TABLE

2002 Review

MESSAGE FROM THE MANAGING DIRECTOR

Dear Shareholders,

We managed in 2002 to grow our revenue 17 percent versus the previous year to €35.3 million and we went through the important milestone of 100,000 prepaid members during the third quarter. The pronounced reduction in growth was a result of the continued weak Polish economy. This was partly offset by a 68% organic growth in our core-prepaid business from the other markets. In 2002 78% of our overall growth came from the markets outside Poland versus 27% the previous year and Poland's share of overall revenue was reduced from 73.1% to 65.6% percent in 2002.

We continued to develop our service network, both through adding dedicated Medicover facilities as well as developing further the Medicover Partner Network. All in all we now manage 48 dedicated facilities and work with 233 partner facilities in our five markets.

We continued to experience a high level of customer loyalty during the year with more than 90 percent retention rate among our corporate clients. The retention rate in Poland continued to be negatively affected by the domestic economy but early signs of improvement was visible during the second half of the year. The level of new sales kept up reasonably well despite the tough market conditions. However, overall growth was hurt by continued weak additional sales to existing customers.

During the year we introduced several new products and service improvements. Our international medical assistance and travel insurance benefit, as an example, has received very good feedback. We continue to put focus on the average level of membership fee and have, despite the tough market conditions, been able to maintain, and in several of the smaller markets grow the levels.

Our operating loss decreased to €1.5 million versus €2.0 million the previous year and the operating profit before depreciation increased to €1.5 million versus €0.4 million the previous year. We are confident that our business model is working, with both of our major markets making significant contributions to the business and more than doubling their operating results versus the previous year, having already attained or approaching our stated financial targets. We continue to invest in our smaller markets to provide the basis for robust and sustainable long term growth.
Medicover – a strong brand representing quality

We are continuing to invest in medical infrastructure. The Medicover brand represents professional, pleasant reception coupled with high quality healthcare in smart, clean buildings that feature modern equipment. We are therefore introducing our own medical facilities on all markets to create centres of excellence that will set the standards that Medicover represents. On the back of this we create a complementary network of associated doctors' practises run in partnership with Medicover. This work method will secure consistency in our services, reduce the capital requirement and give us leverage in our activities. The combination of our own Medical Centres and partnerships with local clinics will enable us to provide an improved service to our customers, especially national employers with activities in a number of locations.

Medicover- dedicated to service

We believe that our staff is our most important asset in providing strong and reliable service. We believe in recruiting young and motivated people that want to stay and grow with Medicover. We believe in the importance of career training, both as motivation and as professional development. All our medical staff are required to participate in Continuing Medical Education. We are a service company, where each and every one of our staff is an ambassador, particularly the medical staff that each day throughout the year, see our customers. Of our more than 1,200 employees we are proud that more than 75% are women, the average age is 36 and almost 50 percent have at least one university degree. This is a strong base on which to build for the future.

Medicover – well positioned to benefit from healthcare reforms

There is political agreement in the countries where we are active that healthcare is important for national development and prosperity. Private funding and distribution of healthcare as a complement to the public system increases the range of services and off-loads some of the burden from the public systems, allowing public funding to be directed to where most critically needed. Several healthcare reform initiatives, aiming for such public-private combinations were proposed last year.

In Poland, Medicover already has a strong position with a market share in Warsaw of 25-30%, but for Poland as a whole we still have a market share of well below 5% of the relevant target market. We are still, however, more than twice the size of our closest competitor. In the other markets we are still a very small participant with negligible market share. Our leading market position allows us to expand our customer base vertically and horizontally. We are aiming to sell a more comprehensive range of products to existing members, acquire new members within existing framework agreements and develop new business with new corporate customers.

Preparing for EU integration

Ten countries in the region are preparing to join the European Union in May 2004. The Copenhagen summit in December 2002 was a historic landmark event in European history. The candidate countries have already had or will shortly have local referendums during this year to approve accession and when this was being written, the Hungarian electorate just approved the step with an overwhelming majority.
Four out of the five countries where Medicover operates are included in the wave of new EU member states. Romania is looking to 2007 as a possible entry date.

The integration into the European Union will have a strongly positive effect on economic growth in our markets. This will be evidenced through strong inward foreign direct investments. The region has a skilled labour base with a marked cost advantage that will drive industrial migration eastward. The local economies will work towards eventual EMU membership, which will ensure discipline in fiscal and monetary policies, providing the opportunity for lower interest rates and sustainable economic growth. This will be helped by the introduction of a wider availability of mortgage finance for property, increased penetration of credit among the population in general and, coupled with falling interest rates, will drive increased consumer spending and economic growth.

Outlook 2003

Economic uncertainty has been at historic highs over the past year and experts debate when we will start to see a sustainable improvement in economic conditions. In our region, the Polish economy has begun to improve after two negative years, but is still largely dependent on the economic environment in Europe and in Germany in particular. We expect however that the Polish economic improvement will continue and that, during the second half of the year, we will see this feed into improved sales results to existing Medicover corporate customers. Economic growth on the other markets will be around the levels experienced in 2002, with Romania showing above average growth.

We expect stronger sales growth to return during the year but due to time-lag effects in our revenue model, where most of the business we sell during the second half of the year will count towards the following year's revenue, we do not expect to fully reach our financial revenue growth target of 25 percent in 2003. We expect a continued improvement in operating performance.

We will continue to improve and develop our product and service offer. This will involve among many other things an increased focus on providing hospital based services for certain categories of our members.

We continue the integration work with our Czech company that we acquired at the end of 2001. During the year we will be opening new medical facilities in Prague and Brno, the second city in the Czech Republic. We will also evaluate the opportunities in Bratislava. In Romania we will completely split the laboratory and Medicover organisations, which will allow a better focus in each of the two activities. We will focus on brand building and brand positioning in the Romanian market together with increased sales efforts. In the Hungarian market we will be centralising all medical services in the well located Pest side facility and leaving the original R-clinic on the Buda side. This will allow better service and access for our customers. In Poland we will run a controlled pilot test for the individual market, assessing the product design and distribution methods most suited for our target market. Our joint project with the ING group on the individual market will also continue.

2003 will be a year where Medicover will work towards regaining back the sales momentum on the back of improved economic conditions, particularly in Poland, while seeing improved operating results. Leading in to 2004 where the majority of our markets will become members of the European Union and the demand for complementary private healthcare services is likely to grow on the back of healthcare reforms initiatives and a more competitive labour market. Medicover has a strong market position and will be able to capitalise on the growth opportunities while starting to provide a sound operating result on all markets.

Let me take this opportunity to thank all our staff for their contributions and dedication to making Medicover a strong and successful company.

Fredrik Rågmark
April 2003

Medicover in Emerging Europe

VISION AND FINANCIAL TARGETS

Vision

- To become the leading private healthcare company in Emerging Europe.

Objectives

- Help our members and clients to stay as healthy as possible.
- Provide top-quality healthcare in an environment with continuous quality improvements.
- Show strong financial performance, with focus on earnings and long-term growth.
- Offer employees a dynamic work environment with good career prospects.

Financial targets

- Sustainable revenue growth of over 25%.
- Long-term EBITDA target of 20%.

Strategy

- Keep our members and clients healthy by focusing on prevention and early detection.
- Build strong client loyalty and retention by offering healthcare that is both responsive and compassionate.
- Achieve strong revenue growth by expanding the client base and the services offered in current and future markets.
- Build Medicover as the premier prepaid healthcare brand.
- Achieve operating efficiencies through information technology and active healthcare management.
- Provide optimal medical care in our own facilities, through our affiliated networks and whenever possible through partnerships with public facilities and institutions.

Market Developments 2002

Poland

Medicover Poland's revenue rose by 5% to €23.1 million, reflecting the difficult economic situation in Poland from the latter part of 2001. The prepaid membership base increased from 72,400 to 77,600 members by year-end.

The Polish economy 2002

Poland has had a difficult year in 2002 with GDP growth of 1,6% compared with 1,1% in 2001. It was not until the end of 2002 that the Polish economy showed signs of improvement after more than a year of stagnation. The latest indicators show that economic activity is gradually accelerating and GDP growth is expected to increase to 2.8% in 2003.

Unemployment increased from 17.5% at the end of 2001 to 18.1% in December 2002. Private consumption was the leading growth driver, up by 3.1%. Importantly, the decline in investments has slowed compared with the previous year.

The Copenhagen summit confirmed Poland's invitation to membership to the EU in May 2004. Poland is facing its upcoming referendum on EU accession with a minority government, following the collapse of the ruling coalition.

There have been several reasons contributing to the economic difficulties in Poland:

- **Disinflation:** Demand-push inflation was non-existent and cheaper food and regulatory price cuts ensured the continuation of the disinflationary trend. By the year-end there was more talk about a deflation then an inflation risk. The inflation rate in 2002 was 1.9%, which is significantly lower than the 5.5% rate in 2001.
- **Monetary Policy:** real interest rates remained in the 5.5-7% range. With inflation consistently falling, interest rates are expected to fall further. The Polish Zloty weakened substantially versus the EUR, but remained almost flat to the US Dollar.
- **Budget deficit:** The budget deficit remained high while savings were hit by lower rates, a savings tax and weaker income levels. Investments, instead of remaining static, decreased throughout the year. As a result, the current account deficit fell slightly from 3.9% towards 3.4% of GDP.
- **Privatization:** Privatization proceeds missed the mark completely, due to a slower privatization strategy and poor market conditions. Some of the state assets were privatized "behind the scenes", through share subsidies and subsequent sales on the private market by troubled state owned companies.

Developments in Medicover in 2002

Revenue in 2002 has grown by 5% from €22.0 million to €23.1 million. The key driver was the premium business, which is 90.7% of total revenue, however it is worth noting that the fee for service business in 2002 experienced a significant increase of 15% with revenue of € 1.2 million.

The majority of growth came from new sales and presented a stable development comparable with amounts from previous years. Disenrollment from the existing client portfolio was high in 2002, however, the pace of disenrollment slowed significantly during the second half of the year. The effects of portfolio churn were especially visible from small and medium size clients, and the main disenrollment reason was cash flow problems. Key corporate clients generally went through restructuring process early in the year and this segment of our portfolio stabilised in last half of the year.

Membership increased by 7% from 72,400 to 77,600 members in 2002. The changes in the economic climate are bringing about a slow change in the spread of benefit plans, with low end products being displaced by higher premium plans. New sales are bringing higher premium customers into the portfolio and a higher percentage of lower premium customers have disenrolled. The average premium per subscriber showed a small increase. Medicover Poland managed to more than double the operating result versus the previous year, which is a strong performance in the present market condition. Our Polish operation is approaching our stated long-term financial target.

Product Development in 2002

New Plan – Blue Prestige

Blue Prestige, a new coverage plan, was introduced in March 2002. Blue Prestige offers traditional Blue Card coverage supplemented with a premium worldwide medical assistance package from AIG Assist, and a membership to "Sport and Health with Medicover", a program of value added services including discounts on spas, fitness centres, eyewear vendors, beauty centres, and other services which help members stay healthy, in keeping with Medicover's prime objective. Competitively priced, Blue Prestige sales are encouraging with many corporate customers upgrading their offerings.

Co-operation with ING Bank

In 2002 Medicover launched a partnership with ING Bank in Poland, a major banking and insurance group. As of July 1st, ING added Medicover healthcare services to its Lion Account banking product, which allows ING customers to use Medicover's network of clinics all over Poland for primary care visits. Thousands of ING upper income clients can benefit from a free visit to Medicover, a benefit unique in the Polish banking market. Healthcare has proved to be an important aspect of the Lion account package, as confirmed by service perception and valuation surveys. For those ING clients seeking more comprehensive healthcare services, Medicover prepared a tailored benefit package – the ORANGE Card, offering an exclusive set of services tailored to ING clients. The benefit package is promoted through telephone and internet sales to ING clients.

Personal Care Managers

Personal Care Managers are experienced Medicover clinic specialists with advanced knowledge of servicing the most demanding Medicover clients. Focusing on the top 140 Medicover clients and key decision-makers, PCMs will support services such as clinic and office visit scheduling, house calls and external referrals arrangements. This new feature has been warmly welcomed and is expected to cover more members over the coming months.

