales activity despite the tougher economic environment, while growth in existing client accounts is significantly below the levels previously seen. This is due to corporations' reluctance to extend existing benefits or their being forced to downsize employment or benefit packages because of the present economy. The loss of clients from existing accounts, which we reported for quarter two, reduced during the third quarter, despite a generally tougher economic situation. We consider this, together with our continued level of new sales activity, as an indication that healthcare is an employee benefit which is relatively uncyclical.

We are continuing to invest in our medical infrastructure. During late summer a new facility was opened in Warsaw, replacing the first facility opened in 1995. A further facility was opened in Lodz, a city of around 1.2 million people where Medicover has been active since 1997 and is presently servicing some 2,000 members.

We continued to expand the network of participating independent physicians across the country, to approximately 100 by the end of the quarter. By developing this network as a complement to our own managed facilities, we are able to better service our customers through a wider choice of locations and services.

Poland's new government took office in early October. The new administration has issued strong statements on its intentions to invigorate growth in the Polish economy while also acknowledging the importance of the independence of the central bank. The disinflation process has largely been successful, with annual inflation approaching 4 percent, but at the expense of very high real interest rates of over 10 percent and slowing economic growth. With a rising budget deficit and high unemployment, the government recognises the importance of stimulating economic growth. The central bank is starting to soften its policy, with a recent interest rate reduction of 1.5 percent, to 15.5 percent, bringing total interest rate reductions for the year to 5 percent.

Romania

Medicover Romania continued its strong growth, with third quarter revenue of €1.3 million, a 64 percent increase versus the corresponding period last year and a 3-percent increase on the previous quarter. Revenue for the nine months amounted to €3.8 million, up 46 percent over last year.

Prepaid membership was flat for the quarter at 9,600 members. During the quarter Medicover signed its largest prepaid contract to date in Romania, representing an annual value exceeding €0.5 million, with a textile business located in Focsani, a city three hours north-east of Bucharest. The contract, which covers more than 2,000 people, will provide comprehensive healthcare services to employees and their families. Medicover will construct a modern facility at the plant, where service is expected to commence in the spring of next year. It is very encouraging to see, in the more price-sensitive Romanian market, that responsible employers realise the benefits and are willing to invest in the health and well-being of their staff. We are encouraged by this first pilot contract in the significant Romania textile industry.

The laboratory business in Romania continues to grow strongly, with well in excess of 2 million tests forecasted for the full year, almost doubling last year's volume. Several new laboratories outside of Bucharest are planned for construction during the coming quarters.

Hungary

Medicover Hungary reported revenue for the quarter of €0.3 million, an 82 percent increase versus the corresponding period last year, and €1.0 million for the nine months, a 60 percent increase. The growth in Hungary is fully driven by the prepaid business. Fee-for-service income is flat from last year. Prepaid members increased by 400 for the quarter, to 2,800, more than double last year's figure of 1,200.

The new second facility in Budapest, located in a prime business district, will open for clients on 19 November. Increased investments are being made in sales and distribution to support the new facility.

Estonia

Revenue in Estonia declined to €0.1 million, versus €0.2 million for the previous quarter. Estonia is still largely dependent on the seasonal fee-for-service business, with revenue expected to again rise in the fourth quarter. We are recruiting new management for the Estonian business and expect to see growth in the prepaid business during the coming year.

Expansion to Czech Republic

After the end of the reporting period a binding agreement was signed on the acquisition of 100 percent of First Medical Clinic of Prague, with the acquisition being effective mid-November. The acquisition will be paid for in cash, and the terms are strongly linked to the future growth of the business. First Medical is the leading provider of prepaid healthcare services to the corporate market in the Czech Republic. The company was established in 1992 and has developed a business model largely similar to Medicover's. It charges corporate customers a prepaid fee for a range of healthcare services delivered through its own facilities and staff as well as a nationwide network of participating physicians. There are currently around 7,000 members from around 30 companies. Average premiums are approximately 60 percent of the levels for Medicover Poland reflecting a more narrow service range. Around 60 full-time staff are employed in the company. First Medical's expansion has largely come about through word of mouth and client referrals. Medicover believes significant opportunity exists to raise volumes by investing in direct sales and marketing efforts.

