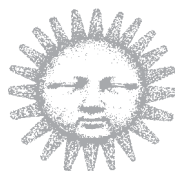




ACTIVITY REPORT 2003



KEMPEN & CO

Merchant Bank



▷ Profile

Kempen & Co is a leading Dutch merchant bank providing various specialised financial services in asset management, corporate finance and securities brokerage. Clients include institutional investors, companies, financial institutions, public and semi-public institutions, foundations and high-net-worth private clients.

Founded in 1903, Kempen & Co has built a reputation for high-quality advice to clients, combined with personal, enduring relationships. In an information-dense environment, Kempen & Co and its staff emphasise selectivity and versatility, focusing services on segments where in-depth research and advice can add real value, for example smaller capitalized and property companies.

Kempen Capital Management (KCM), a fully owned subsidiary of Kempen & Co, provides asset management services. KCM manages portfolios in European equities, bonds and real estate securities for a range of institutional investors, foundations and high-net-worth private clients, through mandates and investment funds, including the well-known 'Orange' funds. KCM's mission is to achieve attractive investment performance by fielding highly specialised asset management teams.

Kempen & Co Corporate Finance focuses on providing advice on mergers and acquisitions as well as capital market transactions. Clients include both listed and non-listed Dutch companies as well as foreign companies who have entered the Dutch market or are planning to do so.

Kempen & Co Securities focuses on securities brokerage, with special emphasis on Dutch stocks and derivatives and European real estate securities, serving professional investors in Europe and the US. Kempen & Co Securities provides clients with high-quality research and order execution.

Clients come first, employees are our assets

Kempen & Co seeks to balance the interests of its key stakeholders: clients, staff, shareholders, business partners, the community and the wider environment it operates in. As a specialised financial services provider - highly dependent on human know-how and interaction - Kempen & Co in essence has a dual mission: serving the interests of its clients and furthering the development of its staff. Kempen & Co puts the client first so as to achieve the proper focus.

▶ Information

Supervisory Board

Dirk Bruneel, *chairman*

Stefaan Decraene

Marc Hoffmann

Wiet Pot

Onno Wentges

Management Board

Evert Greup, *chairman*

Leo Deuzeman

Ieko Sevinga

Kempen & Co NV

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Commercial register Amsterdam no. 34186722

Kempen & Co is a credit institution ('kredietinstelling') within the meaning of the Wet toezicht kredietwezen (Credit Institutions (Supervision) Act 1992), and as such is subject to the supervision of De Nederlandsche Bank NV

Furthermore Kempen & Co is registered as a securities institution ('effecteninstelling') with the Authority Financial Markets.

Kempen & Co is a member of Euronext, and is therefore subject to its regulations.

▶ Contents

Contents

Report of the Management Board	4
Securities	6
Corporate Finance	10
Asset Management	14
Addresses	18

▷ Report of the Management Board

Kempen & Co was re-established under its own name as an operationally independent merchant bank just in time for its centenary celebration in July 2003.

Our independence - present and future

We are independent in operational and business terms, and we provide independent advice to our clients. Our ownership structure does not yet reflect this independence, but we expect that to change in 2004 when Dexia is scheduled to sell all shares in Kempen & Co to the management, the staff and a number of financial investors, each of whom shall own a minority interest, as announced in the press release of 29 April 2004 which is included at page 5 of this report.

Merchant bank

Our service offering is summarised on the first page of this report, in the 'Profile' section. Our business activities in 2003 are detailed on the subsequent pages.

The figures reflecting our activities in 2003 are stated in the section entitled 'Core figures for 2003'. Clearly, our business needs to improve further before we can take pride in our results. However, we are confident that the support of our loyal clients and staff will enable us to make good progress in the coming years.