New clinics, expansion of infrastructure, other developments

Development of Medicover locations

The network of Medicover staff-model centers grew in 2002 with two new locations:

- A new clinic in Katowice- a tailor-made project for Unilever (700 employees), 200 sq.m., April
- A major renovation and start up of a clinic in Słupsk – a tailor-made project for Scania – June – 150 sqm.

This increased the overall number of Medicover owned facilities from 18 to 21.

Due to the volume of referred laboratory tests especially in Warsaw, Medicover implemented its own laboratory service in Warsaw, which became operational in October 2002. This will ensure a more rapid response and a higher quality, whilst reducing costs and drawing on Medicover's extensive laboratory experience in Romania.

Development of the network of affiliated providers

The number of Medicover affiliated providers almost doubled from 110 clinics in January 2002 to 207 clinics in December 2002. The number of cities where affiliated providers are present doubled from 82 to 166. Affiliated clinics must attend Medicover's accreditation program, which was developed jointly with best medical quality experts on the market. This is the first ever accreditation system for out-patient clinics in Poland.

Developments in cost control and medical centre management

Medicover's network in Poland saw in 2002: 900,000 visits, 250,000 lab tests, 15,000 home visits, and 300,000 telephone consultations. The delivery of such a volume of services from a cost and functionality point of view is major task. Over 2002 we have introduced certain changes to our clinic management system and medical center managers are encouraged to have a direct, hands-on and entrepreneurial approach, and to take responsibility for the performance of their centers. We have introduced resource management, including a customer driven motivation system for doctors. In addition several managerial initiatives allowed us to manage seasonal peaks in utilization and introduce prophylactic program for members.

Developments in quality control and improvement

The Medicover quality management system was re-certified as compliant with ISO 9001:2000 in July 2002.

As a complementary system – a complex evaluation of medical centers was implemented. The system consists of four measurements:

- an ISO 9001:2000 compliance,
- a comparison of customer satisfaction and expectations,
- a performance of customer service measured with a "mystery shopper program"
- service availability.

The "mystery shopper" is a program of audits performed by specially trained agents who act as regular customers and report the service performance.
All the evaluation systems are reflected in the clinic management incentive program.
We also initiated a project of advanced customer service training for all staff as well as a project of customer service standards development.

Reform of the state health care system in 2002 in Poland

The reform in 1999 of the state healthcare funding system resulted in decentralization and establishment of regional healthcare funds. The aim was to introduce market forces into the funding and provision of healthcare. These regional funds receive their funding through payroll taxes from the workforce in their region and are responsible for contracting all healthcare within that region. The new government in 2001 had an election promise to reduce the number of healthcare funds across the country. Year 2002 was one of the most difficult for state health care system in Poland over the past ten years. Re-organization of the system announced by Ministry of Health in 2001 was still the main subject of discussion for different expert interest groups i.e.: the National Doctors Council (NRL), doctor's nurses' trade unions and private health care institutions presented varying opinions.

At the end of 2002 the Government introduced a bill for a National Health Fund. The government has replaced the 17 regional healthcare funds with a national fund with regional branches, leaving the elements already implemented such as contracts with particular independent healthcare providers. The new fund is financed from the state budget. Opponents allege that the centralization will be detrimental to the entire system and health and security of the people. They claim that the lack of a clear system of financing and division of responsibilities for health funds will lead to chaos in the health service and a lack of information for the patient. The December 2002 events in Poznań, strikes in Wrocław and the occupation of a health fund in Katowice were the best proof. It appears that even increasing the contribution for social health insurance from 7,75% to 8% of personal income, which should give another 800 million PLN to the system, will not be enough to rectify the situation.

In December of 2002 results of new research on the level of satisfaction with the state healthcare services were published. This showed that 47% of the population is not satisfied with the level of health care services whilst 39% of Poles think that level of state health care system declined in 2002. Another research study shows that Poles still pay for their healthcare informally – i.e.: cash in hand payments for doctors. According to World Bank analysts, it could be anywhere from 2.4 to 3.9 billion USD per year, which should be compared with the total public annual health funding of 7.5 billion USD.

In our Annual Report for 2001 we stated "The development in the market during 2001 illustrates the continuous challenge in managing an underfunded public system, with increasing public dissatisfaction with the quality and accessibility of care. The new governments in Poland has made statements as regards its intentions with further reforming the healthcare system but as of yet no concrete plans have been proposed". With no positive change over 2002 we can only repeat this statement.

Outlook for 2003

In 2003 all market analysts expect a mild recovery, however, no one is convinced whether the basis for recovery is solid enough. Growing optimism and the subsequent increase in demand are not supported by any market improvement in disposable income. The employment rate is likely to stay in the double digits while declining slightly. GDP growth should reach 3.5 % in 2003.

In such environment Medicover will develop projects related to medical infrastructure improvement, both our own facilities and the network of affiliated providers, while preparing and launching new initiatives in product development throughout the year in order to maintain its existing market share as well as to expand market capacity by approaching new customers.

In 2003 the health care industry should undergo major legislative changes led primarily by the Ministry of Health. The public health system will revert from a regional, decentralized health fund structure into one, centralized National Health Fund. At the same time some initiatives are starting public discussion and regulatory decisions to involve private financing in the public health care system.

Romania

Medicover Romania's revenue rose by 32% to €6.8 million, while the prepaid membership base increased 22% from 9,800 to 12,000 members by year-end.

Overall 2002 was a very good year for Medicover Romania. We are pleased to report strong sales growth in all three business streams: prepaid healthcare, occupational health, and fee for service and laboratory services. The overall growth rate was over 30 % with sales in the prepaid business exceeding 50%. Membership increased by 22% mainly due to our expansion in Focsani and Petromidia where new on site clinics have been opened. In these clinics with a medical capacity of over 800 square meters, we offer enhanced occupational health services on a pre paid basis which is a novelty for the Romanian market. The benefit plans are customised based on the client specific needs and legal requirements.

Mid year we started to develop a nation wide network of participating independent physicians. By December 2002 a total of 30 practices had signed up in the main cities. We anticipate continuous growth in this new line of our medical delivery system particularly for occupational health services.

The Romanian Economy

The ruling Party of Social Democracy (PSD) will likely see their current term of office out, and are likely to be re-elected. With the NATO accession and the road to EU accession mapped out will boost their political fortunes over the coming 12 months, and even through to the full term election date in November 2004. The Romanian economy performed well over 2002, with a good GDP growth of 4.7% one of the highest in the region. Inflation has fallen over the year, with the official number coming down to 17.8% for 2002. Many problems still face the Romanian economy, not least of which is the large restructuring of state owned enterprises and the privatisation. This has been a large drag on the performance of the Romanian economy, and will dampen growth in the medium term if not adequately addressed. Given the political effects of large-scale layoffs it is unsure if the recent restructuring commitments made to the IMF will be seen through.

Market development and trends

The size of the Romanian healthcare market measured per capita remained one of the lowest in the region in 2002. Although the economy overall showed strong growth of over 4.5% there was no real improvement in either the financing or the quality of the public healthcare services. The result was increased public dissatisfaction with the quality and accessibility of the public system. The situation forced the government to take over the control of the Central health insurance fund through the Ministry of Health by December 2002. The failure of the Hospital Law and the unclear outcome regarding the public healthcare insurance law increased the uncertainty regarding further development of the public system. It is still difficult to quantify any size or segmentation of the prepaid healthcare market. In Bucharest we estimate that 13,000 to 15,000 people enjoy employer paid health benefits. The market is price sensitive. We differentiate ourselves from our competitors by the level of service, quality of care, continuous investment in equipment and staff training, and in general by our business model, which they can not entirely provide. Medicover is perceived as the only private healthcare provider in the country with a strong brand identity.

Outlook 2003

The introduction of a new Labour law in March will generate an even stronger demand for occupational health services. The new law spell out clearer responsibilities on the employers for the required occupational medicine programs. To provide our national clients with a high quality occupational medicine service as part of our service program, we are bringing the concept of mobile occupational medicine units, which we have developed in Estonia to Romania. We will continue to grow the lab business by expanding our services in public hospitals across the country.

Czech Republic

Medicover Czech's revenue rose by 12% to €1.8 million, while the prepaid membership base increased 43% from 5,600 to 8,000 members by year end.

Medicover Czech Republic

During 2002 Medicover Czech introduced Medicover's prepaid healthcare products. In addition, at the end of the year we began offering occupational health care according to established Medicover standards in conjunction with our benefit packages. We see many potential clients in this area and one of our major targets for the future is develop this business line and introduce it to major international clients with production plants in the Czech Republic.

The Czech economy 2002

Economic activity has been slowing in the Czech Republic over 2002, with the lowest quarterly GDP growth recorded since 4Q 1999 seen in 4Q 2002 with just 1.5% growth. The full year growth for 2002 was 2.0% compared to 3.1% in 2001. The floods in August have had an impact on economic activity as has the general world slow down.

Government elections were held in 2002, where the Social Democrats won the election, and have introduced several new social benefits. In addition reforms of the pension system and health care funding system that are becoming increasing burdens on the budget are unlikely to be hurried, and will continue to pressure the fiscal deficit. Fiscal deficits are being financed by government bond issues, which have increased sharply and are set to continue over the coming two years.

Despite central bank intervention the Czech Koruna has strengthened over the year. This is despite keeping privatisation receipts in foreign currency.. Inflation continues to be weak, and running below the Central bank's target rate of 2.75% to 4.75%, and most recently reaching historical lows with dis-inflation in the first quarter of 2003.

Interest rates continue to be low with the central bank's 2 week Repo rate at 2.5% following a cut of 0.25% at the end of January 2003. Real wages are continuing to see growth with real wages growth at 6.3% in the 4Q 2002. Unemployment has grown slightly over the year with the February 2003 rate at 10.2% versus 9.3% in February 2002.

New facilities

In 2002 the demand on medical space increased in Prague and planning has begun for more space to allow for additional outpatient capacity. Expansion potential has been identified in centrally located premises that would also offer our clients an alternative and increased accessibility. 500 – 800 square meters are planned for new administration and additional medical space. The new facility will be opened during 2003.

Rapid expansion of our service network in the Czech Republic is planned with a new medical facility in Brno, the capital city of South Moravia. The Medicover center in Brno will occupy almost 800 square meters and cover a broad range of medical services, including dental care. The facility that will be located directly in the city center will open in the second quarter of 2003.

Size of the Czech healthcare market

Health care provision in the Czech republic is provided by a mix of state, quasi state and private providers. Most hospitals are still state-owned, mainly via municipalities, while most of the outpatient facilities orientated to primary care are in private hands.

The continuing lack of ownership reform in Czech health care provision, has diminished the incentive for effective and efficient management, with some notable exceptions. This has lead to a continued need for additional public support for these institutions and interruptions and disruption in health care provision to patients. Inadequate reimbursement levels from the state insurance funds further compound these problems. Problems are continuing with the transfer of ownership of hospitals from the central government to municipalities, primarily related to the large debt levels of those institutions that were transferred as well.

Current levels of spending on health care in the Czech Republic amount to 7.5% of GDP, which is lower than the OECD average of 8%. Czech healthcare expenditure as a % of GDP has increase since 1990, and is higher than its neighbouring accession countries.

Reform of the state healthcare system

The reform of the state health care system is being driven from a number of issues. The easily recognizable reform issue is the funding problem facing all state health systems. Health care funding is making an ever larger hole in public finances and will need to be addressed to get the fiscal reforms in place for meeting the Maastricht guidelines for entry to the Euro. In addition to this public expectations of the level of health care service will continue to increase. This issue has been recognized, however the political will to address it seems to be limited.

The other main driver from reform is the lack of privatization of inpatient care. This has been changed slightly with the transfer of 82 inpatient facilities from central government control to local municipality control, however this has done little to address the real issues of underfunding for these institutions and lack of motivation for efficient or effective management. These hospitals continue to be burdened with debt and still require rationalization and effective management. The only way this will be achieved is with private participation in owning or running these hospitals.

Competition

The range of competitors in the Czech market is relatively limited. There are a few competitors providing a similar range of medical services as Medicover. Competition is mainly concentrated in Prague. Most competitors offer mainly occupational health care services that are required by law in the Czech Republic or provide fee for service outpatient services. As in our other markets, Medicover work to differentiate our services versus our competition through a constant focus on quality of medical services and customer focus.

