

# Vesteda Group 2002 Annual Report

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# Vesteda Group 2002 Annual Report

## KEY FIGURES

	2002	2001	2000	1999	1998
<b>Units</b>					
year-end letting portfolio					
Residential properties	35,904	38,070	40,684	45,849	48,201
Commercial (m <sup>2</sup> )	37,266	34,594	35,630	35,587	35,394

### Balance sheet

amounts in millions	€	€	€	€	€
Property portfolio	4,067	4,056	3,997	3,832	3,685
Shareholders' equity	2,861	2,845 <sup>1</sup>	4,006	3,849	4,021
Balance sheet total	4,250	4,204	4,110	3,966	4,126

### Occupancy rate

calculated on the number of residential properties	%	%	%	%	%
Core portfolio	99.2	99.3	99.4	99.2	98.2
Total portfolio	98.7	98.7	99.0	98.6	97.3

### Result

amounts in millions	€	€	€	€	€
Realised result	201	199 <sup>2</sup>	297	274	235
Unrealised result	136	149	441	321	231
Total result	337	348 <sup>2</sup>	738	595	466

### Result on shareholders' equity

as % of shareholders' equity at beginning of year	%	%	%	%	%
Realised result	7.1	7.1 <sup>2</sup>	7.7	6.8	6.3
Unrealised result	4.8	5.3 <sup>2</sup>	11.5	8.0	6.2
Total result	11.9	12.4 <sup>2</sup>	19.2	14.8	12.5

### Result per share

per share/unit	€	€
Realised result	8.05	7.96
Unrealised result	5.42	5.96
Total result	13.47	13.92

### Net asset value

per share/unit	€	€
At beginning of year	113.77	112.09
At end of year (before distribution to investors)	127.23	126.01
- distribution to investors	-12.80	-12.24
At end of year (after distribution to investors)	114.43	113.77

These key figures relate to the Vesteda Group. A restructuring was implemented on 28 December 2001. Until that date, the Vesteda Group was the combination of Holding Vesteda BV and the portfolio it managed. Since that date, the Vesteda Group has been Vesteda Groep BV, the portfolio it manages and Vesteda Project BV.

<sup>1</sup> This figure has been restated in connection with distributions to investors for 2001.

<sup>2</sup> These figures have been restated for comparative purposes. Figures in earlier publications did not take account of the leverage effect.

# HIGHLIGHTS

## PROFILE

- 7 Vesteda Group is a property investment company that specialises in developing and letting property in the higher-rent segment

## VESTEDA STRATEGY

- 17 Target group: one and two-person households
- 18 Towns in core areas
- 18 Full-service residential concepts
- 18 Property management supported by a central back office and call centre
- 18 Inflow of new residential properties via Vesteda Project, in line with the growth in the development portfolio
- 18 Limited but regular outflow consolidates capital gains
- 19 Tax structure and financing, high cash return

## ENTRY OF SHAREHOLDERS

- 25 ING Real Estate has a 25% interest
- 25 Six institutional investors have a total interest of 13%
- 25 100% interest of Stichting Pensioenfondsen ABP reduced to 62%

## FINANCING

- 24 €1.2 billion (30% of invested capital) financed by bonds listed on the capital market
- 24 Interest based on EURIBOR (floating rate) with interest-rate ceiling
- 24 Credit rating agencies give financing highest possible grade (triple-A)
- 24 The leverage effect is an increase of 25% in the result on shareholders' equity

## MARKET

- 16 Despite slower economic growth, continuing scarcity in the higher-rent segment

## PORTFOLIO

- 21 Continuing long-term trend of reducing the number of residential properties while maintaining the value of the portfolio
- 22 Average age of residential properties fell further during the year under review
- 23 Fully-occupied Core portfolio; frictional vacancy limited to 0.8%
- 21 Average rent charge for the portfolio up by 4.4%

## RESULTS

- 24 Disposals generated a book profit of €67 million
- 24 Increase in value in line with inflation
- 25 Result on shareholders' equity and ROZ/IPD yield (benchmark) above 10% for fifth successive year

## OUTLOOK

- 28 Increase in value between nil and inflation
- 28 Portfolio continues to be almost completely let
- 28 Expansion of own property management, back office and call centre completed in 2003
- 28 Steady growth in development portfolio, partly through urban and inner-city approach
- 28 Foreign orientation: exploratory research shows promising markets in specific regions
- 28 Preparations for entry of new investors

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A separate report on Vesteda Project BV has been added to the Vesteda Group 2002 Annual Report. This specifically addresses Vesteda Project BV, which was incorporated at the end of 2001, with the aim of providing information on the objectives, strategy and activities during the financial year.



## PROFILE OF THE VESTEDA GROUP

The Vesteda Group is a property investment company that specialises in developing and letting property in the higher-rent segment. With some 36,000 residential properties with a total value of over € 4 billion, Vesteda is the largest residential property fund in the Netherlands.

Vesteda's market strategy is centred on offering tenants rental housing and associated products. The fund strategy focuses on offering institutional investors an above-average return.

**Market strategy** Vesteda aims its rental housing at people over 50 and younger single-person and dual-income households. These groups in particular choose rental apartments of above-average size and quality. They live in urban areas, mainly in parts of the country with higher economic activity, which Vesteda has made its core area: the Randstad conurbation, the central and southern regions of the Netherlands and a number of towns and cities in the north.

Vesteda attaches great importance to making its tenants feel at home. Service and housing-related products and services have become increasingly important in addition to the homes themselves in recently-commissioned projects. Examples are facilities such as swimming pools, saunas, fitness centres, accommodation for guests and meeting rooms. Care in the home and a shopping service complete the comfort level.

Vesteda distinguishes itself from other providers in two essential ways: it has the resources to develop these service products and its own local property management, supported by a call centre and back office, to manage these products for the longer term.

**Fund strategy** The market strategy is a means of achieving the fund strategy: offering a return to institutional investors. Above-average direct return and long-term inflation-beating capital gains in the property portfolio contribute to this. The result is a structural, stable cash return that is well above the effective return on government bonds.

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Vesteda is a property investment company that develops and lets higher-rent properties and provides associated services with the aim of offering a pleasant life-style to its tenants and an above-average return to its shareholders and unit-holders.



Vesteda is different because of its investment and financing methodology. The investment methodology is based on the *roll-over* principle, representing a continuous turnover of the portfolio as a result of limited but continuous inflows and outflows of residential properties each year. The inflow comes from Vesteda Project BV's own urban and inner-city development projects, and acquisitions of properties. Anticipating the changing portfolio mix, Vesteda is focusing on the segment with rents from some € 700 per month. Regular, limited disposals of properties mean that Vesteda can keep the average age of the portfolio down, consolidate capital gains and ensure that the letting portfolio consists exclusively of properties with good market prospects. Both the way in which funds are invested and the way in which they are financed contribute to the result. Vesteda has obtained 30% of its invested capital directly from the capital market on favourable terms by European standards.

At year-end 2002, the Vesteda Group employed over 200 people in ten locations in a flat, dynamic organisation.

# LEGAL STRUCTURE OF THE VESTEDA GROUP

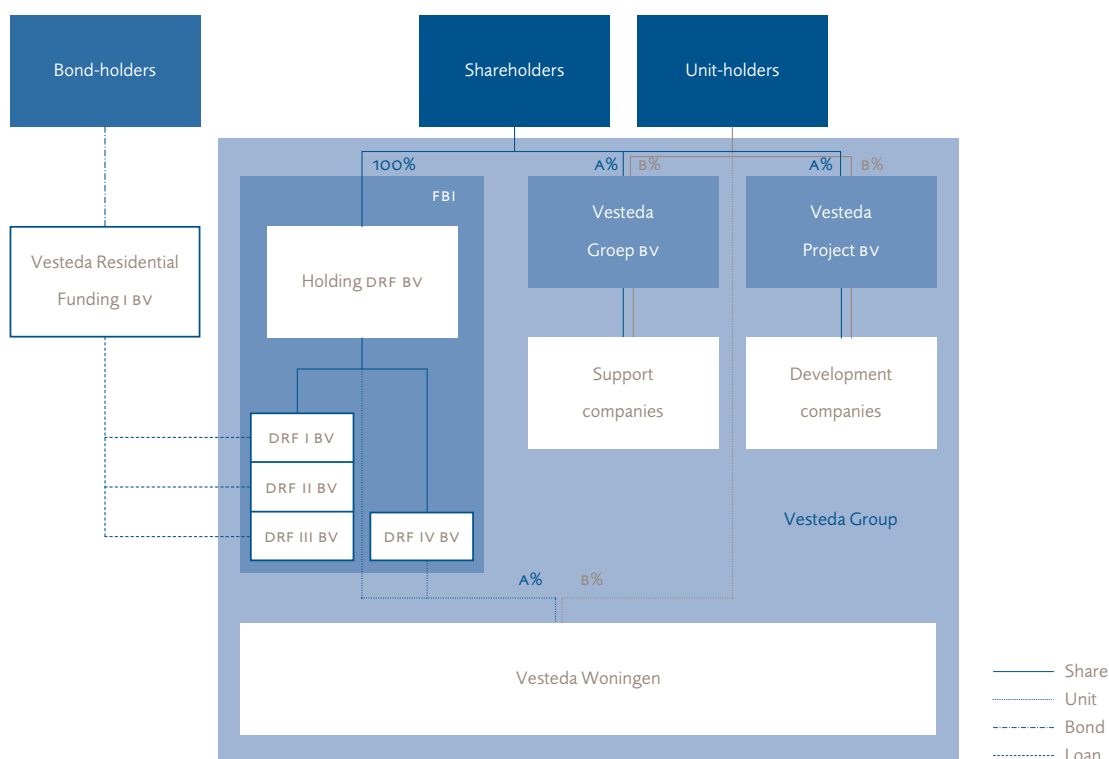
**Vesteda Groep BV** Vesteda Groep BV, which is responsible for managing Vesteda, has a central position in the Vesteda Group. Investors participate directly in Vesteda Groep BV, which is a party to the participation agreement and where control is consolidated. Vesteda Groep BV has a three-member Managing Board and a Supervisory Board comprising five members.\*

**Vesteda Project BV** Vesteda Project BV carries out the activities not permitted to be performed by a Fiscal Investment Institution under Article 28 of the Corporation Tax Act 1969. Vesteda Groep BV is director of Vesteda Project BV.

**fiscal investment institution** Holding DRF BV (Dutch Residential Fund) and its four subsidiaries, DRF I BV, DRF II BV, DRF III BV and DRF IV BV form a fiscal entity for corporation tax purposes and, since 1 January 2002, have been regarded as a Fiscal Investment Institution pursuant to Article 28 of the Corporation Tax Act 1969. Tax vehicles of this nature are subject to a zero rate of corporation tax. The Managing Boards of Holding DRF BV and Vesteda Groep BV comprise the same individuals, responsible for the same tasks.

**Vesteda Woningen** The let property and the associated rights and obligations are held by Vesteda Woningen, a common fund that is not independently liable for corporation tax. A common fund is not a legal entity but a vehicle in which property is brought together for collective investment in order for the unit-holders to share in the proceeds. A common fund has one or more custodians and a manager. Vesteda Groep BV is manager of Vesteda Woningen. DRF I BV, DRF II BV and DRF III BV are the custodians and have title to manage the assets of Vesteda Woningen for the unit-holders. In their capacity as custodians, they are, therefore, legally entitled to all assets belonging to Vesteda Woningen on behalf of the unit-holders. Holding DRF BV and DRF IV BV are, along with the unit-holders themselves, owners of Vesteda Woningen and have beneficial entitlement to those assets.

**shareholders and unit-holders** Investors\*\* are offered two different ways of participating in Vesteda Woningen: as 'unit-holder' or as 'shareholder'. In the first case, the investor acquires a direct interest in the fund, in the second



\* See page 11 for details of management and key representatives

\*\* See page 25 for a list of shareholders/unit-holders

case they have a shareholding in a Holding DRF BV which then acts as a unit-holder in the fund. In both variants, investors own a proportionate number of shares in Vesteda Groep BV and Vesteda Project BV.