Amsterdam, May 4, 2004

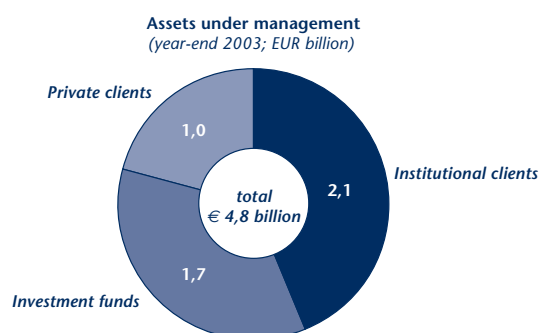
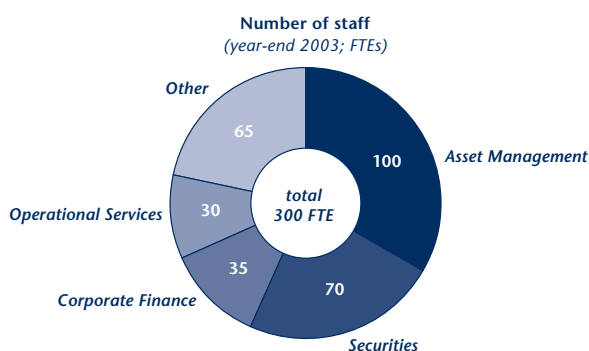
Leo Deuzeman, Evert Greup, Ieko Sevinga

Core figures for 2003

The year 2003 was one of transition. In April, Kempen & Co was split off from Dexia Bank Nederland under an agreement whereby Kempen & Co would run the operations concerned for its own account and risk as of 1 January 2003. Consequently, the result stated is for the calendar year 2003, although it should be noted that the special circumstances of 2003 created a number of extraordinary items (on the income as well as the cost side). The statutory result and the result corrected for the major one-off items are as follows:

	Statutory result	Result excluding exceptional income and expenses
	million €	million €
Total income	74.6	67.1
Total operating expenses	83.9	59.8
Value adjustments to receivables	-3.4	-0.5
Result before tax	-12.7	6.9
Tax	-5.4	0.2
Net result	-7.3	6.7

The balance sheet total for Kempen & Co at the end of 2003 was € 468 million. The capital amounted to € 93 million, comprising equity of € 60 million and a subordinated loan of € 33 million. The so-called BIS ratio - said capital as a share of total risk-weighted assets totalling € 281 million - was 33% at the end of 2003.



Leo Deuzeman



Evert Greup



Ieko Sevinga



PRESS RELEASE

Wiet Pot due to chair the management board

Management of Kempen & Co and financial investors in negotiations with Dexia on possible sale

AMSTERDAM - The management of Kempen & Co, supported by Friesland Bank, HAL Investments and NPM Capital, intends to purchase all shares in Kempen & Co. The staff of Kempen & Co will be given the opportunity to acquire shares in the bank. The transaction is being negotiated with the current shareholder, Dexia Group. Wiet Pot is due to become the chairman of the management board of Kempen & Co.

These changes are subject to regulatory approval and conditional upon the outcomes of a final due diligence investigation, satisfactory legal documentation, internal approvals from the respective parties, and also - as far as the appointment to the management board is concerned - the positive recommendation by the Kempen & Co Works Council.

New shareholder structure Kempen & Co management and staff will acquire a combined total of 35% of the shares. Friesland Bank, HAL Investments and NPM Capital will, in principle, take an interest of 20% each in Kempen & Co. The remaining 5% of the shares will be made available to be placed with others.

Rationale Dexia's decision to sell its entire interest in Kempen & Co follows logically after Kempen & Co was separated from Dexia Bank Nederland last year. Towards the end of 2002, Dexia and the management of Kempen & Co concurred that it was imperative for a niche player like Kempen & Co to be able to position itself as an independent merchant bank. To that end, Kempen & Co has been operating as an independent bank since April 2003.

With this transaction Kempen & Co's independence will be strengthened further by the new shareholder structure, with the management and the staff acquiring a substantial stake in the bank alongside the three financial minority shareholders. This structure will enable Kempen & Co excellently to attract and retain professionals.

