Medicover

Office Depot

Flanco International

Beverly Hills Video

United Entertainment

ORESA VENTURES

YOUR SHARE IN EMERGING EUROPE

Annual Report 1999

Contents

This Annual Report is also published in Swedish and can be ordered through the web site or by contacting:

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ORESA Ventures S.A. (publ) is an investment company whose business idea is to create capital growth for our shareholders by being a long-term investor in the emerging markets of Central and Eastern Europe. The goal of ORESA Ventures is to become a leading investment company in Central and Eastern Europe.

The Annual General Meeting of ORESA Ventures S.A. will be held in Luxembourg on 9 May 2000. Holders of Swedish Depositary Receipts may participate in the Meeting. For further information see "Notice of Meeting" on page 55.

An information meeting for Swedish shareholders will be held in Stockholm on 10 May at 13.30, Riche, Birger Jarlsgatan 4. Shareholders wishing to participate should register with Sophie Peeters, phone +32-2-357 55 77 or fax +32-2-357 55 05 by 9 May 2000 at the latest or by e-mail: sophie.peeters@oriflame.se

INFORMATION FROM ORESA VENTURES S.A. (PUBL) DURING 2000

25 April	Annual Report (Swedish version)
25 April	Annual Report (English version)
9 May	Annual General Meeting
10 May	Interim Report January–March
10 May	Information Meeting in Stockholm
17 August	Interim Report January–June
16 November	Interim Report January–September
25 February 2001	Preliminary Report 2000

The ORESA Ventures web site contains up-to-date information www.oresaventures.com

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:

Fredrik Rågmark, Managing Director +32-2-357 55 77
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Highlights 1999

- Net asset value amounted to $6.55 (SEK 55.70) per share on 31 December 1999, compared with $6.34 (SEK 51.44) per share on 31 December 1998.

- Total gains after tax for the year of $3.9m (SEK 32.8m), equivalent to $0.39 (SEK 3.39) per share on a weighted average basis.

- Continued strong focus on Poland, with 74 percent of total net asset value invested in unlisted growth companies, while healthcare and distribution remain the preferred sectors, accounting for 84 percent of net asset value.

- Strong deal flow with $13.6m committed to four new investments during 1999.

- Good progress in the portfolio companies, with $18.3m invested in existing portfolio companies during the year to support their rapid growth.

- Medicover, the leading healthcare company in Central and Eastern Europe, continues to show strong growth, with 47,000 members in all prepaid programs at year-end and more than 50 percent growth in revenue.

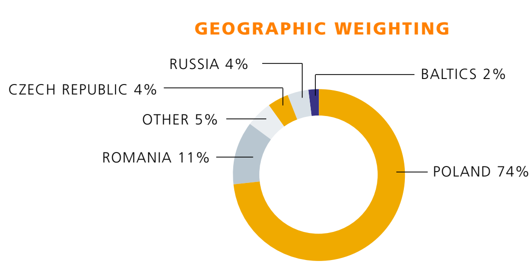
Key ratios

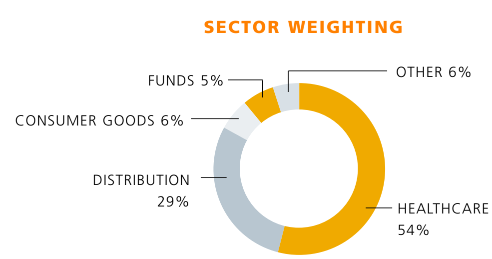
	1999	1998
Net asset value, $m	76.9	61.4
Net asset value per share, $	6.55	6.34
Net asset value per share, SEK	55.7	51.4

- The portfolio is now maturing, with a weighted average age of just under three years. Two smaller exits were achieved during the year, while a further two are expected during the next 12 months.

- The Central European economies, led by Poland, continued to show strong economic growth and are moving closer toward integration with Western Europe. The continuation of the EU accession programs is further cementing this process.

- After year-end, a strategic decision was made to develop Internet-related opportunities within the core market, Poland, and within core sectors, healthcare and distribution.





The charts above illustrate our focus on Poland and Romania as well as our concentration on healthcare and distribution.

To our shareholders

I am pleased to report total recognized gains for the year of \$3.9m (SEK 32.8m). Net asset value amounted to \$76.9m (SEK 655m), equivalent to \$6.55 (SEK 55.70) per share by the end of the year, up from \$6.34 (SEK 51.44) at year-end 1998.

Administrative costs, including recharged expenses and excluding the one-off charge for a healthcare consultancy study, amounted to \$2.72m. This represents a 28 percent reduction from last year, reflecting the closure of the Moscow office and a continued cost focus.

1999 was a year of recovery for emerging markets in general and Central Europe in particular. After the negative showing in 1998 with the Russian financial crash on many investors' minds, it is reassuring to see growth coming back to the region, with an increasing flow of foreign direct investments, particularly to Poland. This is very much encouraged by the advancing accession negotiations to join the European Union. Interest in the region's listed equity markets increased appreciably, particularly during the early part of the new year. And even though ORESA Ventures does not invest in the listed equity market, it is an important proxy for market sentiment for the region.

Investments during the year

During the year, we committed a total of \$13.6m in investments in new companies and \$18.3m as follow-on investments in existing holdings.

New companies

We made an investment of \$5.0m for 37 percent of United Entertainment Co. (UEC). UEC was established to develop a chain of family entertainment centers across Poland, under the brand name "Atomic World." The company has now opened three centers, which are performing well. In addition, we invested \$3.4m for a 12 percent stake in Czech-based Drogerie a.s. Drogerie is a retail drugstore chain with 84 stores in the Czech Republic and Slovakia. We invested \$2.6m for a minority stake in Brewery Holdings Ltd., which today is the leading brewery group in Romania. Finally, we made a commitment of up to \$2.6m in Motoractive, which was established to become the first independent automotive leasing company in Romania. Of this total, \$1.3m had been paid in by year-end.

Follow-on investments

We made the most significant follow-on investments in the following companies.

We acquired an additional 2,355,094 shares in Medicover, thereby increasing our ownership to 95.0 percent of the company. Payment was made through a new issue of 2,053,406 shares in ORESA Ventures. The total transaction value amounted to \$11.8m. The transaction was made to take advantage of Medicover's existing market position considering the expected strong growth in the private healthcare market – particularly in Poland – and to give us better exit control. Our current ownership level is temporary.

In Office Depot, we made an additional investment of \$2.0m, raising our total investment to \$5.5m, for 7.4 percent of the company. The funds were used to finance the acquisition of the Office Center chain of six Polish office supply stores from DIVACO of Germany.

Furthermore, we made an additional investment of \$1.5m in Beverly Hills Video, raising our total investment to \$4.5m for 20.9 percent of the company. The funds were used to further develop the store network.

We invested an additional \$300,000 in Brewery Holdings Ltd., raising our total investment to \$2.9m. The funds are being used to buy part of the outstanding minority shareholdings in the three subsidiary breweries within the BHL group.

In Churchill Media, we invested an additional \$400,000, bringing our total investment to \$0.8m for a 26 percent stake. The funds are being used to accelerate expansion.

Finally, we invested an additional \$1.0m in Flanco, the Romanian retailer of white goods and home electronics, alongside \$1.5m from a new financial investor, reducing our ownership to 46.0 percent. At the same time, we converted a \$0.8m loan into equity. The funds are being used to expand Flanco's retail network and strenghten its balance sheet.

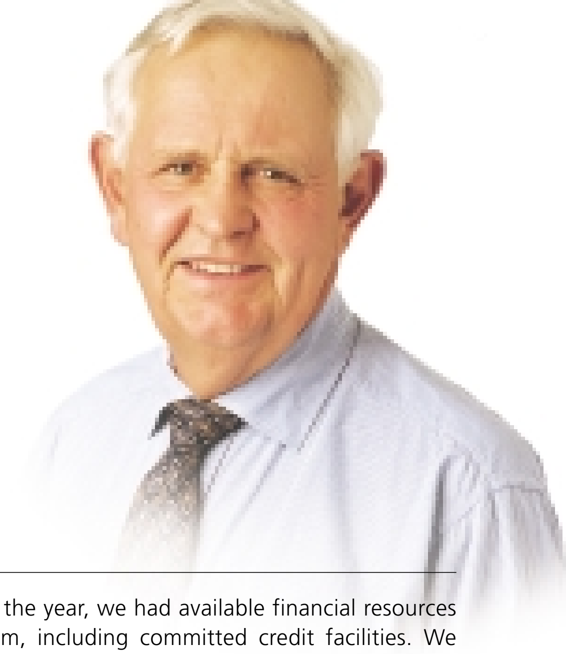
Exits

During the year, we exited from two investments. We sold our 28 percent stake in Maritime International Inc. for \$1.25m, realizing a gain of \$0.6m. We also sold our only direct investment in Ukraine, at slightly above our acquisition price.

The weighted average age of our unlisted investment portfolio is 2.7 years. This compares well with our stated

"In addition to focusing on healthcare and distribution, we have also studied the development of the 'New Economy.'"

JONAS AF JOCHNICK, Chairman, ORESA Ventures S.A.



target holding period of 3–6 years, illustrating that the more mature of our portfolio companies are now approaching the exit stage. During the next 12 months we expect to see two exits.

Revaluations

We increased valuations in the following companies:

In Brewery Holdings (by $1.40m) to reflect the strong development of the business. In Office Depot (by $0.90m) and Flanco (by $0.20m), both reflecting pricing in recent capital increases in the companies.

We transferred Imsat, Unirea and Albena to the listed portfolio and reduced their combined value from $1.0m to $0.4m, which was offset against gains from the remaining portfolio of listed Russian shares. In addition, we wrote down the investment in the Ukraine fund by $0.1m to represent the carrying value of the investments as assessed by the fund manager.

We recorded a profit of $2.1m on the remaining portfolio of listed shares, which we gradually sold out during the year in line with market conditions. This was offset by a provision of $0.6m, as noted above.

By the end of the year, the remaining portfolio of listed shares represents a value of $2.22m. These shares will be sold as market conditions allow.

We recorded income of $2.59m relating to the settlement in regard to the foreign exchange contracts that had been made to protect the portfolio of Russian bonds. These contracts were conservatively written down to zero at the end of 1998.

Medicover

Our most significant investment, the healthcare company Medicover, developed well during the year. Revenue increased by more than 50 percent to $13.3m. Aggressive expansion continued, particularly in Poland, which will ensure continued market leadership.

New share issue

In December, we issued a total of 2,053,406 new shares, at a price of $5.73 (SEK 48.79) per share, which were used as payment to acquire additional ownership in Medicover. Through this transaction, the total number of shares outstanding in ORESA Ventures increased to 11,752,689.

Liquidity

By the end of the year, we had available financial resources of around $8m, including committed credit facilities. We expect to create additional liquidity during the year through exits in existing holdings.

ORESA Ventures and the "New Economy"

ORESA Ventures´ strategy of building management resources in Central Europe, particularly Poland and Romania, and focusing our investments within the healthcare and distribution sectors is working well, and we have altogether made 11 investments in these areas. We believe that these sectors will continue to offer attractive investment opportunities and that we are in a very good position to take advantage of this.

In addition to focusing on these opportunities, we have also, over the last 12 months, studied the development of the "New Economy," primarily in the U.S, Western Europe and particularly in Sweden, to try to understand how it will impact the countries in Central and Eastern Europe and what investment opportunities it may bring. Last summer, we also commissioned a major international consulting firm to carry out a study on our behalf to identify trends and developments within the healthcare area in Central Europe and how IT and Internet developments may create new investment opportunities in this field.

The conclusion is that future developments in these countries are likely to be very similar to what we have seen in the West and that they will accelerate quickly as necessary investments and changes take place in the infrastructure. These developments will come first in Poland and the major countries in Central Europe that are the first to join the EU. Internet use is still at low level in these countries – around 4 to 5 percent, compared to 15–25 percent in the West and 40 percent in Sweden – but the expectation is that this will change very quickly over the next few years and that new technologies and wireless applications will help to advance these developments.

For ORESA Ventures, this will create many new and interesting investment opportunities within our existing geographic and sector focus, and over the last six months we have added relevant management resources with Internet expertise particularly in Poland. We will focus on identifying new opportunities within the healthcare field, which is undergoing a rapid transition. This will include investments particularly in Poland but may also include Western Europe, to gain expertise and prepare for the introduction of interesting healthcare applications in the countries we focus on.

We also recently announced a joint venture we are in the process of establishing with Ledstiernan AB, whereby we will form an equally owned early stage venture company in Poland focused on IT, wireless, Internet start-ups and projects outside of healthcare. Ledstiernan is one of the most successful companies in this field in Sweden, with an outstanding track-record and the expertise and resources which will enable us to participate in what we believe will be a very rapid ”New Economy” development in Poland, with its 40 million population. We very much look forward to this partnership.

Macroeconomic outlook

In spite of worries about the effect of the Russian crisis on the Central European countries, the region showed that it has to a high extent de-coupled from its Eastern neighbor and is rapidly integrating with the Western economies. This process is being accelerated by the EU accession talks. While the Czech economy showed a minor contraction of 0.5 percent, both Poland and Hungary continued to post significant economic growth, with GDP up by 4.1 percent in both countries in 1999. For the year 2000, the latest forecasts point to a 3–4.5 percent increase in GDP for all three countries, well above the expected EU average.

1999 was a challenging year for Romania, where large debt repayments raised fears that the country was going to default on its debt. The Romanian government and central bank managed to avoid this, and although the economy contracted by 3.2 percent, the outlook for 2000 is significantly better, pointing to positive GDP growth of 0.5 percent. Having recently been included in EU accession discussions, there is widespread political consensus in Romania about the country’s long-term direction.

Outlook

As we enter this new millennium, we strongly believe that the investment opportunities we are focusing on in the region will increase in number as well as size, and that exit transactions will generate the required return.

We are confident that the strategies that we have chosen – to focus on the healthcare and distribution sectors and to explore new technology and Internet opportunities within these sectors – will prove rewarding.

Jonas af Jochnick
Executive Chairman
April 2000

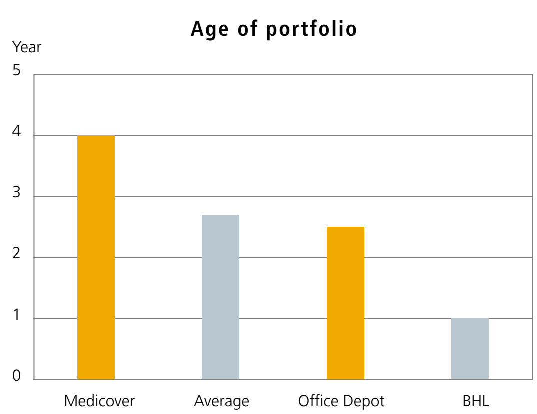
Investment strategy & process

ORESA Ventures invests in Central and Eastern Europe in three distinct sectors: healthcare, distribution and consumer goods. All three are characterized by sustainable, high long-term growth rates due to the increasing purchasing power of an expanding middle class.

When the former state-planned economies began to adopt market-oriented approaches, local companies in these service sectors were far from competitive and were unable to keep up with a rapidly changing environment and more demanding consumers. This has provided unique opportunities for ventures based on proven concepts from the West, when combined with an experienced management with a track record, to quickly gain dominant market positions. These are also the key sectors where ORESA Ventures has developed experience and knowledge, enabling it to select the best opportunities and actively manage these investments.

ORESA Ventures has also identified highly attractive e-commerce opportunities related to its core sectors. We will actively pursue opportunities involving new technologies that will help the region to leapfrog part of the infrastructure development that Western economies have gone through.

A number of ORESA Ventures' portfolio companies are in the forefront of the technological development taking place in the region. As is noted elsewhere in this annual report, healthcare is one of the most attractive sectors for e-commerce, and with our leading position as a venture capital investor we will exploit available opportunities.



THIS CHART ILLUSTRATES THAT THE AVERAGE AGE OF OUR PORTFOLIO IS JUST BELOW THREE YEARS AND THAT THE MORE MATURE HOLDINGS, SUCH AS MEDICOVER, ARE NOW APPROACHING THE EXIT PHASE, IN LINE WITH OUR STATED HOLDING PERIOD OF 3–6 YEARS.

Distribution businesses offer similar technological potential. In early 2000, Office Depot, our second largest investment, launched one of the first fully integrated business-to-business web sites in Poland and Hungary. The site is based on the latest developments in the U.S. and was created in cooperation with IBM in Poland. Although the main aim of this kind of e-commerce venture is to increase shareholder value in the company, there may also be opportunities to spin it off as a separate business in the future.

ORESA Ventures' direct investments in Central Europe are concentrated in Poland, with Romania as the other priority market. Given Central Europe's rapid political and economic progress, expanding management base and improved exit routes, this is where ORESA Ventures focuses most of its resources. Although Romania's discussions to join the EU have been hampered by its slow transformation progress, ORESA Ventures sees significant opportunities in what is the region's second largest country by population. Accordingly we have built a highly reputable local presence and a strong portfolio of Romanian market leaders.

At the end of 1999, ORESA Ventures had invested in eleven private companies in the region, two smaller holdings in Russian private companies and three private equity funds. Of these investments, 84 percent are in healthcare and distribution, with 90 percent in Poland, the Czech Republic and Romania.