Revenue for the full year 2001 is expected to be around €1.5 million, with a slightly positive operating result. The company has no debt. The acquisition will generate a goodwill balance of €(0.8 million), which will be amortised over 10 years.

We will invest in sales, marketing, product development and support over the coming two years. Prague and the Czech Republic are underdeveloped in respect of Medicover's services and offer the same strong potential as Warsaw for the development of the Medicover concept.

Fourth quarter outlook

Business sentiment continues to erode in Europe, and the economic growth forecast for the Euro zone for 2002 has now been lowered to 1.7 percent. The economies in Emerging Europe are by no means insulated from developments elsewhere in Europe and the rest of the world. Particularly export-driven gdp growth to the main trading partners in Europe will suffer from the marked slowdown in economic activity. Counterbalancing this is a continued strong inflow of investments to capture cost advantages in manufacturing versus Western Europe, as well as industry positioning ahead of future eu market integration. Foreign Direct Investment in the region totalled $14.4 billion in 2000 with $18.8 billion expected for 2001.

The largest economy in the region is Poland, which is also where Medicover has the majority of its business. After undergoing a painful process of disinflation and mismatched fiscal and monetary policies, which resulted in high real interest rates, slowing economic growth, high unemployment and weak domestic consumption, the new Polish government is starting to implement harsh policies to ensure a return to the growth levels enjoyed throughout most of the 1990's. We believe the present administration is approaching the structural problems in the economy in a credible manner. The budget proposal for 2002 is being debated by parliament, and the specifics of how budget deficit reductions shall be achieved through expense reductions and tax increases have not yet been settled.

The outlook for Medicover in this environment is positive. The interest in private healthcare as a complement to the underfunded public system will continue to rise as consumer demand increases and corporate and individual spending power grows.

Jonas af Jochnick
November 2001

Consolidated Profit & Loss Account

	Quarter	Quarter	9 months	9 months
	to 30 Sept.	to 30 Sept.	to 30 Sept.	to 30 Sept.
€'000	2001	2000	2001	2000
Revenue	7,310	4,827	21,752	14,068
Operating expenses				
Medical provision costs	(4,366)	(2,645)	(12,644)	(7,911)
Distribution, selling and marketing costs	(969)	(737)	(2,951)	(2,207)
Administrative costs	(1,774)	(1,609)	(5,327)	(4,702)
Depreciation	(515)	(365)	(1,519)	(1,093)
Total operational costs	(7,624)	(5,356)	(22,441)	(15,913)
Operating loss	(314)	(529)	(689)	(1,845)
Investment income	(410)	3,955	(1,994)	7,002
Investment management costs	(311)	(604)	(1,149)	(1,660)
Net investment income	(721)	3,351	(3,143)	5,342
Amortisation of goodwill	(52)	(4,544)	(52)	(13,633)
Interests received	46	–	284	–
Less interest paid	(356)	(476)	(934)	(904)
Foreign exchange gain/(loss)	(89)	98	122	(81)
Total financial expenses	(399)	(378)	(528)	(985)
Loss before tax and minority interests	(1,486)	(2,100)	(4,412)	(11,121)
	(139)	(28)	(354)	(68)
Minority interests in result	–	10	28	30
Loss after taxation and minority interests	(1,625)	(2,118)	(4,738)	(11,159)
Per ordinary share information				
(Loss) per share	€(0.13)	€(0.18)	€(0.40)	€(0.95)
(Loss) per share excluding amortisation	€(0.13)	€0.21	€(0.39)	€0.21
Diluted (loss) per share	€(0.13)	€(0.17)	€(0.40)	€(0.94)
Diluted (loss) excluding amortisation	€(0.13)	€0.19	€(0.39)	€0.21