Vesteda Group has raised finance of €1.2 billion, which is 30% of the current value of its property portfolio, through bonds on the capital market.\* The interest rate is set every three months on the basis of the EURIBOR, subject to a ceiling (secured floating-rate notes). A private limited liability company, Vesteda Residential Funding I BV, was incorporated to issue the bonds.

bonds

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\* See page 23 for more information of the bond loan

# MANAGEMENT AND KEY REPRESENTATIVES

## VESTEDA GROEP BV

### Supervisory Board:

F.H.J. (Frans) Boons RA (62), Chairman

*Former President of the Managing Board of Vado Beheer*

P.S. (Pieter) van den Berg\* (56), Supervisory Director (appointed by other shareholders\*\*) *consultant to the board of PGGM*

W.F.Th. (Frans) Corpeleijn (54), Supervisory Director

*Lawyer with law firm Stibbe*

J.D. (Jan) Doets (58), Supervisory Director (appointed by ING Real Estate)

*CEO of ING Real Estate*

J.W.M. (John) Simons (68), Supervisory Director (appointed by Stichting Pensioenfonds ABP)

*Former Chairman of the Executive Board of Bouwfonds Nederlandse Gemeenten*

### Managing Board:

H.G. (Henk) Hilverink (56), Chairman of the Managing Board

*focusing on strategy, product development, asset management and investor relations*

H.C.F. (Huub) Smeets (55), Member of the Managing Board

*focusing on project and urban development, customer relationships and personnel & organisation*

F. H. (Frits) van der Togt (50), Member of the Managing Board

*focusing on finance, ICT, legal affairs and property management*

\* Mr van den Berg joined the Supervisory Board of Vesteda Groep BV on 24 April

\*\* On behalf of all shareholders other than Stichting Pensioenfonds ABP and ING Real Estate

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from left to the right: Huub Smeets, Frans Corpeleijn, Jan Doets, Frans Boons, Pieter van den Berg, John Simons, Henk Hilverink and Frits van der Togt



# REPORT OF THE SUPERVISORY BOARD

## TO THE GENERAL MEETING OF SHAREHOLDERS OF VESTEDA GROEP BV

We hereby present the 2002 financial statements as drawn up by the Managing Board and discussed by this Board for adoption by the General Meeting. Pursuant to the Articles of Association, adoption of the financial statements will serve to ratify the actions of the Managing Board in respect of its management and those of the Supervisory Board in respect of its supervision in the past year.

The Supervisory Board met on six occasions last year, on one occasion without the Managing Board. Some meetings were held on location to increase the Supervisory Board's involvement with Vesteda's products. The Chairman also met the Works Council. The principal subjects discussed by the Supervisory Board are set out below.

The financial statements of Vesteda Groep BV have been audited by Ernst & Young Accountants who issued an unqualified report which is included in the financial statements in 'Other information' on page 65. Ernst & Young Accountants also issued reports on the financial statements of Vesteda Group and Vesteda Woningen, which can be found on pages 48 and 80.

The principal subjects discussed by the Supervisory Board in 2002 were:

### Market developments

- price trends of owner-occupied residential properties (linked with the disposal policy to be followed);
- asymmetric growth and rigidity of the rental housing market as a result of government policy.

### Financial

- quarterly financial reports;
- the refinancing, including matters such as term, interest rate basis and risk management;
- the required yield on the various types of investment;
- approach to and risks in area and project development.

### Portfolio

- acquisitions;
- progress on large projects;
- disposals.

### Organisation

- appointment of the fifth Supervisory Board representative of the other shareholders;
- the remuneration structure of the Managing Board and employees;
- organisational growth and developments, establishing temporary and structural staffing plans;
- marketing and communication strategy;
- expansion of the company's own local property management network.

Vesteda Groep BV has a central position in the organisation. The Management Board of Vesteda Groep BV holds regular formal and informal meetings with the Supervisory Board on the policy of the Vesteda organisation as a whole. Vesteda Groep BV manages Vesteda Project BV and is a manager of Vesteda Woningen.

The Managing Board and Supervisory Board are accountable to the shareholders and unit-holders in the Vesteda Group and other stakeholders. Resolutions are passed on the basis of a participation agreement signed by all shareholders and unit-holders. The participation agreement can be compared to the Articles of Association of a legal entity. The Supervisory Board and the Managing Board of Vesteda Groep BV regards the current legal structure as an effective way of preserving good relationships between all parties involved in the Vesteda Group.

Taking the above into account, the Supervisory Board and the Managing Board regard their actions as being in essence in accordance with the recommendations of the Committee on Corporate Governance.

In conclusion, the Supervisory Board wishes to express its appreciation of the efforts and commitment of the Managing Board and employees during the year.

Maastricht, 13 February 2003

Supervisory Board of Vesteda Groep BV

F.H.J. Boons, *Chairman*

P.S. van den Berg

W.H.Th. Corpeleijn

J.D. Doets

J.W.M. Simons

## THE MARKET: NORTH BRABANT\*

ABF recently completed a study that will be a building block in the province's vision of housing in North Brabant. The report sketches a picture of possible developments in the housing market in Brabant in the coming decades. What needs to be done?

**More emphasis on town centres** In broad terms, the focus must be mainly on town centres. There needs to be much more building in town centres and the more central areas of towns. This automatically means less new building in other urban residential areas.

**More attention to the rental sector** Furthermore, a little more rental housing should be built in towns. Whereas the current trend is 25% rental housing, 35% would be more in line with the wishes of consumers.

**More attention to the high-rent sector** The higher-rent sector also deserves greater attention. About 17,000 higher-rent properties could be built in North Brabant over the next ten years, about two-thirds of them being apartments. This is a substantial proportion of the total planned programme of some 100,000 properties.

## VESTEDA'S APPROACH: BREDA\*\*

The mismatch between demand and supply in Breda's housing market is clearly expressed in the market's operation. The letting of both apartments and family homes in the higher-rent segment is going very well, and demand is not limited only to high-quality apartments in high-quality locations, but also covers semi-detached houses and semi-bungalows.

Supply is not yet in line with this. Rents are currently between € 500 and € 1,150. On the demand side, in 2010 there will be over 7,600 households with disposable incomes in excess of € 22,500 and a preference for rental housing: 1,700 of these households will have a disposable income of € 36,000 or more. The supply of properties in the high-rent sector lags far behind this development. According to current trends, this segment will increase to about 4,500 homes.

Based on this market analysis, Vesteda sees opportunities in the higher rent segment for adding 50 to 100 houses and 75 to 115 apartments to the stock per year. As experience shows that supply also creates demand, these figures should be regarded as lower limits. Regional demand can also play a significant role. The latest Prismos forecast indicates that the inflow of households will increase in the coming years.

Putting this market potential into the perspective of Vesteda's strategy and spreading the risk across the total portfolio, Vesteda would like to increase its market share in Breda by expanding its housing portfolio in the coming 10 years by some 1,500 homes.

\* From: ABF Research quarterly report 2002/4

\*\* From: 'Breda, character as a design factor' a publication in which Vesteda Project BV sets out its vision for the housing market in Breda to the municipality (November 2002).

# REPORT OF THE MANAGING BOARD

## INTRODUCTION

Entry of new shareholders, further expansion of local property management, further growth of Vesteda Project BV and structural financing of borrowings. These were the main themes for Vesteda in 2002.

As a result of falling share prices, many investors have seen the value of their investments decline. The Residential Property category was again noted for its low risk and it performed well, as did Vesteda.

## MARKET DEVELOPMENTS

### The Dutch housing market

54% owner-occupied, 46% rented

The Dutch housing stock comprised 6.7 million units at the beginning of 2002 of which 3.6 million were owner-occupied and 3.1 million were rented properties.

housing demand grows

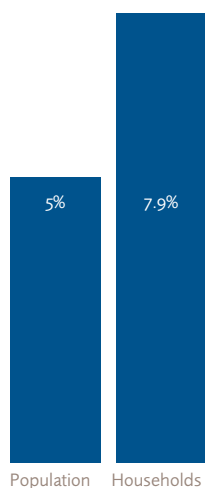
The housing stock will continue to increase in the coming years as a result of growing demand for housing. Demand in the housing market is affected by population trends and household size. The most recent long-term forecasts by Statistics Netherlands suggest that the population of the Netherlands will increase by around 5% from 16.1 million to 16.9 million between early 2002 and early 2010. The total number of households is forecast to rise by 7.9% from 7.0 million to 7.5 million in this period and so the number of households will be growing faster than the population. As a result, the average household size will decrease. There are, therefore, two clear trends meaning that more residential properties will be needed: population growth and fewer residents per dwelling.

move from renting to buying is below forecast

The Dutch housing stock comprised 6.7 million units at the beginning of 2002. Looking at the pattern of ownership in the housing market, the move from renting to owner-occupation will continue. It is expected that the number of rental properties will fall by 150,000 in the period from early 2002 to early 2010 while the number of owner-occupied properties will rise by 550,000. Last

## GROWTH IN POPULATION AND NUMBER OF HOUSEHOLDS

From 2001 to 2010 (start of year) source: Statistics Netherlands





year, this increase was forecast to be 750,000 but has been adjusted downwards as a result of disappointing economic growth and longer construction times for residential properties during the year under review. The forecast for the beginning of 2010 is for a housing stock of 7.1 million units, 59% of which will be owner-occupied and 41% in the rental sector.\*

### Growth mainly in urban areas

It is expected that growth in the housing stock will be strongest in the economically more-developed urban areas. The government wishes to increase the attractiveness of towns as places to live and has undertaken to have about 600,000 new homes built in towns in the period to 2010. Government policy\*\*, which previously focused mainly on the quantitative demand for housing, is focusing on improving quality. Increasingly, therefore, the government is encouraging the construction of high-quality housing complexes fully in line with the wishes of residents.

government encourages high quality new building in towns

### The higher-rent segment

Rental properties are classified into three price categories: low-rent, mid-price and higher-rent. Vesteda focuses on the higher-rent segment, which comprises properties with net monthly rents of € 454 (NLG 1,000) or more. This segment comprised 300,000 units at the beginning of the year under review and thus represented over 4.4% of the total Dutch housing stock., which have recently been adjusted to allow for disappointing economic growth, show that the number of higher-rent housing units will be about the same in 2010. The terms 'residual demand' and 'residual supply' indicate that there will still be a qualitative mismatch with about 27,000 people actively looking for but unable to find suitable accommodation in the higher-rent sector in 2010.

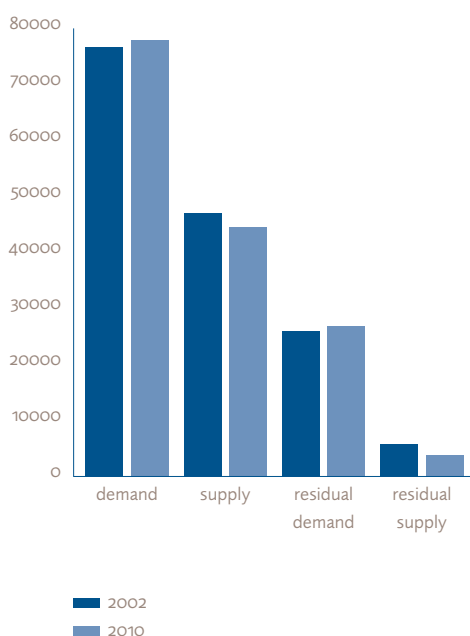
4.4% higher-rent

One reason for this excess demand is growth in the target group. The main target groups in the higher-rent sector are single-person, young dual-income households and older people. Their share of the total population is forecast to rise from around 30% in 2000 to about 40% in 2010. The average age of the population in the Netherlands will continue to increase over the coming years. The proportion of people over the age of 65, currently representing 13.6% of the population, is forecast to increase to around 23% in 2040. Older people want to continue living independently in their own homes for as long as possible, making use of care services if necessary. The

growing target group of single-person, young dual-income households and older people

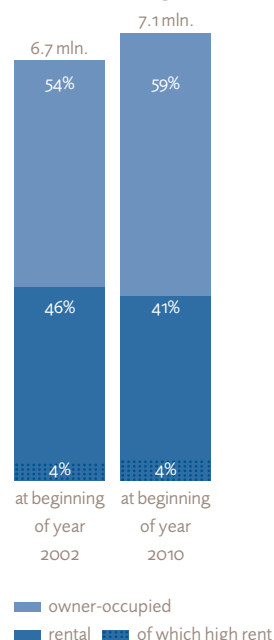
#### ANNUAL DEMAND AND SUPPLY HIGHER-RENT SEGMENT

source: ABF Housing Market Scan



#### DUTCH HOUSING STOCK

source: ABF Housing Market Scan



\* ABF Housing Market Scan, actualised in 2002

\*\* Government policy document on housing in the 21st century (*People, Aspirations, Housing*)

government is seeking to improve and expand the supply of suitable housing for those requiring care. It is also encouraging the development of new products, services and forms of co-operation via its residential care promotion scheme. Both housing associations and commercial property companies such as Vesteda will have a clear part to play in establishing and managing property for care institutions.

deregulation threshold

The government uses the Residential Tenancies (Rent) Act as a means of managing rent levels. Under the terms of this Act, annual rent increases for properties with rents below the deregulation threshold (approximately € 550 per month) should in principle be in line with inflation (calculated for this purpose on the basis of a five-year rolling average). These restrictions do not apply to housing in the higher-rent segment, where under the terms of the lease, above-inflation rent increases are allowed.

market is operating poorly

Vesteda regrets that the housing market is operating poorly and becoming more rigid because of asymmetric growth caused by this government policy. The poor operation of the housing market means that there is no trading up, that starters find it difficult or impossible to enter the rental market, that some residents do not cancel their tenancies when they move but sub-let for a much higher rent and that in the end billions of euros are wrongly being paid out in indirect subsidies. This only increases the pressure and shortages in the higher-rent segment.

