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Securities Services

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KAMER VAN KOOPHANDEL EN FABRIEKEN  
VOOR AMSTERDAM: GEDEPONEERD

DOSSIERNR.:

OMVANG: ✓

BOEKJAAR: 2002

SOORT: ✓

E.B.

AVA: ✓

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4 december, 2003

Betreft: Deponering jaarrekening 2002

Geachte heer, mevrouw,

Hierbij deponeren wij de jaarrekening over 2002 van Dexia Securities Services NV.  
Ons inschrijvingsnummer KvK is 34108289.

Voor vragen of opmerkingen kunt u contact opnemen met ondergetekende, onder nummer  
020-348 9072

Hoogachtend,

Gegevens verwijderd door KvK

R.D. van der Mei  
Finance & Control

**ANNUAL REPORT**

**2002**

**DEXIA SECURITIES SERVICES N.V.**

## Table of Contents

<b>1</b>	<b><i>Report of the Managing Board</i></b> .....	<b>3</b>
1.1	General.....	3
1.2	Staff .....	5
1.3	Outlook for 2003.....	5
<b>2</b>	<b><i>Financial Statements</i></b> .....	<b>3</b>
2.1	Balance sheet .....	6
2.2	Profit and loss account.....	7
2.3	Cash flow statement .....	8
2.4	Notes to the financial statements .....	9
2.5	Notes to the company balance sheet .....	11
2.6	Notes to the profit and loss account.....	18
<b>3</b>	<b><i>Supplementary information</i></b> .....	<b>20</b>
3.1	Auditors' Report .....	20
3.2	General.....	20
3.3	Appropriation of the net result for the year .....	20
3.4	Memberships of DSSN.....	20

## **1 Report of the Managing Board**

### **1.1 General**

The year 2002 was the fourth year of operations for Dexia Securities Services N.V. (DSSN, formerly CDC Labouchere Securities Services N.V.). Mid 2001, an exit of CDC Ixis as shareholder in the course of 2002 was agreed between the shareholders. In the first half of 2002, the expectation was that DSSN would merge into Dexia Bank Nederland (DBNL) following the CDC exit and would become part of its Operational Services department. The housing arrangements following the relocation of DSSN to the WTC building in June reflected this.

On October 22, 2002, the name of the company was changed into DSSN, following the completion of the put option on 51 % of the shares executed by CDC Ixis on July 26, 2002. It was decided at the time of the option execution that DSSN would not merge into DBNL. On October 30, 2002, it was announced that 100% of the shares of the company will be transferred to Dexia BIL: DSSN will form part of the Dexia Fund Services organisation.

This positioning of Dexia Securities Services N.V. as direct 100 % subsidiary of Dexia BIL underlines the alignment of our business within the Dexia group. It is the intention to further exploit synergies in securities lending and custody and to launch Fund Services products in The Netherlands. The transfer will be effected after receipt of the approval of the regulatory authorities with retroactive effect as of January 1, 2003.

In 2002 securities lending and settlement generated revenues in excess of the budget; custody activity was slightly below budget, due to the decline of stock prices and lower income from conversion. This is related to the depressed M&A activity in The Netherlands. Direct costs -in particular external settlement fees- have exceeded the budget in line with higher volumes processed. The internal costs, which are under the direct influence of management, have been kept under control. However the contribution to the DBNL pension fund, of which DSSN is an associated company, has increased from Euro 0,4 in 2001 to slightly over Euro 1,0 million in 2002. The overall pre-tax profit amounted to Euro 5,0 million.

Regarding IT safety and control, the disaster recovery arrangements with an outside supplier concluded in 2000, have again been successfully tested in 2002. Furthermore the upgrades of the Securities Lending system and the implementation of Clearing 21 and ISO 15022 have been successfully completed, but absorbed substantial IT and staff resources.

Procedures and operational manuals were again strengthened during the Year: management asserts that the compliance with the requirements emanating from the "ROB" is well on its way.

### Custody Services

The total custody volume at year-end was Euro 31 billion compared with Euro 36 billion in December 2001. The change is mainly the result of the index.