In terms of size, ORESA Ventures prefers investments in excess of $5m in return for a significant equity stake (+20 percent). Apart from the sector and geographic criteria mentioned above, each investment opportunity must also meet the following criteria:

- Professional management team with proven track-record and experience
- Exit is feasible through either a trade sale or IPO
- Potential to become the market leader in its sector
- Well-developed business plan.

ORESA Ventures does not participate in the privatization of state-owned enterprises. As a consequence, the companies it focuses on tend to be a maximum of five years old. The majority of the investments are in an early stage of development with a proven track-record but in need for additional capital for continued growth and expansion. In certain cases, the companies have regional potential. For example, Medicover

ERIK HALLGREN

HAS BEEN AN INVESTMENT MANAGER FOR ORESA VENTURES SINCE ITS START IN 1996. BEFORE JOINING ORESA VENTURES ERIK WORKED FOR ORIFLAME EASTERN EUROPE. HE HOLDS AN MSC IN INTERNATIONAL ECONOMICS FROM COPENHAGEN BUSINESS SCHOOL AND AN MBA FROM SOLVAY BUSINESS SCHOOL.

now operates in four countries and Office Depot has expanded into Hungary after both companies had built a solid platform in Poland.

Investment process

The process of ensuring a profitable exit and return on investment begins by building a strong pipeline of investment opportunities, analyzing them diligently and, most importantly, being closely involved as an active shareholder for as long as a company is owned, which tends to range between 3–6 years. ORESA Ventures has established a detailed operations manual covering the policies and procedures of its activities, from deal-flow generation to exit.

Building a strong pipeline

To build a strong pipeline of prospective investments, it is necessary to be a local player. Hence ORESA Ventures' commitment to local offices in key markets. Only in this way can we develop the necessary relationships in the local business community and with entrepreneurs we may want to work with in the future.

In contrast to many other private equity players in the region, ORESA Ventures is clearly focused on a few select sectors: healthcare, distribution and consumer goods, along with related e-commerce ventures. All three sectors offer significant growth potential throughout the region and will especially benefit from the emerging middle class and its growing purchasing power. ORESA Ventures has extensive experience and knowledge of these sectors, giving it a competitive advantage in finding the right opportunities and actively managing them to maximize its return.

To illustrate the importance of a strong, high-quality pipeline, ORESA Ventures reviewed some 300 opportunities in 1999, eventually investing in four companies in addition to follow-on investments in five existing portfolio companies. The pre-screening of potential opportunities normally eliminates 90 percent of leads. The remaining 10 percent are reviewed more thoroughly, with 3–4 percent fully analyzed. Finally, the Investment Committee approves approximately one out of every hundred proposals.

Analysis and due diligence

Prospective deals are thoroughly analyzed, including in-depth legal and financial due diligence. Particular emphasis is put on the quality of the management, which has to show a clear track-record, and on exit potential, where both listings and trade sales have to be feasible. The local office works closely with central resources at the head office on the analysis and due diligence before a full investment proposal is put before the Investment Committee for a final decision.

To ensure that ORESA Ventures can accurately analyze specific opportunities and the key drivers of a particular sector, we draw upon the knowledge of a network of seasoned executives with extensive experience in their fields. These experts in healthcare, consumer goods and retailing are retained by ORESA Ventures and take an active part in the analysis and due diligence of specific deals.

Active ownership

ORESA Ventures is actively involved in all its investments, including board representation. This position is taken by either the responsible Investment Officer or in certain cases by a sector expert brought in by ORESA Ventures. Board meetings tend to be monthly or quarterly. However, much work is done on a variety of issues together with the companies between board meetings.

Typically, ORESA Ventures assists its portfolio companies to:

- Implement a long-term strategy and annual business plan
- Ensure a high standard of corporate governance
- Develop the required financial systems and reporting in the company
- Plan and facilitate debt and equity raising
- Develop benchmarking against Western peers
- Support the CEO in building a strong senior and middle management team and implement appropriate remuneration and incentive structures
- Provide the company with a network of potential strategic partners and other sources of knowledge
- Monitor developments related to a future exit and ensure that the company actively positions itself to be attractive for either a future IPO or a trade buyer.

Exit

As mentioned above, one of the key criteria for any investment is that the company is a feasible candidate for listing as well as a trade sale. During active ownership, considerable time and resources are devoted, in cooperation with senior management, to prepare the company for a future exit.

FREDRIK RÅGMARK
IS MANAGING DIRECTOR OF ORESA VENTURES. FREDRIK HAS BEEN WITH ORESA VENTURES SINCE ITS FOUNDATION IN 1996 AND HE HAS WORKED IN CENTRAL AND EASTERN EUROPE SINCE 1991. HE HAS A BBA FROM STOCKHOLM SCHOOL OF ECONOMICS AND A LAW DEGREE FROM STOCKHOLM UNIVERSITY.

Organization

To be successful in creating value for our shareholders as an investment organization active in several countries in Central and Eastern Europe, we need to combine many different skills, for example, core financial analysis and management, involvement with and understanding of the local business community and business practices, as well as ongoing management of the companies in which we have invested.

The tool to make this happen is the people employed in the organization, their skills, their attitudes and their experience. ORESA Ventures was set up as an investment company rather than a fund structure in order to have a more long-term perspective on our local presence and investment strategy. We have chosen to recruit people with a combination of backgrounds to meet these objectives.

We believe in working with young people who have shown a particular skill and commitment through their education and professional life. An important element of our investment strategy – to be active owners – requires an understanding for dealing with the particular circumstances arising on the company level, as well as the ability to handle relationships with often very strong entrepreneurs and management.

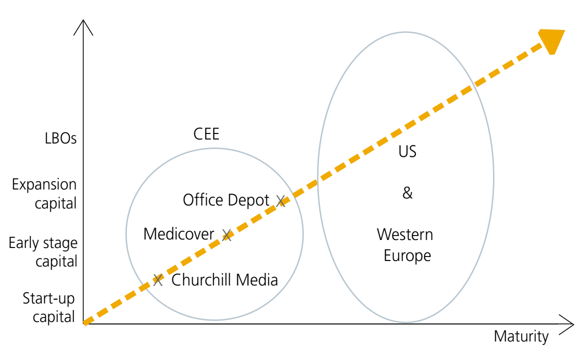
We are continuing to build strong local offices in our two key markets, Poland and Romania. The offices are staffed by experienced professionals who have personal backgrounds working in Western business environments, which they combine with a deep understanding of local markets. The local Investment Officers are responsible for deal generation in preferred sectors, analysis of investment opportunities and managing portfolio companies. The head office, through the Investment Committee, is responsible for approving investment opportunities. The senior management at the head office is in charge of the overall investment strategy of ORESA Ventures, including strategic partnerships with other parties and individuals to ensure that the Company has access to state of the art knowledge of core sectors, exit strategies and debt financing. The senior management also works closely with the local offices on analyzing opportunities. In the due diligence process as well as during the management of existing investments, the head office also provides the local offices with financial and legal expertise.

Venture capital in Central and Eastern Europe

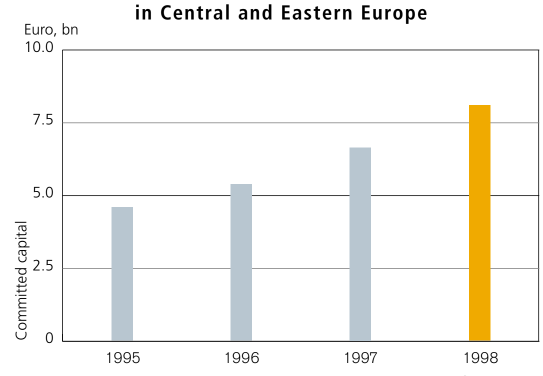
Compared with Western Europe, the venture capital industry in Central and Eastern Europe is still very young. Deals are smaller, at $1–15m, compared with Western Europe, which often exceed $500m. Apart from privatization of state-owned assets, the venture capital sector in Central and Eastern Europe has focused on start-ups and expansion capital.

This is understandable given the characteristics of the private economy in the former COMECON bloc, where practically the entire service sector had to be built from scratch,

Private equity markets



The private equity market in Central and Eastern Europe



ANDRÉ LINDEKRANTZ

IS GROUP LEGAL COUNSEL FOR ORESA VENTURES. ANDRÉ JOINED ORESA VENTURES IN 1998 FROM THE INTERNATIONAL LAW FIRM WHITE & CASE. HE HAS A LAW DEGREE FROM UNIVERSITY OF LUND, SWEDEN, 1991. ANDRÉ SPEAKS FLUENT POLISH AND RUSSIAN AND HAS SPECIALIZED IN THE EMERGING MARKETS OF CENTRAL EUROPE SINCE 1993.

The following table shows our equity investments, excluding loan investments:

Country[1]	Company	Ownership, %	Cost $m	Valuation $m	% of NAV
Poland					
	Medicover	95.0	27.3	40.5	52.6
	Office Depot	7.4	5.5	6.4	8.3
	Bev. H. Video	20.9	4.5	4.5	5.8
	United Entert.	37.0	5.0	5.0	6.5
	Intersource	15.0	0.5	0.5	0.6
	Subtotal		42.8	56.9	73.8
Czech Republic					
	Droxi	12.2	3.4	3.4	4.4
Baltics					
	Airo	23.0	1.7	1.7	2.2
Romania					
	Flanco	46.0	1.8	2.0	2.6
	Churchill	26.0	0.8	0.8	1.0
	BHL	[2]	2.9	4.3	5.6
	Motoractive	47.5	1.3	1.3	1.7
	Subtotal		6.8	8.4	10.9
Russia					
	Invacorp	3.9	2.0	1.4	1.8
	RIG	4.7	2.6	1.3	1.7
	Subtotal		4.6	2.7	3.5
Funds					
	Fulcrum	2.8	2.3	2.8	3.6
	Ukraine	2.1	0.3	0.2	0.3
	Danube	2.2	0.5	0.5	0.6
	EMESCO	–	0.6	0.6	0.8
	Subtotal	7.1	3.7	4.1	5.3
	Total		63.0	77.2	100.0

[1] The geographical analysis in this table is based on the primary location of the business.
[2] Not disclosed.

usually by entrepreneurs. This is typical for retailing and healthcare, where ORESA Ventures has invested in businesses in their early stages of development, such as Office Depot and Medicover. Although start-ups in general are regarded as high risk, in these markets there is very limited competition, presenting significant first mover advantages.

History and performance

The private equity market in Central and Eastern Europe has almost doubled over a four-year period, from 4.6bn euros in 1995 to over 8bn euros committed in 1998. Private equity money is increasingly being invested in newly established companies, with less going into the privatization of state-owned assets, partly because privatization has been largely carried out in Central Europe and partly due to a more vibrant private sector with higher-quality management teams.

At the same time, the capital market infrastructure in Central Europe has developed significantly, and although debt financing for many companies is difficult to access and prohibitively expensive, secondary markets have proven attractive exit routes for venture capitalists. Moreover, international stock exchanges have proven receptive to Central and Eastern European companies, many of which are listed on Nasdaq or in London in the form of GDRs.

As private equity funds in the region have only recently become fully invested, there is a limited scope for analyzing their track-records. It has been estimated that by the end of 1999 almost half of the private equity deals had been exited, with the remainder still in the midst of a typical holding period of 4–6 years.

Recent trends

As the Central and Eastern European countries continue to move toward economic and political integration with Western Europe, more opportunities are developing for venture capital companies and funds. This is especially true in Poland, which is regarded as being on the forefront in the region. Today, more than a year after Russia defaulted on its foreign loans, more and more companies have come to realize that the Central European countries in particular have managed quite well.

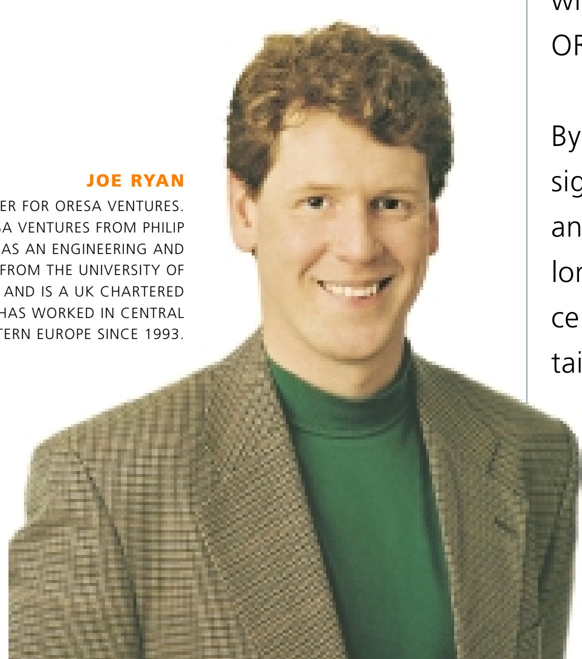
From a venture capital standpoint, this means more attractive exit opportunities as a growing number of major Western corporations treat the region as a strategic market. Recently, Poland was voted the fifth most attractive country for FDI (foreign direct investments) worldwide. Poland will join the J P Morgan bond index from mid-year 2000, a further illustration of its development from an emerging to a converging economy. The increasing liquidity of local stock markets is also providing better exit opportunities for venture capitalists.

The above-mentioned trends also facilitate fund raising for dedicated venture capital players as well as new European funds that include Central Europe in their strategies.

Future outlook

With economic growth in the region proving sustainable, interest rates and inflation declining, and lending remaining costly for many companies, private equity funds are likely to continue to find attractive investment opportunities. Leading this development are the Central European countries, where the most attractive exit opportunities will emerge in the near future. ORESA Ventures will therefore continue to concentrate the majority of its resources on Poland, while also retaining significant activity in Romania.

As Central and Eastern European countries continue to move toward political and economic integration with Western Europe, private equity investors will want to increase their exposure to the region. In markets that will continue to change dramatically over the next ten years, the winners are likely to have a regional presence, a strong focus on selected sectors and hands-on involvement in their investments.



JOE RYAN

IS FINANCIAL MANAGER FOR ORESA VENTURES. JOE JOINED ORESA VENTURES FROM PHILIP MORRIS IN 1996. HE HAS AN ENGINEERING AND MANAGEMENT DEGREE FROM THE UNIVERSITY OF MANCHESTER AND IS A UK CHARTERED ACCOUNTANT. HE HAS WORKED IN CENTRAL EASTERN EUROPE SINCE 1993.

Business idea and mission

ORESA Ventures' business idea and mission are:

TO INVEST in small and medium-sized companies with high growth potential, with focus on the healthcare, consumer goods and distribution sectors as well as Internet-related opportunities within these areas.

TO FOCUS on Central European and surrounding countries and build up local representative offices with the appropriate expertise.

TO DEVELOP and realize investment potential through active ownership.

TO ENTER into cooperation agreements and participate in joint-venture projects with partners who can complement ORESA Ventures' skills in specific projects.

By these means, our vision is to become a significant investment company in Central and Eastern Europe and to generate a long-term annual return of at least 25 percent on shareholders' equity while maintaining a strong balance sheet.

ORESA Ventures in Poland

Poland continues to post strong economic growth, although the growth rate fell to 4.1 percent in 1999. For 2000, the forecasts point towards increasing economic growth, which is to remain well above the EU average for the years to come. The inflation rate has been reduced by 50 percent over the last two years, to 7.3 percent in 1999. Foreign direct investments (FDI) remains high and the Polish economy is set to remain highly attractive for more capital inflow as several large privatizations are slated for 2000, including refineries, insurance companies and other financial institutions.

In 1999, the Polish zloty became convertible as fluctuations from the central parity rate were significantly extended. Poland allows the zloty to float freely from April 12, 2000 which is as an important step towards a market oriented economy.

The main cloud on the horizon is the worsening current account deficit, which nearly doubled in 1999 to 7.6 percent of GDP. This was due to a rapid increase in consumer spending coupled with a weak export growth. The central bank, being focused on keeping inflation at bay, has lately increased interest rates to dampen consumer spending. However, this has also led to a strengthening of the zloty, hampering the Polish export sector. Although a current account deficit of more than 7 percent is severe, it is counterbalanced by a continued strong inflow of FDI – which is likely to remain high as Poland approaches EU membership.

Politically, 1999 was a historic year for Poland, which joined NATO last April together with Hungary and the Czech Republic. NATO membership has further cemented the country's ongoing political and economical integration with the West.

The coalition government has managed under the guidance of Finance Minister Balcerowicz to continue the reform process. Most notably, the corporate tax system is being reformed, with corporate income taxes to gradually decrease from todays 34 percent to 22 percent in year 2004. During 1999, reforms of the pension and healthcare systems were introduced. The reforms are part of Poland's preparations for EU membership, which is foreseen in 2003–2005.

ORESA Ventures Polska

The Warsaw-based office is headed by Artur Haze, who speaks Polish and Russian fluently. After having worked on a number of ORESA Ventures' Polish investments during 1997, he established the Moscow office in 1998. The Polish office is looking to recruit a senior Investment Officer in the second quarter of 2000 to strengthen its presence and operations in the region.

ORESA Ventures was one of the early entrants on the Polish venture capital market when its first investment in Medicover was made in 1995. During the following years, an additional four investments have been made, making ORESA Ventures one of the top five venture capital companies in Poland, with $57m under management in Polish based companies. This has given ORESA Ventures a high profile position in the venture capital community.