Kempen & Co management Wiet Pot will join the Kempen & Co management board as its chairman. Wiet Pot has been a member of the Kempen & Co supervisory board since April 2003. He was with Goldman Sachs from 1986 to 2002, most recently serving as co-COO Equities Division. Until April 30, he is a member of the management board of Hagemeyer. Wiet Pot will be joined in the management board by Leo Deuzeman and Ieko Sevinga, both already serving on the management board of Kempen & Co. Evert Greup, the current management board chairman, will resign as board member while continuing to serve Kempen & Co on a part-time basis.

Amsterdam, 29, April 2004

Management Board Kempen & Co NV



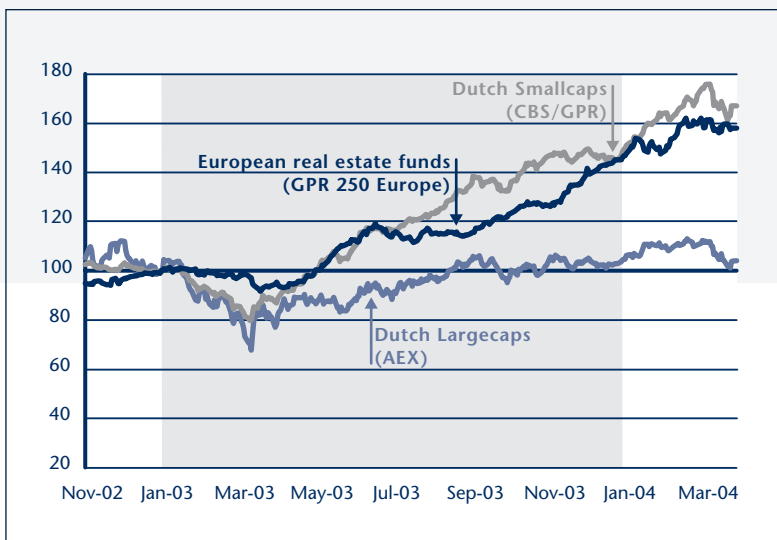
◀ **Securities**

▷ Securities

Kempen & Co Securities focuses on securities brokerage, with special emphasis on Dutch stocks and derivatives and shares in European property companies. Our clients are professional investors in Europe and the United States. Securities offers high-quality research and order execution.

Restructuring & new focus

Early in 2003, stock markets worldwide hit new multiple-year lows, primarily because of market uncertainty preceding the US invasion of Iraq. The Dutch market suffered even more because institutional investors largely turned their backs on Dutch stocks in the wake of several high-profile fiascos (e.g. Ahold).



Securities has worked hard in this depressed climate to maintain existing relationships, build new ones and improve products so as to have a solid basis for growth capable of profiting immediately from any turn in market sentiment.

In view of the decline in revenues, a decision was taken in the first half of 2003 further to streamline a number of operating processes and make additional cost savings. This effort involved the implementation of a fully automated order transaction processing system ('Straight Through Processing') and also included major savings on financial information services from external providers.

In addition to these operational initiatives, a strategic reorientation was carried out. This revealed that Kempen & Co should focus on its traditional core strengths: we are now emphasizing, once more, our position as a 'Dutch Specialist' in shares in small and medium-size listed companies. We also decided further to expand our niche in pan-European property stocks.

Broadening know-how

The bank's refocusing effort clearly has been successful, given the increase witnessed in the number of active clients; hedge funds, buy-out funds and high-net-worth individuals that have become important trading partners. In order to provide the best possible service to them, staff members serving clients with similar characteristics are now working more closely together. Also, staff members have enhanced their knowledge of a wide range of subjects: hedge fund strategies, regulation concerning public offers, corporate governance, and financing tools such as convertibles and preference shares.

Expertise was also strengthened in respect of Asset Liability Management, Asset Allocation, Benchmarking and Performance measurement. To continue to meet the ever stricter regulatory and supervision demands, a number of workshops were held in 2003 on topics including integrity, regulation and compliance. These workshops drew on internal and external sources of expertise and advice, including renowned investors and lawyers.