### STRATEGY

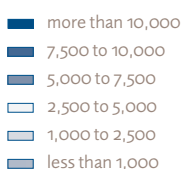
Vesteda's activities flow from its market strategy, centred on offering tenants rental housing and related products and services, and its fund strategy, which focuses on providing a return to shareholders/unit-holders. Vesteda's strategy can be summarised in the following key points:

#### Market strategy

**Target group: one and two-person households** Vesteda focuses on one and two-person households with above-average incomes as it is in this rapidly growing group that the preference for the higher-rent segment is most evident. By age group, these are mainly older people and younger households. Vesteda also focuses on certain specific segments within one and two-person house-

#### SINGLE AND TWO-PERSON HOUSEHOLD

Number of single and two-person households with disposable income > € 16,800 p. a. by municipality in Vesteda's core areas



holds, such as people who work from home/self-employed (homes incorporating offices) and expats (furnished lets).

**Towns in core areas** Vesteda has selected the regions with the greatest potential for the higher segment. The core areas are the Randstad conurbation, the whole of the central and southern regions of the Netherlands, with the exception of Zeeland, and a number of towns and cities in the north (Groningen-Assen, Leeuwarden, Emmen and Heerenveen). Most of the development in the core areas will be in and around the centres of medium-sized and larger towns and cities.

**Full-service housing concepts** In addition to the quality of the neighbourhood and infrastructure, the home itself is decisive for the satisfaction of the residents. Vesteda focuses on properties with a floor area of 100m<sup>2</sup>-250m<sup>2</sup>. Increasingly, the property comes with a range of products and services provided for comfort, care and convenience, to create a full-service housing concept.

**The customer is key: in-house property management** It is usual in the property sector for local commercial, administrative and technical activities relating to property letting to be performed by external property management organisations. In Vesteda's view, the chosen market segment and associated growing demand for service mean that this will not be the most effective way of safeguarding customer orientation and high levels of service in the future. The Vesteda Group has, therefore, decided on a direct customer approach via its own local offices, backed up by a central back-office and call centre, a core activity.

### Fund strategy

The market strategy explained above is a means of achieving the fund strategy: offering an above-average return to institutional investors. In the fund strategy Vesteda distinguishes itself by the following key points:

**Investment methodology: roll-over principle** Vesteda's investment methodology is based on the *roll-over* principle, in which a regular but limited inflow and outflow of residential properties

#### EFFECT OF FUND STRATEGY ON RESULT

This bar chart shows how the fund strategy works from the results achieved in the year under review.



keeps the portfolio dynamic. About 5% of the portfolio is renewed each year. The inflow ensures that the right geographical and qualitative composition of the portfolio is maintained. The outflow allows Vesteda to keep the average age of the portfolio down, consolidate capital gains and ensure that the letting portfolio consists exclusively of properties with good market prospects. Vesteda Project BV has its own area and project developments to ensure the quality of the inflow.

**Tax structure and financing** Vesteda has a legal structure which allows investors to participate as shareholders or unit-holders. The return on shareholders' equity is improved by the particularly attractive financing that Vesteda has obtained by directly accessing the international capital market.

These key points of Vesteda's strategy are designed to achieve above-average direct yields and long-term capital growth, resulting in a structural and stable cash return well in excess of the effective return on government bonds.

#### **IMPLEMENTATION OF MARKET STRATEGY DURING THE YEAR UNDER REVIEW**

doubling of the number of properties with  
WoonService®

In recent years, Vesteda has developed a number of innovative products and services designed to meet tenants' requirements for comfort, care and convenience. These are provided under Vesteda's WoonService® label. At the beginning of the year under review, Vesteda had 2,200 residential properties where this service was available, by the end of the year this had grown to 4,600. Vesteda now has four service sites throughout the country, where all Vesteda residents in a district or neighbourhood can have their shopping delivered.

short-term furnished lets

Another product developed further during the year was the concept of equipped *short-stay apartments* designed to meet temporary accommodation requirements. Experience with the first project (Rotterdam, 50 properties) was favourable and the second project (Maastricht, 30 properties) is currently being activated. Preparations are also under way on developing homes incorporating office space, where an office or business can be run (Maastricht, about 80 properties).

Vesteda's own property management

At the end of 2002, two-thirds of our tenants were served by our own offices, all known as *Vesteda Woongalleries*. During the year under review, the Vesteda Woongalleries in Amsterdam and Maas-

tricht were joined by those for Rotterdam and The Hague (with offices in Zoetermeer and Rijswijk). The Heerlen office now reports to Maastricht. Staff have already been employed in preparation for operations in Eindhoven (with offices in Venlo and Breda) and Arnhem (office in Deventer). The build-up of these letting shops is progressing hand in hand with the expansion of a central back office, where the call centre ensures direct handling of tenants' requests. Extra attention is needed at the call centre as physical distance must not cause a lower level of service. The tenant survey suggests that Vesteda has succeeded in this so far: the call centre is regarded as 'good'.

#### COMPOSITION OF THE PROPERTY PORTFOLIO

All properties and property developments, which are referred to jointly as the 'total portfolio', have been allocated to the acquisitions portfolio, the core portfolio or the disposals portfolio.

total portfolio

The acquisitions portfolio comprises projects involving joint-venture agreements or contracts for area or other developments or other forms of co-operation or acquisition and where Vesteda is preparing an investment decision.

Acquisitions portfolio

The core portfolio comprises the development portfolio and the core letting portfolio.

Core portfolio

As soon as an investment decision on a project has been taken, the project is transferred to the development portfolio. If a project is fully available for letting on 1 January of that year, it is transferred to the Core letting portfolio.

from development portfolio to core letting portfolio

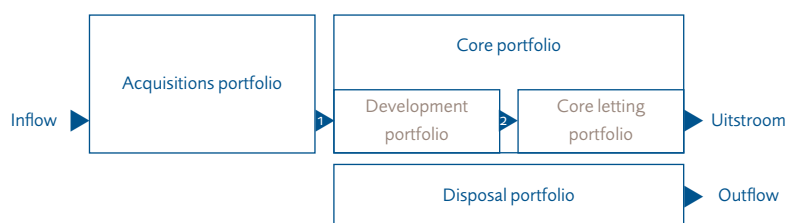
There are regular disposals of residential properties in order to implement the *roll-over* strategy. These disposals may be from the Core letting portfolio or from the Disposal portfolio referred to in the restructuring, that will be run down over the next few years.

#### MOVEMENTS IN THE PROPERTY PORTFOLIO

The movements in the property portfolio are shown in the table below. The portfolio fell by 6% in the year under review to about 36,000 units, although its value was unchanged. This was in line with the strategy and continued the trend of recent years. In total, 2,625 residential properties

portfolio falls and average value increases

#### CLASSIFICATION OF THE PROPERTY PORTFOLIO



1 investment decision taken

2 available for letting from 1 January

#### PROPERTY PORTFOLIO

(number of units and value at year-end)

	2002	2001	2000	1999	1998
Residential (no. of units)	35,904	38,070	40,684	45,849	48,201
Commercial (m <sup>2</sup> )	37,266	34,594	35,630	35,587	35,394
Parking spaces	7,420	7,318	7,801	7,950	8,014
Value (millions of euros)	4,067	4,056	3,997	3,832	3,685
Gross annual letting revenue (millions of euros)	245	248	267	274	280
Net annual letting revenue (millions of euros)	187	191	206	224	210

were sold and 459 added. At the year-end, Vesteda owned 37,000 m<sup>2</sup> of commercial space and some 7,500 parking places.

average rent up 4.4%

Residential properties account for 97% of the total gross letting revenue and 96% of the total value. The average monthly rent per residential unit at the end of the year under review was € 528, compared with € 505 in 2001. This represents an increase of about 4.4%, of which 2.9 percentage points was attributable to rent rises for sitting tenants as can be seen in the chart below.

At the end of the year under review, the average value per residential unit was about € 108,000.

### Acquisitions and Development portfolio

objective achieved

Vesteda Project BV managed to achieve its acquisition and project development objectives in 2002. A total of € 117 million was invested in properties meeting the quality and location criteria.

Urban development: complex but sustainable

Substantial areas of space in or close to inner-city areas are becoming available in many towns and cities, usually for a variety of reasons including relocation of existing jobs, regeneration via new urban functions and issues relating to financing. Although the release of these areas can involve complex decision-making, the areas also create potential and sustainability in that they represent the quality of urban location in which dual-earners and senior citizens want to live.

partner in public-private partnerships

At times when the focus is not on growth but on urban regeneration, traditional town planning structures, with their function-based planning methods, are not the most suitable way ahead. Urban design is, however, an important tool. Vesteda is active in this field via public-private partnerships established in consortia with various other parties under municipal management. These partnerships are not just concerned with individual projects but also public spaces and their timely development. A result is that people are willing both to pay for the quality of such areas, with consequent above-average capital gains over the long-term.

annual inflow

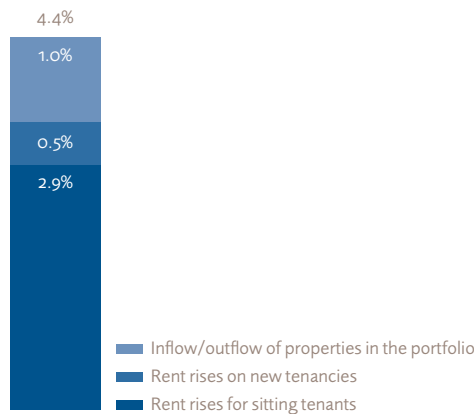
Large-scale area development has the benefit of generating substantial stocks of properties for Vesteda Project BV which is one of the ways of achieving its annual targets for acquiring new res-

### ACQUISITIONS AND PROJECT DEVELOPMENT

	2002	2001	2000	1999	1998
Expenditure (millions of euros)	117	95	70	37	34

### AVERAGE RENT RISES IN THE PORTFOLIO 2002

by source



idential units. In due course this approach will create an annual inflow of properties equal to around 5% of the total portfolio allowing the *roll-over* strategy to become evident.

In the year under review, the expansion in Vesteda Project BV, incorporated at the year-end 2001, became a fact. A description of the company and its activities in 2002 is enclosed with this annual report.

separate report on Vesteda Project BV

### Core letting portfolio

The table below shows the movements in the core letting portfolio. The number of properties in the core letting portfolio fell in 2002 by 3%, while the value rose by 4%. Consequently, the average value per property rose by some 7%.

numbers down, value increased

There were almost no changes in the family homes category. The additions to the Core portfolio were mainly multiple-occupancy properties. In addition, more expensive residential properties are replacing cheaper ones. Vesteda has a solid, stable and high-quality residential portfolio. This conclusion is supported by the analyses of age and rents.

changes mainly in multiple-occupancy properties

The average age of properties in the core letting portfolio is certainly low and fell further during the financial year. At the beginning of 2002, 51% of the properties were 20 years old or less. By the end of the year under review this had risen to 54%. This compares very favourably with privately-owned rental properties (including those owned by Vesteda and other institutional investors) where only 23% of properties are less than 20 years old. If properties owned by housing associations are included, the percentage is even lower.

Low-aged portfolio

The increasing specialisation in the higher-rent sector becomes clearer when the portfolio is broken down by rent (net rental per month). At the end of 2002, Vesteda was letting more than half (57%) of its properties for more than € 500 a month. The rent of a quarter of the properties was over € 600 a month.