Venture capital market

The venture capital market in Poland did not start to develop until the mid 90s. A number of the early players were

Economic summary

	1997	1998	1999	2000f	2001f	2002f
GDP real growth, %	6.8	4.8	4.1	4.7	5.1	4.7
GDP/capita, $K	3,701	4,081	3,989	4,334	4,662	5,079
CPI, average, %	14.9	11.8	7.3	9.2	5.3	4.6
FDI, $B	6.6	10.1	9.0	6.8	7.0–9.0	N/A
Current account, % of GDP	-3.0	-4.3	-7.6	-7.0	-6.3	-5.3
3-month WIBOR, average, %	23.9	21.4	14.7	15.8	12.3	10.0

[SOURCE: CITIBANK (POLAND) S.A.]

sponsored by various governmental organizations such as USAid and the EBRD, with focus on privatization of state-owned enterprises. Later, more purely profit-driven venture capital players were established and more attention was given to start-ups by both local and foreign entrepreneurs.

Today, there are more than 20 recognized venture capital companies established in Poland. Although the majority of the funds have no particular sector focus, a few of the larger ones have started investing in neighboring countries. In comparison, ORESA Ventures has had a strong sector focus since inception.

In the last two years, more and more small-to-medium sized Polish companies with Polish entrepreneurs are starting to develop alongside expatriate driven start-ups. The capital amounts sought by the entrepreneurs is becoming higher year by year, as a consequence of more aggressive expansion plans and higher cost of entry. Consolidation in a number of sectors is also starting to occur, e.g. in pharmaceutical distribution and outdoor advertising.

The service, retail, automotive and Internet/IT-sectors are receiving increasing attention from private equity companies, even though very few funds are focusing on any particular industry. ORESA Ventures, with its sector focus, is quite unique on the Polish market. As a result, referred opportunities very often match our chosen sectors, especially in healthcare.

Local entrepreneurs are becoming more aware of various sources of capital and often require more than the pure financing from an investor. ORESA Ventures, with its commercial background, serves an important role, as it has the ability to mix skills and hands-on commercial experience from the West with local knowledge of the specific Polish environment.

Banking sector/debt financing

Banking is one of the sectors that has quite a few international companies present. Western banks have become increasingly important players on the Polish banking scene, mainly by acquiring local banks. Banks are becoming more liberal and open to discussing debt financing with representatives from small and medium-sized companies. Their mind-set is changing from only focusing on fixed assets and positive cash-flow to future revenue and profit streams. This is further evidenced by the fact that four of ORESA Ventures' portfolio companies received debt financing from banks and financial institutions during 1999. This has a very positive impact on the financial structure of the companies, and an adequate leverage will increase potential returns for ORESA Ventures. Through its active ownership, ORESA Ventures is involved in assisting portfolio companies to secure debt financing from local and foreign financial institutions.

Future outlook

ORESA Ventures will continue its focus on selected sectors and to build up relevant expertise within these sectors. We expect to continue to review a high number of business opportunities of increasing quality, in line with our increased presence in the local markets. A strengthening of the local office's resources is planned during year 2000 to manage this forthcoming expansion.

ARTUR HAZE

HEADS UP ORESA VENTURES' OFFICE IN WARSAW. ARTUR HAS BEEN WITH ORESA VENTURES SINCE 1997, JOINING THE COMPANY FROM ARTHUR ANDERSEN. HE HAS A MSC DEGREE IN IBA/ECONOMICS FROM UNIVERSITY OF UPPSALA AND SPEAKS FLUENT POLISH AND RUSSIAN.

ORESA Ventures in Romania

Despite a difficult external situation, the Romanian economy stabilized during the year and the government was able to increase reserve levels and pay off on its foreign debts. Romania was one of the countries under scrutiny by the IMF in 1999, which examined how to bail out the private sector and ensure that private lenders share the cost of international rescue deals. In the wake of the Russian crisis in 1998, the Balkan crisis in 1999 added to the challenges posed by complex economic transformations. The Romanian economy performed better than expected and the short-term risk of default receded after the external payment hump of 1999 was traversed without incident.

This was achieved, however, at the expense of high real interest rates, a sharp increase in inflation and the significant devaluation of the currency. Under these conditions, consumption and investment suffered and the economy contracted for the third consecutive year. Analysts expect a return to growth in 2000, with projections ranging between 0.5 percent to 1.3 percent, driven mainly by export growth.

An unstable and inconsistent legal environment, bureaucratic red tape and macroeconomic instability are among the major challenges mentioned by investors. FDI flow since 1990 is very modest, at around $6.4bn. This is expected to pick up as Romania continues its privatization program and the government works to improve the business environment.

The former national bank governor, Mugur Isarescu, was appointed prime minister at the end of 1999. He enjoys a good reputation with international financial institutions. It is expected that he can get the economy back on a sustainable growth path in 2000, although the task will not be easy considering the difficult balance he will need to strike between politicians in an election year, trade unions that have lost patience, and the combined forces of the IMF, World Bank and EU.

The new government has already introduced a fiscal reform package intended to simplify the tax system, enhance compliance and stimulate investment, exports and job creation. Among the fiscal measures implemented by the government in late December 1999 was a reduction in the corporate tax from 38 percent to 20 percent and a modified VAT from a two tiered 22 percent/11 percent to a uniform 19 percent.

The privatization process has continued and is likely to increase in momentum in 2000, when 44 companies will be privatized by international investment banks in a program sponsored by the World Bank. The money-losing state sector is being downsized, which will lessen some of the pressure on the state budget.

For the moment, a Social Democratic coalition headed by the PSDR looks like the most likely outcome of the parliamentary election scheduled for late 2000. EU accession negotiations will have a powerful disciplining influence on policy in coming years and should militate against new reform reversals.

Romania's long-term objective of EU and NATO membership is shared by all political parties and has strong public support. A development strategy was put together by the government together with experts from the IMF, World Bank and EU and was approved by all major parties, employers and trade union associations. Romania has become more predictable in medium and long term, and the speed of efforts to reach these objectives is likely to pick up considerably.

ORESA Ventures Romania

ORESA Ventures' local office is headed by Cornel Marian, 32, senior investment officer. A Romanian national educated at home and in the UK and holder of an MBA, he worked in Western and Eastern Europe before joining ORESA Ventures in 1997. Another senior investment officer with experience in the Romanian private equity market has been recruited and will join the local office in the second quarter of 2000.

ORESA Ventures has established itself as one of the leading venture capital players in Romania. An extensive network of contacts in the local business community, the banking and professional services industries, and among leading

Economic summary

	1997	1998	1999	2000f	2001f
GDP real growth in %	-6.9	-5.4	-3.2	0.5	1.5
CPI, average in %	154.8	59.1	45.8	41	22
Current account, % of GDP	-6.9	-7.9	-3.1	-4.6	-2.2
Interest rate (3m T-bill) avg.	75	65	70	55	35
Debt service ratio, %	22.9	26.7	32.3	31.0	30.9

[SOURCE: ABN AMRO]

CORNEL MARIAN

HEADS UP THE BUCHAREST OFFICE FOR ORESA VENTURES. CORNEL JOINED ORESA VENTURES IN 1997. HE HAS AN MBA FROM DURHAM UNIVERSITY.

companies in our preferred sectors ensures a high-quality deal flow.

Our local presence enables us to develop an intimate understanding of the major forces at work shaping the transformation of the Romanian economy and the evolution of our preferred industries. This helps us to identify attractive investment opportunities and quite often to work with entrepreneurs at refining their business concept and strengthening the management team.

Flanco, a leading electricals retailer, and BHL, a major brewery group, are two examples of investments that demonstrate our understanding of what it takes to build a market leader in Romania. In addition to outstanding entrepreneurial management and a viable concept, we provide access to Western industry expertise, assist with debt financing or raising further equity, and take a hands-on approach to building internal management systems and developing an organization.

ORESA Ventures is at present the only investment company pursuing a clear sector strategy in Romania. This gives us a head start in understanding investment opportunities in our sectors, making decisions and adding value after investment.

Venture capital market

The Romanian venture capital industry is still very young. The capital available for private equity investment is raised abroad and, as a result, the market is heavily dependent on how Western institutional investors perceive the country. Private equity funds committed to Romania are estimated at around $300m. No new equity has been raised for Romania, nor did any new regional fund enter the market in 1999.

In the first half of 1999, most funds adopted a "wait and see" position due to macroeconomic concerns. In the second half, however, major investments were made in mobile telecommunications, cable TV, waste recycling, financial services, food, street lighting, media, hotels and engineering. This momentum is likely to carry over into 2000.

Regional funds are becoming more active compared with country funds, particularly with respect to large deals. However, competition is not very intense. Neither is competing with banks, as they are not yet prepared to provide long-term development finance. This leads to relatively low entry valuations and provides for outstanding returns.

Trade sales are the most likely exit route in most cases in Romania. The Romanian capital market is still underdeveloped, with low liquidity and limited interest from portfolio investors. IPO's may be a viable exit alternative 3–4 years into the future. There may be cases where regional, venture-backed companies could be floated on Western exchanges.

Banking sector/debt financing

The banking sector is going through a profound transformation. Bancorex, Romania's flagship bank for many years, has been shut down. Société Générale and GE Capital have taken controlling stakes in two banks. Another two will be privatized this year and next. Large foreign banks are opening branches in the country and a few smaller private banks are expanding. All these changes are helping to create a stronger banking sector.

Nevertheless, banks are likely to remain reluctant to provide medium- and long-term financing in 2000. There are signs that bankers are becoming more interested in establishing relationships with Romanian companies and getting to know more about their businesses than just their current monthly cash flow. It will probably remain challenging to significantly leverage equity investments made by venture capital funds in 2000 and a few years to come.

Future outlook

An upturn in exports driven by growth in Germany and Italy, Romania's key markets, and higher domestic demand are expected to generate modest GDP growth in 2000. Privatizations and infrastructure projects will boost fixed investments and further spur growth. There are indications that Romania has bottomed out and has established a sound basis for sustainable growth.

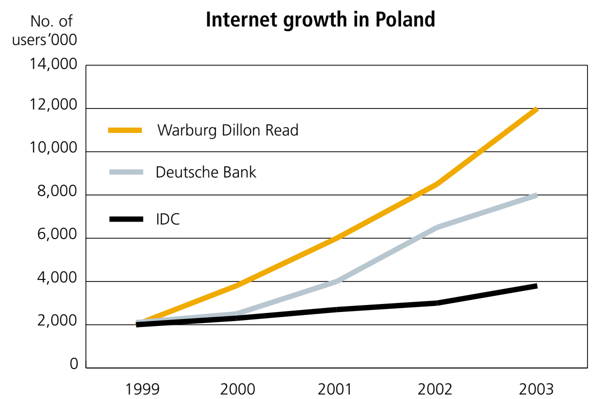
EU accession negotiations and the IMF will put pressure on the Romanian government to avoid spending, despite it being an election year, and maintain a deficit that can be financed without high inflation. Irrespective of who wins the election, reforms will accelerate as the country moves toward its long-term objective, EU and NATO membership.

ORESA Ventures' preferred sectors will continue to grow. Healthcare, consumer goods and distribution are among the industries being rebuilt from scratch. Our existing investments in the country will also benefit from the return to economic growth.

ORESA Ventures will further cement its leading position in the venture capital market in Romania in its preferred sectors. This will result in a continued healthy deal flow that is expected to materialize in 2–3 further investments in 2000.

ORESA Ventures and the new economy

Within ORESA Ventures' geographical and sector focus, Poland and Romania and healthcare and distribution, respectively, significant investment opportunities will develop through technology and Internet developments. ORESA Ventures will commit funds and management in these areas, thereby building on and leveraging our market position both within our core geographic markets and core sectors. We will conclude the relevant partnerships to bring together our own knowledge and market position with the required IT and Internet competence. We will thereby create a solid platform for participating in the development of Internet opportunities within the healthcare sector and the development of the Internet industry in Poland and the region.



THIS FIGURE ILLUSTRATES THREE DIFFERENT SCENARIOS FOR GROWTH IN POLISH INTERNET PENETRATION.

GEOGRAPHIC FOCUS

Internet outlook for Poland and the region

Both PC and Internet penetration are still low in the region, although the growth rate is high and consumers in the region have been enthusiastic users of mobile services. Consumers will also benefit from the deregulation of the telephone sector across the region and the falling prices of ISP services. Poland is ranked as the 21st best Internet opportunity in the world, ahead of seven of the 15 countries of the European Union (Source: Jupiter Internet strategies report 1999:9).

Growth in Internet users in Poland is estimated at 400–1,200 percent in the period 1999–2003. Even with a lower growth estimate, the number of Internet users in Poland in 2003 will be around 4.5 million, which is on par with Sweden today.

Internet investment strategy in Poland

ORESA Ventures' knowledge of the local Polish market should be complemented with the relevant industry experience. In line with our business idea, we will seek partnerships to complement ORESA Ventures' skills. We believe the investment sequence we have seen in the more advanced markets will be repeated in Poland, but within a shorter time-span. For example, mobile telephony will play a more significant role relative to the fixed line system for Internet penetration due to the relatively poor standard of fixed lines and rapidly growing mobile penetration.

Similarly to the development of mobile phones versus fixed lines, Poland leapfrogged the bank checks we have been using for decades in the West. Instead, the Poles were able to go straight from cash to credit and debit cards. It is likely that the Internet revolution will make it possible for many Polish consumers and businesses to leapfrog some of the evolutionary steps in a wide variety of sectors, such as goods distribution.

Infrastructure environment

% penetration	Poland	Czech	Hungary
PC	6	10	9
Internet	4	3	5
Credit cards	10	24	15
Fixed line	23[1]	40	31
Mobile	11[1]	20	16
Cable	16[2]	18	18
TV	90[2]	90	90
Satellite	15[2]	0	0
Fixed charge per month, $	0	0	15
Telephone charge per hour peak, $	1.7	2.2	2.6
Charge for 10 hours/month, $	16.8	21.6	41.4

[1] Percent of population.
[2] Percent of households.

[SOURCE: DEUTSCHE BANK RESEARCH ESTIMATES]

ORESA VENTURES FOCUS

ORESA VENTURES WILL MAINTAIN A STRONG GEOGRAPHIC AND SECTOR FOCUS WHILE DEVELOPING THE PLATFORMS PARTNERSHIPS REQUIRED TO CAPITALIZE ON THE INTERNET-OPPORTUNITY WITHIN BOTH THESE FOCUS AREAS.

SECTOR FOCUS

Healthcare and the Internet, the eHealth industry

Although it is one of the largest sectors of the economies in all countries, the healthcare industry is historically characterized by fragmentation. Rising healthcare costs is universally becoming a major issue, driven by an aging population and access to more expensive treatment methods. The Internet is the fastest growing medium in history and will fundamentally impact the healthcare industry in a number of ways, ultimately resulting in more efficient administration, less fragmented procurement, a more informed and demanding health consumer and new decision support systems for physicians and other participants in the care process. This development will give rise to significant investment opportunities within different areas of eHealth as the industry evolves over Europe.

The U.S. eHealth industry has developed over several years. Despite very significant differences between its healthcare market and the fragmented European national healthcare markets, developments in the U.S. can be used as a guide to the functionality and sustainability of different business models for Poland and other European countries. A few years back, in the early days of the Internet, consumers were impressed with the availability of free healthcare information which they could obtain over the web. Healthcare is among the top three topics on the Internet in the U.S. and an estimated 43 percent of American Internet users visit the web for healthcare or related information. However, due to the overwhelming amount of information available, consumers are increasingly looking for more from providers, which will have to offer a range of interactive and innovative services. Pure medical content providers, such as the Nasdaq-listed company Dr. Koop, have been downgraded by the financial markets, reflecting this development.

Analysis of eHealth business models

eHealth industry analysts often classify business models in three different categories: Content, Commerce and Connectivity. Some of the key drivers of each of these three categories are illustrated in the figure below. The Commerce model can further be split into Business-to-Consumer (B2C) and Business-to-Business (B2B) models. As illustrated in the figure on p. 17, B2B is expected to vastly outgrow B2C in terms of e-commerce volume, which is reflected in the present valuations of eHealth B2C and B2B listed companies.

ORESA Ventures and eHealth

ORESA Ventures began working with eHealth opportunities in mid-1999. Within our majority owned healthcare company Medicover, a strategic decision was taken in 1999 to develop an attractive web service for the customers.

eHealth business model

CONTENT

Customer utility	Get information • Single source • Multi source navigation
Value proposition	Richness Relevance Ease to access
Primary revenue	Sponsorship Advertising Subscription Licensing
Example	See table

COMMERCE

Customer utility	Buy goods or service
Value proposition	Choice Convenience
Primary revenue	Direct sales % of facilitated trades Transaction fees
Example	See table

CONNECTIVITY

Customer utility	Communication with other organizations or individuals
Value proposition	Richness Relevance
Primary revenue	Sponsorship Advertising Subscription
Example	See table

[SOURCE: BCG INTERVIEWS, BCG ANALYSIS]

Examples of listed companies in the different categories

Content	Ticker
drkoop.com	KOOP
Adam.com	ADAM
OnHealth	ONHN
Connectivity	
CareInsite	CARI
Healtheon	HLTH
Allscripts	MDRX
B2C	
drugstore.com	DSCM
Planet RX	PLRX
VitaminShoppe	VSHP
B2B	
Chemdex	CMDX
Neoforma	NEOF
SciQuest	SQST

MedicoverOnLine (www.medicover.pl), a new and improved web site catering to Medicover members, was launched during March 2000. This service will continually be upgraded to meet the service requirements of Medicover's customers.