### Settlement & Clearing

Settlement volumes have shown a high level throughout the year. December was the lowest month with slightly over 100.000 transactions, July showed a peak of more than 218.000 transactions.

With the Euronext harmonisation, the competition for the clearing of Dutch equities has increased: the global brokers select multi-market providers, which offer cross margining and global pricing arrangements, with discounts on volumes. Local players like DSSN cannot match, let alone better, such offers. One important client left DSSN in December for this reason.

Euronext aims at a further integration of the settlement infrastructure of the equities (and later the derivatives) market for trading, clearing and settlement. The operational infrastructure of the equity market in the Netherlands will disappear completely in the near future. Generically, the settlement activity as local single-market agent for global brokers is therefore coming to the end of its lifecycle across Europe.

During 2002, DSSN became an active clearing member on the French segment of Euronext/Clearnet through Euroclear Brussels as custodian.

### Securities Lending

The volume of the securities lending business varied from a low of € 3,7 billion in July to a high of € 5,9 billion in January. Important new business was generated in securities lending with Dexia Asset Management. Furthermore various proposals were made and accepted for clients of Dexia Fund Services to provide securities lending. DSSN believes that there is room for growth in this area. The organisation and IT tools have been strengthened during 2002, so that future growth can be accommodated.

### Balance Sheet

After consolidation of the current account pools of AEGON and DBNL the balance sheet total of DSSN was € 89 million. The securities lending activity is recorded as off-balance sheet business. The year-end BIS ratio was 39%.

The subordinated loan of Euro 11,3 million granted by CDC GmbH in April 1999, originally maturing in 2005, was prepaid in October 2002, in connection with the CDC exit, with the consent of the Dutch Central Bank.

## **1.2 Staff**

The Staff number at year-end amounted to 34, compared to 40 the previous year. At management level, Mrs. Laure Dykstra left the company and Mr. Cees van Herwaarden was appointed as Director of DSSN.

During 2002 the volumes were again substantially higher than in the previous year, whilst the number of staff decreased. We thank the team for their contribution during 2002.

## **1.3 Outlook for 2003**

The main challenges for the Year 2003 are:

- the migration of DSSN into the organisation of Dexia BIL / Dexia Fund Services,
- the start up of fund services products in The Netherlands as part of Dexia Fund Services,
- commercial efforts to exploit the potential for growth of the securities lending activity.

These new activities are essential to compensate for the expected reduction in settlement revenues.

Furthermore, the housing within the WTC building will be changed to reflect the fact that DSSN remains a separate legal entity.

An important issue is the relationship between the Dexia group and AEGON, one of DSSN's core clients. Dexia has started legal action against AEGON in connection with the acquisition of Labouchere. Today, there are no concrete indications as to a potential loss of AEGON as client of DSSN. The impact of such a departure would be substantial. However, we feel that the departure of AEGON would not be prohibitive with respect to DSSN's business case, provided that we are able to meet our business objectives in the field of fund services and securities lending.

Amsterdam, month / day, 2003

Theo Houwink ten Cate  
Cees van Herwaarden  
Herman de Louw

## 2 Financial Statements

### 2.1 Balance sheet (after appropriation of result)

	31 <sup>st</sup> December 2002	31 <sup>st</sup> December 2001
	Euro	Euro
<i>ASSETS</i>		
Cash	0	2,919,593
Banks	74,267,120	142,204,018
Loans and advances	1,050	3,758,833
Participating interests	177,200	177,134
Interest-bearing securities	11,344,500	11,344,500
Property and Equipment	1,902	5,862
Other assets	782,529	507,703
Prepayments and accrued income	<u>3,206,747</u>	<u>2,214,588</u>
<b>Total assets</b>	<b>89,781,048</b>	<b>163,132,231</b>
<i>LIABILITIES</i>		
Banks	12,346,179	17,706,907
Funds entrusted	51,421,994	110,370,827
Accruals and deferred income	<u>2,609,304</u>	<u>3,638,288</u>
	66,377,477	131,716,022
Subordinated liabilities	0	11,344,505
Share capital	1,958,500	1,958,430
Share premium reserve	9,506,466	9,506,466
General reserve	<u>11,938,605</u>	<u>8,606,808</u>
Liability capital	<u>23,403,571</u>	<u>31,416,209</u>
<b>Total liabilities</b>	<b>89,781,048</b>	<b>163,132,231</b>
Contingent liabilities	0	0
Irrevocable facilities	0	0