Service-level enhancement

Kempen & Co has, by now, established a leading position in pan-European listed property companies. Non-Dutch property funds now account for more than half of all our transactions in this segment and this clearly illustrates the success of our pan-European approach in this segment. A notable example is the secondary-market sale of shares in Gecina, a portfolio of office and residential property in France valued at € 100 million. AXA, a major French institutional investor, wanted to sell its 7% stake in Gecina. We were selected for this secondary offering, along with a French specialist, owing to our strong relationship with the management of Gecina and our excellent research on property companies in Europe. Our clients showed strong interest in the offering after having met the management of Gecina at our European property seminar in May 2003. In the end, Securities sold approximately 70% of the shares on offer in head-on competition with a French specialist. AXA expressed its satisfaction with this achievement by referring explicitly to Kempen & Co in its press release on the transaction.

Our services include road shows for listed companies. These road shows, highly valued by our clients, create opportunities for listed companies and institutional investors to meet each other, thus allowing investors to test their opinions about specific companies. In 2003, Securities staged about 100 road shows, most of them outside the Netherlands. Our services and the quality of our advice generate orders from investors, which we take to our international clientele or the stock market.

Timing is becoming increasingly important in the investment process. Technical analysis (based on share price fluctuation charts rather than analyses of corporate accounts and balance sheets) is a valuable tool in this regard. This market niche is currently experiencing strong growth. Professional investors often lack the necessary in-house expertise that thorough technical analysis requires. They turn to Kempen & Co for research tailored to their specific needs. Other specific examples of research which is in great demand among our clients as well as government institutions and politicians are our reports on special topics such as the future of the pensions system and the funding of housing associations.

Kempen & Co has also acted as a Liquidity Provider for about forty small listed companies, maintaining a market in these stocks by continuously providing bid and offer rates, thus making sure investors will continue to trade in small cap shares. Initially, this was a loss-making business due to strong competition. However, results improved markedly during the year, partly because several competitors exited this line of business and also because markets have recovered.

Outlook

Institutional investors are increasingly returning to 'local brokers' such as Kempen & Co, as we are seen to be providing regional expertise that 'global brokers' cannot provide, at least not to the required degree. Kempen & Co has a strong reputation in the Netherlands and elsewhere, as a specialist in Dutch stocks and pan-European property companies. Although we continue to face relentless competition, our market position is strong and defensible. We look to the future with confidence. Our organisational initiatives, broadening of the client portfolio and expansion of the product portfolio will allow us to benefit fully when markets recover further.



Juus de Kempenaer | Technical Analysis

"Whereas fundamental analysis focuses on the companies, their strategies and sales and profit trends, technical analysis concentrates exclusively on share price fluctuations of com-

panies and of the sectors in which they operate. That is not to say I'm studying charts all day. I keep a close track on what's happening and I regularly visit clients.

I'm pleased to note that general interest in technical analysis is growing steadily. Investors increasingly base their investment decisions on technical as well fundamental considerations.

We've explicitly opted for an institutional approach. Most institutional investors need to beat a particular benchmark, and we're trying to help them do just that. That's why

personal contact also matters in respect of technical analysis. This year, we've launched tailor-made products for the first time, and with success! Drawing on the information that the client provides (about its universe and benchmark) we produce monthly reports tailored specifically to his needs. Our technical analysis products have also earned us a spot on the brokerage lists of several high-profile foreign institutions. That's the best reward a broker can get!"



Vincent Willink | Property funds

"We've again managed to strengthen our position in European property funds in the past year, thanks in part to our first-ever European Property Seminar. We invited

25 European property companies and a large number of international institutional investors to this Seminar. Clients really appreciated being given this opportunity to meet representatives of the smaller funds as well. The larger companies, like Unibail or British Land, are well known because they actively approach investors and are invited for many roadshows. Smaller companies such as Immofinanz (Austria) or Deutsche Euroshop (Germany) don't have that kind of exposure. We're providing value to our clients pre-

cisely by bringing them into contact with these latter companies. A seminar such as this provides investors with the opportunity to learn a great deal about many companies very quickly. This past year we've been particularly successful in French property funds. France has introduced a new tax regime for property companies, the so-called "SIIIC", which clearly has benefited the sector's valuation. Our analysts' reports on this topic have been very well received. Another innovation has been our "morning mail", a daily summary sent out before the bourse opening to our active clients, summarising the most important latest news and providing an overview of notable volume and/or price changes among European funds. It's quite a simple thing to do, but many of our clients are very pleased with it. And that's what counts!"