Outlook for 2003

During the year we expect to finalize our network development in all of the main Czech cities so as to be able to provide comprehensive care to our clients over a wide geographical area. Two new Medicover clinics will be opened at during 2003 in Prague and Brno. We will implement improvements in the quality of the provision of medical services and monitor this closely to bring the level of health provision into line with Medicover's levels. The process of building a Medicover business will continue, with brand awareness development, human resource development and sales and distribution.

Hungary

Medicover Hungary's revenue rose by 40% to €2.0 million, while the prepaid membership base increased from 3,300 to 4,100 members by year-end.

The Hungarian economy 2002

Hungary held elections in April 2002, which saw the Hungarian Socialist Party and the Alliance of Free Democrats returned to power after a four year break, inheriting a considerably worse fiscal situation than they left in 1998. It is typical of the Hungarian political cycle (and others) that the incoming winner has to deal with a deteriorating fiscal situation due to pre election excesses. The new government however has not appeared overly eager to improve the situation and 2002 had a fiscal deficit of 9.3%, far in excess of the deficit target levels for the Maastrict treaty and Euro accession. The Government has appeared relaxed about meeting these targets without having to adopt any fiscal tightening, whilst giving substantial boosts to the public sector pay levels.

After fighting off speculative attacks on the Hungarian Forint at the end of 2002 the central bank has cut rates by 200 points to 6.5%. GDP increased 3.3% over 2002, with 3.7% growth recorded in the fourth quarter. Expectations are for a similar level of growth over 2003.

Developments in Medicover in 2002

Medicover Hungary made significant investments in 2001 in its medical infrastructure with the addition of the West End Clinic in November 2001. The clinic is 500 square meters and provides ten well-equipped surgery rooms.

Whilst both clinics provide primary care services, the opening of the new clinic made it possible to provide new specialist services such as endocrinology, haematology, orthopaedics, and neurology, which has had a positive impact on cost effectiveness. These specialities are divided between the two clinics, providing services to both Budapest clients and those living in the suburbs.

In the 4th quarter, Medicover Hungary started to expand to the Hungarian countryside through partnerships with existing clinics and independent physicians. Our focus is the industrial regions, where many multinational companies have established manufacturing facilities.

Medicover Hungary is currently in the planning stages of moving the Buda clinic to a new location in a financial centre on the Buda side of the city where many multinational companies have established their headquarters. The new clinic will be nearly 600 square meters and offer ten surgery rooms.

Size of the Hungarian healthcare market

The Hungarian population has one of the lowest levels of general health in Europe and health care expenditure is very low compared with the OECD standards. Public health care expenditure accounts for 76% of health care spending, out of pocket payments for 21%, with other private expenditure providing the remainder. In the latest available official figures health care spending as a % of GDP has fallen to 6.7% of GDP, of which 5.5% was public expenditure. These figures showed that Hungary's health spending was only 40% of the EU average on a purchasing parity basis.

Market segments

In Hungary we should divide the market into different segments according to our business lines. These segments are occupational health care, prepaid healthcare and risk assessment market.

Prepaid healthcare: Most top executives in Hungary now receive some kind of benefit package from their firms in addition to basic salary. These extra benefits may be Private Health Care programs such as a Medicover Membership, or an annual health screening. Approximately 349,000 executives fall into the top executive category, but only approximately 170,000 are employed by private firms.

Occupational health care: In Hungary nearly 90% of the employees are covered by occupational health care. It reflects around 3.5 million employees. Medicover focuses mostly on larger private firms and their employees, so our target market is around 1.6 million employees at 300,000 private companies. In Hungary private health professionals carried out only 10% of the occupational health care services. It means that only 160,000 employees received occupational health care service in 30,000 workplaces from private health care professionals in the private sector. The expenditure on private occupational health care is around 4-5 million EUR annually.

Risk assessment: In Hungary 79.5% of the workplaces had some kind of risk assessment, or monitoring of the exposure levels. It is common practise in Hungary that small firms have done the risk assessment through the help of a software package, or they have not done it. So we estimate approximately 4600 potential clients, with 10-15% choosing a private health care company / professionals.

Reform of the state health care system

While the government attempts to solve the financial dilemmas facing hospitals with the aid of a new law that transforms them into non-profit companies, private investors are already operating various model projects for Hungarian healthcare.

A new bill permits Hungarian hospitals to transform into non-profit, public benefit companies that employ doctors as entrepreneurs and not as public servants. According to the Health Ministry, the move could improve state or municipally owned hospitals' financial positions by making them more attractive for potential investors and allowing easier access to loans.

Employer initiatives

Health Care Funds

After pension savings, the demand for health care ranks second with employees and employers. The number of Health Funds in 2000 was 33 and number of self-help Funds was 5, but during 2001, 12 Health and 5 Self-help Funds applied for government approval. The most popular services of the Health Funds are preventive medical care, dental care, and procurement of pharmaceutical and medical equipment. More and more employers are joining these funds, so the number of members is increasing.

Cafeteria

Employers give their employees the option of choosing from different benefits, called the cafeteria system. Usually the employees can choose from food, clothes and transportation benefits, but there is an increasing demand for health benefits as well. Health benefits can be Health Funds, but also private health care services, like Medicover memberships.

Outlook 2003

2003 will be a year of development for Medicover Hungary as we introduce the new health care fund and explain the benefits to employers and also extend the scope and availability of Medicover's services. 2003 will see several initiatives to improve our product offering and also see developments on our sales and distribution.

Medicover in Brief

Medicover in Brief

MEDICOVER IN BRIEF

Medicover is the leading private healthcare provider in Emerging Europe offering both healthcare delivery and financing system to its clients. We ensure the appropriate healthcare services are of high quality and at the convenience of the client.

Medicover services more than 3,000 corporate clients in Poland, Czech Republic, Hungary, Romania and Estonia. Our top quality medical facilities in densely populated areas coupled with a network of regional partner clinics, provide a wide network of medical services to employees of multinationals, large- and medium sized corporations.

- Revenue for the full year amounted to €35.3 million (€30.1 million), an increase of 17 percent versus last year.
- Revenue for the last quarter amounted to €9.2 million (€8.3 million), a gain of 10 percent versus the corresponding period last year.
- Prepaid membership rose to 104,000 at year end, an increase of 12,200 or 13 percent since last year.
- The operating loss from continuing operations amounted to €1.5 million for the full year, against a loss of €2.0 million in 2001.
- The operating profit from continuing operations before depreciation and amortisation amounted to €1.3 million for the full year, versus €0.4 million in 2001.
- After the end of the reporting period the shareholders approved the sale of the portfolio of unlisted investments, and this sale has now been completed.
- The full year loss for continuing operations amounted to €2.8 million (€3.0 million). The loss per share from continuing operations amounted to €0.229 per share (€ 0.258).

Earnings per share

(€'000)	**2002**	2001	2000	1999
Earnings/(loss) per share				
before goodwill	**-1.947**	-0.866	0.54	0.12
including goodwill	**-1.969**	-0.876	-1.00	0.12
Diluted earnings/(loss) per share				
before goodwill	**-1.916**	-0.851	0.54	0.05
including goodwill	**-1.937**	-0.861	-1.00	-0.26

Medicover Revenue Growth

(€'000)	**2002**	2001	2000	1999	1998	1997
4th Quarter	9,209	8,349	5,813	3,270	2,991	1,210
3rd Quarter	8,417	7,310	4,827	2,822	2,194	900
2nd Quarter	8,815	7,599	4,842	2,722	2,345	763
1st Quarter	8,824	6,843	4,399	2,449	1,600	550

THE SHARE AND OWNERSHIP

Ownership structure of Medicover
As of 30 December 2002

No of shares	No of shareholders	% shareholding	No of shares	% of shares
0 - 1,000	1,464	82.6	430,882	3.55
1,001 – 5,000	196	11.0	493,465	4.07
5,001 – 10,000	42	2.4	309,404	2.55
10,001 – 100,000	56	3.0	1,626,980	13.43
100,001 -	21	1.0	9,262,532	76.40
TOTAL	**1773**	**100.0**	**12,123,263**	**100.0**

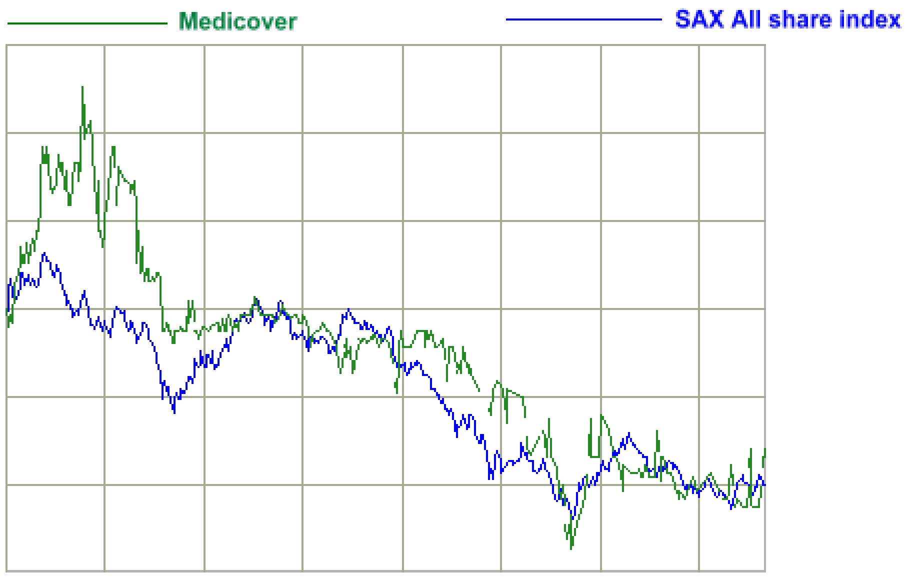
Largest shareholders
The 10 largest shareholders as of 30 December 2002

Shareholder	No of shares	%
Celox S.A.	4,315,298	35.6
Progress	778,000	6.4
Eikos	510,200	4.2
Superco Förvaltning	405,537	3.3
Livförsäkring AB Skandia	355,988	2.9
BNYTD *	227,397	1.9
St James' Place International Exempt Unit Trust *	227,398	1.9
International Growth and Value Fund *	227,398	1.9
St James' Place International Unit Trust *	227,398	1.9
St James' Place Greater European Progress *	227,398	1.9

* Referred to as Taube Hodson & Stonex Partners Ltd in the notes to the account, Note 23

Relative Performance of the Medicover Share

Medicover



ADVISORS AND ANALYSTS

Principal Bankers
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Luxembourg Branch
146, Boulevard de la Pétrusse
L-2330 Luxembourg, Luxembourg

Legal Advisors
Baker & McKenzie
100, New Bridge Street
London EC4V 6JA, United Kingdom

Stockbrokers
Handelsbanken Markets - Stockholm
Blasieholmstorg 12
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E-mail: bjorn.garat@remium.com

Svenska Handelsbanken
Andreas Theoren
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E-mail: anth19@handelsbanken.se

ORGANISATION

Structure

Medicover as a service business is largely dependent on the quality and professionalism among our staff. We believe in investing in people for the long term and many of the staff recruited in the first few years are still with the company.

We strive for a corporate culture with delegated responsibility where we put trust in the individual people running and managing our different business units.

We have a central corporate structure which covers finance, IT, sales and marketing, legal and corporate services and medical. Within these functions, senior Group executives provide functional leadership to the respective country organisations. Each country is managed by a country manager.

In the countries where we operate we find a large pool of highly qualified and motivated young professionals. We believe in recruiting people for attitude and then offering continuous education on increasing levels as the individual develops with the organisation.

Medicovers Staff

Medicover has a total of 1,200 employees of which 76% are women. The average age is 36. More than 48% of Medicover's staff have a university degree.

Sales force

Medicover is a pioneer in the development of the corporate prepaid health care market. The dedicated, professional sales force of about 75 full-time sales representatives complemented by around 25 sales support staff is one of the largest corporate distribution systems in the countries where we operate.