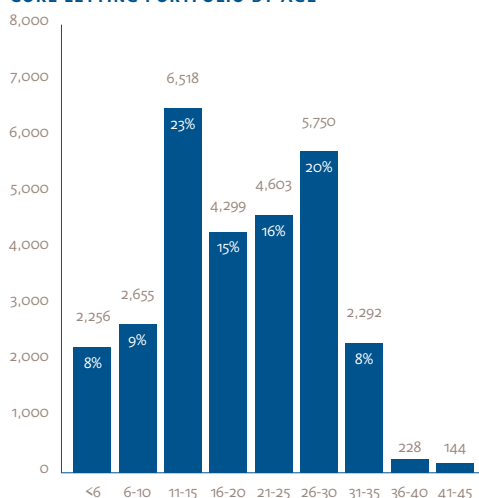
move towards higher-rental sector

#### CORE LETTING PORTFOLIO

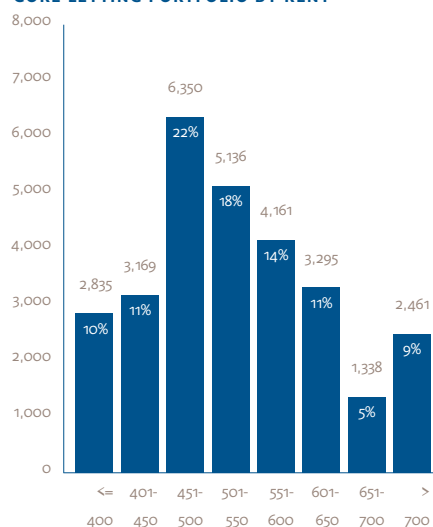
(number of units and value at year-end)

	2002	2001	2000
Numbers of residential properties	28,481	29,386	29,135
family homes	11,455	11,426	11,466
multiple-occupancy properties	17,029	17,960	17,669
Commercial (m <sup>2</sup> )	32,343	30,105	29,370
Parking spaces	6,331	6,190	6,302
Value (millions of euros)	3,073	2,951	2,778
family homes	1,383	1,295	1,229
multiple-occupancy properties	1,690	1,656	1,549
Gross annual letting revenue (millions of euros)	197	189	185
Net annual letting revenue (millions of euros)	148	142	138

#### CORE LETTING PORTFOLIO BY AGE



#### CORE LETTING PORTFOLIO BY RENT



Portfolio fully let

The Core letting portfolio remained more or less fully let throughout the year under review. The occupancy rate was 99.2% at the year-end. The frictional vacancy rate was less than 0.8%, as it has been for the past three years.

### Disposals

A lower rate of tenant turnover made it less easy to sell properties during the year under review, but the high prices in the housing market provided good results. Disposals from the portfolio (both the Core letting portfolio and the Disposals portfolio) generated a book profit of € 67 million on total sales of 2,625 properties.

### Letting and portfolio management expenses

Letting and portfolio management expenses as a percentage of the gross letting revenue were similar to previous years, as shown in the table below. Expenditure on maintenance, reletting, property management, brokers' fees and fixed costs (including taxes) amounted to 23.8%, keeping letting expenses below the 25% mark.

Vesteda's portfolio management expenses amounted to 5.2% of gross letting revenue in 2002 and were, therefore, slightly down on the previous year. Management expenses as a percentage of the portfolio value were 0.3% during the financial year, as they were in previous years.

## FINANCING

During the year under review, the Vesteda Group raised € 1.2 billion from a bond issue on the capital market, representing 30% of its invested capital at year-end 2002. The securities were issued through a newly-incorporated company. Vesteda is the first residential property fund in the Netherlands to have used the capital market for its financing requirements. This has given Vesteda a large degree of operational flexibility at an attractive rate of interest. A notable feature is that there is no mortgage, only mortgage rights which can be exercised in certain circumstances. Vesteda is able to borrow at a relatively low rate as the bonds have been given a triple-A rating by three credit rating agencies (Moody's, Standard & Poor's and Fitch Ratings). The interest on the bonds is based on the three-month EURIBOR rate (2.86% at year-end 2002), plus a mark-up

#### LETTING AND PORTFOLIO MANAGEMENT EXPENSES

	2002	2001	2000	1999	1998
(percentage of gross letting revenue)	%	%	%	%	%
Letting	23.8	22.8	22.9	23.5	23.7
Portfolio Management	5.2	5.3	4.6	4.7	3.8
Sundries	0.0	0.0	0.0	2.5	1.8
Total	29.0	28.1	27.5	30.7	29.3

#### MANAGEMENT EXPENSES

	2002	2001	2000	1999	1998
(percentage of portfolio value)	%	%	%	%	%
Portfolio Management	0.3	0.3	0.3	0.3	0.3



which is different for each facility. A *rate cap* has been agreed to limit the risks from interest rate changes. The rate it sets as a ceiling means that Vesteda will not pay a higher interest rate even if the three-month EURIBOR rate rises.

The bonds were issued by a newly incorporated company, Vesteda Residential Funding I B.V.. They comprise € 300 million Class A1, € 300 million Class A2 and € 600 million Class A3 Secured Floating Rate Notes with terms expected to be about 3, 5 and 7 years respectively.

The notes have a denomination of € 500,000 each and, consequently, are aimed at large investors. The bonds are listed on EuroNext Amsterdam.

## RESULTS

As shown in the table below, the total result comprises the realised result (net rental income and realised book profits on disposals) and the unrealised result (revaluations).

The result realised on the Total portfolio for the year was € 201 million, a rise of 1% compared with the previous year, despite a 6% fall in the number of residential properties.

The unrealised result was € 136 million.

Consequently, Vesteda's total result was 11.9%, when expressed as the return on the shareholders' equity at the beginning of 2002. Its fifth year of existence was, therefore, the fifth year in which Vesteda achieved a return on shareholders' equity and achieved a ROZ/IPD benchmark yield of over 10%.

## DISTRIBUTION TO INVESTORS

Under the participation agreement, Articles of Association and fund rules, there has to be an annual distribution to investors. As shown in the table below, this was € 12.80 per share/unit for 2002, which represents 11.3% of the net asset value per share/unit at the beginning of the year under review.

<b>RESULTS</b>					
<b>Result portfolio</b> (millions of euros)	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
realised result	201	199	297	274	235
unrealised result	136	149	441	321	231
total result	337	348	738	595	466
<b>Result portfolio</b> (as percentage of opening shareholders' equity)	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
realised result	7.1	7.1	7.7	6.8	6.3
unrealised result	4.8	5.3	11.5	8.0	6.2
total result	11.9	12.4	19.2	14.8	12.5

## ENTRY OF NEW INVESTORS

object on incorporation Some years ago, Stichting Pensioenfonds ABP converted its direct property holdings into indirect holdings, resulting in the establishment of the Vesteda property investment fund. By hiving-off its own property department and taking a share in this new property investment company, Stichting Pensioenfonds ABP made possible the entry of new investors.

changes in the year ING Real Estate acquired a 25% interest in Vesteda from Stichting Pensioenfonds ABP on 9 January 2002. Six other institutional investors subsequently acquired a total interest of 13% from Stichting Pensioenfonds ABP on 31 January 2002. At year-end 2002, the following investors held shares/units in Vesteda: Bedrijfstakpensioenfondsvoor de Media PNO, Delta Lloyd Vastgoed, ING Real Estate, KPN Pensioenfondsvoor de Grafische Bedrijven, PGGM, Stichting Pensioenfonds ABP and TPG Pensioenfondsvoor de Grafische Bedrijven.

## PERSONNEL AND ORGANISATION

recruitment and selection The recruitment and selection of staff was a central personnel and organisation matter during the year. There were about a hundred vacancies at the various new offices and so Vesteda was active in several local labour markets. The supply of suitable candidates varied. Vesteda succeeded in filling almost all of the vacancies by means of various campaigns and the limited involvement of recruitment firms. It was assisted by the vacancies website implemented during the year, which allowed candidates to apply directly.

Collective Labour Agreement There were negotiations with the trade unions in 2002 on the Collective Labour Agreement (CAO in Dutch) for the period 2003-2004. By the end of the year, agreement had been reached with the unions on the salary clauses and the agreement's duration. It was decided to finalise the CAO during the first quarter of 2003.

in-sourcing Woongalerie Amsterdam It was decided during the year that the Woongalerie in Amsterdam would become part of the Vesteda organisation and so be given the status of an office. This brought an end to the division of management responsibility for the Woongalerie between Het Oosten and Vesteda.

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### DIVIDEND DISTRIBUTION AND NET ASSET VALUE

(amounts per share/unit)	2002	2001
distribution to investors	12.80	12.24
net asset value at beginning of year	113.77	112.09
percentage	11.3%	10.9%

There was a large increase in staff numbers as a result of the expansion of local offices during the year under review. In January 2002, there were 127 employees (116 FTEs) at Vesteda. By the end of December, staff numbers had risen to 207 (189 FTEs). Absenteeism due to illness was 5.6% averaged throughout 2002 and had fallen to about 3.7% by the end of the year.

increase in staff numbers

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**STAFF TURNOVER**

(employees)	2002
at beginning of year	127
inflow	86
outflow	6
year-end	207

## **WORKS COUNCIL**

Vesteda Project BV. As the OR was dealing with the same management for both companies, represented by Huub Smeets, meetings, with their own, company-specific agendas, could be held by the same people.

After the elections in October 2001, the OR has operated for the first time for a full year with its new membership. In order to strengthen its substantive work, the full OR participated in a two-day training course at the beginning of the year focusing on the OR's role of attending to staff matters, but also on 'the proper functioning of the company across all its objectives'.

As in the previous year, the OR was able to operate in a positive and constructive way. The consultative meetings have an open atmosphere and focus particularly on matters relating to Vesteda's general policy and strategy. There was discussion on the progress and expansion of the local offices, the entry of new investors, the new legal structure, accommodation issues, the recruitment policy from new personnel and absenteeism as a result of sickness. Financial matters such as the budget, annual report and financing were also discussed. The OR presented its opinions on all of these subjects.

The new CAO was also discussed, even though the OR has taken the view that this is primarily a matter for management and the trade unions. New arrangements were made on secondary employment conditions which, under the CAO, are within the competence of the OR. These concerned commuting, including a bicycle scheme, the private personal computer scheme, regulations for general working-time-reduction days and target remuneration.

## OUTLOOK

Investments in residential properties have provided very good results in recent years, mainly because of the quantitative and qualitative scarcity in the housing market and low mortgage interest rates.

Despite slower economic growth in the year, Vesteda's result held up in 2002. If there is no economic recession in 2003, the Vesteda Group again expects a substantial result in the next financial year. A favourable factor is that the Vesteda Group has residential properties in its portfolio in the most marketable segment (€100,000-€300,000). In addition, the declining owner-occupied market is creating additional pressure in the higher-rent segment.

For institutional investors, residential properties form an investment category with a specific risk/yield profile which differs from fixed-interest securities and equities in its relatively high yield and low risk. In addition, the yield is closely linked with inflation. As institutional investors aim mainly at inflation-proof income, this investment category adds considerable value to their portfolios.

Vesteda expects that the value of its residential properties will rise slightly in 2003, by a rate between nil and inflation. Rents will rise by about 3%. The occupancy rate will continue to be at a high level of around 99%. The acquisition and development activities will involve cash expenditure of at least €140 million. Letting expenses will remain below 25% of letting income; and portfolio management costs will stay at about 5%.

The company's network of property management organisations will be completed in 2003. Parallel to this, the back office and call centre will be up to full strength. The number of staff will grow further, stabilising at around 230 halfway through the year.

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### OUTLOOK FOR VESTEDA IN 2003

in respect of	indicator	forecast
realised result		stable, around 7%
	rent increases	around 3%
	occupancy rate	stable at high level of around 99%
	gross revenue per property	limited increase
	letting expenses	stable, below 25%
	property management expenses	stable around 5%
	net revenue per property	limited increase
unrealised result		between nil and inflation (if there is no recession)
disposals		approximately 2,500 properties
expenditure on acquisitions and project development		at least €140 million

Vesteda will prepare for the entry of new investors. Market research abroad, which is showing promising results in specific regions, will be intensified and may result in specific actions in a promising region. The Vesteda Group is working further on its speciality of the higher-rental sector, a segment where there is considerable demand and few specialised providers in Europe.

Maastricht, 13 February 2003

**Managing Board**

H.G. Hilverink, *chairman*

H.C.F. Smeets

F.H. van der Togt

# ANNEX 1: FIVE YEARS OF VESTEDA

Vesteda was created as a result of the reorganisation of ABP's property portfolio. For several years, ABP's Pension Fund had been pursuing a strategy designed to spread its property investments more widely and increase the liquidity of its property portfolio. ABP consequently decided to convert its direct investments in property into minority interests in property funds investing in specific sectors. The hiving-off of ABP's residential property portfolio resulted in the establishment of Vesteda.