## 2.2 Profit and loss account

	2002	2001
	Euro	Euro
<i>INCOME</i>		
Interest income	3,959,442	4,904,998
Interest expense	<u>2,855,315</u>	<u>3,906,310</u>
Interest	1,104,127	998,688
Custody	3,287,997	3,274,131
Settlements	7,244,698	5,111,818
Securities lending	4,284,570	3,180,495
Other revenues	<u>542,077</u>	<u>3,151,814</u>
Commission income	15,359,342	14,718,258
Commission expenses	<u>4,876,402</u>	<u>3,559,878</u>
Commission	10,482,940	11.158.380
<b>Total income</b>	<b>11,587,067</b>	<b>12.157.068</b>
<i>Administrative expenses</i>		
Salaries	2,490,111	2,258,919
Social security costs	183,473	239,036
Pension fund contributions	1,005,482	433,939
Other staff charges	277,284	262,754
Other expenses	<u>2,657,430</u>	<u>2,087,720</u>
<b>Total expenses</b>	<b><u>6,613,780</u></b>	<b><u>5,282,368</u></b>
<b>Profit on ordinary activities before tax</b>	<b>4,973,287</b>	<b>6,874,700</b>
Tax	<u>(1,641,420)</u>	<u>(2,299,305)</u>
<b>Net result after taxation</b>	<b>3,331,867</b>	<b>4,575,395</b>



## 2.3 Cash flow statement

	2002	2001
	Euro	Euro
Net profit	3,331,867	4,575,395
<i>Net profit adjusted for non-cash flow movement</i>		
Depreciation	<u>3,960</u>	<u>3,960</u>
	3,960	3,960
<i>Cash flow from operating activities</i>		
Movement in other assets	(274,826)	128,426
Movement in prepayments and accrued income	(237,873)	(757,339)
Movement in accruals and deferred income	(1,028,984)	266,616
	<u>(1,541,683)</u>	<u>(362,297)</u>
<i>Cash flow from investing activities</i>		
Movement in investment portfolio	0	0
Movement in participating interest	<u>(66)</u>	<u>0</u>
	(66)	0
<i>Net cash flow from banking activities</i>		
Movement in loans and advances	3,757,783	(3,208,950)
Movement in funds entrusted	<u>(58,948,833)</u>	<u>36,808,804</u>
	(55,191,050)	33,599,854
<i>Movements in liability capital</i>		
Movement in subordinated debt	(11,344,505)	0
Movement in share capital	70	0
Movement in general reserve due to redenomination	(70)	0
	<u>(11,344,505)</u>	<u>0</u>
Net cash flow / (outflow)	<u>(64,741,477)</u>	<u>37,816,912</u>
Cash as at January 1 <sup>st</sup>	127,416,704	89,599,792
Cash as at December 31 <sup>st</sup>	62,675,227	127,416,704
<b>Increase - (decrease) in cash and cash equivalents</b>	<b>(64,741,477)</b>	<b>37,816,912</b>

## **2.4 Notes to the financial statements**

### ***General***

Dexia Securities Services N.V. (DSSN) is a specialised Dutch bank, offering custody, settlement & clearing and securities lending services to wholesale clients. The company was granted a banking license in March 1999 (under the name Labouchere Securities Services N.V.) and started its activities in April 1999 as a joint venture of CDC Ixis and Bank Labouchere under the name CDC Labouchere Securities Services.

On the date of the establishment, Bank Labouchere transferred its existing securities settlement, custody and securities lending operations, together with the staff and systems, to the company. Prior to the transfer, Bank Labouchere had developed this business over a period of 10 years.

Today, DSSN is a fully owned part of Dexia Bank Nederland NV (DBNL). The financial figures of the company are included in the consolidated financial statements of DBNL.