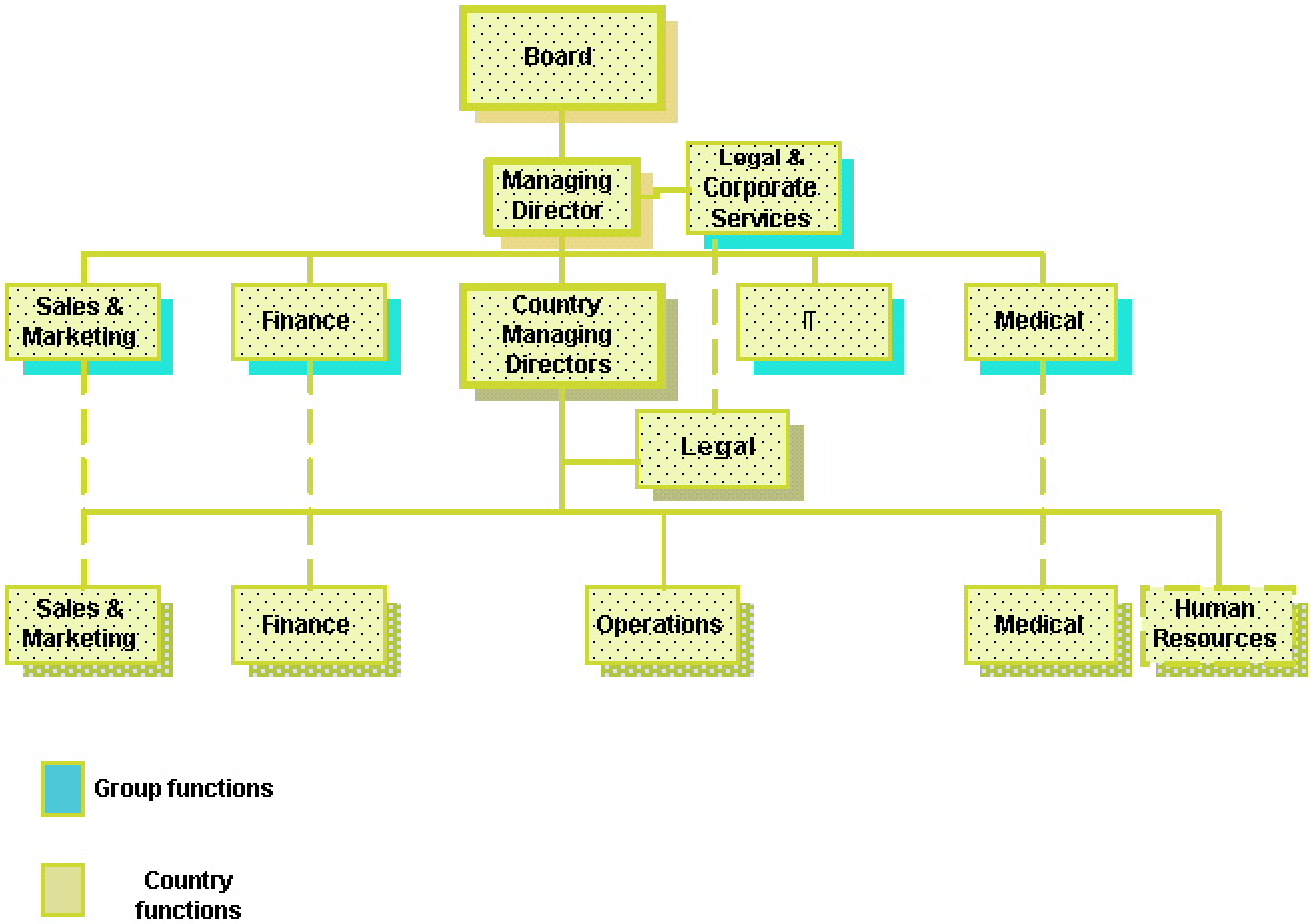
The Polish sales and distribution organisation serves as a proxy for the Medicover sales organisations. The department is divided into two main functions, a national sales and distribution force that works exclusively with new sales and a Business Development department, that develops existing corporate relationships. In addition we have database management and telemarketing staff.

Delivery system

Medicover has 281 medical facilities; 48 fully owned and controlled and 233 partnership clinics.

	Number of own facilities		Number of partnership facilities	
	2002	2001	2002	2001
Poland	25	18	207	110
Hungary	2	2	-	-
Czech Republic	4	4	19	25
Romania	9	6	7	-
Estonia	8	8	-	-
TOTAL	**48**	**38**	**233**	**135**

Organisational Scheme



MANAGEMENT

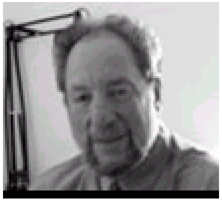
Jonas af Jocknick
- Executive Chairman
- Joined Medicover (Oresa Ventures): 1997
- Born: 1937
- Previous employment: Chairman Oriflame Eastern Europe S.A.
- Educational background: Law degree Stockholm University 1962, MBA Harvard Business School 1966.
- Number of shares in Medicover: 4,315,298

Fredrik Rågmark
- Managing Director
- Joined Medicover (Oresa Ventures): 1997
- Born: 1963
- Previous employment: Managing Director Oresa Ventures, Business Development Manager, Oriflame Eastern Europe.
- Educational background: BA Economics, Stockholm School of Economics, Master of Law, University of Stockholm.
- Number of shares in Medicover: 53,000.

Joe Ryan
- Financial Director
- Joined Medicover (Oresa Ventures): 1997
- Born: 1965
- Previous employment: UK. Chartered Accountant BDO Binder Hamlyn. Internal audit, Philip Morris Inc. Switzerland.
- Educational background: BSc. and BEng. University of Manchester. ACA Institute of Chartered Accountants of England & Wales, ACT Association of Corporate Treasurers.
- Number of shares in Medicover: 10,000.

André Lindekrantz
- Group Legal Counsel
- Joined Medicover (Oresa Ventures): 1998
- Born: 1963
- Previous employment: Attorney at law (advocate) at the international lawfirm White & Case, Stockholm, Provided legal advise relating to investments in Central and Eastern Europe.
- Educational background: Master of law, Faculty of law, University of Lund, Sweden. University degrees in Slavonic languages (Polish and Russian), University of Lund, Sweden.
- Number of shares in Medicover: nil.

Anthony Cameron
- IT Director
- Joined Medicover 2001
- Born: 1959
- Previous employment: Managing Director of Direct Access (UK), consulting company in the health service. 17 years experience of informatic technology in health sector.
- Educational background: MSc. In health informatics.
- Number of shares in Medicover: nil.



Charles Hertz

- Medical Director
- Joined Medicover: 1999
- Born: 1934
- Previous employment: Past associate professor of pediatrics and community medicine. Senior physician at the Children's Hospital of Philadelphia. Participated in the formation of the first group practice HMO in Philadelphia in 1973, and served as Medical Director for 13 years. Chief Medical Director Metropolitan Life Insurance Company.
- Educational background: Medical education and training at University of Pennsylvania School of Medicine.
- Number of shares in Medicover: nil.

Andrzej Jacascek

- Group Sales & Marketing Director
- Joined Medicover: May 2002
- Born: 1960
- Previous employment: Norwich Union - Country Director Poland
- Educational background: M.B.A. University of Minnesota, Carlson School of Management
- Number of shares in Medicover: nil.

BOARD OF DIRECTORS

Jonas af Jochnick

- Born: 1937
- Elected to the board: 1997
- Present Employment: Executive Chairman of Medicover
- Previous employment: Chairman Oriflame Eastern Europe S.A.
- Educational background: Law degree Stockholm University 1962, MBA Harvard Business School 1966
- Present Board Assignments: Medicover Holding S.A., Oriflame International, various companies in the Medicover Private equity portfolio, various educational institutions.
- Number of shares in Medicover: 4,315,298.

Arno Bohn

- Born: 1947
- Elected to the board: 2001
- Present Employment: Partner Bohn Consult GmbH, Freiburg/Germany.
- Previous Employment: CEO General Electric Company, Germany, Vice President General Electric Company, USA.
- Educational Background: School of Economics, Lörrach, Germany.
- Present Board Assignments: CEO Project Hope e. V. Germany, Member of the Board of Directors Project Hope USA, Member of the Board MEDinsite AB Stockholm, Sweden, Chairman of the Board MFC Capital Partners AG, Berlin, Germany.
- Number of shares in Medicover: 7,900.

Sören Gyll

- Born: 1940
- Elected to the board: 1997
- Present employment: None.
- Previous employment: Rank Xerox, Sales Operations Manager, Marketing Manager, Vice President, Uddeholm Sweden AB, President, Uddeholms AB, Executive Vice President, Uddeholms AB, President and CEO, Procordia AB, President and CEO, AB Volvo, President and CEO.
- Present board assignements: Chairman of the Board: Confederation of Swedish Enterprise, Capedal AB, Probi AB. Director: AB SKF, Skanska AB, SCA the Swedish Cellulose Company, Medicover S.A., Askus AB. Memberships: The Royal Swedish Academy of Engineering Sciences.
- Number of shares in Medicover: nil.

Margareta Nordenvall

- Born: 1954
- Elected to the board: 2001
- Present employment: MD Consultant, Former MP.
- Previous Employment: CEO, Sophiahemmet AB, private hospital in Stockholm, gynaecologist in private practice at the Skandia clinic, Sophiahemmet
- Educational Background: MD, Karolinska Institute 1978, PhD Karolinska Institute 1990, MBA Sloan School of Management 2002
- Present Board Assignments: Medicover Holding S.A., AB Mando
- Number of shares in Medicover: nil.

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Fredrik Rågmark

- Born: 1963
- Elected to the board: 1997
- Present employment: Managing Director of Medicover.
- Previous employment: Managing Director Oresa Ventures, Business Development Manager, Oriflame Eastern Europe.
- Educational background: BA Economics, Stockholm School of Economics, Master of Law, University of Stockholm.
- Number of shares in Medicover: 53,000.

Peter Wikström

- Born: 1943
- Elected to the board: 1997
- Present employment: Nordea Securities, Director, Head of Corporate Finance Sweden.
- Previous employment: Worked for Hambros Bank and The Toronto Dominion Bank in the 1970´s. From late 1970´s until 1985 Finance Director of Kooperativa Förbundet (KF). Joined Enskilda Fondkommission in Stockholm 1985 taking particular responsibility from 1986 to 1992, for the private M&A business, Cofounder and Partner of Maizels Westerberg & Co 1993-1999, In 1999 MW&Co was amalgamated with Nordea Securities.
- Educational background: BA Economics, University of Lund
- Present board assignements: Medicover Holding S.A.
- Number of shares in Medicover: 40,000

KPMG Reviseurs d'Entreprises, Belgium
Marc Hoydonckx
Reviseur d'Entreprises.
Auditors for Oresa Ventures N.V.since 1996 and for Medicover Holding S.A. (former Oresa Ventures S.A.) since 1997.

Financial Report

Financial Report

DIRECTORS' REPORT

Summary

2002 has been a challenging year for Medicover with continued economic weakness in Medicover's largest market in Poland. Overall growth has fallen short of Medicover's stated target. The weakness in Poland has been partly balanced by a near doubling of volume in Medicover's core prepaid business outside of the Polish market. Excluding the impact of the Czech acquisition, the prepaid organic growth outside Poland amounted to a strong 68%. Prepaid membership roes to 104,000 from 91,800, an increase of 13% or 12,200.

The consolidated loss after tax from all operations was €23.9 million, with a loss of €21.1 million or €1.97 per share from discontinuing operations and a loss of €2.8 million or €0.23 per share from continuing operations. The operating deficit reduced to a loss of € 1.5 million versus €2.0 million for the previous year. The operating profit before depreciation and amortisation improved to €1.3 million versus € 0.4 last year. Contribution after medical costs increased 17% to € 14.1 million versus €12.0 million for the previous year.

Medicover's business model is working with the two major markets making significant contributions to the business and more than doubling their operating results versus the previous year despite a difficult economic environment. In Hungary and the Czech Republic Medicover is investing to develop the Medicover concept and create a market for Medicover's services by building brand awareness, sales distribution and medical infrastructure. Medicover has made significant expenditures on information systems and sales and marketing over 2002 to support the medium to longer-term growth prospects in Central and Eastern Europe.

During the year the Directors have taken the decision to discontinue the investment activities of Medicover and divest the remaining investments. The shareholders voted on a sale proposal to dispose of the majority of these assets in January 2003 and this sale has now been completed. This sale will restructure Medicover's balance sheet and ensure that medicover can progress with a sound financial structure, and a clear focus on the opportunities offered by in the health care market in Central and Eastern Europe.