Vesteda refocused its strategy in 1999. The decision to specialise in the higher-rent segment marked the start of the changes to product development and organisation.

In 2000, customer information in combination with social and demographic projections resulted in the portfolio being divided into a core portfolio and a disposals portfolio, with around 30% of the properties being assigned to the latter. A steering group was also set up in 2000 in order for the Managing Board of Vesteda and the shareholder, ABP, to decide on the most effective way of reducing

ABP's full ownership to a partial interest. It was ultimately decided to place non-listed shares with institutional investors.

2001 was dominated by preparations for a series of transactions. A memorandum of information was issued to enable a large group of institutional investors to acquire an interest in Vesteda. There were also legal and fiscal restructurings to allow new investors to participate. Approximately 30% of shareholders' equity was converted into loan capital before ultimately being financed externally. An internal restructuring was implemented in line with our strategy.

In early January 2002, ING Real Estate acquired an interest of 25%. Shortly afterwards, agreements were signed with six other institutional investors who acquired a total interest of 13%. ABP's interest now stands at 62%. The loan capital was refinanced by three bonds of three to seven years. Vesteda obtained € 1.2 billion from the capital market. Vesteda was granted triple-A rating by the three main credit rating agencies.

1998	1999	2000	2001	2002
<ul style="list-style-type: none"> <li>• Hiving-off of ABP's property portfolio</li> <li>• Establishment of Vesteda</li> <li>• Specialisation in higher-rent segment</li> </ul>	<ul style="list-style-type: none"> <li>• Market research into higher-rent segment, prospects for the future</li> <li>• Focusing of strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Selection of key regions</li> <li>• Steering group set up to investigate opportunities for reducing ABP's shareholding</li> <li>• Portfolio study: properties divided between core portfolio and disposals portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Declaration of intent by ING Real Estate</li> <li>• Memorandum of information issued</li> <li>• Completion of restructuring</li> <li>• Legal and fiscal restructuring</li> <li>• Incorporation of Vesteda Project BV</li> <li>• Conversion of 30% of shareholders' equity into loan capital</li> </ul>	<ul style="list-style-type: none"> <li>• Interest acquired by ING Real Estate</li> <li>• Interests acquired by six new investors</li> <li>• Structural refinancing of loan capital</li> <li>• Further expansion of the company's own property management</li> <li>• Structure and growth of Vesteda Project BV</li> </ul>

## ANNEX 2: DEFINITIONS

### Acquisitions portfolio

Projects based on joint venture agreements or other contracts for developing areas or other forms of alliances or acquisitions where Vesteda is or will be preparing an investment decision.

### Asset management

Management of assets, with responsibility for the risk/return profile of the investments in the medium term as well as for annual performance.

### Core portfolio

The core letting and development portfolio.

### Core letting portfolio

All properties owned by entities belonging to Vesteda which were fully available for letting on 1 January of the year in question and where no decision to transfer them to the disposals portfolio has been taken.

### Disposals portfolio

All properties owned by entities belonging to Vesteda which are not included in the core portfolio and for which Vesteda decided before 1 January 2001 to seek a buyer before 2006.

### More expensive/higher-rent segment/sector

Residential property market for rental properties with a net monthly rent of over € 454 (NLG 1000), excluding service charges.

### Core areas

A collection of housing market areas on which Vesteda has chosen to focus. These comprise various towns and cities in the north of the Netherlands, the Randstad conurbation and the whole of the central and southern regions, with the exception of Zeeland.

### Development portfolio

All properties in which Vesteda has decided to invest, but which are not wholly available for letting.

### Property management

Local commercial, administrative and technical management of properties.

### Roll-over strategy

Vesteda's fund strategy, which results in optimum asset management of its residential property investments. On the one hand, the strategy involves annual disposals of a limited number of properties in order to maintain the high quality of the portfolio and consolidate capital gains on a regular basis, while on the other hand it involves the group's own area and project development activities, which are designed to ensure the required portfolio growth.

### Total portfolio

The acquisitions portfolio, the core portfolio and the disposals portfolio.

### Vesteda Group

See the legal structure on page 9

### Vesteda Groep BV

See the legal structure on page 9

### Vesteda Project BV

See the legal structure on page 9

### Vesteda Woningen

See the legal structure on page 9

### Vesteda WoonService®

Housing-related products, services and facilities for convenience, comfort and care.



# Vesteda Group

## Financial Statements 2002

## INTRODUCTION

The companies belonging to the Vesteda Group were reorganised on 28 December 2001. In the new structure, Vesteda is divided into three organisationally-associated units: one responsible for ownership, one for property management and one for property development. The legal owners of the property are Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV. The beneficial ownership is attributed initially to Dutch Residential Fund IV BV. In turn, Dutch Residential Fund IV BV has embodied the beneficial ownership of the property portfolio in units in 'Vesteda Woningen', a common fund. Vesteda Woningen is a closed-end common fund, pursuant to the Corporation Tax Act 1969.

A common fund is not a legal entity but a vehicle in which property is brought together for collective investment in order for the unit-holders to share in the proceeds. A common fund has one or more custodians and a manager. The custodians have title to manage the property of Vesteda Woningen on behalf of the unit-holders.

In their capacity as custodians, Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV are legally entitled to all the property belonging to Vesteda Woningen on behalf of the unit-holders. The unit-holders have the beneficial entitlement to these assets.

Participation in Vesteda Woningen may be either direct (units) or through Holding Dutch Residential Fund BV but participation also involves an obligation to invest to an equal percentage in Vesteda Groep BV (management) and Vesteda Project BV. Vesteda Groep BV has the mandate to enter into rights and obligations with respect to the properties.

The rights and obligations of the holders of units in 'Vesteda Woningen' are set out in the Participation Agreement signed in January 2002. Vesteda Groep BV has been appointed as manager of the fund.

Please see page 9 of the 2002 Annual Report of Vesteda Group for a diagram of the structure as at 31 December 2002.

### Participation Agreement

As at 1 January 2002, all units in Vesteda Woningen were owned indirectly by Holding Dutch Residential Fund BV. New unit-holders joined in the course of 2002. A participation agreement was drawn up to record the arrangements and it is also binding on new unit-holders. The agreement governs a wide range of matters relating to the operation of the Vesteda Group, including:

- the powers of the Managing Board and Supervisory Board;
- strategy;
- information provision;
- policy on distributing profits.

The agreement has been entered into for an indefinite period. It may be amended with the agreement of the unit-holders subject to there being a given quorum depending on the nature of the change.

### Mergers

A number of companies which no longer had a function as a result of the restructuring merged on 21 December 2002. Vesteda Beheer I BV, Vesteda Beheer II BV and Vesteda Beheer III BV merged with Holding Dutch Residential Fund BV. At the same time, Vesteda Management BV merged with Vesteda Groep BV. The financial information of the companies which disappeared is included in that of their merger partners retroactively from 1 January 2002.

### Refinancing

The bridging finance provided by Stichting Pensioenfonds ABP was repaid in July 2002. Three listed bond loans were issued through Vesteda Residential Funding I BV to finance the property and they were granted the highest rating (triple A) by three rating agencies. This rating was achieved in part by creating a Security Trustee and a security agreement granting a mortgage and pledge on the housing and assets, which can be exercised in certain circumstances.

The notes to the combined financial statements give further details of the credit obtained and security provided.

## ACCOUNTING POLICIES

### REPORTING

The structure of Vesteda Group means that it does not have the legal status of an investment fund and is therefore not subject to the Investment Institutions (Supervision) Act. However, since its activities (management of and investment in residential property) are similar in nature to those of an investment institution, an effort has been made to present the financial statements in accordance with the formats applicable to investment institutions.

### BASIS FOR COMBINING FINANCIAL INFORMATION

The combined balance sheet and profit and loss account of Vesteda Group for the financial years 2002 and 2001 include the financial information of the following companies (including Vesteda Woningen):

	2002	2001
Vesteda Groep BV	•	•
Vesteda Management BV <sup>1</sup>	-	•
Vesteda Heerlen BV	•	•
Vesteda Maastricht BV	•	•
VGA Nederland BV	•	•
Holding Dutch Residential Fund BV	•	•
Dutch Residential Fund I BV	•	•
Dutch Residential Fund II BV	•	•
Dutch Residential Fund III BV	•	•
Dutch Residential Fund IV BV	•	•
Vesteda Beheer I BV <sup>1</sup>	-	•
Vesteda Beheer II BV <sup>1</sup>	-	•
Vesteda Beheer III BV <sup>1</sup>	-	•
Vesteda Project BV	•	•
HOG Heerlen Onroerend Goed BV	•	•
Gordiaan Vastgoed BV	•	•
Integrated Residential Services Holding BV	•	-

<sup>1</sup> These companies no longer existed as at 31 December 2002 as a result of the mergers on 21 December 2002.

## ACCOUNTING POLICIES FOR VALUING ASSETS AND LIABILITIES

### Property

Property under development is stated at cost which is the cost directly attributable to a project plus a mark-up for overheads. No interest is attributed to projects under development. The cost of loan capital will be attributed in the future. On completion, complexes are included in the core letting portfolio.

The property in the core letting portfolio and the disposal portfolio is included at current value, being the higher of market value with sitting tenants and net realisable value on disposal of complete complexes to organisations specialising in the selling of individual units. New properties are valued at the lower of cost and market value for the first two years after completion if the property was fully available for letting after 1 January 2003. With effect from 2002, complexes which were fully available for letting in 1998 are stated at current value. This represents a start to reducing, over three years, the period of valuation at historical cost from five years to two years. Consequently, by the end of 2004, complexes will only be stated at the lower of historical cost and market value for a period of no more than two years after being handed over. Determination of the net realisable value in the case of disposal of complete complexes to organisations specialising in the selling of individual units assumes that the costs will be borne by the purchaser. At least 50% of the portfolio is appraised annually by external valuers. The external valuers also adjust the appraisals carried out in the preceding three quarters, based in part on actual selling prices in the market. The market value with sitting tenants is determined by the discounted cash flow method, based on the expected cash flows per complex according to the long-term plan. This calculation is made internally. Conveyancing charges and other selling costs are taken into account in determining both the net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units and the market value with sitting tenants.

### Intangible and tangible fixed assets

Intangible and tangible fixed assets are stated at cost less amortisation or depreciation based on the expected useful economic lives of the assets concerned.

### **Financial fixed assets**

Loans receivable are stated at face value. Where necessary there is a write-down for doubtful debts. The interest-rate caps are stated at historical cost less amortisation based on the period for which they have been concluded, in relation to the outstanding principal sums of the loans.

If controlling or significant influence is exercised on the commercial and financial policy of participating interests, those interests are accounted for using the equity method based on net asset value. Other participating interests are stated at historical cost.

### **Receivables**

Receivables are shown at face value less individual provisions for doubtful debts where necessary.

### **DKPH grant equalisation account**

The grants received in connection with the grossing-up operation not already taken into account in the value of the investments as at 1 January 1998 are included in this equalisation account and are being released to income over a period of ten years. Grants are taken directly to the profit and loss account upon sale of property for which grants have been received.

### **Provisions**

A reorganisation provision is deemed necessary in view of the developments that the Vesteda Group plans to undergo, the strategic choices that have been made and the consequent expenditure forecast.

### **Other**

Unless otherwise mentioned, valuation is according to the historical cost convention. Amounts are shown at face value.

## **ACCOUNTING POLICIES FOR THE DETERMINATION OF RESULTS**

### **General**

Income and expenses are stated at historical cost. Income is recognised when realised, expenses are recognised as soon as they become known. Income and expenses are allocated to the year to which they relate.

### **Rental income**

This item includes the total rents invoiced to tenants in respect of the financial year. The amount shown, therefore, takes account of rent lost due to vacancies and discounts. Rental income does not include service charges paid in advance by tenants.

### **Letting expenses**

Letting expenses comprise costs directly attributable to a specific complex. These costs are mainly maintenance costs, property tax and other levies, insurance premiums, management and letting fees and service costs not chargeable to tenants. There is no equalisation provision for major maintenance.

### **Property management expenses**

Any operating expenses that cannot be allocated directly to the various properties are treated as property management expenses.

### **Amortisation and depreciation of intangible and tangible fixed assets**

Amortisation and depreciation are calculated using the straight-line method over the estimated useful economic lives of the assets concerned.

### **Interest income and expense**

Interest income and expense are stated at face value. Interest expense includes the amortisation of the interest-rate caps.

### Realised result

The realised result is the sum of the net letting income and other income less property management expenses and net interest charges, plus the results realised on property disposals. The result on disposals is the proceeds from sales (less any facilitation costs) less the value of the properties sold at the beginning of the financial year.