### ***Accounting principles***

#### ***General***

The financial statements have been drawn up under the historical cost convention. Departures, if any, from historical cost rules, are mentioned separately. Assets are shown net of any provisions. Income and expenses are allocated in accordance with the matching principle.

#### ***Foreign currency translation***

Assets and liabilities denominated in foreign currencies are translated into Euro's at the spot rates ruling at the balance sheet date. Transactions and their related profits and losses in foreign currencies are translated at the rates ruling at the transaction date.

#### ***Banks and loans and advances***

Banks and loans and advances are shown net of any downward value adjustments for items doubtful of collection.

#### ***Investment portfolio***

The investment portfolio comprises of the government bond included in the items interest-bearing securities. Bonds and other fixed-interest securities are carried at redemption value net of any downward value adjustments as required. The difference between redemption

value and the purchase price is charged or credited to the profit and loss account in proportion to the average remaining maturity periods.

#### *Goodwill*

Goodwill on acquisition is charged in full to Share premium reserve within shareholders' equity.

#### *Property and Equipment*

Fixed assets are carried at historical cost less straight-line depreciation based on their useful economic lives. The following depreciation percentage is used:

Equipment    33 %

#### *Cash and cash-equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise the cash and bank balances with less than 90 days maturity.

## 2.5 Notes to the company balance sheet

(in Euro's)	2002	2001
<b>ASSETS</b>		
<i>Cash</i>	0	2,919,593
<p>Comprises cash in hand and all balances available on demand with the Dutch Central Bank. A sweep arrangement exists between the accounts of DSSN and DBNL with the Dutch Central Bank, whereby credit and/or debit balances are passed to the DBNL account.</p>		
<i>Banks</i>		
Dexia Group	63,448,014	136,965,257
Other Banks	<u>10,819,106</u>	<u>5,238,761</u>
	74,267,120	142,204,018

This item comprises all loans and advances to credit institutions, which are subject to banking industry supervision and regulated securities firms.

### *Loans and advances*

Comprises all loans and advances arising out of banking transactions, except for loans and advances to banks and securities firms.

### *Interest-bearing securities*

Comprises the investment portfolio. The proceeds of the issued share capital of DSSN have been invested in a 5¼% Dutch government bond with a maturity date at July 15, 2008.

### *Participating interests*

Dexia Securities Services Custody NV	136,200	136,134
Euronext	8,500	8,500
S.W.I.F.T.	<u>32,500</u>	<u>32,500</u>
	177,200	177,134

Dexia Securities Services Custody NV is a 100% participation. The company has not been consolidated, as it is not material to the whole (in accordance with Section 407 subsection 1a). The 6.000 ordinary shares of NLG 50 each of this company have been redenominated to 1.362 ordinary shares of Euro 100.

Euronext comprises a participation of 281 ordinary shares.

S.W.I.F.T. comprises an obliged participation of 32 shares. Every 3 years there is a re-allocation of shares to all of their members based on their financial contribution generated.

*Property and equipment*

Balance as at January 1	5,862
Investments	0
Depreciation	<u>-3,960</u>
Balance as at December 31	1,902
Accumulated depreciation	-9.966

This is some furniture and office equipment, which is not hired from DBNL.

*Other assets*

Withholding tax	296,103	296,103
Dividends, coupons and redemption's	365,023	76,607
Other	<u>121,403</u>	<u>134,993</u>
	782,529	507,703

Dividends, coupons and redemption's comprise pre-posted amounts on clients-accounts with a value date in January 2003.

*Prepayments and accrued income*

Accrued Income	2,450,035	1,741,312
Prepayments	471,723	138,675
Interest receivable investment portfolio	277,396	277,396
Interest receivable other	<u>7,593</u>	<u>57,205</u>
	3,206,747	2,214,588

**LIABILITIES**

*Banks*

Dexia Group	5,398,643	270,370
Other	<u>6,947,536</u>	<u>17,436,537</u>
	12,346,179	17,706,907

Banks comprises all amounts owed to credit institutions and regulated securities firms except for subordinated loans.

*Funds entrusted*

Funds entrusted comprises all debts arising out of banking transactions, except for amounts owed to banks and subordinated loans.