Medicover's result

Revenue increased by 17% over the last year, increasing to €35.3 million from €30.1 million. The largest increases were in the two main markets of Poland and Romania and the contribution from the new business of Medicover in the Czech Republic. Medicover maintained a medical cost ratio for the year of 59.8 % versus 60.0% for 2001. Distribution, selling and marketing costs amounted to €4.3 million for the full year, representing 12.1% of revenue and an increase of €0.3 million on 2001 expense of €4.0 million. Administrative costs were €8.6 million for the year or 24.3% of revenue. This compares with €7.6 million or 25.0% of revenue for 2001. Excluding the impact of the Czech acquisition, administrative costs increased €0.3 million or 4% versus last year. Depreciation and goodwill amortisation increased to €2.9 million versus €2.4 million for the previous year.

Revenue from Poland increased by 5% in 2002, which is below Medicover's growth target, compared with 51% in 2001. In Poland Medicover has experienced a slowdown in revenue growth over the last 18 months, since mid 2001, however for the full year 2001 revenue still grew strongly due to good 2000 and first half 2001 membership growth. The membership base grew in Poland by 5,200 members or 7% over the year, to a total of 77,600 members at year-end. The Polish growth in 2002 has been balanced between Warsaw and the regional cities, however Warsaw still constitutes almost two thirds of the Polish business. The network service, where we service our members through affiliated providers across the country, has experienced stronger growth, although this is still a relatively small part of our overall revenue we expect this to continue to grow. At the end of the year Medicover had 18 clinics and 1 laboratory operating in Poland.

Medicover increased revenue in Romania by 32% to €6.8 million from €5.2 million last year. The prepaid business increased by 59% to €1.9 million. The number of prepaid members increased to 12,000 at year-end from 9,800 a year earlier. The laboratory business in Romania grew by 24% to €4.0 million from €x.x million, representing just below 3 million test per annum. At the end of the year Medicover had 4 Clinics and 5 laboratories in Romania.

Medicover has made significant investments in Romania over 2002, opening large medical facilities in two cities outside Bucharest, both of which service large local employers. In addition Medicover has invested in the laboratory operation to accommodate larger volumes and upgrade technology.

Medicover Hungary increased revenue by 39 % to €2.0 million from €1.4 million. The revenue figure has a different composition from the 2001 comparative figure with a deliberate effort to reduce the size of the cash business and concentrate efforts on the prepaid business. The prepaid business increased by 76 % to €1.4 million whereas the cash paid business decreased by 23 %. Prepaid members increased to 4,100 at year-end from 3,300 at the end of last year. Medicover had 2 medical clinics in Hungary at the end of 2002.

Medicover in the Czech Republic achieved a turnover of €1.9 million for the year. For the previous year the company was only consolidated for the final two months of the year. The prepaid membership increased to 8,000 at year-end from 5,600 at the end of last year. At the end of the year Medicover had 3 clinics in the Czech Republic.

Medicover Estonia's revenue increased by 26% to €0.9 million in 2002 from €0.7 million last year. Medicover increased its prepaid membership base to 2,300 from 700 at the end of last year. The prepaid business has started to grow from a small base.

Capital Expenditure

Medicover has invested €2.5 million in capital investment in 2002, compared to €3.2 million in 2001. Investments have been made to upgrade clinical capacity in several locations and to add two new clinical centres in Romania. Medical equipment was also upgraded in several locations and investments were made to increase the capacity of the laboratory service in Romania. During the year capital investments were also made in developing IT systems and infrastructure.

Discontinuing activities - Investment business

The investment activities have been classified as discontinuing and the shareholders approved the sale of the majority of the private equity portfolio in January 2003. This sale has now been completed. The investment activities had a loss for the year of €21.1 million compared to a loss in the prior year of €7.4 million. The deteriorating economic situation in Poland and the considerably lengthened expected time to exit the unlisted investments, combined with a continuing funding requirement obliged the Directors to take the decision to dispose of the portfolio at as best a price as could be achieved in the current market. It is obviously deeply disappointing to all stake holders in the company to incur this scale of losses, however all venture capital funds of Medicover's vintage active in our geographical area and business segments have seen equally disappointing results.

Liquidity

Current assets amounted to €19.9 million, due to a reclassification of €12.3 million of unlisted equity investments from non-current to current assets. After adjusting for this reclassification, current assets were €7.6 million, including €1.3 million in listed shares. Payables, including accruals and deferred revenue amounted to €6.3 million. Total debt at year-end amounted to €15.6 million, with debt net of cash amounting to €12.7 million. €12.0 million in cash was received in January 2003 following the approval by the shareholders of the sale of the unlisted portfolio investments (except for three fund investments). This cash receipt was used to reduce debt by just over €10.0 million, giving a sound balance sheet with a net debt level of €0.5 million. To illustrate the effect of this transaction a pro-forma balance sheet is shown below, with the sale and debt reduction included as if it had occurred at year-end.

As at	Pro-forma 31 December 2002 €'000
Non-current Assets	
Fixed assets	11,476
Unlisted investments	2,372
Deferred tax asset	793
Total non-current assets	**14,641**
Current Assets	
Listed equity shares	1,271
Inventories	246
Receivables	3,217
Cash and cash equivalents	5,168
Total current assets	**9,902**
Total Assets	**24,543**
Share capital and shareholders' equity	**12,183**
Non-current liabilities	
Loans payable	3,865
Deferred tax liability	425
Total non-current liabilities	**4,290**
Current liabilities	
Loans payable	1,749
Trade and other payables	6,321
Total current liabilities	8,070
Total liabilities	**12,360**
Total shareholders' equity and liabilities	**24,543**

Finance Costs

Financial costs amounted to €1.2 million for 2002 in comparison to €1.5 million in the prior year. Financial costs have reduced compared to 2001 as a result of renegotiation of the terms of the International Finance Corporation (IFC) loan. Medicover has agreed with the IFC to change the basis for the calculation of the additional performance related interest charge from a revenue based calculation to an EBITDA related calculation, and additionally to defer payment of future performance related interest until the loan is fully repaid in 2006. These changes have reduced the interest charge this year by $433,000 and in future years Medicover estimates the reduction to be $1,000,000 over the remaining life of the loan.

Future Developments

The immediate economic outlook faces a period of unprecedented uncertainty stemming from a number of factors, including the immediate threat of war in the Middle East. Economic growth in Western Europe is expected to remain weak over 2003. In this environment most observers still expect to see above average growth coming out of the markets in Central and Eastern Europe for several years to come, however the global economic weakness will dampen the size of this growth. Growth will be primarily driven by a continued strong inflow of foreign direct investment, the integration of the markets into the European Union and the potential for eventual EMU membership. With an educated and skilled domestic labour force and a significant cost advantage to Western Europe, the eastward migration of industry will continue with closer integration with Western Europe. Domestic consumption will increase on the back of increased purchasing power, lower interest rates and a wider spread of credit and mortgage institutions.

It was a historic landmark for the region when the first wave of applicant countries in December 2002 were invited to join the European Union in May 2004, and during 2003 local referendums will be held in each country with the first in Malta having already approved accession.

There is a growing political consensus in the markets where Medicover operates that public healthcare funding and provision need to be complemented with private alternatives. This is the only way that the present funding gaps in healthcare budgets can be filled. Medicover expect to see several long awaited initiatives being published during the coming year in this area. Medicover is in an excellent position to build on its present strong market position and brand recognition and thereby capitalise on the expected increased spending on private healthcare as a complement to the public system.

During 2003 Medicover will further strengthen its product platform and will seek to develop new ways to distribute its products. Medicover will continue to develop its medical infrastructure across the region with owned and partnered facilities. Medicover will continue to develop as the preferred partner for all employers who see their employees as an important asset and are prepared to invest in their health, well being and productivity.

Dividend

The Board of Directors does not recommend the distribution of a dividend for 2002.

Work of the Board

The board has four regular meetings during the year, in addition if other business is required to be discussed in-between these regular meetings, then additional meetings are scheduled as required. The following issues are on the agenda of each regular meeting: The financial results of the company and of each of the markets, the outlook for the business, operational review of each market and sales results. From time to time the board meets or has contact with executive management outside of the regular meetings and has the opportunity to make inquiries as to the business performance or issues.

Sören Gyll, Peter Wikstrom, Dag Bjurström, Jonas af Jochnick, and Fredrik Rågmark were appointed members of the board in the spring of 1997. Arno Bohn and Margareta Nordenwall were appointed members of the board in the spring of 2001. Mr af Jochnick is Executive Chairman and Mr Fredrik Rågmark is Managing Director, all other directors are non executive directors and have no other duties or interests in t he Group, except for Arno Bohn, who is also a non executive director of one of Medicover's unlisted investments, Medinsite.

Jonas af Jochnick

CONSOLIDATED PROFIT and LOSS ACCOUNT

Continuing Operations
Year to 31 December

	Note	**2002 €'000**	2001 €'000
Revenue	5	**35,264**	30,101
Operating expenses			
Medical provision costs		**(21,085)**	(18,051)
Distribution, selling and marketing costs		**(4,258)**	(4,039)
Administrative costs		**(8,590)**	(7,631)
Depreciation and amortisation	11,12	**(2,856)**	(2,357)
Total operational expenses		**(36,789)**	(32,078)
Operating loss		**(1,525)**	(1,977)
Interest income		**95**	193
Interest expense		**(710)**	(1,292)
Foreign exchange loss	**9**	**(250)**	(331)
Total financial expenses		**(865)**	(1,430)
Loss before tax		**(2,390)**	(3,406)
Income tax	10	**(381)**	329
Loss after taxation		**(2,771)**	(3,077)

Per ordinary share information:	26	**2002**	2001
Loss per share		**€ (0.229)**	€ (0.258)
Diluted loss per share		**€ (0.225)**	€(0.258)

Discontinuing Operation

Investment loss	**6**	**(19,850)**	(5,471)
Investment management costs		**(868)**	(1,739)
Net investment income loss		**(20,718)**	(7,210)
Interest income		**6**	157
Interest expense		**(377)**	(196)
Total financial expenses		**(371)**	(38)
Loss before tax		**(21,089)**	(7,249)
Income tax	10	**3**	(121)
Loss after tax		**(21,086)**	(7,370)

Total Consolidated
Year to 31 December

	Note	2002 €'000	2001 €'000
Revenue	5	**35,264**	30,101
Operating expenses			
Medical provision costs		**(21,085)**	(18,051)
Distribution, selling and marketing costs		**(4,258)**	(4,039)
Administrative costs		**(8,590)**	(7,631)
Depreciation and amortisation	11, 12	**(2,856)**	(2,357)
Total operational expenses		**(36,789)**	(32,078)
Operating loss		**(1,525)**	(1,977)
Investment loss	6	**(19,850)**	(5,471)
Investment management costs		**(868)**	(1,739)
Net investment loss		**(20,718)**	(7,210)
Interest income		**101**	350
Interest expense		**(1,087)**	(1,487)
Foreign exchange loss	9	**(250)**	(331)
Total financial expenses		**(1,236)**	(1,468)
Loss before tax		**(23,479)**	(10,655)
Income tax	10	**(378)**	208
Loss after tax		**(23,857)**	(10,447)

Per ordinary share information:	26	**2002**	2001
Loss per share		**€ (1.969)**	€ (0.876)
Diluted loss per share		**€ (1.937)**	€(0.861)

CONSOLIDATED BALANCE SHEET

As at 31 December	Note	2002 €'000	2001 €'000
Non-current assets			
Purchased goodwill	*11*	**2,236**	2,402
Intangible fixed assets	*11*	**1,209**	996
Tangible fixed assets	*12*	**8,031**	8,811
Total fixed assets		**11,476**	12,209
Loan investments	*14*	**-**	1,893
Unlisted equity investments available for sale	*14*	**2,372**	33,314
Total unlisted investments		**2,372**	35,207
Deferred tax asset	*10*	**793**	1,043
Total non-current assets		**14,641**	48,459
Current assets			
Listed equity shares available for sale	*13*	**1,271**	3,496
Loan investments	*14*	**1,376**	-
Unlisted equity investments available for sale		**10,910**	-
Inventories		**246**	202
Receivables	*15*	**3,217**	3,527
Cash and cash equivalents		**2,882**	3,441
Total current assets		**19,902**	10,666
Total assets		**34,543**	59,125
Share capital and reserves	*20,21*	**12,183**	36,395
Non-current liabilities			
Loans payable	*17*	**3,865**	5,892
Deferred tax liability	*10*	**425**	395
Total non-current liabilities		**4,290**	6,287
Current liabilities			
Loans payable	*17*	**11,749**	9,586
Trade and other payables	*16*	**6,321**	6,857
Total current liabilities		**18,070**	16,443
Total liabilities		**22,360**	22,730
Total shareholders' equity and liabilities		**34,543**	59,125