◀ **Corporate Finance**

Corporate Finance

Kempen & Co Corporate Finance (CF) advises clients on mergers and acquisitions as well as capital market transactions. Our clients are listed and non-listed Dutch companies and companies based outside the Netherlands either possessing interests in the Dutch market or planning to acquire such interests.

In 2003, we have been involved in many high-profile transactions, a clear sign that our clients appreciate our approach. CF has an excellent understanding of Dutch market conditions and relationships and offers a high-quality, personal service which might be summarised as "Anglo-Saxon quality with a Dutch touch".

Sector specialisation is one of our hallmarks. Each team tracks the market conditions in the industry it focuses on, translating trends into strategic priorities for the important players in the market. Our specific expertise makes us the preferred partners for corporate executives. In our discussions with them, we build the trust that allows us to act as an adviser on transactions. CF specialises in property, construction, energy, business services and listed smallcaps and midcaps.

One-way traffic in the capital markets

For the primary market, 2003 has been a lacklustre year. General economic conditions were poor and the results and financial positions of several listed companies came under pressure. Consequently, many companies focused on cost cutting and 'corporate restructuring'. The public capital market was tapped primarily for financial rescue operations - notably rights issues (Ahold, Corus) and debt-for-equity conversions (Getronics, Hagemeyer).

The recovery since June 2003 notwithstanding, the market again lost a number of smallcap and midcap companies that decided a listing had insufficient added value for them, given the poor share price trend of recent years, the ever more stringent corporate governance requirements, and the market's limited liquidity. While unfavourable in the long run, this development did provide concrete opportunities in 2003: CF was involved as an adviser in nearly all the delistings that have occurred. The most important transactions are listed in the 'tombstones' overview.

As there were no high-profile IPO's in 2003, the steady decline in the number of companies listed on Euronext Amsterdam continued in the year under review.

In the private market, CF has maintained its leading position in the structuring of property funds. We advised AEDES, a branch organisation for housing associations, on the "Landelijke Verkoop Toegelaten Instelling" (LVTI) initiative aimed at establishing a new housing fund. This new fund should enable housing associations to restructure their finances and launch new building projects from 2004 onward.

Reduced M&A activity

The market for mergers and acquisitions slowed in 2003, particularly at the higher end of the segment that CF focuses on (transaction values from approximately € 50 million). But while many companies were not involved in mergers or acquisitions in 2003, CF still conducted most of its business in M&A. We strengthened our position in our core segment of listed smallcaps and

midcaps - examples being the take-overs and delistings of VolkerWessels, Vredestein and Geveke. In addition, CF acted as an adviser in respect of several other high-profile transactions, including Eneco's acquisition of REMU and the merger in the dredging market of Van Oord and Ballast Ham Dredging (BHD).

 Merger with Ballast HAM Dredging Adviser 	 Delisting of VolkerWessels € 724.000.000 Adviser 	 Sale to CRH Adviser 	 Offering of Guaranteed Notes € 500.000.000 Co-lead manager 	 Secondary offering of Gecina shares for Axa € 100.000.000 Lead manager 
 Public offer by Ineos for EVC Adviser 	 Public offer by Welch Allyn for Cardio Control € 18.000.000 Adviser 	 Public offer by Pon Holdings € 136.000.000 Adviser 	 Public offer by Vico € 64.000.000 Adviser 	 Public offer by Grupo Hesperia for NH Hoteles Adviser 
 Secondary offering of 27% of the issued share capital Lead manager 	 Sale of Alex and VEB Bottom-line to Rabobank Adviser 	 Acquisition of Tunturi Adviser 	 Sale of Stork Kwant to management Adviser 	 Acquisition of REMU Adviser 