ORESA Ventures simultaneously research the opportunities for stand-alone Internet applications within the healthcare industry, building on our experience with Medicover.

The rapid reform of the Polish healthcare system which is now under way will drive demand for IT and Internet-based support systems from the different participants in the healthcare industry.

Healthcare is a local business, even more so, one can argue, than most other businesses. The opportunities that will develop by combining healthcare and the Internet will, however, cut across national borders. Successful eHealth business models will be able to generate significant value by quickly expanding over several national markets. ORESA Ventures will consider participating in eHealth opportunities outside our present geographic scope, thereby leveraging our industry competence to capitalize on the expected rapid growth in eHealth opportunities.

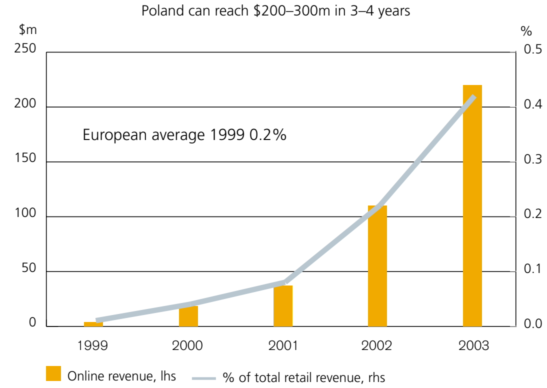
ORESA Ventures and e-tailing

Although the current level of online advertising and shopping is very low in Poland, rapid growth is expected during the next 3–4 years, which will bring Poland up to 1999 Western European levels. For example, e-tailing in Poland is forecast to reach 0.42 percent of total retail revenue in 2003, twice the current Western European average.

As the general retailing environment is relatively underdeveloped, early movers can expect to gain significant market shares by professionally developing e-tailing. One of ORESA Ventures´ portfolio companies, Office Depot (RIC Inc.), launched its new site (www.officedepot.com.pl) during the spring of 2000. The site is fully integrated with the existing backend system and will thus ensure a high level of fulfillment from day 1 through the company´s four existing distribution centers.

Online revenue

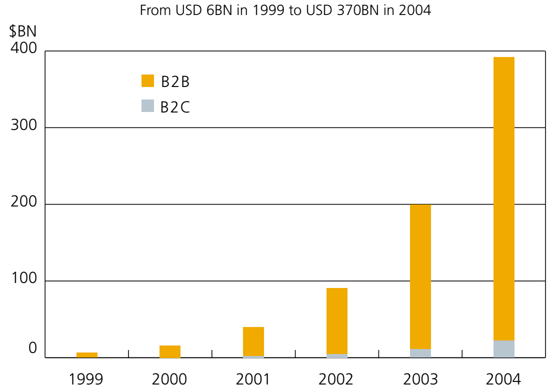
Poland can reach $200–300m in 3–4 years



[SOURCE: BCG ANALYSIS]

Health e-commerce to soar

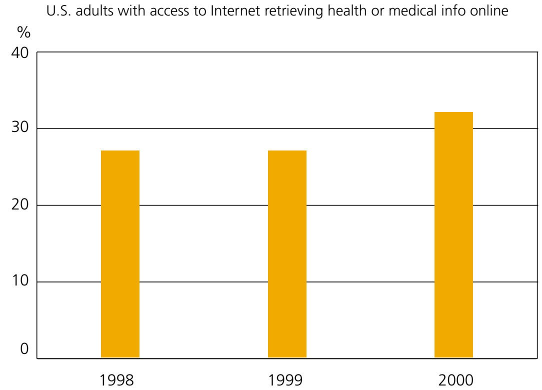
From USD 6BN in 1999 to USD 370BN in 2004



[SOURCE: FORESTER RESEARCH]

Interest in health content is growing

U.S. adults with access to Internet retrieving health or medical info online



[SOURCE: CYBER DRIACO GUE, IDC]

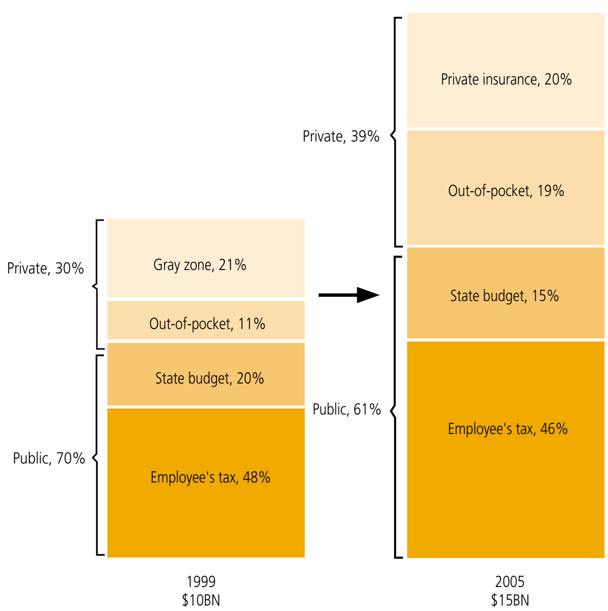
Healthcare market – outlook Poland

ORESA Ventures has invested resources to identify likely development scenarios for the healthcare industry particularly in Poland. We have worked closely with an international consulting firm for more than six months in analyzing development trends and investment opportunities.

Current reforms in the Polish healthcare system are more far reaching than any previously in Europe. The aim is to introduce market forces into the funding and provision of healthcare, while ensuring a fair and equitable environment where access is guaranteed to all citizens. In January 1999, healthcare funding was decentralized through the establishment of regional health insurance funds. These funds receive their funding through payroll taxes from the workforce in their region and are responsible for contracting all healthcare within that region. Plans call for the public health insurance market to be subject to full competition from private insurers by 2002. In the figure on page 19, we provide comparisons to Portugal and Chile, which have undertaken reforms similar to Poland. Despite some significant differences compared to Poland, both countries illustrate the effects of simular reforms on the funding structure.

The provision of care is also undergoing significant change. As illustrated in the figure below, the outlook for 2005 is that 40–45 percent of total healthcare services will

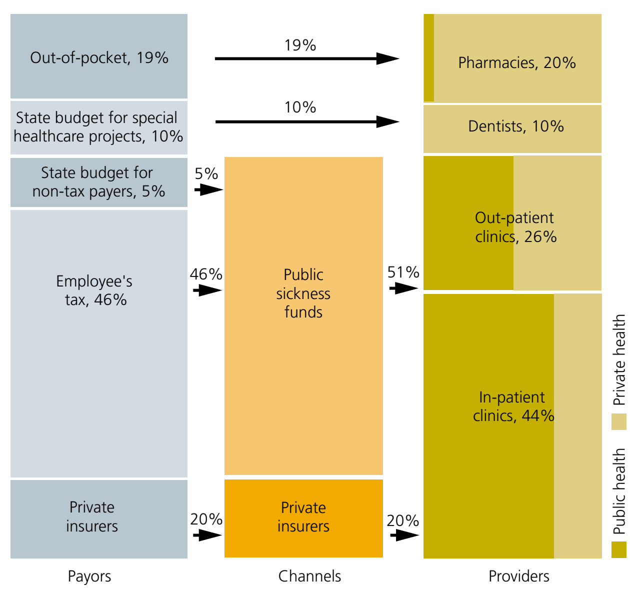
Expected evolution of Polish health care payer structure



THE TOTAL HEALTHCARE MARKET IN POLAND IS EXPECTED TO GROW FROM $10BN TO $15BN BY 2005.

[SOURCE: BCG INTERVIEWS, BCG ANALYSIS]

Likely scenario for Polish healthcare market in 2005



THIS FIGURE ILLUSTRATES A LIKELY SCENARIO FOR THE POLISH HEALTHCARE MARKET IN 2005. SOME 40 PERCENT OF TOTAL FUNDING IS PAID THROUGH PRIVATE INSURERS AND BY CONSUMERS DIRECTLY OUT-OF-POCKET. APPROXIMATELY 40 PERCENT OF ALL HEALTHCARE PROVISIONS ARE EXPECTED TO BE PRIVATE BY 2005.

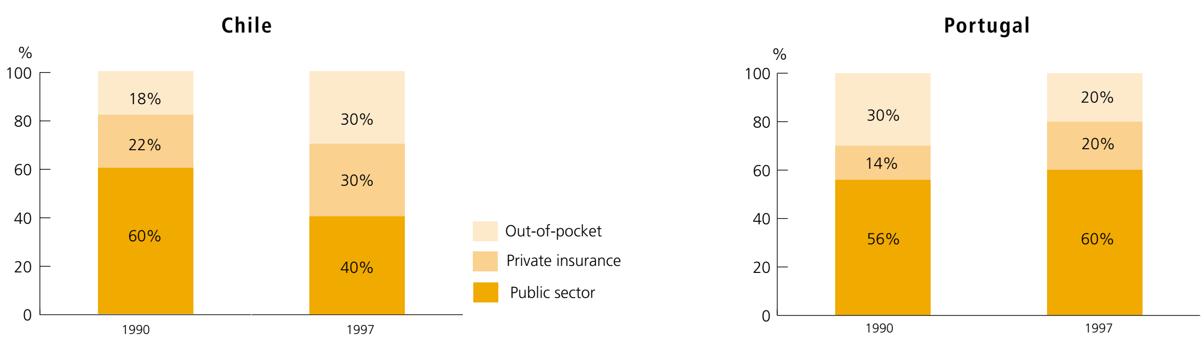
[SOURCE: BCG INTERVIEWS, BCG ANALYSIS]

be delivered by private providers. Today, pharmacies and most dental practises are already private.

The size of the Polish healthcare market measured per capita will remain low by Western standards for many years. However, given the size of the economy, the absolute size of the industry in Poland is already significant. The 1999 industry estimate of $10bn is expected to grow to approximately $15bn by 2005. This is driven firstly by underlying growth in the economy, secondly by partial replacement of the large gray zone of private payments with a transparent insurance and out-of-pocket market and, finally, significant growth in the private insurance market. The market size by 2005 still equates to less than $400 in healthcare spending per capita per year, compared with today's levels in Western Europe of $1,100 in Spain and Portugal to well over $2,000 in Germany and Scandinavia.

The forecast for 2005 of a private health insurance market of more than $3bn and the a private out-of-pocket market of roughly the same size, both growing from a very small size today, provide very significant opportunities for private healthcare initiatives and investments.

Comparison between Chile and Portugal



Main tenets of healthcare reform

	Chile	Portugal
Main goals	Imbalance reduction - quality - accessibility	Improved quality and efficiency
Key mechanisms	State investments in primary care infrastructure Two payors: – National health system and private insurance	Development of primary care infrastructure Two payors: – National health system and private insurance
Difference from Poland	Large part of population out of HC system at onset of reform	Different level of economic development HC spending four times Poland at onset of reform

DESPITE SOME SIGNIFICANT DIFFERENCES COMPARED TO POLAND, PORTUGAL AND CHILE CAN BE USED AS BENCHMARKS TO ILLUSTRATE CONSEQUENCES OF SIMILAR HEALTHCARE REFORMS. POLAND IS EXPECTED TO MAINLY REPLICATE THE PORTUGUESE MODEL.

[SOURCE: MEDISTAT]

Medicover – the company

The company was founded in 1995 based on the tremendous potential which existed in Central and Eastern Europe for the concept of private healthcare and insurance.

During 1999 ORESA Ventures increased ownership from 68 percent to 95 percent and have now a total investment of $27.2m. The present ownership level should be considered temporary.

The background in all Central and Eastern European countries is similar – a rapidly deteriorating, underfunded, undermanaged and depersonalized health system struggling with rapidly increasing demands for services (an ageing population, new pharmaceuticals, new technology and more sophisticated, demanding patients) and a huge excess of hospital beds, physicians and other healthcare professionals.

"Being covered by Medicover healthcare is recognized as a very precious benefit by our employees. Medicover offers services on very high quality level unknown in the public health sector in Poland. In my opinion Medicover has reached a very high standard of medical care within a very short time. Its staff always present exceptional professionalism and an individual approach to every single patient. I'm looking forward to further cooperation with Medicover and its results – mutual benefits."

WALDEMAR SIELSKI, DIRECTOR OF MICROSOFT POLAND

With this in mind and with the emergence of a fast-growing middle class and an increase in personal and disposable income, the rapid growth of private supplementary health coverage was almost assured. The growth pattern of Medicover's revenues since its inception confirms this assumption. In its goal to become the premier private insurance and healthcare supplier in the region, the company had to meet two basic parameters.

On one hand, it had to establish a wide geographic presence. Doing so enabled Medicover to develop working relationships with multinational companies in the region, spread its substantial initial development costs over a faster-growing enrolled population and establish its credibility as a serious long-term player.

Results for 1997–1999 and forecasts for 2000:

	1997	1998	1999	2000f
Number of members	16,000	25,000	47,000	68,000
Revenue, $m	3.3	8.8	13.3	18.0
EBITDA, $m	(2.9)	(3.5)	(3.0)	0.1

On the other hand, Medicover had to create value by offering a healthcare system that was far superior to the public alternative. It achieved this by attracting physicians and other professional staff who were friendly and accommodating and by developing medical centers that provide easy access to primary care, specialists and diagnostic services. In the five years since its inception, Medicover has accomplished all this while establishing itself in four countries and raising its revenue from less than $1m in 1996 to a budgeted $18m in 2000.

The company is designed along the lines of U.S. managed care but with a much stronger emphasis on easy access to healthcare services, a personalized, humane approach and the provision of most basic medical services at a single site.

Medicover offers its services through a network of renovated or newly constructed health centers that assure a modern, comfortable and well-designed environment. The full-time staff at each center are carefully selected and continuously trained, assuring a high level of care. By employing such staff directly, the company is also able to control the widespread fraud and abuse common in this part of the world.

U.S. practices have to be modified to function within the professional and cultural parameters of European medicine. The critical elements, however, are clinical and financial accountability in combination with responsiveness to customers. Europe in general, and Central and Eastern Europe in particular, do not have a long tradition of service or quality control in healthcare services, making Medicover's approach attractive to the market.

The primary challenge of the company was to develop such a culture. Experience was initially drawn from established U.S. managed care organizations such as Kaiser-Permanente, reinforced by the recruitment of management with business and healthcare experience and, most importantly, the systemic development of local talent, which will assure stable growth over the years. With such a system in place, Medicover is years ahead of the com-

MEDICOVER is the premier private insurance and healthcare supplier in Central and Eastern Europe.

petition, giving it a significant advantage in the rapidly evolving private healthcare market.

Medicover 1999 review

In 1999, Medicover continued its ambitious expansion of services in the region. By year-end, it had 26 health care facilities and two mobile occupational medicine facilities under active management. Capacity was expanded some 30 percent more than budgeted to prepare for expected increase in demand.

To assure a pleasant environment for its members and provide optimal access, service and quality of medical care, Medicover, from its first day, opted to develop its own facilities. This approach meant higher initial costs, since the fixed costs of the facility and core medical staff (physicians, nurses, receptionists and clerical staff) had to be spread over a relatively small number of members. These fixed costs are to a large extent covered by about 3,000 enrolled members per location. Subsequent enrollment growth generates mostly variable medical costs, so that the contribution to the bottom line steadily increases as membership grows.

> "Management of our company is very satisfied with the cooperation with Medicover, which provides the best possible healthcare for our employees. Our staff appreciates the very professional and friendly service offered by Medicover. We did not experience such approach to patients before. Healthcare on a very high level is being recognized by our employees as a very valuable benefit."
>
> MARTA MRAJSKA, HUMAN RESOURCE SPECIALIST, VIESSMANN POLAND

Development of such facilities was the only way to provide quality medical care in Central and Eastern Europe in the early years of Medicover. As private medical care has become more established and accepted in the past 2–3 years, the quality of private practices is improving. To take advantage of this development in the future, Medicover will grow both by developing its own facilities and by establishing contractual ties with qualified private practices. The latter will reduce Medicover's start-up costs and capital needs. To supplement prepaid membership revenue in areas where it has available capacity, Medicover over the years has enhanced its noninsured fee for service (FFS) business. This revenue increased on a consolidated basis from $2.3m in 1998 to $2.8m in 1999. Opening its centers to FFS during the startup stage helps Medicover to establish name recognition and spread its fixed costs over a larger number of revenue-producing activities.

Financial review

Revenue

Medicover's revenue rose substantially from the 1998 level of $8.8m to $13.3m in 1999, even though total growth was below projected levels. The shortfall resulted from somewhat slower membership growth in new regions in Poland and modestly lower premium revenue per member. In Romania, revenue grew more slowly than projected due to the difficult macroeconomic situation, which was further aggravated in the corporate market by the Kosovo crisis. In the Hungarian market, Free For Service volume for our 1998 acquisition, R Klinica, has grown well.

The total enrolled membership increased to about 47,000 at the end of 1999.

Costs

Medical costs were maintained at a respectable loss ratio of about 50 percent. Overall costs increased from $13.5m to $16.9m, reflecting the cost of servicing an increased enrolled population, higher administrative costs and member acquisition costs, representing some 25 percent of first years premium income for new members, which are fully expensed in the year they are incurred.