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€'000	Share Capital	Reserve for own Shares	Additional Paid in Capital	Accumu-lated Losses	Trans-lation Reserve	TOTAL
Opening balance 1 January 2001	**62,368**	**-**	**27,221**	**(44,363)**	**(633)**	**44,593**
Share capital increase	1,983	-	-	-	-	1,983
Reserve for own shares	2,015	(2,015)	-	--	-	-
Movement on reserve for own shares	-	54	(71)	-	-	(17)
Costs related to share capital increase	-	-	(43)	-	-	(43)
Purchase of minority interest	-	-	-	116	-	116
Loss for the period	-	-	-	(10,447)	-	(10,447)
Effect of exchange rate differences on translation of profit and loss	-	-	-	-	210	210
Closing Balance 31 December 2001	**66,366**	**(1,961)**	**27,107**	**(54,694)**	**(423)**	**36,395**
Opening Balance 1 January 2002	**66,366**	**(1,961)**	**27,107**	**(54,694)**	**(423)**	**36,395**
Movement on reserve for own shares	-	47	(39)	-	-	8
Loss for the period	-	-	-	(23,857)	-	(23,857)
Effect of exchange rate differences on translation of profit and loss	-	-	-	-	(363)	(363)
Closing Balance 31 December 2002	**66,366**	**(1,914)**	**27,068**	**(78,551)**	**(786)**	**12,183**

CONSOLIDATED CASH FLOW STATEMENT

Year to 31 December	*Note*	**2002** **€'000**	2001 €'000
Loss before tax		**(23,479)**	(10,655)
Adjustments for:			
Depreciation		**2,594**	2,245
Amortisation of goodwill		**262**	112
Loss on disposal of fixed assets		**20**	238
Investment portfolio loss		**20,016**	5,419
Dividends received		**(48)**	(41)
Interest expense		**1,087**	1,487
Interest income		**(101)**	(350)
Unrealised foreign exchange gain		**(209)**	(345)
Changes in operational assets and liabilities:			
(Increase) / Decrease in receivables and inventories		**(37)**	1,453
Increase / (Decrease) in payables		**322**	(26)
Cash generated / utilized by operating activities		**427**	(463)
Income tax paid		**(326)**	(93)
Net cash flow from operating activities		**101**	(556)
Investing Activities			
Loan investments advanced		**(376)**	(497)
Acquisition of unlisted securities		**(712)**	(1,468)
Proceeds from sale of unlisted securities		**884**	-
Acquisition of fixed assets		**(2,521)**	(3,165)
Proceeds from sale of tangible fixed assets		-	36
Proceeds from sale of listed equity shares		**2,602**	-
Proceeds from sale of bonds		-	2,301
Acquisition of subsidiaries, net of cash acquired	*4*	**(77)**	(2,338)
Interest received		**101**	350
Dividends received		**48**	41
Net cash flow from investing activities		**(51)**	(5,090)
Financing activities			
Share capital increase		**-**	3,884
Movement on reserve for own shares		**8**	(1,961)
Loans received		**1,049**	7,217
Interest paid		**(1,492)**	(1,305)
Net cash flow from financing activities		**(435)**	8,185
Net effects of exchange (gain) / loss on cash balances		**(174)**	95
(Decrease) / Increase in cash and cash equivalents		**(559)**	2,634
Cash and cash equivalents			
Cash balance as at 1 January		**3,441**	807
Total cash balance as at 31 December		**2,882**	3,441
(Decrease) / Increase in cash and cash equivalents		**(559)**	2,634

STATEMENT OF SEGMENT INFORMATION

€'000	Medical		Investment		Total	
Year to 31 December	**2002**	2001	**2002**	2001	**2002**	2001
External Medical Sales:						
Poland	**23,127**	21,994	**-**	-	**23,127**	21,994
Romania	**6,835**	5,197	**-**	-	**6,835**	5,197
Other	**5,302**	2,910	**-**	-	**5,302**	2,910
Total External Medical Sales	**35,264**	30,101	**-**	-	**35,264**	30,101
External Investment (loss) / Income:			**(19,850)**	(5,471)	**(19,850)**	(5,471)
Segment (loss)/profit	**(1,525)**	(1,977)	**(20,718)**	(7,210)	**(22,243)**	(9,187)
Interest Income		-		-	**101**	350
Interest Expense		-		-	**(1,087)**	(1,487)
Foreign exchange (gain) / loss		-		-	**(250)**	(331)
Net loss before taxation					**(23,479)**	(10,655)
Non-cash expenses:						
Depreciation	**2,592**	2,237	**2**	8	**2,594**	2,245
Amortisation		-		-	**262**	112
Foreign exchange loss /(gain)		-		-	**250**	331
Other non-cash expenses	**20**	238	**20,477**	6,984	**20,497**	7,222
Total non-cash expenses	**2,612**	2,475	**20,479**	6,992	**23,603**	9,910
Assets:						
Poland	**7,644**	8,853			**7,644**	8,853
Romania	**4,125**	3,537			**4,125**	3,537
Other	**6,846**	5,624	**15,928**	41,111	**22,774**	46,735
Total Assets	**18,615**	18,014	**15,928**	41,111	**34,543**	59,125
Capital expenditure	**2,521**	3,165		-	**2,521**	3,165
Liabilities					**22,360**	22,730

The segment information above is presented in respect of the Group's business and geographical segments. Business segments are comprised of medical (the provision of comprehensive health care services) and investment (a portfolio of unlisted investments in developing companies) segments. A secondary analysis of the medical business information is also presented based on the geographical location of customers and assets. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest income and expense, and interest-bearing loans.

Notes to the Accounts

NOTES TO THE ACCOUNTS

1. Status and Principal Activity

Medicover Holding S.A. ("the Company") is a company registered in Luxembourg. The principal activity of the Company is to provide comprehensive health care from basic services to complex surgery in an integrated delivery environment and to combine this delivery with risk sharing and affordable payment methods. In addition the Company has a portfolio of unlisted investments in developing companies operating in non-medical sectors which is being discontinued and sold.

2. Summary of Significant Accounting Policies

These consolidated financial statements of the Company and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

(a) Basis of preparation

The consolidated financial statements are presented in Euro, rounded to the nearest thousand. They are prepared on the historical cost basis except for certain investments available for sale and for one subsidiary that operates in a hyperinflationary economy as explained further in the accounting policies below. The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(b) *Principles of consolidation*

The Group prepares consolidated financial statements, which aggregate the assets and liabilities, revenue and expenses of the Company and its subsidiaries. A subsidiary is an entity over which the Company exercises control through ownership or otherwise. A listing of the Group's subsidiaries is set out in Note 25. All inter-company balances, profits and transactions are eliminated upon consolidation.

(c) *Revenue*

Revenue represents:

- i Fixed rate contract amounts received for access to a predetermined range of medical services over a period of time.
- ii Fees paid for access to medical services on a per-usage basis (fee for service).

Where fixed rate amounts are paid in advance and the period of service extends over a period end, then the amounts relating to future periods are deferred on a pro-rata basis. No deferrals extend longer than 13 months.

(d) *Portfolio investments*

Portfolio investments are listed equity shares, which are classified as available for sale and stated at fair value. The fair value of the portfolio investments is their quoted market price at the balance sheet date. All purchases and sales of portfolio investments are recognised at the date of settlement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Group has elected to recognise all realised and unrealised profits and losses arising on portfolio investments in the consolidated income statement.

(e) Unlisted investments (venture capital investments)

Unlisted investments are current and non-current investments comprising unlisted equity shares and loan investments. Unlisted investments are held with the objective of realising a capital gain from a future sale. All purchases and sales of unlisted investments are recognised at the date of settlement.

As unlisted investments are held with a view to sale, the Group does not account on an equity accounted basis, but on a fair value basis, following guidance given by the IASB.

Unlisted equity investments are classified as available for sale and stated at fair value, except where fair value cannot be established reliably in which case the securities are carried at cost. Any resultant profit or loss on investments measured at fair value is recognised in the consolidated income statement. Loan investments made by the Group are stated at cost, where no fixed maturity is specified, or where a fixed maturity is applicable, at a value that will yield a fixed rate of return over the life of the loan.

Investments are reviewed quarterly and revalued by the Directors on a case by case basis.

The fair value of unlisted equity investments is determined by the Directors as follows:

i. Where the Directors consider the unlisted equity investment as an early stage investment, then the valuation is based on cost, less any provision required to reflect a permanent diminution in value, or a fair value as indicated by a material third party investment. At such an early stage in the investment it is difficult to be able to draw any reliable indicator of a fair value, unless the investment performs considerably below its original targets, or where a material third party investment transaction in the investment indicates a fair value.

ii. Where the directors consider the unlisted equity investment at a development stage, and where the latest financial statements show a profit, the valuation is made by reference to a value based on the application to the latest reported earnings of a price-earnings ratio appropriate to similar listed investments. If the resultant valuation is less than half the net asset value reflected in the financial statements of the investment, then the valuation is based on half the book value to reflect the liquidation value or proceeds possible from a disposal. If failure is expected, the investment is carried at expected liquidation value, if any.

iii. Where no financial statements have been received for a period following the initial investment, the investment is valued at cost.

In each of these cases an appropriate discount is applied to the valuations to reflect restricted marketability and where appropriate they are modified to take account of special factors relating to each investment, which are considered to affect the valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(f) Foreign currencies

Foreign currency revenue and costs are translated to Euro at the rate ruling at the time of the transaction. Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Euro at the exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised directly in shareholders' equity. The major currency translation rates used in these financial statements are as follows:

	Balance Sheet Rate €		Annual Average Rate €	
	2002	2001	2002	2001
United States Dollar	1.05	0.890	0.934	0.890
Polish Zloty	4.02	3.52	3.82	3.74
Hungarian Forint	236	244	245	258
Romanian Lei	34,750	28,032	34,728	24,646

One subsidiary operates in a hyper inflationary economy and uses the Euro as its measurement currency. In this subsidiary, the income statement is translated at average rates for the relevant accounting periods. Monetary assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate ruling at the date of their initial recognition, using the Euro foreign exchange rate as a proxy for the local inflation rate. All exchange differences arising on translation are debited or credited to the income statement.

(g) Operating lease payments

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(h) Discontinuing operations

The investment activities of the group are being discontinued and are in the process of being sold. The results of the discontinuing operation are shown separately.

(i) Inventories

Inventories are valued at the lower of cost or net realisable value using the first in first out method.

(j) Intangible fixed assets

Goodwill:
Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the net identifiable assets of the acquired company at the date of acquisition. It is stated at cost and amortised on a straight-line basis over its estimated economic useful life. Currently carried goodwill balances are being amortised over ten years from the date of initial recognition.

Software:
Software is stated at cost less accumulated amortisation. Amortisation is computed as a fixed percentage of the purchase price at 20 % per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long term leasehold:
Long term leaseholds are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the remaining life of the leasehold.

(k) Tangible fixed assets

Tangible fixed assets are stated at cost and depreciated on a straight-line basis over their estimated useful life. The following are indications of the estimated useful life by asset class:

Buildings	2 – 5 %
Leasehold Improvements	10 – 33 %
Equipment	14 – 20 %
Vehicles	20 – 25 %
Other	30 – 33 %

To enable certain leasehold premises to be adapted for use as medical clinics, rental costs are incurred during an adoption phase before the premises can be used. These costs are capitalised as part of the leasehold improvement as they are directly attributable to bringing the asset to its condition as a medical clinic.

(l) Receivables

Trade receivables are stated at nominal value less a provision for doubtful receivables where applicable.