### Unrealised result

The unrealised indirect result is made up of the total of unrealised revaluations as a consequence of external and internal appraisals.

### Tax

Tax on the result is calculated by applying the standard rate of tax to the taxable amount. Agreements have been reached with the tax authorities on the calculation of the taxable amount (cost-plus arrangements) for a number of companies.

### Tax status

Holding Dutch Residential Fund <sub>BV</sub>, Dutch Residential Fund <sub>I BV</sub>, Dutch Residential Fund <sub>II BV</sub>, Dutch Residential Fund <sub>III BV</sub> and Dutch Residential Fund <sub>IV BV</sub> formed a fiscal entity during the financial year for corporation tax purposes. The Holding Dutch Residential Fund <sub>BV</sub> fiscal entity has been regarded as a Fiscal Investment Institution from 2002. On this basis, providing a number of conditions are met, a tax rate of 0% will apply. The most important condition to be met is that the profit, calculated in accordance with fiscal principles, is distributed in the form of dividend within a specified period. The 'Vesteda Woningen' common fund is transparent for corporation tax purposes. Vesteda Groep <sub>BV</sub>, Vesteda Project <sub>BV</sub> and Vesteda Woningen form a fiscal entity for VAT purposes and so no VAT is levied on supplies between them.

### Cash flow statement

The cash flow statement is prepared using the indirect method.



# COMBINED BALANCE SHEET AS AT 31 DECEMBER 2002

(AFTER APPROPRIATION OF RESULT)

Amounts in millions of euros	31-12-2002	31-12-2001
<b>ASSETS</b>		
<b>Fixed Assets</b>		
Property	4,067	4,056
Tangible fixed assets	9	4
Financial fixed assets	113	48
	<u>4,189</u>	<u>4,108</u>
<b>Other Assets</b>		
Receivables	35	56
Cash	26	40
	<u>61</u>	<u>96</u>
<b>Total Assets</b>	<b>4,250</b>	<b>4,204</b>
<b>EQUITY AND LIABILITIES</b>		
Group equity	2,861	2,845 <sup>1</sup>
DKPH grant equalisation account	31	41
Provisions	7	11
Long-term liabilities	1,238	966
Current liabilities	113	341 <sup>1</sup>
<b>Total equity and liabilities</b>	<b>4,250</b>	<b>4,204</b>

<sup>1</sup> These figures have been restated to reflect the distribution to investors for 2001

## COMBINED PROFIT AND LOSS ACCOUNT FOR 2002

Amounts in millions of euros	2002	2001
<b>Income</b>		
Rental income	245	248
Less: Letting expenses	58	57
Net letting income	187	191
Subsidies and other income	13	19
<b>Net income</b>	<b>200</b>	<b>210</b>
<b>Expenses</b>		
Property management expenses	15	13
Interest (net)	50	85 <sup>1</sup>
	65	98
Result on disposals	67	87
Realised result	202	199
Unrealised result	136	149
<b>Result before Tax</b>	<b>338</b>	<b>348</b>
Tax	1	–
<b>Result after Tax</b>	<b>337</b>	<b>348</b>

<sup>1</sup> This figure has been restated for comparative purposes

## COMBINED CASH FLOW STATEMENT FOR 2002

Amounts in millions of euros	2002	2001
Realised direct result after tax	201	199
Released from provisions	4-	2-
DKPH grant	10-	16-
Amortisation and depreciation	1	1
Movement in working capital	99	8
Cash flow from operating activities	287	190
Investments in property	137-	103-
Investments in loans	19-	17-
Other investments	7-	2-
Disposals of property (excluding result on sale)	262	305
Cash flow from investment activities	99	183
Repayment of Stichting Pensioenfonds ABP loan	966-	-
A-notes loan	1,163	-
Revolving Credit loan	50	-
Deutsche Bank loan	25	-
Interest-rate cap paid	44-	-
Financing charges paid	2-	-
Dividend paid	626-	-
Cash flow from financing activities	400-	-
Movements as a result of reorganisation	-	355-
<b>Total Cash flow</b>	<b>14-</b>	<b>18</b>
Cash at end of year	26	40
Cash at beginning of year	40	-
Cash at beginning of year – Vesteda Groep	-	25
Cash at beginning of year – Holding DRF	-	2
Cash at beginning of year – Dutch Residential Fund I	-	3-
Cash at beginning of year – Dutch Residential Fund III	-	2-
	<b>14-</b>	<b>18</b>

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

### MOVEMENTS IN PROPERTY

amounts in millions of euros

	Development portfolio	Core portfolio	Disposal portfolio	Total
Value as at 1 January 2002	143	2,975	938	4,056
Additions	106	26	5	137
Disposals	4-	133-	125-	262-
Internal transfers	77-	77	-	-
Subtotal	168	2,945	818	3,931
Revaluations during financial year	-	136	-	136
<b>Value as at 31 december 2002</b>	<b>168</b>	<b>3,081</b>	<b>818</b>	<b>4,067</b>

In view of the limited amount of tangible fixed assets, no statement of movements is presented.

### MOVEMENTS IN FINANCIAL FIXED ASSETS

Amounts in millions of euros

	01-01-02	additions	disposals	31-12-02
Participating interests	2	-	-	2
Project financing	46	19	-	65
Interest-rate cap paid	-	50	6	44
Financing charges paid	-	3	1	2
	<b>48</b>	<b>72</b>	<b>7</b>	<b>113</b>

Vesteda has entered into three interest-rate cap agreements with a finance institution with the intention of hedging interest-rate risks. The terms of the agreements are in line with the remaining terms of the bond loans. This limits the risks of rising interest rates on external financing.

**MOVEMENTS IN GROUP EQUITY**

Amounts in millions of euros	2002	2001
Group equity as at 31 December 2000	–	4,006
Revaluation as at 1 January	–	112
Group equity as at 1 January	2,845	4,118
Equity of Dutch Residential Fund I as at 1 January	–	14-
Equity of Dutch Residential Fund III as at 1 January	–	11-
Realised result	201	199 <sup>1</sup>
Unrealised result	136	149
Distribution to unit-holders/shareholders	320-	306 <sup>-2</sup>
Movements as a result of restructuring	–	1,290 <sup>2</sup>
<b>Group Equity as at 31 December</b>	<b>2,861</b>	<b>2,845</b>

**MOVEMENTS IN LOANS PAYABLE**

amounts in millions of euros	01-01-02	Additions	Repayments	31-12-02
Stichting Pensioenfonds ABP	966	–	966	–
Vesteda Residential Funding I BV for:				
A1 notes	–	300	37	263 <sup>3</sup>
A2 notes	–	300	–	300
A3 notes	–	600	–	600
Revolving Credit	–	50	–	50
Deutsche Bank London	–	25	–	25
	<b>966</b>	<b>1,275</b>	<b>1,003</b>	<b>1,238</b>

1 This figure has been restated for comparative purposes.

2 These figures have been restated to reflect the appropriation of the result.

3 After deduction of repayment for the fourth quarter, included in current liabilities

The bridging finance provided by Stichting Pensioenfonds ABP was repaid during 2002. At the same time, Vesteda Residential Funding I BV issued variable-interest-rate bonds consisting of:

- € 300 million class A1 secured floating rate notes;
- € 300 million class A2 secured floating rate notes;
- € 600 million class A3 secured floating rate notes.

In addition, a € 200 million Revolving Credit Facility was agreed with the finance institution.

The bonds were issued under a Trust Agreement between Vesteda Residential Funding I BV and Stichting Security Trustee Vesteda Residential Funding I, which acts as trustee for the holders of the notes.

Vesteda Residential Funding I BV is a company specially incorporated to manage the financing for Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV under agreements between these parties, Vesteda Groep BV and the Security Trustee. Vesteda Residential Funding I BV also has the duty of providing security in connection with the financing. All the shares in Vesteda Residential Funding I BV are owned by the Stichting Vesteda Residential Funding I. The manager of the Stichting is ATC-management BV.

The proceeds for Vesteda Residential Funding I BV of the issue have been lent to Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV.

As a result of the above activities, the Vesteda Group had the following facilities as at the balance sheet date:

- Term A1 Notes of € 300 million with an intended term of 2.25 years;
- Term A2 Notes of € 300 million with an intended term of 4.25 years;
- Term A3 Notes of € 600 million with an intended term of 6.25 years;
- Revolving Credit Facility of € 200 million with an intended term of 2.5 years.

The borrowers are Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV in their capacity as custodians of Vesteda Woningen.

Repayment of the Term A1 and Term A2 Facilities is due quarterly and is dependant on sales from the disposal portfolio. The repayment due for the final quarter of the financial year is included in current liabilities. The borrowers have made the funds available to Vesteda Woningen.

The interest is payable quarterly and is based on the 3-month EURIBOR rate plus a premium varying by type. The term A notes are listed on the EuroNext Amsterdam Stock Exchange. The legal term of the loans at the time of issue was nine years. If, however, the intended term is exceeded there are sanctions relating in particular to distributions to those entitled to the results of the Vesteda Group. Early repayment is permitted.

The loans carry considerable reporting and information obligations. The following consequences are incurred if interest is not paid on time or other obligations are not met:

- payment of dividends and similar distributions are no longer permitted;
- a pledge is established on the bank accounts which receive the rents;
- the voting rights on the shares of Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV are transferred to the Security Trustee;
- a mortgage right is established in favour of the Security Trustee on the property up to an amount of 150% of the outstanding amount of the loans;
- liabilities may only be met out of the housing portfolio. Creditors have no right of recovery against the other assets (other than Vesteda Woningen) of the unit-holders.

If certain financial conditions (ratios) are not met, further sanctions are applicable. In addition to the above measures, the management's power to dispose of property is considerably restricted.

#### **Liabilities not shown in the balance sheet**

Vesteda Group has liabilities of some € 122 million that are not shown in the balance sheet. They relate chiefly to obligations entered into by Vesteda Project BV for building contracts, of which € 77 million is of a short-term nature and € 41 million is of a long-term nature. There are also liabilities for the rent of property (€ 0.6 million short-term and € 1.6 million long-term) and car leases (about € 2.0 million long-term).

## PROPOSED DISTRIBUTION TO INVESTORS

The various companies in the Vesteda Group distributed the following amounts to shareholders and unit-holders for the financial year 2002:

(amounts in millions of euros)	<b>total</b>
direct result	201
distribution as a result of disposals of property	119
<b>total distributed for the financial year 2002</b>	<b>320</b>

As a result of the distributions already made, no further final distribution is proposed.

Maastricht, 13 February 2003

The Management Board of Vesteda Groep BV

H.G. Hilverink, *chairman*

H.C.F. Smeets

F.H. van der Togt



# AUDITORS' REPORT

## Introduction

We have audited the 'Financial statements Vesteda Group' for the year 2002, as set out on pages 32 to 47 of the Annual accounts of Vesteda Groep BV, Maastricht. These 'Financial statements Vesteda Group' are the responsibility of the management of Vesteda Groep BV. Our responsibility is to express an opinion on these financial statements based on our audit.

## Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 'Financial statements Vesteda Group' are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 'Financial statements Vesteda Group'. An audit also includes assessing the accounting principles used and significant estimates made by the management of Vesteda Groep BV, as well as evaluating the overall presentation of the 'Financial statements Vesteda Group'. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the 'Financial statements Vesteda Group' give a view of the financial position as at 31 December 2002 and of the result for the year then ended as required in the given circumstances in accordance with the accounting principles as set out on pages 35 to 39.

Maastricht, 13 February 2003

Ernst & Young Accountants



# Vesteda Groep bv Financial statements 2002

## INTRODUCTION

The companies belonging to the Vesteda Group were reorganised on 28 December 2001. In the new structure, Vesteda is divided into three organisationally-associated units: one responsible for ownership, one for property management and one for property development. Management and control are exercised by Vesteda Groep BV.

On 21 December 2002, there was a merger of Vesteda Groep BV and Vesteda Management BV as a result of which Vesteda Management BV ceased to exist. The figures for Vesteda Management BV are included in the financial statements below as if the companies had merged at the beginning of the financial year. In view of the small amounts involved, this treatment has no material effect on the presentation of the equity and result.

# ACCOUNTING POLICIES

## FINANCIAL YEAR

The financial year of Vesteda Groep BV runs concurrently with the calendar year. The first financial period ran from 28 December 2001 to 31 December 2002. To provide insight, comparative figures are presented for the balance sheet as at 31 December 2001. These relate to the interim financial position of Vesteda Groep BV and the balance sheet of Vesteda Management BV at that date.