Overview of transactions in 2003

In the coming years, marked growth is expected in the delivery of services to Public Private Partnerships ('PPP') for public works projects and their funding (construction, infrastructure, water and energy sectors). Politicians are becoming increasingly interested in exploring the opportunities provided by the PPP-model because central and local governments are facing budget constraints. Kempfen & Co assists clients in project tenders structured along PPP-lines. We also support parties, organised in consortia or otherwise, participating in tenders. As an adviser, CF benefits from its excellent relations with the Dutch State, municipalities and other lower-tier public authorities.

Finally, we are seeing a continued recovery in the market for Management Buy-outs and Buy-ins, which is caused by the low valuation levels of both listed and unlisted companies as well as the tendency among larger companies to concentrate more on their core business. CF is very active in this segment and will continue to serve it actively in the coming year.

Outlook

In 2004, CF will continue to expand its services. Given the increased demand for independent financial restructuring advice, CF will focus more on advising companies on debt funding and helping them meet their non-equity funding needs. CF has all the necessary competencies and skills required for providing such services. One example of this type of transactions is the aforementioned merger of the Van Oord and BHD dredging companies. In this merger, CF also advised on a € 375 million debt-financing package provided by a banking consortium.



John Hak | VolkerWessels

"In the past year, we've been involved in no less than six of the nine public bids which were launched in the Netherlands. The offer for VolkerWessels, which we were involved in as

advisors to the company, has been one of the more notable transactions. The offer for the company represented a value of about 700 million euros. The bidder was a VolkerWessels board member, which made this deal extra special because all those involved had to take the utmost care. Both the managers involved and the advisors made sure they did, even though the time pressure was considerable, as usual. For all those reasons, we look back on this particular transaction with great satisfaction. It has been a great pleasure to be part of it.

Our involvement in the VolkerWessels deal has contributed significantly to the leading position we're occupying as an advisor in respect of such transactions. We're also hoping to play a prominent role in the public offers that the market may see in the coming year. We would also relish to take a company to the stock exchange once more. Whether that's on the cards as early as 2004 is hard to say, but we're convinced there will be flotations on the stock market again at some point."



Laurens van Asselt | Van Oord ACZ

"Corporate Finance operates in specialised teams focused on specific market sectors, one of them being building and property companies. In the context of this particular specialisation,

we've invested considerable time and effort in recent years to build expertise on the dredging market.

In 2003, it became apparent that BAM Groep had to strengthen its financial position after acquiring the HBG construction company. In order to do that, it would have to sell all or part of its Ballast Nedam Dredging subsidiary, which by now also included the Ballast Nedam dredging business acquired as part of the takeover of HBG. In this transaction, we acted as advisors to Van Oord ACZ. Van Oord are "civil engineers in heart and soul", a family-owned company which

is Dutch through and through, and which has been active in civil engineering work abroad for well over half a century. At first, Van Oord seemed to stand little chance of acquiring HBG, a company twice its size. Together with the management board of Van Oord and its major shareholders, Merwoord and NPM, Kempen & Co designed a transaction structure which met all the needs and conditions of all parties concerned, and which involving various tailored financing instruments. Based on this structure, BAM ultimately decided to sell its dredging business to Van Oord. The transaction was closed successfully in December 2003. As Corporate Finance specialists, we've really had the opportunity to demonstrate our creativity and perseverance in this deal, which is very gratifying. Apart from that, we've had a most pleasant and very open working relationship with the people at Van Oord and NPM during all those months of intensive collaboration. Looking back, I'd say this transaction definitely stands out as one of the most memorable of recent years."