(m) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, or related to. Directly attributable costs and arrangements fees for borrowings are offset against the associated borrowing when initially incurred. In subsequent periods the offset is progressively reversed to the income statement as an additional interest cost on a basis that reflects an even cost of the loan over its duration, which approximates the effective interest method.

(n) Contract acquisition costs

Contract acquisition costs represent commissions, salaries and direct costs associated with selling and acquiring fixed fee medical contracts. All of these costs are expensed in the period when incurred, except for commission costs, which are recognised over the contractual term of the fixed rate contract and charged to the consolidated income statement in the corresponding period.

(o) Impairment

The Group reviews its assets annually to determine potential impairment. If any such indication exists, the asset’s recoverable amount is estimated from discounting expected future cash flows. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(p) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative financial instruments are recognised initially at cost. At each subsequent reporting date they are restated at fair value. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Recognition of any resultant unrealised gain or loss depends on the nature of the item being hedged, and whether the hedge matches the exposure completely or partially.

(q) Hedging

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the consolidated income statement.

(r) Employee benefits

i) Share incentive plan

The Company operates an employee share incentive plan for senior management of the Group. The cost of this plan is the value of the share options issued and vested. This cost is not recognised in the consolidated income statement of the Group. Upon issue of any shares related to the exercise of share options issued under the incentive plan, they are accounted for as any normal share issue, and no profit and loss movement is recorded.

ii) Investment performance incentive plan

The Company operates a performance incentive plan, which links profit sharing for staff involved in the investment area of the business to the capital profits realised on sales of investments. The cost of this plan is charged to the consolidated income statement as incurred.

iii) Defined contribution plan

The Group makes contributions to statutory pension funds on behalf of employees in the Group's countries of operation. In addition the Group makes contributions to defined contribution pension funds on behalf of certain employees.

(s) Deferred tax

Deferred tax is provided for temporary differences, which are based on the differences between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Deferred tax assets are recognised to the extent that their recoverability is deemed to be probable.

(t) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand together with term deposits and highly liquid debt instruments with original maturities of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Swedish and International Accounting Standards Differences

IAS 39 “Financial Instruments: Recognition and Measurement” adopts the principal of carrying financial instruments at fair value, except for certain categories of financial assets and liabilities which meet certain requirements to be identified as hedge transactions. It requires all valuation movements in relation to assets held for trading to be recognised in the income statement. The standard allows a one-time accounting policy choice for recognising fair value changes of available for sale securities either in the income statement or in equity until such securities are sold or become impaired. IAS 39 makes no distinction in the accounting treatment between short term and long term assets.

According to Swedish accounting principles, current assets should be valued in accordance with the lower of cost or market value principle, however, a market valuation is permitted for banks and other credit market companies. A write-down as a result of the application of the lower cost or market value principle is reported in the income statement. Unrealised gains may not be reported in the income statement. In relation to long term investments, Swedish accounting principles state that an increase in the carrying amount should be based upon a reliable and permanent value, which substantially exceeds book value.

4. Acquisitions

There were no new acquisitions during the year.

Adjustments to the goodwill calculation for the acquisition of First Medical Clinic of Prague s.r.o. (Medicover s.r.o.) were made in 2002, increasing goodwill by €96,000. (Note 11). €84,000 of this adjustment related to adjustments to the value of leased assets and €12,000 was paid in cash for due diligence costs.

The acquisition of the First Medical Clinic of Prague s.r.o. (Medicover s.r.o.) was accounted for using the purchase method of accounting. In addition to the fixed purchase price included in the accounts, the Company’s purchase agreement with the former shareholders of First Medical Clinic of Prague contains a profit sharing agreement for the years 2003 through 2008 contingent on the fulfilment of certain profit targets. The maximum additional payment under this agreement is capped at € 600,000. € 65,000 was paid in 2002 in relation to deferred payment under the acquisition contract.

5. Revenue

Medical revenue by source of business is as follows:

	2002 €'000	2001 €'000
Fixed rate contracts	**33,835**	26,898
Fee for service	**3,283**	5,525
Other	**1,950**	664
Total gross turnover	**39,068**	33,087
Less discounts granted	**(3,804)**	(2,986)
Total net turnover	**35,264**	30,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Investment income / (loss)

Investment income relates to the following activities

	2002 €'000	2001 €'000
Provisions against unlisted equity investments	(19,256)	(6,984)
Profit on sale of listed investments	2,102	-
Loss on sale of listed investments	(101)	-
Unrealised gains on listed investments	457	1,675
Unrealised losses on listed investments	(1,678)	-
Profit on sale of unlisted equity investments	34	-
Loss on sale of unlisted investments	(1,526)	(509)
Gain on sale of bonds	-	164
Dividends received	48	41
Interest on investments	70	234
Other	-	(92)
	(19,850)	(5,471)

7. Staff costs

Staff costs are composed as follows:

	2002 €'000	2001 €'000
Wages and salaries	13,548	12,420
Statutory pension contribution	1,311	1,145
Social security	888	873
Other employment benefits	418	301
Defined contribution pension contributions	70	58
Total staff costs	16,235	14,797

The Group employed the following staff directly:

	2002	2001
Full time equivalent basis at year-end	1,200	1,260

8. Operating Leases

The Group has entered into leases for property to operate offices and clinics. These leases may be for several years, or may be subject to renewal on revised terms, such as revision of lease rates in line with an inflation index, or foreign exchange rate. No financial covenants or restrictions have been granted in respect of these operating leases. Lease payments were as follows:

	2002 €'000	2001 €'000
Property lease payments	3,078	2,391

The total of future minimum non-cancellable property operating lease payments is as follows:

	2002 €'000	2001 €'000
Within one year	2,301	1,779
Years two to five	6,776	4,951
After 5 years	3,816	4,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Foreign Exchange

	2002 €'000	2001 €'000
Foreign exchange loss on operations	(426)	(424)
Net monetary foreign exchange gain	176	93
	(250)	(331)

The net monetary foreign exchange gain results from the application of hyper inflationary accounting in one of the Group's subsidiaries. It arises from the change in exchange rates applied to items in the balance sheet that will be settled in the future by cash.

10. Income Tax

	2002 €'000	2001 €'000
Withholding tax	(165)	(128)
Deferred tax	(153)	472
Corporation tax	(60)	(136)
	(378)	208

The Company is subject to an investment company tax in Luxembourg. The tax it pays is based on interest payments on any bonds it may have issued or dividends it pays its shareholders, with at least a minimum payment of € 49,579 per annum. Investments are structured to be located in jurisdictions where taxation rates are favourable for investment companies. Withholding tax is generally not recoverable by the Group. The corporate tax rate in Poland is 28% for 2002 and, in the other countries varied from 18% to 31%. Carried forward losses of € 679,903 were utilised against foreign income taxes in the year (2001: €1,042,432).

An analysis of the corporation tax charge is as follows:

	2002 €'000	2001 €'000
Fixed amount tax charge	50	50
Subsidiary tax charges	10	86
Total charge	60	136

Deferred tax assets and liabilities are as follows:

	2002	2001
Assets	€'000	€'000
Tax losses available for offset against future profits	362	620
Accruals	222	187
Debtors	66	41
Property, plant & equipment	143	119
Other	-	76
Deferred tax assets	793	1,043
Liabilities		
Fixed asset revaluation	(425)	(395)
Deferred tax liabilities	(425)	(395)
Net deferred tax asset	368	648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Subsidiaries of the Group have unrecognised tax losses amounting to € 8.7 million that are available to be offset against the future profits for periods of up to three years or more.

11. Intangible fixed assets

	Purchased Goodwill €'000s	Long-term Leasehold €'000s	Other €'000s	Total €'000s
Cost:				
31 December 2001	20,695	103	1,658	22,456
Effect of change in foreign exchange rates	-	(13)	(52)	(65)
Additions	96	-	504	600
Disposals	-	-	(5)	(5)
31 December 2002	**20,791**	**90**	**2,105**	**22,986**
Depreciation:				
31 December 2001	(18,293)	(12)	(753)	(19,058)
Effect of changes in foreign exchange rates	-	2	21	23
Amortisation for the year	(262)	(3)	(282)	(547)
Retirements	-	-	4	4
Other adjustments	-	-	37	37
31 December 2002	**(18,555)**	**(13)**	**(973)**	**(19,541)**
Net Book Value:				
31 December 2001	2,402	91	905	3,398
31 December 2002	**2,236**	**77**	**1,132**	**3,445**

12. Tangible fixed assets

	Freehold Land & Buildings €'000	Leasehold Improve-ments €'000	Equipment €'000	Vehicles €'000	Total €'000
Cost:					
31 December 2001	1,353	3,466	8,957	1,024	14,800
Effects of changes in foreign exchange rates	(74)	(258)	(442)	(71)	(845)
Additions	4	441	1,110	366	1,921
Disposals	-	-	-	(21)	(21)
31 December 2002	**1,283**	**3,649**	**9,625**	**1,298**	**15,855**
Depreciation:					
31 December 2001	(93)	(1,380)	(4,084)	(432)	(5,989)
Effect of changes in foreign exchange rates	1	140	245	27	413
Charge	(15)	(566)	(1,520)	(208)	(2,309)
Disposals	-	-	-	16	16
Other adjustments	(4)	30	(44)	63	45

31 December 2002	**(111)**	**(1,776)**	**(5,403)**	**(534)**	**(7,824)**
Net Book Value					
31 December 2001	1,260	2,086	4,873	592	8,811
31 December 2002	**1,172**	**1,873**	**4,222**	**764**	**8,031**

Included in the cost of leasehold improvements is an amount of €25,177 (2001 - € 18,001), which was the cost for renovations and construction work in progress at the year-end.

13. Listed Equity Shares

The listed equity shares portfolio at 31 December 2002 contained six holdings of shares, and comprised:

		2002		2001	
		Fair Value €'000	% of Portfolio	Fair Value €'000	% of Portfolio
Prosperity Quest III Fund	Russia	-	-	1,753	50
Gazprom Domestic	Russia	726	57	658	19
Prosperity Quest II Fund	Russia	-		576	16
Others		545	43	509	15
		1,271	100	3,496	100

14. Unlisted Investments (Venture Capital Investments)

	2002 €'000	2001 €'000
Unlisted equity investments	**13,281**	33,314
Loan investments	**1,376**	1,893
Total unlisted investments	**14,657**	35,207

Unlisted equity investments are investments in companies that are at an early or development stage and are not traded on any markets. Loan investments comprise loan facilities to companies where the group has an unlisted equity investment. Interest rates are fixed, ranging between 6% and 30% per annum.

	2002 €'000	2001 €'000
Investments carried at cost, not revalued	-	16,267
Cost of investments carried at valuation	**41,504**	25,677
Net revaluation	**(26,847)**	(6,737)
Total carrying value	**14,657**	35,207

A reconciliation of all cumulative unlisted equity investment asset revaluation movements is as follows:

	Revaluation Increases €'000	Revaluation Decreases €'000	Total Revaluations €'000
Balance as 1 January 2002	4,226	(10,963)	(6,737)
Revaluation movements in 2002	-	(20,110)	(20,110)
Balance as 31 December 2002	4,226	(31,073)	(26,847)

All revaluation movements are charged to the consolidated income statement.

In April 2002 the Board of Directors announced the intention to discontinue the Group's investment portfolio and to sell the assets. On January 30, 2003, the unlisted equity and loan investments, excluding the fund investments and the Flanco loan, which are valued at €2.7 million, were sold to Celox S.A., a related party, for €12 million. An independent valuation was carried out by PriceWaterhouseCoopers, Stockholm.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the period one investment was sold realising the following gain:

€'000	Cost	Gross Proceeds	Loss on sale	Prior Revaluation Amounts	Total Profit Recognized
Leasemart Holding B.V.	1,392	884	(508)	(542)	34

15. Receivables

	2002 €'000	2001 €'000
Trade receivables	**2,452**	2,262
Amounts due from related parties	**131**	376
Other receivables	**14**	153
Prepayments	**620**	736
	3,217	3,527

Trade receivables are shown net of provisions for doubtful receivables of € 763,997 (2001 - €301,493).

16. Trade and other payables

	2002 €'000	2001 €'000
Accounts Payable	**1,824**	2,067
Other liabilities	**826**	947
Accruals	**1,692**	1,979
Deferred Revenue	**1,631**	1,465
Amounts due to related parties	**348**	399
	6,321	6,857

Refer to note 24 in relation to transactions with related parties.