As this is the first financial period, there are no comparative figures in the profit and loss account and cash flow statement.

## BASIS OF CONSOLIDATION

Vesteda Groep BV is the head of a group of companies. The consolidated statements include the financial information of the following companies:

	Registered in	Interest
Vesteda Groep BV	Maastricht	–
Vesteda Heerlen BV	Heerlen	100%
Vesteda Maastricht BV	Maastricht	100%
VGA Nederland BV	Maastricht	100%

Consolidation has been performed by the integral method, under which assets and liabilities are included in full in the consolidated balance sheet. Income and expenditure are also accounted for in full.

As permitted by Section 402 of Book 2 of the Netherlands Civil Code, the company financial statements include a profit and loss account in abridged form.

## **ACCOUNTING POLICIES FOR VALUING ASSETS AND LIABILITIES**

### **General**

Unless otherwise mentioned, valuation is according to the historical cost convention. Amounts are shown at face value.

### **Tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation based on the expected useful economic lives of the assets concerned.

### **Financial fixed assets**

If controlling or significant influence is exercised on the commercial and financial policy of participating interests, those interests are accounted for using the equity method based on net asset value.

### **Receivables**

Receivables are shown at face value less individual provisions for doubtful debts where necessary.

### **Provisions**

A reorganisation provision is deemed necessary in view of the developments that the Vesteda Group plans to undergo, the strategic choices that have been made and the consequent expenditure forecast.

## **ACCOUNTING POLICIES FOR THE DETERMINATION OF RESULTS**

### **General**

Income and expenses are stated at historical cost. Income is recognised when realised, expenses are recognised as soon as they become known. Income and expenses are allocated to the year to which they relate.

### **Management fee**

The management fee relates to the amounts invoiced to companies in the Vesteda Group with respect to work performed.

**Depreciation of tangible fixed assets**

Depreciation is calculated using the straight-line method over the estimated useful economic lives of the assets concerned.

**Share in results of participating interests**

The share in the results is calculated in accordance with the accounting policies applied in these financial statements concerned in proportion to the interest held.

**Tax status**

The private limited companies included in the consolidation are independently liable for corporation tax. The valuation policies for tax purposes do not differ from those for reporting purposes. In view of the nature of the activities, the taxable amount of certain companies is determined on a cost-plus basis.

**Cash flow statement**

The cash flow statement is prepared using the indirect method.

# CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002

(AFTER APPROPRIATION OF RESULT)

Amounts in thousands of euros	31-12-2002	31-12-2001
<b>ASSETS</b>		
<b>Fixed Assets</b>		
Tangible fixed assets	6,579	3,909
Financial fixed assets	–	140
	<hr/> 6,579	<hr/> 4,049
<b>Other Assets</b>		
Property under development	–	496
Tax and social security charges	–	44
Receivables	1,382	8,847
Cash	3,618	5,305
	<hr/> 5,000	<hr/> 14,692
<b>Total Assets</b>	<b>11,579</b>	<b>18,741</b>
<b>EQUITY AND LIABILITIES</b>		
Group equity	250	250
Provisions	6,703	10,782
<b>Current liabilities</b>		
Tax and social security charges	646	80
Other liabilities	3,980	7,629
	<hr/> 4,626	<hr/> 7,709
<b>Total Equity and Liabilities</b>	<b>11,579</b>	<b>18,741</b>



# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 28 DECEMBER 2001 TO 31 DECEMBER 2002

Amounts in thousands of euros

Total operating income		12,875
<b>Expenses</b>		
Subcontracted work	3,184	
Salaries	4,329	
Social security charges	628	
Depreciation of tangible fixed assets	694	
Other operating expenses	3,580	
Total operating expenses		12,415
Result before tax		460
Tax		460
<b>Result after tax</b>		<b>-</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD FROM 28 DECEMBER 2001 TO 31 DECEMBER 2002

Amounts in thousands of euros	
Realised result	–
Released from provisions	4,079-
Depreciation	1,143
Movement in working capital	4,426
Cash flow from operating activities	1,490
Property under development taken over by Vesteda Project BV	496
Investments in group companies	140
Investments in tangible fixed assets	3,813-
Cash flow from investment activities	3,177-
<b>Total cash flow</b>	<b>1,687-</b>
Cash at end of year	3,618
Cash at beginning of year	5,305
	<b>1,687-</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## MOVEMENTS IN TANGIBLE FIXED ASSETS

Amounts in thousands of euros	2002	2001
Book value as at 1 January	3,909	3,043
Additions	3,813	1,280
Depreciation	1,143	414
<b>Book value as at 31 December</b>	<b>6,579</b>	<b>3,909</b>

## MOVEMENTS IN FINANCIAL FIXED ASSETS

Amounts in thousands of euros	2002	2001
Value as at 1 January	140	140
Disposal of participating interest as part of restructuring	140-	-
<b>Value as at 31 December</b>	<b>-</b>	<b>140</b>

## CASH

Cash is at the free disposal of the company.

## GROUP EQUITY

For movements in shareholders' equity, reference is made to the notes to the company balance sheet.

## PROVISIONS

Approximately half of the provisions are expected to be of a long-term nature.

## NUMBER OF EMPLOYEES

At the end of 2002, the group had 207 employees (189 FTEs) compared with 127 employees (116 FTEs) at the end of 2001.

**LIABILITIES NOT SHOWN IN THE BALANCE SHEET**

Total liabilities under rental and lease agreements amount to some € 4 million. The company has not provided any security for these liabilities. The liabilities are as follows:

(amounts in thousands of euros)	property rental	car leases
expiring:		
within 1 year	625	42
between 1 and 5 years	1,588	1,406
after 5 years	311	–
	<b>2,524</b>	<b>1,448</b>

# COMPANY BALANCE SHEET AS AT 31 DECEMBER 2002

(AFTER APPROPRIATION OF RESULT)

Amounts in thousands of euros	31-12-2002	31-12-2001
<b>ASSETS</b>		
<b>Fixed Assets</b>		
Tangible fixed assets	6,579	3,909
Financial fixed assets	58	206
	<u>6,637</u>	<u>4,115</u>
<b>Other Assets</b>		
Property under development	–	496
Tax and social security charges	–	44
Receivables	1,382	8,847
Cash	3,548	5,198
	<u>4,930</u>	<u>14,585</u>
<b>Total Assets</b>	<b>11,567</b>	<b>18,700</b>
<b>EQUITY AND LIABILITIES</b>		
Shareholders' equity	250	250
Provisions	6,703	10,782
<b>Current liabilities</b>		
Tax and social security charges	646	80
Other liabilities	3,968	7,588
	<u>4,614</u>	<u>7,668</u>
<b>Total Equity and Liabilities</b>	<b>11,567</b>	<b>18,700</b>

# COMPANY PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 28 DECEMBER 2001 TO 31 DECEMBER 2002

Amounts in thousands of euros

Company result after tax	8
Result of participating interests after tax	8-
<b>Result after tax</b>	<b>0</b>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### MOVEMENTS IN TANGIBLE FIXED ASSETS

Amounts in thousands of euros	2002	2001
Book value as at 1 January	3,909	3,043
Additions	3,813	1,280
Depreciation	1,143	414
<b>Book value as at 31 December</b>	<b>6,579</b>	<b>3,909</b>

### MOVEMENTS IN FINANCIAL FIXED ASSETS

Amounts in thousands of euros	2002	2001
Value as at 28 December		530-
Value as at 1 January	206	
Investments in participating interests/group companies	-	23
Share in results of participating interests during the financial year	8-	347-
Disposal of participating interests as a result of reorganisation	140-	1,060
<b>Value as at 31 December</b>	<b>58</b>	<b>206</b>

### SHAREHOLDERS' EQUITY

The company's authorised share capital is € 1,250,000 comprising 125,000,000 ordinary shares of one cent nominal value each. The issued and paid-up capital is € 250,000.

There were no changes in shareholders' equity during the financial year (€ 250,000).

**NUMBER OF EMPLOYEES**

At the end of 2002, the group had 207 employees (189 FTEs) compared with 127 employees (116 FTEs) at the end of 2001.

**DIRECTORS' REMUNERATION**

During 2002, Vesteda Groep BV had a Managing Board of three members and a Supervisory Board of five members. Their combined remuneration amounted to € 960,000 and € 140,400 respectively.

Maastricht, 13 February 2003

**Managing Board :**

H.G. Hilverink, *chairman*

H.C.F. Smeets

F.H. van der Togt

**Supervisory Board:**

F.H.J. Boons, *chairman*

P.S. van den Berg

W.F.T. Corpeleijn

J.D. Doets

J.W.M. Simons



## OTHER INFORMATION

### **PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPROPRIATION OF PROFIT**

Article 37 of the Articles of Association of Vesteda Groep BV reads:

- 37.1 No distribution of profits pursuant to the provisions of this article shall be made until financial statements showing that such distribution is permissible have been adopted.
- 37.2 The profit shall be at the disposal of the general meeting of shareholders.
- 37.3 The company may only make distributions to shareholders and to others entitled to receive a share of the profits insofar as its shareholders' equity exceeds the amount of the issued capital plus the reserves required to be held by law.
- 37.4 Deficits may only be offset against the statutory reserves to the extent permitted by law.

### **PROPOSED APPROPRIATION OF RESULT**

As the result is nil, no proposal concerning the appropriation of profit has been formulated.

# AUDITORS' REPORT

## Introduction

We have audited the financial statements of Vesteda Groep BV, Maastricht, for the year 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

## Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those 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 management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2002 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Maastricht, 13 February 2003

Ernst & Young Accountants

Vesteda Woningen

common fund

Financial Statements 2002

## INTRODUCTION

The companies belonging to the Vesteda Group were reorganised on 28 December 2001. In the new structure, Vesteda is divided into three organisationally-associated units: one responsible for ownership, one for property management and one for property development. The legal owners of the property are Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV. The beneficial ownership is attributed initially to Dutch Residential Fund IV BV. In turn, Dutch Residential Fund IV BV has embodied the beneficial ownership of the property portfolio in units in 'Vesteda Woningen', a common fund. Vesteda Woningen is a closed-end common fund, pursuant to the Corporation Tax Act 1969.

A common fund is not a legal entity but a vehicle in which property is brought together for collective investment in order for the unit-holders to share in the proceeds. A common fund has one or more custodians and a manager. The custodians have title to manage the property of Vesteda Woningen for the unit-holders.

In their capacity as custodians, Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV are legally entitled to all the property belonging to Vesteda Woningen on behalf of the unit-holders. The unit-holders have the beneficial entitlement to these assets.

Participation in Vesteda Woningen may be either direct (units) or through Holding Dutch Residential Fund BV but participation also involves an obligation to invest to an equal percentage in Vesteda Groep BV (management) and Vesteda Project BV. Vesteda Groep BV has the mandate to enter into rights and obligations with respect to the properties.

The rights and obligations of the holders of units in 'Vesteda Woningen' are set out in the Participation Agreement signed in January 2002. Vesteda Groep BV has been appointed as manager of the fund.

## ACCOUNTING POLICIES

Vesteda Woningen is not a legal entity. It is the summation of all the rights and obligations associated with the properties. The rights and obligations are shared among the unit-holders. A unit reflects the rights and obligations as applicable to a unit-holder and set out in the conditions for management and custody.

As Vesteda Woningen has similarities to a company, the financial statements below use terminology customarily used in financial statements.

### REPORTING PERIOD

The financial year of Vesteda Woningen runs concurrently with the calendar year. The comparative figures in the profit and loss account relate to the period from 28 to 31 December 2001.

### ACCOUNTING POLICIES FOR VALUING ASSETS AND LIABILITIES

#### Property

Projects under development are stated at cost. On completion, complexes are included in the core letting portfolio.

The property in the core letting portfolio and the disposal portfolio is included at current value, being the higher of market value with sitting tenants and net realisable value on disposal of complete complexes to organisations specialising in the selling of individual units. New properties are valued at the lower of cost and market value for the first two years after completion if the property was fully available for letting after 1 January 2003. With effect from 2002, complexes which were fully available for letting in 1998 are stated at current value. This represents a start to reducing, over three years, the period of valuation at historical cost from five years to two years. Consequently, by the end of 2004, complexes will only be stated at the lower of historical cost and market value for a period of no more than two years after being handed over. Determination of the net realisable value in the case of disposal of complete complexes to organisations specialising in the selling of individual units assumes that the costs will be borne by the purchaser. At least 50%

of the portfolio is appraised annually by external valuers. The external valuers also adjust the appraisals carried out in the preceding three quarters, based in part on actual selling prices in the market. The market value with sitting tenants is determined by the discounted cash flow method, based on the expected cash flows per complex according to the long-term plan. This calculation is made internally. Conveyancing charges and other selling costs are taken into account in determining both the net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units and the market value with sitting tenants.