◀ **Asset Management**

▷ Asset Management

Kempen Capital Management (KCM), a fully owned subsidiary of Kempen & Co, provides asset management services. KCM manages portfolios in European stocks, bonds and property for institutional investors, foundations and high-net-worth private clients, either through mandates or through investment funds, the latter including the well-known "Orange" funds. KCM's mission is to achieve attractive returns on investment by fielding highly specialised asset management teams.

Above-average performance

Specialised asset managers obviously need to achieve attractive returns on the portfolios entrusted to them. For KCM, 2003 has been a satisfactory year - in both absolute and relative terms.

Investment results for 2003 and relative ranking vis-à-vis the competition over a number of years

	Result 2003	Funds' stars ¹	
		S&P	Morningstar
<i>European stocks (largecaps)</i>			
Orange European Largecap Fund	10.7%	***	****
Levob Europees Aandelen Fonds ²	12.9%	****	n/a
<i>European stocks (midcaps)</i>			
Orange European Midcap Fund	29.5%	****	****
<i>European stocks (smallcaps)</i>			
Orange European Smallcap Fund	27.7%	***	****
<i>European property funds</i>			
Orange European Property Fund	24.0%	****	****
SNS Euro Vastgoedfonds ²	23.2%	****	****
<i>European bonds</i>			
Friesland Bank EuroRente Fonds ²	5.1%	****	****
Levob Euro Obligatie Fonds ²	4.1%	***	n/a
<i>Dutch stocks (largecaps)</i>			
Orange Largecap Fund	5.7%	***	**

¹ Standard & Poors and Morningstar each have their 'own' way of classifying investment funds within the respective investment categories, based on multi-year performance and risk comparisons. Three stars are awarded for return/risk ratios around a category's average. Four or five stars are awarded for above-average and outstanding performances, respectively. A score of two stars or one star denotes a below-average or very poor return/risk ratio, respectively, compared with the other funds in the category concerned.

² These funds are also managed by KCM.

The table provides an overview of our investment results. This overview is based on those public investment funds managed by KCM for which at least five comparable competitive investment funds are available to the public. Although performance inevitably varies from year to year, KCM's relative performance position is strong when viewed over longer periods. Small and midcap stocks clearly fared much better than largecaps in 2003, and this has benefited the portfolios of many of our clients.

The *Orange Market Neutral Fund* launched towards the end of 2001 has proven to be a stable component in our clients' portfolios and was barely affected by the turbulence witnessed in the stock markets during the past year. The fund made a return of 7.2% with a negative return of only 0.15% in its worst month, thus producing an attractive and stable return on investment.

Towards a more effective and efficient organisation

A strong service record requires more than a readily measurable performance. In 2003, continued efforts to strengthen the organisation notably involved the implementation of cutting-edge (software) systems. Allowing 'real time' analyses of risks and returns, these systems have become an integral part of the investment process. Organisational efficiency and effectiveness have been bolstered by the introduction of 'straight through processing', thus strengthening the confidence among our clients that they are not exposed to unexpected risks, that reports will be submitted on time, and that no disproportionate costs have to be charged.

Personal contact through 'Client Care'

While typically associated with private asset management, a personal service involving the close involvement of our portfolio

managers is also important for retaining and building institutional client relationships. That is why we seek to provide an excellent personal service at all times. Informal meetings complement the formal side of our client relationships. Clients highly appreciate having the opportunity to meet each other in larger or smaller settings, facilitated by our bank. This is one of the reasons behind the tremendous success of both the Kempen & Co centenary celebration in the summer and our lead sponsorship of the prestigious "pAn Amsterdam" 2003 art and antiques fair.

Successful distribution in 2003

The three above factors - Performance, Organisation and Client Care - primarily concern existing clients and services. Our organisation's success, however, is also based on a careful integration of new clients and products, a process often referred to as 'distribution'. In our two core specialisations in particular, smallcap and property stocks, we have managed to make solid headway in this respect in 2003.

One example is the decision by the Swedish AP-3 national pension fund to select KCM UK as an asset manager. We had been selected before to manage European smallcap and midcap portfolios for foreign institutional investors. This particular award, however, is a special tribute to our quality in this field, given the demanding nature of both the selection process and the competition - in terms of scope (international dimension) and requirements (European tender regulation applying).