Margins

During the year, Medicover experienced pressure on margins related to the slower than expected growth rate in Poland and lower average premium revenue per member. As a result, the Polish regions did not achieve breakeven during the year, although profitability is steadily improving as capacity is filled. The core Warsaw region maintained its solid profitability throughout the year.

Please visit the new Medicover bilingual web-site www.medicover.pl.

Funding and resources

In 1999, Medicover drew on $4m of its $7m credit facility provided by the World Bank's International Finance Corporation. $1.8m was needed to finance ongoing deficits and $2.2m for capital needs. No new acquisitions were made during the year, and all of Medicover's growth was achieved through increased use of existing operations. In 2000, Medicover's capital needs are estimated at $3.0m and will be met by an additional draw down of the IFC loan.

ISO 9002 certification

Medicover obtained ISO 9002 certification for all its Warsaw medical centers and implemented similar internal quality assessment guidelines at all its other facilities. It also obtained ISO 9002 certification for the laboratory operation in Romania. This was the first such certification granted to a laboratory in that country.

Year 2000 projections

The organization has set major goals for 2000. Total revenue is expected to exceed $18m, with a positive EBITDA. On a consolidated profit and loss basis, Medicover should break even by the early fall of 2000. More importantly, its Polish and Romanian operations should show solid full-year growth and profitability. Preliminary results from the first two months of 2000 are ahead of budgeted projections.

Medicover Poland

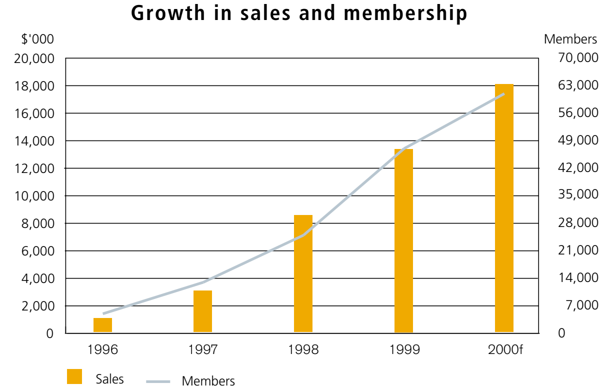
Medicover Poland is the core activity of the organization. In the year 2000, it will account for $13.2m of a total of $18m in revenue and contribute with $1.2m in EBITDA.

Medicover Poland is anchored around its oldest operation, in Warsaw, where it now has three medical centers and is constructing a fourth, scheduled for completion in June 2000. The Warsaw operations have been consistently profitable since 1998. Over the past three years, Medicover Poland has undertaken an ambitious expansion in every major city of the country, opening centers in Krakow, Katowice, Wroclaw, Lodz, Poznan and Gdansk, with another scheduled to open in Szczecin in early 2000. This gives Medicover a unique market position and has helped to establish it as the dominant private health care and health insurance provider in the Polish market.

By year-end, membership ranged from about 1,000 in Poznan (opened 2nd half 1999) to 2,800 in Krakow (opened late 1998). Four cities had memberships of about 2,000. A number of regional operations, which require about 2,500–3,000 members to break even, started making solid net contributions in the first quarter of 2000.

In addition to these initiatives, Medicover in 1999 began development work on a network of private practice physicians in about 30 smaller Polish cities. In each city, the network will select a limited panel of high-quality physicians, both primary care and specialists, who will have contractual ties with the organization, submit claims for services to a central office and coordinate the hospital care needs of enrolled members.

Growth in sales and membership



"Our employees are satisfied with Medicover's professionalism and attitude. Of course, we sometimes experience slight imperfections regarding the organization of service but it does not change the general impression. It is very important that the Medicover staff is always willing and helpful. Generally speaking, the company provides very good healthcare for our personnel."

MARTA REINSCH, PERSONNEL MANAGER, IKEA POLAND, POZNAN DIVISION

Medicover Hungary

Hungary has turned out to be one of Medicover's most challenging markets. In April 1998, it acquired an established clinic and surgical center in Budapest with the expectation to develop it into the core of a large operation, similar to the one in Poland. Prepaid managed operations are growing slowly due to the market's resistance to the concept. Only in the last quarter of the year has it begun to report significant growth. Sales efforts for 2000 are being expanded. To assure optimal access to patients and respond to market pressures, a site on the Pest side of the city is being considered as a complement to Medicover's current location on the Buda side.

> "On behalf of all the employees of IBM's Poznan Division, I would like to thank Medicover for a very friendly atmosphere and professional service. Medicover's staff treats every patient as an individual, which is an extraordinary value the state-owned health-care sector cannot match."
>
> MANGORZATA MICHANUS, OFFICE ADMINISTRATOR, IBM POLAND

Medicover Romania

Medicover established itself in Romania through two acquisitions in late 1997. The larger one was Rombel, a FFS clinical and diagnostic practice and laboratory operation. The smaller acquisition was Brimax, a practice in downtown Bucharest catering primarily to foreign residents. With these acquisitions as a base, Medicover Romania launched a major expansion of medical services in three directions:

- the establishment of a prepaid Medicover operation
- expansion of the clinical laboratory services
- maintenance of the FFS diagnostic and clinical service.

The clinical laboratory service is now the largest private laboratory in Romania and the only one in the country which is ISO 9002 certified. In December 1999, it signed a contract with the newly formed Public Insurance House in Bucharest, and to date in early 2000 it is experiencing a major increase in volume.

The prepaid Medicover business was developed aggressively and in October 1998 a modern medical center was opened in downtown Bucharest. This center, whose service quality is unparalleled in Romania, is now filled to capacity, with construction of another large site scheduled to begin in early 2000.

Despite the difficult macroeconomic environment in Romania in 1999, total revenue increased from $1.7m to $1.84m. Gains were made in the core prepaid business and the consistently profitable laboratory operations. In 2000, as Romania emerges from its economic slowdown, budgeted revenue is projected to almost double to $3.2m, with estimated EBITDA of $0.3m.

Medicover Estonia

In the summer of 1999, Estonia passed a new law governing occupational medicine in preparation for its entrance into the EU. Medicover Estonia became the only national company able to comply with this law and perform the full range of occupational medicine services. In 1999, it had four occupational medicine centers in the country's largest cities and one full-service Medicover clinic in Tallinn opened in December 1999. It also uses two large buses to provide services to companies located outside these urban centers.

Medicover has a dominant position in the emerging occupational medicine market in Estonia, especially in light of the new regulations governing workplace health and safety that are now being implemented.

MEDICOVER has set major goals for 2000. Total revenue is expected to exceed $18m, with a positive EBITDA. On a consolidated profit and loss basis, Medicover should break even by the early fall of 2000.

Office Depot (RIC Inc.) – the company

Office Depot (RIC Inc.) is the largest office supply superstore chain in Central Europe. The company was established in 1994 by a team of American entrepreneurs and investors and opened its first superstore in Warsaw in 1995. Through a licensing agreement with Office Depot in the U.S., the company is aiming to become the dominant regional player in its sector.

Office Depot sells office supplies ranging from pens and paper to office furniture and equipment. The products are sold directly to large corporate customers or through superstores located in newly established shopping centers outside city centers.

Since initially investing $1.5m in the spring of 1997, ORESA Ventures has raised its total investment in Office Depot to $5.5m, for a 7.4-percent stake in the company.

1999 review

During 1999, two new stores were opened in Poland and Hungary. Other store openings were postponed when the company successfully acquired the six-store Office Center chain from DIVACO during the fourth quarter. This raised the total number stores to 16 in Poland and four in Hungary. The acquisition further consolidated Office Depot's leading position in the region.

Net sales amounted to $79.4m in 1999, an increase of 32 percent from the previous year but still 20 percent below budget. At the same time, the gross margin fell short of the budgeted figure of 23.1 percent. These slightly disappointing results partly reflect an overly ambitious budget, but are also due to increased price competition to which the company did not respond quickly enough. Because of loss of Kinnarps business, and because of the effect of a full year of Office Center stores in the portfolio, margins will be only modestly higher in 2000.

To finance the acquisition, the company raised an additional $11.75m, with ORESA Ventures participating with $2m.

Results for 1997–1999 and forecasts for 2000:

	1997	1998	1999	2000f
Number of stores	7	13	20	23
Net sales, $m	36.0	59.0	79.4	101.5
Gross margin, $m	8.8	15.3	18.3	23.8
EBITDA, $m	(2.5)	(2.2)	(3,6)	1.0

Outlook

To ensure a successful integration of the Office Center chain, new store openings in 2000 have been postponed until the second half of the year. Management is putting great effort into maximizing the synergies between the two companies. The merged entity expects to achieve a significant improvement in gross margins by utilizing its size to secure better terms from suppliers. Office Center stores will also add furniture to the assortment, thereby increasing sales and margins.

The former Office Center stores, which have been refurbished, are now offering business services such as delivery and credit, and should achieve higher sales and significantly improved margins.

With its significant size, the company expects 2000 to be its first profitable year. Factoring in four new store openings, the budgeted EBITDA is approximately $1.0m. As a result, the company will be able to to finance additional store openings through internally generated cash flow.

During the second half of 1999, the Company developed an e-commerce strategy for its region. As a business-to-business supplier with a large number of Western and local blue chips customers, Office Depot has a strong base from which to develop a successful click-and-mortar business. By fully integrating the site with the backend operations of the company, customers will be able to take advantage of better service delivered more efficiently. After trials with selected customers in January and February, the site will go live during April and will subsequently be introduced in Hungary as well.

OFFICE DEPOT sells office supplies ranging from pens and paper to office furniture and electronics.

United Entertainment Co. – the company

United Entertainment Co. LLC is the first chain of modern family entertainment centers in Central Europe. The company was founded in 1997 by Marc Bushala, an American entrepreneur with extensive experience of the Polish entertainment market and the backing of a financial institutional investor. Marc Bushala has been active in Poland since 1993 and has established a number of successful companies. Having seen the vast opportunities in a largely underdeveloped leisure sector in Poland, he decided to expand family entertainment centers in Central Europe with bowling as anchor activity and become the dominant operator in the region.

Each "Atomic World" family entertainment center includes approximately 24 lanes of ten-pin bowling, a video arcade, billiards area, children's play center and theme bar & restaurant. The centers are located in large urban shopping malls in conjunction with a multiplex cinema.

In the spring of 1999, UEC raised a total of $6.75m to fund the first five centers. ORESA Ventures participated as the only new investor alongside Marc Bushala and Poland Partners, a local private equity fund, and invested $5m for a 37 percent stake in the company. ORESA Ventures has one seat on the board of directors.

1999 review

During 4Q99 the first Atomic World entertainment centers were successfully opened in Wroclaw and in Warsaw. In February 2000, a further center in Krakow was opened. The first three centers have generated significant bowling revenues well above budget. Their strong showing has proven beyond a doubt that the concept is working well in Poland.

During the year, the company built up a strong management team. Much attention was also given to securing attractive locations in new shopping malls alongside multiplex operators such as Ster Century and Kinepolis. For the three centers, the company managed to secure debt financing covering more than 50 percent of costs.

Results for 1999 and forecasts for 2000:

	1999	2000f
Number of centers	2	5
Net sales,$m	0.3	7.7
Gross margin, $m	0.3	6.8
EBITDA, $m	(1.6)	(0.2)

Outlook

The company aims to open over 20 centers over the next 3–4 years and to become the leading operator in the region. The pipeline is being built up to support this aggressive expansion plan.

Management is also carefully analyzing several projects outside Poland and it is likely that one or two centers will open in new markets in early 2001.

For the year 2000, net sales are forecasted at around $8m, with a small EBITDA loss. Exit is foreseen within the next four to five years, with either an IPO or trade sale as viable alternatives.

UNITED ENTERTAINMENT operates large family entertainment centers.

Beverly Hills Video – the company

Beverly Hills Video (BHV) is the leading chain of video rental superstores in Poland. Through large modern stores with a full range of videocassettes, it aims to provide the best, most price-competitive home entertainment choice to the Polish customer.

The company was established by Poland Partners, a leading private equity player, and Jack Messer (CEO) in late 1996. Jack Messer has an extensive background in the sector in the U.S., where he previously built up two video rental chains which were then sold to trade buyers.

Poland has the highest urban penetration of VCRs in Europe. At less than $2 for a new release, video rentals are one of the least expensive forms of family entertainment available to the majority of Polish households. The sector in Poland has so far been dominated by mom-and-pop shops – 30–50 sq.m. in size with a limited selection of movies and often only a single copy of new releases. With almost 40 million inhabitants, the major studios are keen to develop the market together with large retailers.

Beverly Hills Video operates large, modern stores of 350–400 sq.m. with over 5,000 tapes each. Normally, they carry more than 40 copies of new releases, ensuring availability of the most popular movies.

1999 review

Net sales continued to develop in line with expectations, rising by 28 percent for comparable stores. The roll-out was significantly slower than anticipated, however. During the year the company opened eight new stores and closed three, ending the year with 25 stores.

In order to ensure outstanding unit performance, greater emphasis has been placed on the careful screening of potential store sites. Looking forward, the company plans to utilize a cluster strategy focused strictly on prime locations in Poland's ten largest cities.

Despite the lower number of stores opened in 1999, Beverly Hills Video remains the clear market leader. Hollywood Video has seven stores and Blockbuster four.

During the year, the company raised a further $3.75m in equity, with ORESA Ventures participating with $1.5m, thereby raising its ownership stake to 20.9 percent. The company also successfully managed to secure debt financing for the equivalent of $8m, which puts it in a strong position to finance the aggressive roll-out scheduled for 2000.

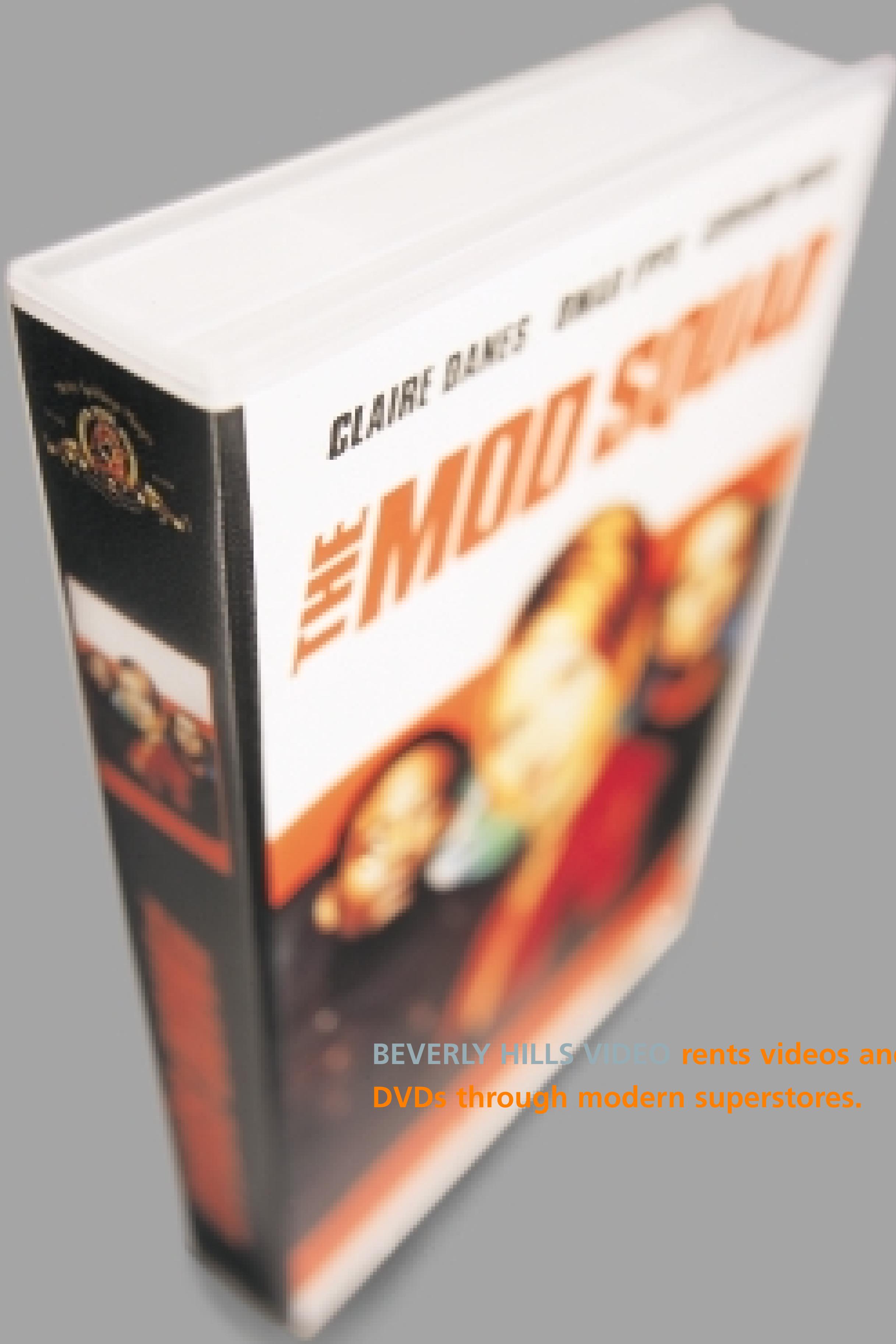
Results for 1997–1999 and forecasts for 2000:

	1997	1998	1999	2000f
Number of stores	7	20	25	40
Net sales, $m	0.2	2.3	4.7	7.4
Gross profit, $m	0.1	1.9	3.3	6.3
EBITDA, $m	n.a.	(2.1)	(1.6)	1.5

Outlook

Beverly Hills Video expects to have more than 40 stores opened by year-end 2000, with revenue growth in existing stores matching the rate of 1999.