*Accruals and deferred income*

Accounts payable and accruals	2,178,951	1,599,312
Taxes	242,984	1,367,872
Interest payable	97,915	152,149
Coupons	25,613	77,866
Other	<u>63,841</u>	<u>441,089</u>
	2,609,304	3,638,288

*Issued and paid-in capital*

January 1 <sup>st</sup> , 2002	1,958,430
Redenomination	<u>70</u>
December 31 <sup>st</sup> , 2002	1,958,500

The authorised capital of the company amounts to Euro 2,132,767 (NLG 4,700,000) and is divided in 4,700,000 shares with a nominal value of Euro 0,45 (NLG 1 each).

The capital has been redenominated on October 22, 2002. After this redenomination the authorised capital is divided into 60.000 shares with a nominal value of Euro 100 each. The issued capital of the company consists of 19,585 ordinary shares with a nominal value of Euro 100 each.

#### *Share premium reserve*

January 1 <sup>st</sup> , 2002	9,506,466
Movements	<u>0</u>
December 31 <sup>st</sup> , 2002	9,506,466

The share premium reserve comprises the proceeds from shares issued in excess of the par value.

#### *General reserve*

The movement in the General reserve is as follows:

January 1 <sup>st</sup> , 2002	8,606,808
Redenomination issued capital	(70)
Undistributed profit 2002	<u>3,331,867</u>
December 31 <sup>st</sup> , 2002	11,938,605

#### *Maturity Schedule*

Liquidity risk is defined as risk when the maturity of assets and liabilities does not match. The liquidity risk is controlled by the Finance & Control department. The table below shows assets and liabilities as at 31 December 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short-term loans can have a longer-term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The liquidity position of the Bank as at 31 December 2002 is set out below.

	Demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
<b>Assets</b>					
Cash	0				0
Banks	74,267,120				74,267,120
Loans and advances	1,050				1,050
Participating interest				177,200	177,200
Interest bearing securities				11,344,500	11,344,500
Property and Equipment			1,902		1,902
Other assets	782,529				782,529
Prepayments and accrued income	3,206,747				3,206,747
<b>Total assets</b>	<b>78,257,446</b>	<b>0</b>	<b>1,902</b>	<b>11,521,700</b>	<b>89,781,048</b>
Banks	12,346,179				12,346,179
Funds entrusted	51,421,994				51,421,994
Accruals and deferred income	2,609,304				2,219,304
Subordinated liabilities					0
Equity				22,403,571	21,403,571
<b>Total liabilities and Equity</b>	<b>66,377,477</b>	<b>0</b>	<b>0</b>	<b>22,403,571</b>	<b>89,781,118</b>
<b>Net liquidity gap</b>	<b>11,879,969</b>	<b>0</b>	<b>1,902</b>	<b>(10,881,871)</b>	<b>0</b>
<b>Cumulative liquidity gap</b>	<b>11,879,969</b>	<b>11,879,969</b>	<b>11,881,871</b>	<b>0</b>	<b>0</b>

#### *Securities borrowed and lent*

DSSN lends securities to banks and securities firms. When acting as principal, DSSN may indemnify its customers for the fair market value of those securities against a failure of the borrower to return such securities. In segment DSSN requires the borrowers to provide



collateral in an amount equal to or in excess of 105% of the fair market value of the securities borrowed. The borrowed securities and the collateral received are marked to market daily to determine if additional collateral is necessary.

The securities borrowed and lent not included in the balance sheet as at December 31<sup>st</sup>, 2002 are as follows:

Borrowed	3,839,110,401
Lent	3,827,200,908

#### *Guarantees and collateral*

The Bank acts as guarantor to the Clearnet SA, Paris and Clearnet SA Amsterdam Branchs in respect of securities transactions of clients. In connection with this guarantee, the Bank has provided collateral in the form of securities to Clearnet. Furthermore collateral is placed with DCB and Euroclear to facilitate day-to-day operations.

#### *Assets under custody*

Assets under custody are held by DSSN in a custodial capacity and are not included in the balance sheet because such items are not assets of DSSN. Management has set up a separate legal entity "Dexia Securities Services Custody N.V." that acts as custodian for the assets under custody, not falling under the regime of the "Wet Giraal Effectenverkeer".