#### **Financial fixed Assets**

Loans receivable are stated at face value. Where necessary there is a write-down for doubtful debts. The interest-rate caps are stated at historical cost less amortisation based on the period for which they have been concluded, in relation to the outstanding principal sums of the loans.

#### **Receivables**

Receivables are shown at face value less individual provisions for doubtful debts where necessary.

#### **DKPH grant equalisation account**

The grants received in connection with the grossing-up operation not already taken into account in the value of the investments as at 1 January 1998 are included in this equalisation account and are being released to income over a period of ten years. Grants are taken directly to the profit and loss account upon sale of property for which grants have been received.

#### **Other**

Unless otherwise mentioned, valuation is according to the historical cost convention. Amounts are shown at face value.

## **ACCOUNTING POLICIES FOR THE DETERMINATION OF RESULTS**

### **General**

Income and expenses are stated at historical cost. Income is recognised when realised, expenses are recognised as soon as they become known. Income and expenses are allocated to the year to which they relate.

### **Rental income**

This item includes the total rents invoiced to tenants in respect of the financial year. The amount shown, therefore, takes account of rent lost due to vacancies and discounts. Rental income does not include service charges paid in advance by tenants.

### **Letting expenses**

Letting expenses comprise costs directly attributable to a specific complex. These costs are mainly maintenance costs, property tax and other levies, insurance premiums, management and letting fees and service costs not chargeable to tenants. There is no equalisation provision for major maintenance.

### **Property management expenses**

Any operating expenses that cannot be allocated directly to the various properties are treated as property management expenses. Property management expenses relate mainly to expenses re-charged by Vesteda Groep B.V. In addition, the Participation Agreement specifies that Holding Dutch Residential Fund B.V. and subsidiaries attribute expenses and liabilities to Vesteda Woningen.

### **Interest income and expense**

Interest income and expense are stated at face value. Interest expense includes the amortisation of the interest-rate caps.

### **Realised result**

The realised result is the sum of the net letting income and other income less property management expenses and net interest charges, plus the results realised on property disposals. The result on

disposals is the proceeds from sales (less any facilitation costs) less the value of the properties sold at the beginning of the financial year.

#### **Unrealised result**

The unrealised indirect result is made up of the total of unrealised revaluations as a consequence of external and internal appraisals.

#### **Tax status**

Vesteda Woningen is a closed-end common fund, meaning that the fund is transparent for corporation tax and capital tax purposes. For tax purposes, the assets and liabilities and income and expenses of Vesteda Woningen are attributed directly to the investors holding units in Vesteda Woningen.

#### **Cash flow statement**

The cash flow statement is prepared using the indirect method.



# BALANCE SHEET AS AT 31 DECEMBER 2002

(AFTER APPROPRIATION OF RESULT)

Amounts in millions of euros	31-12-2002	31-12-2001
<b>ASSETS</b>		
<b>Fixed Assets</b>		
Property	3,960	4,036
Tangible fixed assets	2	–
Financial fixed assets	117	–
	<hr/> 4,079	<hr/> 4,036
<b>Other Assets</b>		
Other receivables	33	36
Cash	67	299
	<hr/> 100	<hr/> 335
<b>Total Assets</b>	<b>4,179</b>	<b>4,371</b>
<b>EQUITY AND LIABILITIES</b>		
Fund capital	2,710	2,694
DKPH grant equalisation account	31	41
Long-term liabilities	1,301	1,316
<b>Current liabilities</b>		
Tax	3	–
Other liabilities	135	320
	<hr/> 138	<hr/> 320
<b>Total Equity and Liabilities</b>	<b>4,179</b>	<b>4,371</b>

## PROFIT AND LOSS ACCOUNT FOR 2002

Amounts in millions of euros	2002	2001
<b>Income</b>		
Rental income	245	3
Less: Letting expenses	58	1
Net letting income	187	2
Subsidies and other income	13	–
Net income	200	2
<b>Expenses</b>		
Property management expenses	13	–
Interest (net)	54	–
	67	–
Result on disposals	67	–
Realised result	200	2
Unrealised result	136	–
<b>Result</b>	<b>336</b>	<b>2</b>

## CASH FLOW STATEMENT FOR 2002

Amounts in millions of euros	2002
Realised result	200
DKPH grant	10-
Movement in working capital	126
Cash flow from operating activities	316
Investments in property	62-
Investments in loans	71-
Other investments	2-
Disposals of property	274
Cash flow from investment activities	139
Repayment of Stichting Pensioenfonds ABP loan	1,316-
A-notes loan	1,163
Revolving Credit loan	50
Deutsche Bank loan	25
Vesteda Project BV loan	63
Investment in financial fixed assets	46-
Distributions to participants (2001 and 2002)	626-
Cash flow from financing activities	687-
<b>Total cash flow</b>	<b>232-</b>
Cash at end of year	67
Cash at beginning of year	299
	<b>232-</b>

## NOTES TO THE FINANCIAL STATEMENTS

### MOVEMENTS IN PROPERTY

Amounts in millions of euros	Development portfolio	Core portfolio	Disposal portfolio	Total
Value as at 1 January 2002	106	2,975	938	4,019
Additions	32	26	4	62
Disposals	–	133	124	257
Internal transfers	77	77	–	–
Subtotal	61	2,945	818	3,824
Revaluations during financial year	–	136	–	136
<b>Value as at 31 December 2002</b>	<b>61</b>	<b>3,081</b>	<b>818</b>	<b>3,960</b>

### MOVEMENTS IN FINANCIAL FIXED ASSETS

Amounts in millions of euros	01-01-02	additions	repayments	31-12-02
Interest-rate cap paid	–	50	6	44
Financing charges paid	–	3	1	2
Loans receivable Dutch Residential Fund I	–	28	4	24
Loans receivable Dutch Residential Fund II	–	28	4	24
Loans receivable Dutch Residential Fund III	–	27	4	23
	–	<b>136</b>	<b>19</b>	<b>117</b>

Vesteda has entered into three interest-rate cap agreements with a finance institution with the intention of hedging interest-rate risks. The terms of the agreements are in line with the remaining terms of the bond loans. This limits the risks of rising interest rates on the external financing. Interest is charged on the loans to the custodians based on 3-month EURIBOR. No security has been provided.

## MOVEMENTS IN FUND CAPITAL

Amounts in millions of euros	2002	2001
Formation on 28 December 2001	–	2,998
Fund capital as at 1 January	2,694	–
Realised result	200	2
Unrealised result	136	–
Distribution to unit-holders	320	306
Fund capital at end of year	2,710	2,694

## MOVEMENTS ON LONG-TERM LIABILITIES

Amounts in millions of euros	01-01-02	additions	repayments	31-12-02
Stichting Pensioenfond ABP	1,316	–	1,316	–
Dutch Residential Funding I BV for:				
A1 notes	–	300	37	263 <sup>1</sup>
A2 notes	–	300	–	300
A3 notes	–	600	–	600
Revolving Credit	–	50	–	50
Deutsche Bank London	–	25	–	25
Loans payable Dutch Residential Fund I	–	47	26	21
Loans payable Dutch Residential Fund II	–	47	26	21
Loans payable Dutch Residential Fund III	–	46	26	20
	<b>1,316</b>	<b>1,415</b>	<b>1,353</b>	<b>1,378</b>

Interest is charged on the loan from the custodians based on 3-month EURIBOR. The loan is subordinated to liabilities under the Secured Loan Agreement. The loan expires on 19 July 2003, but may be renewed for periods of one year. Early repayment is permitted.

The bridging finance provided by Stichting Pensioenfond ABP was repaid during 2002. At the same time, Vesteda Residential Funding I BV issued variable-interest-rate bonds consisting of:

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<sup>1</sup> After deduction of repayment for the fourth quarter, included in current liabilities.

- € 300 million class A1 secured floating rate notes;
- € 300 million class A2 secured floating rate notes;
- € 600 million class A3 secured floating rate notes.

In addition, a € 200 million Revolving Credit Facility was agreed with the finance institution. The bonds were issued under a Trust Agreement between Vesteda Residential Funding I BV and the Stichting Security Trustee Vesteda Residential Funding I, which acts as trustee for the holders of the notes.

Vesteda Residential Funding I BV is a company specially incorporated to manage the financing for Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV under agreements between these parties, Vesteda Groep BV and the Security Trustee. Vesteda Residential Funding I BV also has the duty of providing security in connection with the financing. All the shares in Vesteda Residential Funding I BV are owned by the Stichting Vesteda Residential Funding I. The manager of the Stichting is ATC-management BV.

The proceeds for Vesteda Residential Funding I BV of the issue have been lent to Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV.

As a result of the above activities, the Vesteda Group had the following facilities at the balance sheet date:

- Term A1 Notes of € 300 million with an intended term of 2.25 years;
- Term A2 Notes of € 300 million with an intended term of 4.25 years;
- Term A3 Notes of € 600 million with an intended term of 6.25 years;
- Revolving Credit Facility of € 200 million with an intended term of 2.5 years.

The borrowers are Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV in their capacity as custodians of Vesteda Woningen.

The borrowers have made the funds available to Vesteda Woningen.

Repayment of the Term A1 and Term A2 Facilities is due quarterly and is dependant on sales from

the disposal portfolio. The repayment due for the final quarter of the financial year is included in current liabilities. The interest is payable quarterly and is based on the 3-month EURIBOR rate plus a premium varying by type. The term A notes are listed on the EuroNext Amsterdam Stock Exchange. The legal term of the loans at the time of issue was nine years. If the intended term is exceeded, however, there are sanctions relating in particular to distributions to those entitled to distribution of the results of the Vesteda Group. Early repayment is permitted.

The loans carry considerable reporting and information obligations. The following consequences are incurred if interest is not paid on time or other obligations are not met:

- payment of dividends and similar distributions are no longer permitted;
- a pledge is established on the bank accounts which receive the rents;
- the voting rights on the shares of Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV are transferred to the Security Trustee;
- a mortgage right is established in favour of the Security Trustee on the property up to an amount of 150% of the outstanding amount of the loans;
- liabilities may only be met out of the housing portfolio. Creditors have no right of recovery against the other assets (other than Vesteda Woningen) of the unit-holders.

If certain financial conditions (ratios) are not met, further sanctions are applicable. In addition to the above measures, the management's power to dispose of property is considerably restricted.

#### **UNIT-HOLDERS**

At the end of 2002, the unit-holders in Common Fund Vesteda Woningen were:

ING Real Estate

Delta Lloyd Vastgoed

Dutch Residential Fund IV BV

Holding Dutch Residential Fund BV

## PROPOSED DISTRIBUTION TO INVESTORS

Vesteda Woningen distributed a total of € 320 million to its unit-holders for the 2002 financial year.

The movement in the net-asset value of each unit, based on 25 million units, was as follows:

	€	%
Net asset value at the beginning of 2002 (after distribution)	107.72	100.0%
Realised result	8.02	7.4%
Unrealised result	5.42	5.0%
Distribution to unit-holders for 2002	-12.80	-11.9%
<b>Net asset value at the end of 2002</b>	<b>108.36</b>	<b>100.6%</b>

As a result of the distributions already made, no further final distribution is proposed.

Maastricht, 13 February 2003

The manager: Vesteda Groep BV

The custodians: Dutch Residential Fund I BV, Dutch Residential Fund II BV and Dutch Residential Fund III BV

For the above:

H.G. Hilverink

H.C.F. Smeets

F.H. van der Togt



# AUDITORS' REPORT

## Introduction

We have audited the 'Financial statements Vesteda Woningen' for the year 2002, as set out on pages 66 to 78 of the Annual accounts of Vesteda Groep B.V., Maastricht. These 'Financial statements Vesteda Woningen' are the responsibility of the management of Vesteda Groep B.V. Our responsibility is to express an opinion on these financial statements based on our audit.

## Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 'Financial statements Vesteda Woningen' are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 'Financial statements Vesteda Woningen'. An audit also includes assessing the accounting principles used and significant estimates made by the management of Vesteda Groep B.V., as well as evaluating the overall presentation of the 'Financial statements Vesteda Woningen'. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the 'Financial statements Vesteda Woningen' give a view of the financial position as at 31 December 2002 and of the result for the year then ended as required in the given circumstances in accordance with the accounting principles as set out on pages 68 to 71.

Maastricht, 13 February 2003

Ernst & Young Accountants