Together with the major studios and distributors, Beverly Hills Video is introducing a revenue-sharing scheme that lowers the company's capital expenditures for new releases while giving part of the upside to the studios. This scheme, which has been very successful in other countries, should boost revenues by making more copies of the most popular releases available to customers.



BEVERLY HILLS VIDEO rents videos and DVDs through modern superstores.

Flanco International – the company

Flanco International is a Romanian retailer of white goods and home electronics. The company was established in 1992 by Florin Andronescu, a Romanian entrepreneur. Early on, he saw opportunities for white goods and home electronics as disposable income began to rise and it became affordable for consumers to upgrade older appliances.

In mid-year 1997, the company raised an additional $850,000 to fund the continued expansion of its retail network. ORESA Ventures subscribed for its full amount, taking a 58-percent stake.

Results for 1997–1999 and forecasts for 2000:

	1997	1998	1999	2000f
Number of stores	19	48	47	45
Net sales, $m	4.5	19.0	10.5	14.0
Gross profit, $m	0.6	3.2	1.6	2.5
EBITDA, $m	0.0	0.7	(1.3)	0.1

1999 review

1999 was a very difficult year for durable consumer goods in Romania, with sales in the sector decreasing by more than 50 percent compared with 1998. As a market leader, Flanco directly felt the impact. Its net sales amounted to just over $10m.

On the other hand, management was successful in rapidly cutting costs and closing poorly performing stores. Given the company's strong position compared with most of the competition, it was able to secure favorable treatment from its main Western suppliers.

During the middle of the year, the company successfully raised an additional $2.5m in equity. Danube Fund, a prominent venture capital fund in the region, invested $1.5m, while ORESA Ventures subscribed for $1m in shares. Following the capital increase, ORESA Ventures' stake was reduced slightly, to 46 percent, and we have one of the three seats on the board. Together with fellow board members, we are now actively assisting the company on strategic issues, financial reporting and corporate governance.

In the autumn, Flanco opened a 400 sq.m. flagship store in the first modern shopping mall in Bucharest. This store also serves as a potential model for a new, larger store format for Romania's main cities.

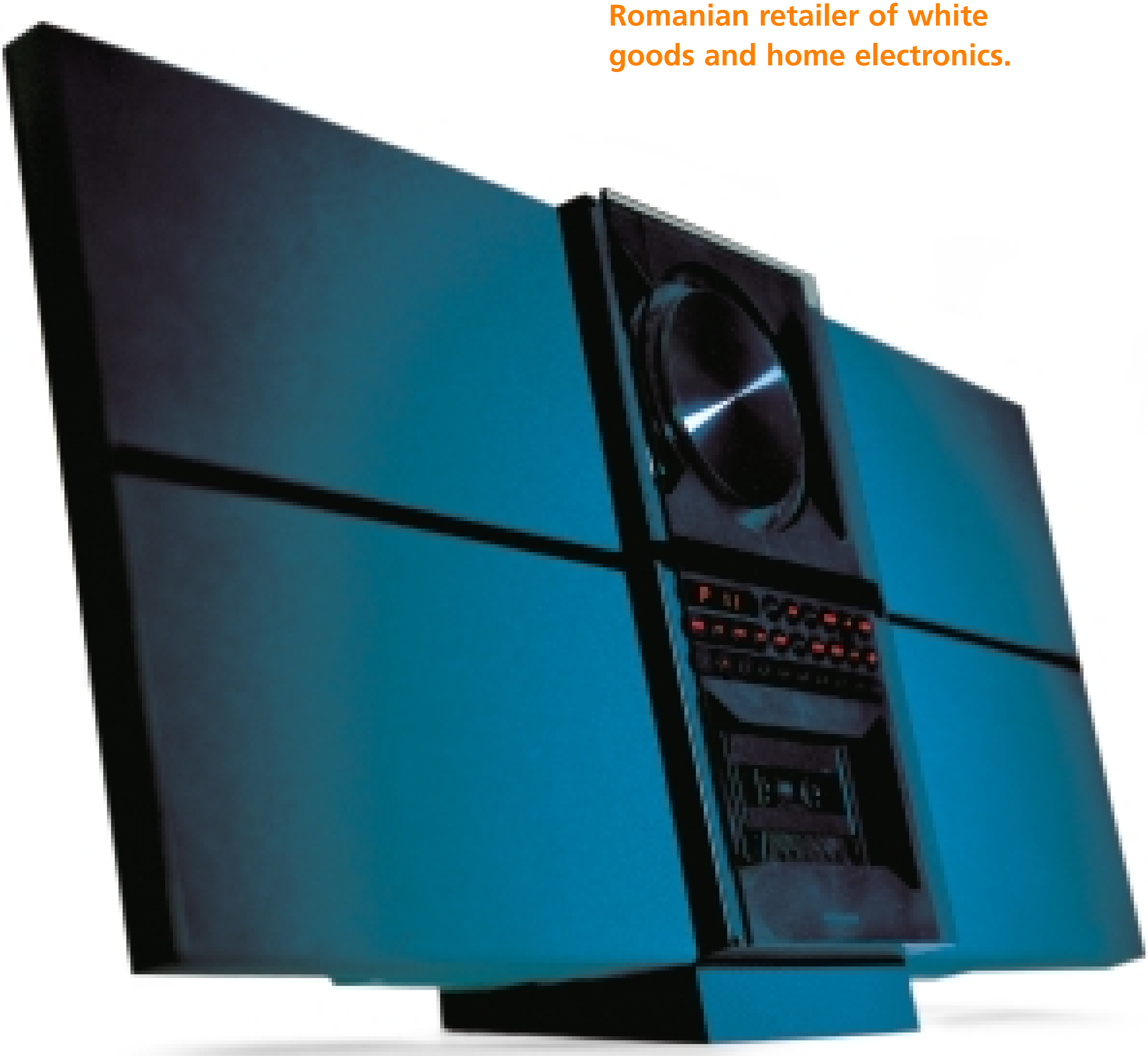
Outlook

The outlook for 2000 is considerably better. Net sales have already picked up significantly, beginning in late 1999, reaching $2.2m in December alone.

While the overall number of stores will remain between 45–50 during 2000, a number of them will relocate to improve customer traffic. Management is also working on larger store concepts and is actively involved with other retailers in the development of new shopping locations outside city centers.

The consumer credit scheme that Flanco pioneered in Romania remains a key competitive advantage. The company is negotiating with a number of the leading financial institutions to enhance and expand the scheme.

FLANCO INTERNATIONAL is a Romanian retailer of white goods and home electronics.



Direct investment review

DIRECT EQUITY INVESTMENTS

	Medicover	RIC Inc. (Office Depot)	UEC	Beverly Hills Video LLP
Business:	Private health care service through managed care plans	Chain of office supply superstores	Family entertainment centers	Chain of video rental superstores
Country:	Poland, Hungary, Romania and Estonia	Poland and Hungary	Poland	Poland
OV stake:	95%	7.4%	37%	20.9%
Invested amount:	$27.2m	$5.5m	$5m	$4.5m
Value of stake:	$40.5m	$6.4m	$5m	$4.5m
Date of investm.:	Jan. 1996 ($3.7m), June 1998 ($11.7m) Oct. 1999 ($11.8m)	May 1997 ($1.5m) July 1998 ($2m) Oct. 1999 ($2m)	April ($2m) June 1999 ($3m)	July 1998 ($3.0m) May 1999 ($1.5m)
1999 sales (98):	$13.3m ($8.8m)	$79.5m ($58.9m)	$0.3m ($0m)	$4.7m ($2.3m)
Comments:	See separate section on Medicover on p. 20	See separate section on Office Depot on p. 26	See separate section on UEC on p. 28	See separate section on Beverly Hills Video on p. 30

	Flanco International	Drogerie a.s. (Droxi)	Churchill Media srl	Intersource
Business:	Multiple retailer of white goods and electrical appliances	Retail drugstore chain	Outdoor media company	Temporary staffing, recruitment and training
Country:	Romania	Czech Republic and Slovakia	Romania	Poland and Romania
OV stake:	46%	12.2%	26%	15%
Invested amount:	$1.9m	$3.4m	$0.75m	$0.45m
Value of stake:	$2.0m	$3.4m	$0.75m	$0.45m
Date of investm.:	Aug. 1997 ($0.9m) Oct. 1999 ($1.0m)	Jan. 1999	July 1998 ($0.35m) July 1999 ($0.4m)	March 1998
1999 sales (98):	$10.5m (19.0m)	$28.6m ($21.0m)	$0.3m (0.1m)	$7.6m ($6.0m)
Comments:	See separate section on Flanco on p. 32	At the end of the year, the company operated 74 stores in the Czech Republic and 12 in Slovakia. It continued to perform strongly in its core Czech market, with like for like sales growth of 12%. The pipeline for new stores remains strong in both countries and the company aims for a store network well over 100 by the end of 2000. The company decided to pull out of Poland due to adverse trading conditions and management issues in the Polish subsidiary. For 2000, its aim is to open a number of in-store pharmacies, which should further boost traffic. A new central logistics center is scheduled to open during 4Q2000 which will enable the company to introduce private label in 2001.	Since commencing operations in mid 98, Churchill Media has gained momentum and is expanding rapidly in Bucharest and other 10 cities. It established itself as a leading quality outdoor media provider in Romania. It built 600 premium panels in 1999 and plans to add over 1,100 new panels in 2000, including new formats. A quality and customer service strategy has so far proven to be the right approach. This has translated into price premium and attractive unit economics, making us confident that growth targets can be achieved. To finance accelerated growth, ORESA Ventures committed a further $0.75m to the company in early 2000, of which 50% was invested in January 2000.	The company focused on improving and developing its infrastructure in 1999 to manage its rapid expansion. The regional offices in Wroslaw, Poznan and Lodz are experiencing rapidly increasing demand for services. During the year the company broadened its services by introducing temporary staffing services within the IT and financial services fields. The outlook for 2000 looks very positive and the company is confident that it will be able to grow and increase its presence in Poland in line with rapid market growth.

	Motoractive	Brewery Holdings Ltd.	RRL (Rig Restaurants Ltd)	Airo Catering
Business:	Vehicle leasing operator	Brewery	Chain of fast food restaurants	Airline catering
Country:	Romania	Romania	Russia (Moscow)	The Baltics
OV stake:	47.5%	Not disclosed	4.7%	23%
Invested amount:	$1.3m	$2.9m	$2.5m	$1.7m
Value of stake:	$1.3m	$4.3m	$1.25m (reduced 50% during 3Q98)	$1.7m
Date of investm.:	March 1999 ($0.7m) Dec. 1999 ($0.6m)	January 1999	April 1998	August 1997
1999 sales (98):	$0.1m (n.a.)	Not disclosed	$30.6m ($56.0m)	n.a.
Comments:	Motoractive was incorporated mid 99. The company's aim is to become the leading independent fleet leasing company in Romania. The initial focus is to target foreign multinationals in Romania and provide flexible fleet leasing services for them. During 1999, management built up a strong client list and is in the process of finalizing cooperation agreements with financial institutions.	During 1999, the company relaunched its main brands and developed a strong nationwide distribution. During 2H99, the company gained market leadership.	The company has managed to complete a drastic restructuring of its cost basis and change its menus and pricing to reflect customer demand following the crisis in 2H98. Although the restaurant market in Moscow has not yet recovered to the pre-crisis level, the company expects to be profitable in 2000.	In 1999, we managed to obtain a direct stake in Airo instead of our earlier indirect holding via Baltic International USA. The majority shareholder of Airo is LSG (Lufthansa's catering company). This will enable us to more directly work with the company and its expansion plans in the region. The three existing kitchens perform well, with significant margins.

INVESTMENTS IN PRIVATE EQUITY FUNDS

ORESA Ventures has made investments in three funds operating in the region. The most significant investment is in Fulcrum Equity, which focuses on the same sectors as ORESA Ventures but aims at majority stakes in state-owned companies. Through its involvement, ORESA Ventures obtains valuable insights in and knowledge of key sectors. Furthermore, ORESA Ventures holds minor stakes in two funds focusing on Romania and Ukraine. Although, Ukraine is on hold for ORESA Ventures, the Company often evaluates co-investment opportunities with Danube Fund in Romania.

	Invacorp	Fulcrum Equity N.V.	Ukraine Fund	Danube Fund
Business:	Pharmaceutical distributor	Investment fund seeking majority stakes in food and beverage related companies	Investment fund targeting small and medium-sized private companies	Investment fund targeting small and medium-sized companies
Country:	Russia	Romania, Russia and Ukraine	Ukraine	Romania and Moldova
OV stake:	3.9%	2.8%	2.1%	2.2%
Invested amount:	$2m	$2.3m	$0.35m ($0.5m committed)	$0.5m
Value of stake:	$1.3m (50% decrease in 3Q98).	$2.6m	$0.2m (reduced in 4Q99 following a downwards revaluation by the fund management)	$0.5m
Date of investm.:	August 1997	Oct. 1996 ($1m) or Aug. 1997 ($1.3m)	September 1996	April 1996
1999 sales (98):	$104.6m ($132m)	n.a.	n.a.	n.a.
Comments:	The company spent 1999 restructuring its debts and payables and changed its product portfolio to focus on local products. In addition, it managed to raise equity from financial institutional investors. The company was profitable in 1999 and sales picked up considerably in the 4th quarter. Its position on the market has been strengthened and it expects to increase sales and market share in 2000.	During 1999, Fulcrum Equity exited from one of its brewery investments in Ukraine. The transaction provided Fulcrum with a highly competitive IRR and $-on-$ return, indicating that the management of Fulcrum has implemented the right strategy in challenging markets. Other portfolio companies are performing according to earlier forecasts.	As the Ukrainian economy deteriorated in 1999, the fund's portfolio could not escape the contraction of the local economy. Following the presidential elections and the improvement in the economy of its main trading partner, Russia, the outlook for 2000 is improving.	The Fund drew down the final tranches from the investors during 2H99 and is now almost fully invested. The Fund's portfolio is developing reasonably well. ORESA Ventures is cooperating closely with the Fund on Flanco, in which the Danube Fund invested $1.5m during 4Q99.

ORESA Ventures also has investments in Emesco ($0.6m). The holding was acquired from Oriflame when ORESA Ventures was established in 1996. The holding is being divested and it is expected that this will be finalized by the end of 2000 and that ORESA Ventures will be paid cost value or slightly more.

The net sales figures for 1999 for the companies are preliminary as they had not completed their audit at the time this annual report was being printed.

DIRECT INVESTMENTS in unlisted companies continued with a focus on Poland and Romania and with a continued sector focus on healthcare, distribution and consumer goods.

Directors' report

The full year result after tax amounted to a gain of $3.9m (SEK 32.8m), equivalent to $0.39 (SEK 3.39) per share on a weighted basis.

Share price

During 1999, the market price of the ORESA Ventures share, represented on the Stockholm Stock Exchange by Swedish Depositary Receipts (SDR's), increased by 35 percent from SEK 32.5 to SEK 44. The Affärsvärlden General Index rose by 66 percent. A total of 1,375 million SDR's were traded during the year.

Net Asset Value

During the year, ORESA Ventures' SEK net asset value increased by 8 percent to $6.55 (SEK 55,70) per share on 31 December 1999, compared with $6.34 (SEK 51,44) per share on 31 December 1998.

New share issue

In December, the Company issued a total of 2,053,406 new shares at a price of $5,73 (SEK 48,79) per share. The shares were used as payment to acquire additional ownership in Medicover. Through the new issue, the total number of shares outstanding in ORESA Ventures increased to 11,752,689.

Investment strategy

Direct investments in unlisted companies continued with a focus on Poland and Romania and with a continued sector focus on healthcare, distribution and consumer goods. A total of $31.9m was invested during the year, of which $13.6m were commitments in four new companies and $18.3m follow-on investments in existing holdings. The remaining portfolio of listed shares were gradually sold out during the year in line with market conditions. By year end, the value of the remaining portfolio of listed shares amounted to $2.2m.

Organization

ORESA Ventures employs 14 full-time staff. Staff costs were reduced by 32 percent compared with the previous year, reflecting the closure of the Moscow office and a continued cost focus in the organization.

Financial position

At year-end, ORESA Ventures had available financial resources of approximately $8m, including credit facilities.

Future development

ORESA Ventures' strategy of building focused competence within its core sectors in Poland and Romania will continue. In addition, the Company will participate in investment opportunities relating to the development of the Internet and new technology within these sectors.

Dividend

The Board of Directors recommend not to distribute a dividend for 1999.

Work of the Board

In 1999, the Board had four regular meetings and one extraordinary meeting. The following issues are included on the agenda at every regular meeting of the Board: the economic and financial position of the Company, review of new and existing investments and a macro economic outlook for the region. At the Board meeting held on 10 March 1999, Rules of Procedure for the Board and Instructions for the Managing Director were adopted.

All the members of the Board – Sören Gyll, Peter Wikström, Dag Bjurström, Jonas af Jochnick and Fredrik Rågmark – were appointed in the spring of 1997. For more information about the Board members, see page 52.