### *Concentrations of credit risks*

Banks amounts receivable, and loans and advances can be specified by industry sector of the borrower as follows:

	2002	2001
Financial institutions	74,267,120	142,204,018
Insurance companies	0	2,201,694
Public sector	0	0
Private individuals	0	0
Other	<u>1,050</u>	<u>1,557,139</u>
	74,268,170	145,962,851

For all loans and advances to the insurance companies, securities are pledged as collateral.

### *Foreign currency risks*

Assets amounting to Euro 31,348,938 and liabilities amounting to Euro 31,147,690 are denominated in currencies other than Euro. However the net currency risk recalculated to Euro's amounts to Euro 42,442 debit and Euro 243,689 credit.

### *Contingent liabilities and irrevocable facilities*

The company has not entered into any material contingent liabilities and/or irrevocable facilities except for Security lending & borrowing transactions as disclosed separately.

The company has entered into several Service Level Agreements with respect to i.a. IT services with DBNL. The annual commitment of these Service Level Agreements amount to Euro 800,000.

## 2.6 Notes to the profit and loss account

(in Euro's)	2002	2001
<i>Interest income</i>		
Customer current accounts	103,017	183,748
Client deposits	10,022	50,260
Fixed interest securities	595,587	595,586
Money market deposits	3,102,735	3,848,035
Nostro accounts	136,801	194,713
Other	<u>11,280</u>	<u>32,656</u>
	3,959,442	4,904,998
<i>Interest expense</i>		
Customer current accounts	1,658,547	2,539,064
Client deposits	511,822	464,218
Money market deposits	15,168	28,291
Subordinated loan	364,351	611,289
CDC facilities	112,574	172,944
Nostro accounts	75,731	90,504
Other	<u>117,122</u>	<u>0</u>
	2,855,315	3,906,310

The total interest income and expense on current accounts with DBNL and Aegon N.V. are presented at their net interest margin.

### *Personnel expenses*

Comprises:

Salaries and wages	2,490,111	2,258,919
Social security costs	183,473	239,036
Pension fund contributions	1,005,482	433,939
Other personnel expenses	<u>277,284</u>	<u>262,754</u>
	3,956,350	3,194,648

The average number of employees during 2002 was 38.

At the end of December 2002 the number of employees was 34.

The remuneration of the members of the Executive Board for 2002 was Euro 488,304 (2001: Euro 348,451).

The remuneration of the members of the Supervisory Board for 2002 was Euro 11,344 (2001: Euro 11,344).

*Results on financial transactions*

There are no results on financial transactions. DSSN has no trading portfolio. Therefore no results on securities and foreign exchange are being recognised.

Amsterdam, Month, Day, 2003

*Directors*

Gegevens verwijderd door KvK

Th.J.H. Houwink ten Cate

C. Van Herwaarden

H.L.F. de Louw

*Supervisory Board*

Gegevens verwijderd door KvK

C.J.M. Scholtes

I. Sevinga

P. Borst

## **3 Supplementary information**

### **3.1 Auditors' Report**

This report is set out on page 21.

### **3.2 General**

According to article 28 of the company's Articles of Association, the other reserves are at disposal of the Annual General Meeting of Shareholders.

### **3.3 Appropriation of the net result for the year**

It is proposed to appropriate the result for the year 2002 to the general reserves, in line with the profit for the previous years.

### **3.4 Memberships of DSSN**

DSSN is member / admitted institution / account holder with the following entities:

- Euroclear NL
- Euronext/Clearnet SA (General Clearing Member)
- Interpay
- Dutch Central Bank
- Euroclear / CEDEL
- SWIFT
- Dutch Banking Association
- Dutch Securities Institute

To the Supervisory Board and  
Shareholder of Dexia Securities Services N.V.

## AUDITOR'S REPORT

### *Introduction*

We have audited the financial statements of Dexia Securities Services N.V., Amsterdam for the year ended 31 December 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 financial statement presentation. 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, Book 2 of the Netherlands Civil Code.

Amsterdam, 31 March 2003

PricewaterhouseCoopers Accountants N.V.