17. Loans Payable

	2002 €'000	2001 €'000
Non-current loans payable		
Bank loans	**3,732**	5,878
Finance lease liabilities	**133**	14
Total non-current loans payable	**3,865**	5,892
Current loans payable		
Current portion of bank loans	**11,355**	9,586
Current portion of finance lease liabilities	**133**	-
Overdrafts	**261**	-
Total current loans payable	**11,749**	9,586

An analysis of periods in which the above loans fall due is as follows:

In the second year	**1,161**	1,445
In the third to fifth year	**2,704**	4,447
Total	**3,865**	5,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A subsidiary, ABC Medicover Holdings B.V., has a term loan of € 5.9 million (2001: €7.2 million), which is repayable in biannual instalments until 2005. This loan is secured over the freehold and leasehold land and buildings of Medicover Sp. z o.o. and Medicover Klinika Rt., which have a carrying value of €1.3 million (2001: €1.3 million). Interest rates on this facility are at fixed rates over the term of the loan, at an average of 9.0%, and an additional interest payment determined with reference to the consolidated earnings before interest, tax, depreciation, and amortisation (EBITDA) of ABC Medicover Holdings B.V. and its subsidiaries. In 2002 this additional interest represented an additional charge of zero (2001 5.8%).

The Company has a loan facility of the equivalent of €10 million (2001: €11.2 million), which bears interest at interbank offer rates plus a margin of 1%. At 31 December 2002 the amount advanced under this loan facility was €10 million (2001: €8.0 million).

18. Concentration of credit risk

In granting facilities and loans, the Group incurs a credit risk, i.e. the risk that the receivable will not be repaid. This is related to the balance sheet items: Cash, Loan investments, and receivables. Concentration of credit risk could result in a material loss for the company if a change in economic circumstances were to affect a whole country or industry. The Group operates the policy of limiting credit risk exposure to any one counterparty, such that complete failure of one such counterparty would not lead to a loss of more than 10.0% of the company's net assets.

The concentration of credit risk in relation to Loan Investments, Receivables, other interest bearing securities and Cash is as follows:

	2002	2001
	€'000	€'000
Banks and Professional securities transactions	2,882	5,001
Private companies	4,593	3,860
	7,475	8,861

Collateral is sometimes demanded in connection with lending operations. An analysis of the collateral obtained in respect of the balance sheet items, loan investments, bonds and other interest bearing securities is as follows:

	2002	2001
	€'000	€'000
Unsecured loans	1,376	1,893

Country Risk
Loans and other exposures are not restricted to one country, and an increased credit risk would arise if a government of one of these countries were to restrict debt servicing. Diminution in value would occur in such a situation.

19. Risk Management and Financial instruments

Market Risk
Price risk, from exposure to changes in market prices, is not actively managed for unlisted equity investments and listed equity shares. The volatility in these items is viewed by management to be part of the normal activity of the Group.

Credit Risk
The Group manages its exposure to credit risk in relation to financial instruments by entering into such contracts with parties with an adequate credit rating, or in the case of developing markets selecting counterparts with the strongest credit ratings in a particular market (see Note 18).

Interest Rate Risk
The exposure to interest rate risk is limited by entering into fixed interest rates for the long dated loans payable (see Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Currency Risk
The Group incurs foreign currency risk on intercompany payables and borrowings that are denominated in US Dollars. The Group hedges 110% of its estimated foreign currency exposure in respect of forecasted transactions over the following six months. The Group uses forward exchange contracts to hedge its foreign currency risk. All of the instruments used have maturities of less than one year after the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than the Euro, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

With the adoption of IAS 39, the Group classifies its forward exchange contracts as cash flow hedges and states them at fair value. Fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Recognised assets and liabilities
Changes in the fair value of forward exchange contracts that economically hedge intercompany payables and borrowings in foreign currencies are recognised in the consolidated income statement. They are generally offset by foreign exchange gains and losses arising on translation of the hedged item to Euro at the balance sheet date. Both the changes in fair value of the hedging instruments and the foreign exchange gains and losses relating the hedged items are recognised as part of 'foreign exchange (loss)/gain". The fair value of forward exchange contracts at the balance sheet date was €125,761 credit (2001: €268,799 credit).

20. Share Capital

The authorised share capital of the company is 16,000,000 ordinary shares with no par value (2001: 16,000,000). All shares have equal rights to dividends, and carry one vote. At 31 December 2002 12,464,924 shares had been issued and fully paid (2001: 12,464,924 shares).

21. Reserve for own shares

The reserve for the Group's own shares comprises the cost of the Company's shares held by the Group. At the balance sheet date the Group holds 338,937 of the Company's shares (2001: 347,270).

22. Share incentive plan

The Company has adopted a share option scheme under which options are granted to certain employees of the Group. These options are exercisable over a period from 3 to 6 years from date of granting. During the year 187,752 new options were granted at an average exercise price of € 3.5.

	Number of options	Options exercise price
Options granted at 31 December 2001	572,480	€ 0.95 to € 4.76
Options cancelled or expired	(8,550)	
Options granted in the year	187,752	€ 3.50
Options exercised during the year	(8,333)	
Options granted as at 31 December 2002	682,309	

The Company received proceeds of € 8,333 in respect of the 8,333 options exercised during the year. € 47,059 was credited to Reserve for own shares and € 38,726 was debited to Share Premium. The options were exercised during the last quarter of 2002 when the average market price of the shares was € 5.65.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Major Shareholders

Shareholders owning 5% or more of the share capital of the Company at 31 December 2002 were:

	Number of Shares	% Shareholding
Celox S.A	4,315,298	34.6
Taube Hobson & Stonex Partners Ltd	1,206,988	9.7
Progress Enterprises S.A.	778,000	6.2

24. Related Parties and Related Party Transactions

(a) Directors

The Directors of the Company held beneficial interests in the shares of the Company at 31 December 2002 as follows:

	Number of Shares
J. af Jochnick	4,315,298
F. Rågmark	53,000
P. Wikström	40,000
D. Bjurström	12,000
A. Bohn	7,900

In addition a discretionary trust of which certain members of the af Jochnick family are possible beneficiaries holds 778,000 shares.

Directors' remuneration was as follows:

	2002 €'000	2001 €'000
Directors' remuneration	**317**	366

The amounts above include non-cash benefits, and amounts paid by the group to retirement benefit plans in respect of directors. Certain directors have also been granted share options under the Company's share option plan, for further details on the share option plan refer to Note 22.

During the year the Executive Chairman, J. af Jochnick received remuneration and benefits from the Group amounting to €39,187 (2001 €67,143). No pension contributions were made on behalf of the Executive Chairman. During the year the Managing Director, F. Rågmark received remuneration and benefits from the Group amounting to €202,767 (2001 €203,084). This includes pension contributions to a defined contributions pension scheme.

Directors' Terms
The Company has no agreement on severance pay with any Directors, and no Directors have a service contract of duration longer than 12 months.

(b) Other Related Parties

J. af Jochnick has an interest in the share capital and is a member of the board of Oriflame International S.A..

J. af Jochnick has an interest in the share capital and is a Director of Celox S.A., which owns 34.6% of the share capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the period, the following transactions were conducted with related parties:

	2002 €'000	2001 €'000
Oriflame International S.A. and subsidiaries		
Expenses and employment costs incurred on behalf of the Group, and charged at cost	**1,095**	1,276
Management charges to the Group for administering offices and employing staff	**15**	41
Celox S.A.		
Amounts charged to Celox S.A. for staff and services provided	**510**	314

25. Subsidiaries

The following companies are considered as subsidiaries and included in the consolidated financial statements:

Company	Activity	Country of Incorporation	% Interest
ABC Medicover Holdings B.V	Holding	Holland	100
Belro Medical SA.	Holding	Belgium	100
Borlag Investments Ltd.	Inv. Holding	Cyprus	100
Medicover .s.r.o.	Healthcare	Czech Republic	100
Medicover Eesti A.S	Healthcare	Estonia	81
Medicover Holdings N.V.	Holding	Dutch Antilles	100
Medicover Investment B.V.	Holding	Holland	100
Medicover Kft.	Holding	Hungary	100
Medicover Klinika Rt.	Healthcare	Hungary	100
Medicover Rombel SRL	Healthcare	Romania	100
Medicover Sp.zo.o.	Healthcare	Poland	100
Oresa Ventures N.V.	Inv. Holding	Dutch Antilles	100
Oresa Ventures Polska Sp.zo.o.	Healthcare	Poland	100
Oresa Ventures Romania SRL	Inv. Management	Romania	100
Time-Start Holding Ltd	Holding	Cyprus	100

The Group has a call option for the remaining outstanding shares of Medicover Eesti A.S.

26. Information per share

Earnings per share figures have been calculated on the weighted average basis of 12,117,996 shares in issue during the year (2001 - 11,931,015) and the following earnings.

	2002 €'000	2001 €'000
Loss for the year	(23,857)	(10,447)
Loss per ordinary share	€ (1.969)	€ (0.876)

Diluted earnings per share takes account of the dilutive effect of share options were they to be exercised. The dilutive element of share options is calculated by taking into account the exercise price in relation to the average market price for 2002. For 2002 the dilutive effect has been calculated as the equivalent of an additional 197,505 shares in issue during the year (2001 - 209,362) and the above stated loss figures.

Diluted loss per ordinary share	€ (1.937)	€ (0.861)

AUDITOR'S REPORT

We have audited the accompanying consolidated balance sheet of Medicover Holding S.A. and its subsidiaries ("the Group") as of 31 December 2002, the related consolidated income statement and consolidated cash flow statement for the year then ended. These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Marc Hoydonckx
Klynveld Peat Marwick Goerdeler Reviseurs d'Enterprises
Brussels
20 February 2003

Annual General Meeting

Annual General Meeting Notice of Meeting

Time and place
The Annual General Meeting of Medicover Holding S.A. will be held at 20, rue Philippe II, L- 2340 Luxembourg on May 13, 2003 at 11 a.m. to transact the following business:

1. Approval of the reports of the Board of Directors and the Statutory Auditor
2. Approval of the Balance Sheet and the Profit and Loss Account as of December 31, 2002
3. Discharge of the Directors and the Statutory Auditor from liability for the year ended December 31, 2002
4. Re-election of the present Directors.
5. Re-election of the Statutory Auditor

The Board of Directors
Luxembourg April 2003

Who may attend the Meeting
Holders of registered shares in the Company registered with the Company Registrar on May 6, 2003 are entitled to participate in the Meeting.

Holders of Swedish Depository Receipts registered with the Swedish Securities Register Center (VPC) on May 6, 2003 may exercise the rights attached to the number of shares equivalent to the number of Swedish Depository Receipts in accordance with the procedure stated below. Those who hold Swedish Depository Receipts through a trustee must request that they be temporarily entered into the VPC register in order to exercise their rights at the Meeting. Such registration must be executed by May 6, 2003.

How to notify to attend the Meeting
Shareholders have the right to participate in the business of the Meeting and to exercise their voting rights either in person or by proxy. Regarding voting by proxy, see "Voting" below. Shareholders do not have to notify the Company of their intent to participate in person at the Meeting.

To be entitled to vote at the Meeting in person, owners of Swedish Depository Receipts must notify Svenska Handelsbanken AB, Corporate Finance, by phone +46 8 701 23 82 or +46 8 701 28 25 by May 8, 2003. Holders of Swedish Depository Receipts may also exercise their voting rights by delivering to the Company a voting form (see "Voting") below.

Voting
Holders of registered shares may vote (i) in person at the Meeting or (ii) appoint a proxy to represent them. Proxies do not need to be members of the Company. The procedure for voting by a proxy requires that the shareholder complete a special form (available on the Company’s web-site as "Form of Proxy for Registered Shareholders"). The shareholder shall indicate on the form how (s)he wants to vote on the issues and motions addressed by the Meeting and deliver it to the Company not less than two full business days before the day appointed for holding the Meeting.

Holders of Swedish Depository Receipts may vote (i) in person at the Meeting upon notification as described above, or (ii) by delivering to the Company a duly completed voting form (available on the Company’s web-site as "Form of Proxy for Swedish Depository Receipts") by May 8, 2003.

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Calendar

Upcoming Events 2003

13th May 2003: Annual General Meeting

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