Jonas af Jochnick *Dag Bjurström*

Sören Gyll *Fredrik Rågmark*

Peter Wikström

Consolidated profit and loss account

YEAR TO 31 DECEMBER	Notes	1999 $'000	1998 $'000
Portfolio income/(loss)	4	4,222	(34,869)
Gain on sale of unlisted investments	9	562	–
Interest income	6	206	1,572
Interest cost	6	(430)	(79)
Dividend income		117	463
Other revenue		362	349
INCOME		5,039	(32,564)
Staff costs	5	(1,368)	(2,009)
Administrative costs	5	(2,136)	(2,094)
Foreign exchange		(16)	17
TOTAL OPERATING EXPENSES		(3,520)	(4,086)
Value adjustments downwards against direct investments	9	(100)	(2,338)
OPERATING PROFIT/(LOSS) BEFORE TAX		1,419	(38,988)
Tax (charge)/credit	7	(74)	164
OPERATING PROFIT/(LOSS) AFTER TAX		1,345	(38,824)
Earnings/(Loss) per ordinary share			
Basic	23	$0.14	$(4.00)

Statement of recognized gains and losses

YEAR TO 31 DECEMBER		1999 $'000	1998 $'000
Value adjustments upwards on unlisted direct investments not recognized in the profit and loss account	9, 17	2,506	12,603
Profit/(Loss) for the year		1,345	(38,824)
TOTAL RECOGNIZED GAINS/(LOSSES)		3,851	(26,221)

Consolidated balance sheet

AS AT 31 DECEMBER	Notes	1999 $'000	1998 $'000
ASSETS			
Direct investments			
Unlisted equity shares	9	77,130	45,711
Loan investments	9	2,492	4,547
		79,622	50,258
Property and equipment		43	72
NON-CURRENT ASSETS		79,665	50,330
Listed equity shares	8	2,222	11,000
Receivables	10	1,192	541
Bonds & other interest-bearing securities		–	1,791
Cash		756	3,128
CURRENT ASSETS		4,170	16,460
TOTAL ASSETS		83,835	66,790
LIABILITIES AND SHAREHOLDERS' EQUITY			
Capital and reserves			
Share capital	15	58,764	48,496
Share premium	17	25,648	24,260
Capital profits reserve	9, 17	16,247	13,741
Unrealized profit reserve	17	(11,603)	(31,344)
Realized profit reserve	17	(12,104)	6,293
TOTAL SHAREHOLDERS' FUNDS		76,952	61,446
Trade and other payables	11	983	1,444
Loans payable	12	5,900	3,900
CURRENT LIABILITIES		6,883	5,344
TOTAL EQUITY AND LIABILITIES		83,835	66,790

Consolidated cash flow statement

YEAR TO 31 DECEMBER	Notes	1999 $'000	1998 $'000
NET CASH FLOW FROM PROFIT	18	(4,412)	(1,300)
Investing activities			
Venture capital loans repaid/(advanced)		1,555	5,502
Investment in unlisted securities		(18,870)	(19,973)
Sale of unlisted securities	9	1,695	–
Investment in bonds and interest-bearing securities		4,503	624
Purchase of tangible fixed assets		(15)	(69)
Sale of tangible fixed assets		8	–
Investment in listed equity investments		(476)	(12,167)
Sale of listed equity investments		11,761	5,647
NET CASH FLOW FROM INVESTING ACTIVITIES		161	(20,436)
Loans received		2,000	3,900
Cost of share issue		(121)	–
NET CASH FLOW FROM FINANCING ACTIVITIES		1,879	3,900
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,372)	(17,836)
CASH AND CASH EQUIVALENTS			
Balance at 1 January		3,128	20,964
Balance at 31 December		756	3,128
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,372)	(17,836)

Notes to the accounts

1. STATUS AND PRINCIPAL ACTIVITY
ORESA Ventures S.A. ("the Company") is a company registered in Luxembourg, incorporated on 29 April 1997. The principal activity of the Company is investment in companies in Central and Eastern Europe, through stock markets, by direct equity investments, and through other venture capital funds. The long-term goal of the Company is to return a capital growth to its shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The consolidated financial statements of the Company and its subsidiaries, "the Group," have been prepared in accordance with International Accounting Standards. The accounting policies of the Group conform to International Accounting Standards and the European Venture Capital Association's Guidelines on Valuation of Venture Capital Investments.

(a) Accounting convention
These financial statements have been prepared under the historical cost convention modified to include certain investments at valuation, as explained in the accounting policies below.

(b) Income
Interest, dividend income, charges for management services and staff time, and profit or losses on trading of liquid portfolios are recognized as income. Income is recognized on an accrual basis, except for dividend income, which is recognized when received.

(c) Portfolio investments
Portfolio investments comprise listed equity shares, bonds and other interest-bearing securities. Portfolio investments are stated at market value as described below:

i. Listed equity shares are valued at mid-market price.

ii. Bonds, interest-bearing securities and equity shares are valued at mid-market price.

All realized and unrealized profits and losses arising on portfolio investments are recorded in the profit and loss account. The unrealized elements of the profits or losses arising on portfolio investments are shown in a separate reserve in the balance sheet.

(d) Direct investments (venture capital investments)
Direct investments are non-current investments comprising unlisted equity shares and loan investments. They are reviewed quarterly and revalued at Director's valuation on a case by case basis following International Accounting Standards and the European Venture Capital Association Guidelines on valuation of Venture Capital Investments. Any surpluses arising on the revaluation of the direct investments are recorded in a capital profits reserve. Any deficits arising on the revaluation of direct investments are charged to the capital profits reserve to the extent that they relate to any previous revaluation surpluses. Any net deficit arising on the revaluation of individual direct investments is charged to the profit and loss account.

Direct Investments are considered long-term investments. As these are held for investment purposes and it is not the intention to exercise control, they are not consolidated even if majority owned.

Unlisted equity shares are valued by the Directors as follows:

i. Where the Directors consider the equity investment an early stage investment, then the valuation is at cost, less any provision required to reflect a permanent diminution in value.

ii. Where third party transactions of a significant nature have occurred, valuation is based on the indicated valuation given by the transaction, even if the investment is at an early stage.

iii. Where the Directors consider the 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 book amount of net assets reflected in those financial statements, the valuation is based on half the book amount of these assets. Where the latest financial statements show a loss, the valuation is based on half the book amount of net assets reflected in those financial statements, unless failure is expected.

iv. 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.

Where disposal of a direct investment occurs, any previous revaluation surpluses relating to that investment are reversed from the capital profits reserve and recognized in the profit and loss account.

Loan investments are valued at the lower of cost or recoverable amount.

(e) Foreign currencies
The functional currency of the Company is the United States dollar. Foreign currency income and costs are translated into United States dollars at the rate ruling at the time of the transaction. Assets and liabilities are translated into United States dollars at exchange rates ruling on the balance sheet date.

Note 2 continued

(f) Deferred tax
Provision is made for deferred tax arising from temporary taxable or deductible differences. The rate used for calculation of any temporary differences is the rate at the balance sheet date. Deferred tax in relation to revaluations of direct investments that have been treated as movements in the capital reserve are also treated as reserves movements. All other deferred tax movements are shown in the profit and loss account.

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

(h) Basis of consolidation
The consolidated financial statements include the Company and all majority owned entities that are considered subsidiaries. All material intercompany transactions and balances have been eliminated on consolidation.

3. SHORT-TERM INVESTMENTS

Accounting for short-term investments differs between IAS and Swedish accounting principles. According to IAS 25, Accounting for Investments, an investment that is classified as a current asset can be reported at the lower of cost and market value or at market value. A company that carries short-term investments at market value should adopt and consistently apply a policy for accounting for increases and decreases in carrying value, which can be reported as either revenue or expense. Consequently, IAS 25 allows for unrealized gains to be reported in the income statement. Alternatively, an increase in the carrying value as a result of a revaluation can be credited to shareholders' equity as a revaluation surplus to the extent it corresponds to previous increases. Additional decreases should be recognized in the income statement.

According to Swedish accounting principles, current assets should be valued in accordance with the lower of cost or market value principal. (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 principal is reported in the income statement. Unrealized gains may not be reported in the income statement.

Direct investments
There are different requirements for the revaluation of direct investments to market value (and crediting and charging the revaluation surplus).

According to IAS 25, consistency is required, which means that a policy for the frequency of revaluations should be adopted. All long-term investments, or an entire category, should be revalued at the same time.

According to the Swedish accounting principles an increase in the carrying amount should be based upon a reliable and permanent value that substantially exceeds book value.

4. NET REALIZED PORTFOLIO (LOSS)/INCOME

This item relates to the trading in a portfolio of equity shares listed on the stock markets of the region in which the company operates and to changes in the market value of bonds of governments of the region. Revaluations of the portfolio at year-end are recognized as unrealized profits or losses.

An analysis of the portfolio (loss)/income between realized and unrealized investment gains by country is as follows:

1999 $'000	Realized	Unrealized	Total
Russia	(5,898)	9,883	3,985
Poland	615	(540)	75
Hungary	(390)	25	(365)
Central & Eastern Europe	(2,037)	3,352	1,315
Other	(516)	(272)	(788)
	(8,226)	12,448	4,222

1998 $'000	Realized	Unrealized	Total
Russia	(2,882)	(26,466)	(29,348)
Poland	(459)	389	(70)
Hungary	(156)	67	(89)
Central & Eastern Europe	(279)	(4,303)	(4,582)
Other	(450)	(330)	(780)
	(4,226)	(30,643)	(34,869)

Included in the unrealized losses for Russia for 1998 are provisions of $12,970,000 against Russian government debt, arising from the unilateral restructuring of the Russian domestic government debt, imposition of a foreign exchange moratorium and substantial decline in the credit worthiness of Russia. In 1999, $2,593,000 of this provision was reversed upon recovery against forward foreign exchange contracts in relation to these positions.

5. ADMINISTRATIVE EXPENSES

Analysis of administrative expenses is as follows:

$'000	1999	1998
Wages and salaries	994	1,624
Pension charges	79	112
Social security	225	234
Other employment benefits	70	39
Total staff costs	1,368	2,009
External costs associated with investigation and research into potential investments	584	278
Administrative costs	1,552	1,816
Total administrative costs	3,504	4,103

Administrative costs include office supplies, computers and information technology support, postage, advertising, rent, communications, travel and board fees.

The Group employed the following staff directly or through a subsidiary of Oriflame International S.A., a related party:

	1999	1998
Full-time equivalent basis	14	21

The Company operates a non-contributory defined contributions pension scheme for professional staff.

6. INTEREST INCOME

$'000	1999	1998
Interest from cash management	–	1,205
Interest from loan portfolio	206	367
Total interest received	206	1,572
Bank interest paid	(430)	(79)
	(224)	1,493

7. TAXATION

$'000	1999	1998
Withholding tax	6	37
Changes in deferred tax	–	(355)
Corporation tax	68	154
	74	(164)

The Company is subject to an investment company tax in Luxembourg. In 1999, this status was changed to enable the Company to benefit from a lower taxation charge. The Company pays tax based on interest payments on any bonds it may have issued or dividends it pays its shareholders, with a minimum payment of $49,580 p.a. Investments are structured to be located in jurisdictions where taxation rates are favorable for investment companies. Withholding tax is generally not recoverable by the Group.

A reconciliation of the tax charge is as follows:

$'000	1999	1998
Paid in capital $72.7 million taxed at 0.2% p.a.	–	146
Fixed amount tax charge	51	–
Subsidiary tax charges	17	8
Total charge	68	154

No timing differences gave rise to any deferred tax asset or liability in this or the prior period.

8. LISTED SHARES

$'000	1999	1998
Cost	10,857	29,371
(Decrease)/Increase in market value	(8,635)	(18,371)
Valuation at 31 December	2,222	11,000

The listed shares portfolio at 31 December 1999 contained 26 holdings, of which the five largest by valuation were as follows:

		Valuation $'000	% of portfolio
Russian Prosperity Fund	Russia	319	14.0
Gazprom Domestic	Russia	266	12.0
Prosper	Russia	240	10.8
Sibneft	Poland	212	9.5
Kubanergo	Russia	196	8.8
		1,233	55.1

9. DIRECT INVESTMENTS (VENTURE CAPITAL)

$'000	1999	1998
Unlisted equity shares	77,130	45,711
Loan investments	2,492	4,547
	79,622	50,258

Unlisted equity shares are investments in companies 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 share.

All loans are due within one year. Interest rates are fixed, ranging between 6 percent and 13 percent per annum.

$'000	1999	1998
At cost	66,341	39,383
At valuation	79,622	50,258
Net increase	13,281	10,875

Note 9 continued

Direct investment asset revaluation movements were as follows:

$'000	Cumulative revaluation adjustments 31 Dec. 1998	Movement for the year	Cumulative revaluation adjustments 31 Dec. 1999
Revaluation increases	13,741	2,506	16,247
Revaluation decreases	(2,866)	(100)	(2,966)
	10,875	2,406	13,281

Revaluation increases are credited to the capital profits reserve as a reserve movement.
Revaluation decreases are charged to the realized profits reserve via the profit and loss account.

Unlisted equity shares analysis:

The five largest holdings by valuation at 31 December 1999 were:

	Sector	% ownership	Cost $'000	Valuation $'000	% of unlisted equity
Medicover Holdings N.V.	Healthcare	95.0	27,217	40,482	52.7
Office Depot	Distribution	7.4	5,497	6,367	8.3
United Entertainment	Leisure	37.0	5,000	5,000	6.5
Beverly Hills Video	Retail	20.9	4,500	4,500	5.9
Brewery Holdings Ltd.	Beverages	*	2,900	4,300	5.6
			45,114	60,649	79.0

*Confidentiality agreements with co-investors do not permit the disclosure of the share of ownership in this investment.

During the period two investments were sold and one was partially sold, realizing the following profits:

$'000	Cost	Proceeds	Profit on sale	Profit on sale deferred	Total profit on sale recognized
Maritime Inc.	687	1,246	559		559
Ukrainian cement company	500	544	44	41	3
EMESCO (partial disposal)	55	55	0		0
Total	1,242	1,845	603	41	562

Some of the proceeds above are contingent upon certain events. Where these events are likely to occur, the income has been recognized in the profit and loss account. Where these events are less certain, the income has not yet been recognized. In both of these disposals, the payments have been agreed over a period of time and the outstanding amounts to be paid are subject to interest.

$'000	1999
Amounts received, cash	1,011
Amounts receivable, due within one year	467
Amount receivable, due within one year subject to contingent events	41
Amounts to be received subject to contingent events	326
Less contingent amounts not yet recognized	-41
Less contingent amounts received in 1998	-109
Total proceeds	1,695

10. RECEIVABLES

$'000	1999	1998
Trade receivables	994	88
Amounts due from direct investment companies	152	390
Prepayments	46	63
	1,192	541

11. TRADE AND OTHER PAYABLES

$'000	1999	1998
Accounts payable	130	574
Accruals	478	322
Other liabilities	19	69
Amounts due to related parties	356	479
	983	1,444

Refer to note 21 with regards to transactions with related parties.

12. LOANS PAYABLE

$'000	1999	1998
Loans payable	5,900	3,900

Loans payable are provided under an unsecured facility of $10 million. Interest is charged at the London Inter Bank Offer Rate (LIBOR) plus 1 percent. Loans are current liabilities.

13. CONCENTRATION OF CREDIT RISK

In granting facilities and loans, ORESA Ventures incurs a credit risk, i.e. the risk that the receivable will not be repaid. This is related to the balance sheet items: cash, bonds and other interest-bearing securities, and loan investments. 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. ORESA Ventures has the policy of limiting exposure to any one counterparty, such that complete failure of one such counterparty would not lead to a loss of more than 17.5 percent of the Company's net assets.

An analysis of concentration of credit risk in relation to direct loan investments, receivables, bonds and other interest-bearing securities and cash is as follows:

$'000	1999	1998
Governments	–	1,791
Banks and professional securities transactions	756	3,128
Private companies	3,990	5,088
	4,746	10,007

Collateral is frequently demanded in connection with lending operations. Collateral obtained in respect of the balance sheet items, direct loan investments, and bond and other interest-bearing securities is as follows:

$'000	1999	1998
Government guarantees	–	1,791
Securities/Specific charges	–	2,337
Unsecured loans	2,992	2,210
	2,992	6,338

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.

14. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group enters into forward foreign exchange agreements, option contracts, currency swaps and other financial instruments in order to hedge currency risk or to manage return from liquid funds.

The results of instruments which relate to the current year's result are valued at market rates, with any losses included in the current year's result. The result on instruments which hedge risk positions maturing in future years are matched to the underlying transaction, so that any gains or losses are offset by future losses or gains on the hedged position.

An analysis of the notional amount of financial instruments is as follows.

$'000	Contracted notional amount 1999	Fair value 1999	Contracted notional amount 1998	Fair value 1998
Foreign currency forward exchange contracts	3,700	3,700	9,529	0
Equity option contracts	–	–	500	31

Foreign exchange risk

The Group enters into contractual arrangements to mitigate its exposure to present and future price risks from changes in foreign currency exchange rates. The Group does not manage these price risks in relation to equity investments, which are held with a long-term view. The balance sheet items where price risk is managed are direct loan investments, bonds and other interest-bearing securities and cash.