Consolidated Balance Sheet

	30 September	31 December
	2001	2000
As at	€'000	€'000
Non-current assets		
Goodwill	2,040	–
Intangible fixed assets	1,000	803
Tangible fixed assets	7,877	7,765
Total fixed assets	10,917	8,568
Loan investments	1,389	1,365
Unlisted equity investments	37,717	39,082
Total unlisted investments	39,106	40,447
Deferred tax assets	464	448
Total non-current assets	50,487	49,463
Current assets		
Listed equity shares	2,652	1,334
Inventories	133	131
Receivables	3,715	4,782
Bonds	2,602	2,422
Cash	1,722	807
Total current assets	10,824	9,476
Total assets	61,311	58,939
Share capital and reserves		
Share capital	66,366	62,368
Treasury shares	(2,055)	–
Additional paid-in capital	27,178	27,221
Translation reserve	(499)	(633)
Retained earnings	(49,013)	(44,363)
Total shareholders' equity	41,977	44,593
Minority interest	–	116
Non-current liabilities		
Loans payable	5,551	6,683
Deferred tax liability	511	382
Total non-current liabilities	6,062	7,065
Current liabilities		
Loans payable	7,925	1,026
Trade and other payables	5,347	6,139
Total current liabilities	13,272	7,165

Total liabilities	19,334	14,230
Total shareholders' equity, liabilities, and minority interest	61,311	58,939

Consolidated Statement of Shareholders' Equity

€'000	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Capital profits reserve	Translation reserve	Total
Opening balance as at 1 January 2000	58,356	–	25,470	(23,542)	16,134	–	76,418
Adjustment to exchange rate							
31 December 2000	4,012	–	1,751	(1,619)	1,110	–	5,254
Reversal of Medicover revaluation	–	–	–	(14,079)	–	–	(14,079)
Prior year amounts for Medicover	–	–	–	(10,329)	–	(68)	(10,397)
Transfer of capital reserve to general reserve upon							
adoption of IAS 39	–	–	–	17,244	(17,244)	–	–
Loss for the period	–	–	–	(11,159)	–	–	(11,159)
Effect of exchange rate differences							
on translation of profit and loss	–	–	–	(216)	–	(814)	(1,030)
Closing balance as at 30 September 2000	62,368	–	27,221	(43,700)	–	(882)	45,007
Opening balance as at 1 January 2001	62,368	–	27,221	(44,363)	–	(633)	44,593
Share capital increase	3,998	–	–	–	–	–	3,998
Treasury share issue	–	(2,055)	–	–	–	–	(2,055)
Cost related to share capital increase	–	–	(43)	–	–	–	(43)
Purchase of minority interest	–	–	–	88	–	–	88
Loss for the period	–	–	–	(4,738)	–	–	(4,738)
Effect of exchange rate differences							
on translation of profit and loss	–	–	–	–	–	134	134
Closing balance as		(2,055)	27,178	(49,013)	–	(499)	41,977

at 30 September 2001	66,366						

Basis of preparation
The accounting policies used in this report are the same as those in the annual audited financial statements of Medicover Holding S.A. The above figures are unaudited, except for full-year comparatives.

The currency of the Group was changed at the end of 2000 from the U.S. dollar to the euro to better reflect the underlying transactions of the Group’s subsidiaries. Comparative 2000 figures have been translated for convenience from U.S. dollars to euros using an average rate of 0.9558 and a closing rate as at 31 December 2000 of 0.9422.

This interim statement is in compliance with International Accounting Standard 34, “Interim Financial Reporting”.

A copy of the Annual Report for 2000 and interim reports for 2001 can be obtained from Medicover, c/o Belro Medical S.A., Waterloo Office Park, Building O, Drève Richelle 161, B-1410 Waterloo, Belgium, or
requested through our web site
www.medicover.com.

Information dates

- Preliminary report 2001 26 February 2002

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