Market risk

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

Interest rate risk

At ORESA Venture's current stage of development, the management of interest rates relates to its debt portfolio and liquid cash. Interest rate exposure is managed to safeguard the return on these assets. All interests-earning investments mature within one year. A change in interest rates would not have a material impact on the Group's performance.

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 counterparties with the strongest credit ratings in a particular market.

Fair values

The fair values of current assets and liabilities approximate the values shown in the balance sheet, except where shown above. Due to the early stage of a number of the investments classified as non-current assets, under direct investments, it is not practical to give a reliable indication of the fair value of this class of assets.

15. SHARE CAPITAL

The authorized share capital of the Company is 16,000,000 ordinary shares of $5.00 par value. All shares have equal rights to dividends and carry one vote.

	1999 Number of shares	1998 Number of shares	1999 $'000	1998 $'000
Issued and fully paid at 1 January	9,699,283	9,699,283	48,496	48,496
Issued in the year	2,053,406	–	10,268	–
Issued and fully paid at 31 December	11,752,689	9,699,283	58,764	48,496

On 14 December 1999, the Board of Directors approved the issue of 2,053,406 ordinary shares of the Company in exchange for 2,355,094 ordinary shares of Medicover Holdings N.V.

16. SHARE OPTIONS

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 of 3 to 6 years from the date of granting. During the period no new options were granted.

	Number of options	Options exercise price
Options granted at 31 December 1998	178,000	$5.00 to $9.50
Options granted in the year	–	–
Options as at 31 December 1999	178,000	

17. RESERVES

$'000	Share premium	Realized profits reserve	Unrealized profits reserve	Capital profits reserve
At 31 December 1998	24,260	6,293	(31,344)	13,741
Movement for the year	–	1,763	(419)	2,506
Unrealized profits realized in the year	–	(20,160)	20,160	–
Excess over nominal value of shares issued for in kind contribution	1,508	–	–	–
Cost of issuing shares	(120)	–	–	–
At 31 December 1999	25,648	(12,104)	(11,603)	16,247

18. RECONCILIATION OF OPERATING CASH FLOWS

$'000	1999	1998
Profit/(loss) before tax	1,419	(38,988)
Adjustments for:		
Profit/(Loss) on portfolio investments	(4,222)	34,869
Profit on sale of unlisted investments	(562)	–
Provision against unlisted investments	100	2,338
Depreciation	25	28
Loss on disposal of tangible fixed assets	10	–
Working capital changes:		
Decrease/(increase) in debtors	(651)	295
Decrease/(increase) in creditors	(460)	340
Taxation paid	(71)	(182)
Net cash (outflow) /inflow from operating activities	(4,412)	(1,300)

19. SIGNIFICANT NON-CASH TRANSACTIONS

On the 14 December 1999, the Board of ORESA Ventures S.A., acting under powers in the Company's articles of association, approved the acquisition of 2,355,094 shares of Medicover Holdings N.V., paid for with the issue of 2,053,406 shares of ORESA Ventures S.A.

20. MAJOR SHAREHOLDERS

Shareholders owning 5 percent or more of the share capital of the Company at 31 December 1999 were:

	Number of shares	% shareholding
Celox S.A.	4,430,961	37.7
Taube Hodson & Stonex Partners Ltd	1,136,988	9.7
Progress Settlement	778,000	6.6

21. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Directors

The Directors of the Company who held beneficial interests in the shares of the Company at 31 December 1999 were as follows:

	Number of shares
J. af Jochnick	4,430,961
F. Rågmark	53,000
P. Wikström	40,000
D. Bjurström	7,000
S. Gyll	–

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:

$'000	1999	1998
Directors' remuneration	355	296

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, refer to Note 16.

Note 21 continued

During the year, the Executive Chairman, Jonas af Jochnick, received remuneration and benefits from the Group amounting to $98,323 (1998 $75,000). No pension contributions were made on behalf of the Executive Chairman. The Managing Director, Fredrik Rågmark, received remuneration and benefits from the Group amounting to $194,806 (1998 $176,500). This includes pension contributions to a defined contributions pension scheme. In addition, he was paid a bonus for 1999 of $17,021 (1998 Nil).

Directors' terms
The Company has no agreement of severance pay with any Director, 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, which also owned 20.5 percent of the share capital of ORESA Ventures S.A. until 6 December 1999.

Jonas af Jochnick has an interest in the share capital and is a Director of Celox S.A., which owns 37.7 percent of the share capital of ORESA Ventures S.A.

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

$'000	1999	1998
Oriflame International S.A. and subsidiaries		
Expenses and employment costs incurred on behalf of ORESA Ventures and charged at cost	1,436	1,664
Management charges to ORESA Ventures for administering offices and employing staff	48	48
Medicover Holdings N.V.		
Charges made to Medicover Holdings N.V. for staff and services provided	–	349
Celox S.A.		
Amounts charged to Celox S.A. for staff and services provided	300	–

22. SUBSIDIARIES

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

	Country of incorporation	% interest
ORESA Ventures N.V.	Netherland Antilles	100
Borlag Investments Ltd.	Cyprus	100
ORESA Ventures Romania SRL	Romania	100
ORESA Ventures Poland Sp. zo.o.	Poland	100

23. INFORMATION PER SHARE

Earnings per share figures have been calculated on the weighted average basis of 9,794,921 shares in issue during the year (1998: 9,699,283) and the following earnings:

$'000	1999	1998
Profit/(loss) for the year	1,345	(38,824)
Basic earnings/(loss) per ordinary share	$0.14	$(4.00)
Total recognized gains/(losses) for the year	3,851	(26,221)
Total recognized gains/(losses) for the year per ordinary share	$0.39	$(2.70)

Net assets per share using the ordinary shares outstanding at the year-end of 11,752,689 (1998: 9,699,283) were as follows.

$'000	1999	1998
Net assets	76,952	61,446
Net assets per ordinary share	$6.55	$6.34

Figures for fully diluted earnings per share have not been included as no material dilution of earnings or assets would occur if all outstanding options were exercised.

Auditors' report

We have audited the accompanying consolidated balance sheet of the ORESA Ventures Group as of 31 December 1999 and the consolidated profit and loss account, statement of recognized gains and losses and cash flow statement for the year then ended. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 1999 and of the results of its operations and its cash flows for the period then ended in accordance with the group accounting policies.

March 2000

Marc Hoydonckx, Reviseur d'Entreprises

Klynveld Peat Marwick Goerdeler

The ORESA Ventures share and corporate information

DIVIDEND POLICY

It is not foreseen that ORESA Ventures will pay dividends during its first years, when the portfolio is being built up and activities are being established. The objective is, however, that when financial conditions allow, the Company will pay a dividend which will give an adequate return on net asset value.

OWNERSHIP STRUCTURE ORESA VENTURES S.A., 31 MARCH 2000

No. of shares	No. of shareholders	% shareholding	No. of shares	% of shares
0–1,000	1,963	85	567,127	4.8
1,001–5,000	213	9	507,387	4.3
5,001–10,000	81	4	1,038,566	8.8
10,001–100,000	31	1	1,090,643	9.3
100,001–	20	1	8,548,966	72.8
Total	2,308	100	11,752,689	100.0

LARGEST SHAREHOLDERS

The largest shareholders, owning 5 percent or more of the share capital, as of 31 March 2000.

Shareholder	No. of shares	%
Celox S.A.	4,430,961	37.7
Taube Hodson & Stonex Partners Ltd	1,136,988	9.7
Progress Settlement	778,000	6.6
Total	6,345,949	54.0

During the year, two significant ownership changes occured. Celox S.A. acquired 1,985,000 shares from Oriflame International S.A. and funds managed by Taube Hodson & Stonex Partners Ltd increased their shareholding to a total of 1,136,988.

Price and volume traded of the ORESA Ventures share

DEPOSITARY RECEIPT ISSUES

General

The issuing of Swedish depositary receipts (SDRs) is one way of obtaining a listing of foreign shares on the Stockholm Stock Exchange. The depositary receipts are registered by the Swedish Securities Register Center (VPC) and represent the shares in ORESA Ventures that are deposited with the custodial bank. Each depositary receipt corresponds to one share in ORESA Ventures, with a par value of $5.

Custodial bank

Svenska Handelsbanken AB is the custodial bank for the depositary receipts listed on the O-List of the Stockholm Stock Exchange.

General Meetings of Shareholders

Holders of the depositary receipts may vote at the General Meetings of Shareholders to the same extent as ordinary shareholders in ORESA Ventures. The possibility to vote by proxy is also available. To participate and vote at the General Meeting of Shareholders, holders of depositary receipts shall notify the Company of their intention to participate.

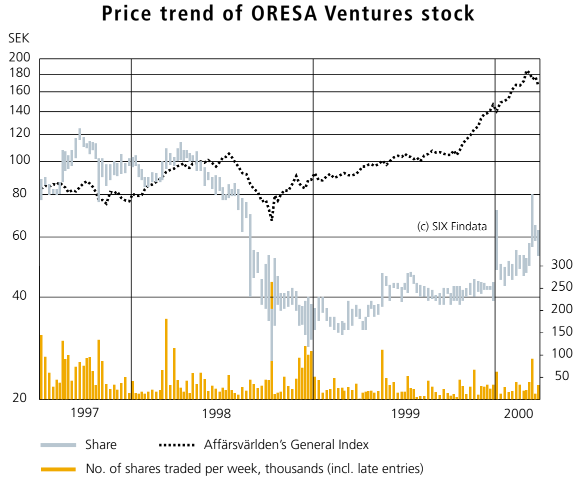
In order to be entitled to vote at the Meeting, either in person or by proxy, the owners of depositary receipts must be recorded in the register maintained by the Swedish Securities Register Center (VPC) on the record date established by ORESA Ventures and the bank. Those who hold their depositary receipts through a trustee must temporarily arrange to be recorded in their own names in the register. The procedure for voting by proxy requires that the holders of depositary receipts deliver a duly completed voting form which is sent out with the annual report before the Annual General Meeting. Any owner of depositary receipts who wishes to attend the Meeting in person must notify the custodial bank by the date stated in the Notice of Meeting.

Dividends

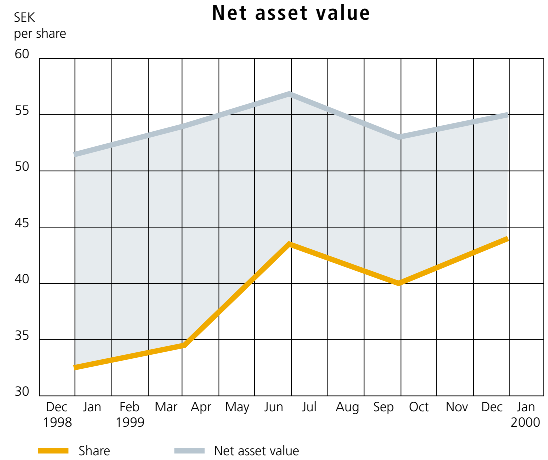
Payment of dividends is administrated by VPC and is made in SEK to holders of depositary receipts.

Those who are registered by VPC as holders of depositary receipts in ORESA Ventures on the record date are entitled to receive dividends.

Price trend of ORESA Ventures stock



Net asset value



Board of Directors





FREDRIK RÅGMARK DAG BJURSTRÖM SÖREN GYLL JONAS AF JOCHNICK PETER WIKSTRÖM

JONAS AF JOCHNICK

Born 1937. Elected to the Board in 1997.
Executive Chairman of ORESA Ventures.
Other Board appointments:
Oriflame International.
Shareholding: 4,430,961.

DAG BJURSTRÖM

Born 1947. Elected to the Board in 1997.
Senior partner in Ledstiernan AB.
Other Board appointments: Chairman and Partner in RPM Risk & Portfolio Management AB and MPIR Investment Research AB. Chairman of Gradic Wire AB, Avisator AB and The European Sicav Alliance. Board member of Polyplank AB.
Shareholding: 7,000.

SÖREN GYLL

Born 1940. Elected to the Board in 1997.
Other Board appointments: Chairman of Pharmacia & Upjohn Inc. and the Federation of Swedish Industries. Board Member of AB Volvo, AB SKF, SCA, Skanska AB, Askus AB, Capito AB and DHJ Media.
Shareholding: 0.

FREDRIK RÅGMARK

Born 1963. Elected to the Board in 1997.
Managing Director of ORESA Ventures.
Shareholding: 53,000.

PETER WIKSTRÖM

Born 1943. Elected to the Board in 1997.
Director of MNB Maizels AB.
Shareholding: 40,000.

Auditors

KPMG AUDIT, LUXEMBOURG
Dennis Robertson, Chartered Accountant.
John Li, Reviseur d'Entreprises.
Statutory auditors for ORESA Ventures S.A. since 1997.

KPMG REVISEURS D'ENTREPRISES, BELGIUM
Marc Hoydonckx, Reviseur d'Entreprises.
Auditors for ORESA Ventures N.V. since 1996 and for ORESA Ventures S.A. since 1997.

Advisors

PRINCIPAL BANKERS
Svenska Handelsbanken, Luxembourg Branch
146, Boulevard de la Pétrusse
L–2330 Luxembourg

LEGAL ADVISORS
Baker & McKenzie
100, New Bridge Street
London EC4V 6JA

STOCKBROKERS
Handelsbanken Markets – Stockholm
Blasieholmstorg 12
SE-106 70 Stockholm
Phone: +46-8-701 10 00

REGISTRAR
ORESA Ventures S.A.
Attention: Sophie Peeters
3, Avenue Pasteur
L-2311 Luxembourg

For Swedish Depositary Receipts
Swedish Securities Register Center (VPC)
Box 7822
SE–103 97 Stockholm

Analysts that cover ORESA Ventures
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Handelsbanken - Stockholm
John Hernander
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johe02@handelsbanken.se

Management

FREDRIK RÅGMARK
Managing Director
Born 1963
Shareholding: 53,000

ERIK HALLGREN
Investment Manager
Born 1967
Shareholding: 5,000

JONAS AF JOCHNICK
Executive Chairman
Born 1937
Shareholding: 4,430,961

JOE RYAN
Financial Manager
Born 1965
Shareholding: 10,000

Notice of Meeting

Time and place
The Annual General Meeting of ORESA Ventures S.A. will be held at 3, Avenue Pasteur, 2311 Luxembourg, on 9 May 2000 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 Profit and Loss Account as at 31 December 1999.
3. Discharge of the Directors and the Statutory Auditor from liability for the year ended 31 December 1999.
4. Re-election of Directors and Statutory Auditor.

The Board of Directors

JONAS AF JOCHNICK
Luxembourg April 2000

Who may attend the Meeting
Holders of registered shares in the Company registered with the Company Registrar on 28 April 2000 are entitled to participate in the Meeting.

Holders of Swedish depositary receipts registered with the Swedish Securities Register Center (VPC) on 28 April 2000 may exercise the rights attached to the number of shares equivalent to the number of Swedish depositary receipts in accordance with the procedure stated below. Those who hold Swedish depositary receipts through a trustee must request that they be temporarily entered in the VPC register in order to exercise their rights at the Meeting. Such registration must be executed by 28 April 2000.

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.

Form of proxy

ORESA VENTURES S.A.

Form of proxy for use at the Annual General Meeting to be held on 9 May 2000 at 11 a.m.

I / We ______________________________

of ______________________________

being (a) member(s) of ORESA Ventures S.A. and holding

____

(insert no. of shares held).

hereby appoint* ______________________________
or failing him the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 9 May 2000 and at any adjournment or postponement thereof.
*If no name is inserted, the Chairman of the Meeting will act as proxy.

ANNUAL GENERAL MEETING

Resolutions			*For*	*Against*
1. To approve the reports of the Board of Directors and Statutory Auditor			☐	☐
2. To approve the balance sheet and profit and loss account			☐	☐
3. Discharge of Directors and Statutory Auditor			☐	☐
4. To reelect:	a)	Directors: Jonas af Jochnick	☐	☐
		Sören Gyll	☐	☐
		Peter Wikström	☐	☐
		Dag Bjurström	☐	☐
		Fredrik Rågmark	☐	☐
	b)	Statutory Auditor, KPMG Peat Marwick Inter-Révision	☐	☐

Date: ______________________________

Signature: ______________________________

Notes

1. In the case of a company, this form must be executed under its common seal or under the hand of a duly authorized officer or attorney.
2. In the case of joint holders, all joint holders must sign this proxy for it to be valid.
3. This form of proxy must be deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of authority, at the Company's registered offices, 3, Avenue Pasteur, L-2311 Luxembourg, (attention: The Registrar) not less than two full business days before the day appointed for holding the Meeting.
4. The proxy need not be a member of the Company.
5. Any alteration made on this form must be initialed.
6. Proxy forms should not be used by a shareholder who is acting in a nominee capacity unless he is prepared to inform the Meeting through his proxy that he is acting in such capacity.

Affix stamp
here

THE REGISTRAR

ORESA VENTURES S.A.

3, AVENUE PASTEUR
L–2311 LUXEMBOURG

To be entitled to vote at the Meeting in person, owners of Swedish depositary receipts must notify Svenska Handelsbanken AB, Corporate Finance, by phone +46–8–701 23 82 or +46–8–701 28 25 by 5 May 2000. Holders of Swedish depositary 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 requests and receives a special form. The shareholder indicates on the form how he/she wants to vote on the issues and motions addressed by the Meeting.

Holders of Swedish depositary 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 "Form of Proxy" (attached hereto) by 5 May 2000.

Addresses

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