October 2003 saw the launch of the *Kempen/SNS Smaller Europe SRI Index* (Socially Responsible Investments), which we developed in collaboration with SNS Asset Management. This is the first index which tracks the performance of smaller European companies observing sustainability criteria. Together with SNS, we are now the sole player in the world capable of offering clients a portfolio of European smallcap and midcap stocks based on a selection which takes into account SRI criteria. The *Orange SeNSe Fund* is one of our examples of this type of portfolio. We expect this unique product to grow strongly in 2004.

In the field of listed property companies, we launched the *Kempen Real Estate Securities Index Sampling Fund* for institutional investors in June 2003. Three institutional investors have now joined 'founding father' Blue Sky Group (the pension funds of KLM Royal Dutch Airlines), and we are confident that more investors will follow in 2004. The product offers institutional investors a broad and diversified portfolio of European property companies which closely follows the benchmark in a cost-efficient manner. In the private market, a 'multi manager' approach is gaining ground. KCM started assessing third-party investment funds and investment products in 1999, and since 2000 it has been managing portfolios which consist exclusively of third-party investment funds. This type of service was expanded in 2003 by a special selection aimed at clients demanding a portfolio composed entirely of investment funds observing sustainability criteria.

Finally, 2003 saw the introduction of *VIPinvest*, an on-line service which allows clients to specify their investment profile via the Internet and have their assets managed through a multi-manager approach. *VIPinvest* also has been designed and developed to make it a very suitable platform for companies that, partly for reasons of compliance, wish to see their executives and staff invest in a 'controlled' environment, in funds offered by a wide range of providers. The *VIPinvest* structure is also well suited for pension funds seeking to implement a modern defined-contribution concept.

Outlook

The above-average performance, effective systems, personal relationships with clients, and promising new products all add up to a strong basis for success in 2004.



Marc Bakker | Client Care

"Client events are an important part of our relationship management. This year, we've tended to stage small-scale events which allowed us to focus even more on the quality

and content of the meetings. Our unique Orange Wine fund clearly is the ultimate 'event-driven' fund. We're staging special food-and-drink-related events for shareholders with a minimum of 500 shares in the fund. The wine trip to Bordeaux was the highlight of 2003, as it has been before. The chateaux in our portfolio are also featured prominently in in-house receptions staged by our relations.

Our client events are fairly indicative of client care overall at Kempen Capital Management. It's not just a matter of us

meeting our clients - we're also providing a venue for our clients to meet each other!

Our clients seek to maintain relationships for the long term, and they attach great importance to personal contact. Mutual trust and understanding don't come automatically, you have to invest to build that.

But of course it's not all about maintaining relationships. Our asset management expertise remains central in our communication. Meetings for investors in the various specialised asset management products of Kempen focus on the investment content, while also providing an opportunity for participants to mix socially.

I'm convinced that the organisation and character of our events strongly affect our clients' overall opinion of us."



Peter Hans Budde | AP-3 Funds

"One of the most pleasant moments of 2003 was that Monday morning, 8 September, when we received the press release announcing we had been selected as a

manager for European smallcaps by AP-3, the third-largest Swedish pension fund. We're now one of the four asset managers that, together, manage 291 million euros worth of investments in European small- and midcap shares for Ap-3. We first made contact with AP-3 in 2001, and our relationship intensified in 2002 when it transpired that they were going to select a firm to manage investments in European small-cap shares. In the autumn of that year, we participated in the public tender issued for this mandate - in head-to-

head competition with big names like Morgan Stanley, Merrill Lynch and Goldman Sachs. As a bidder, we were turned inside out and evaluated on all sorts of criteria. The shoe's got to fit, so to speak: in terms of the area-specific expertise and the technical investment know-how, but also in terms of managerial and relationship capabilities. In December 2002, we learned that we'd passed the first round, and in May that we'd made it to the shortlist, along with six other parties. Then, in August, the word came that a contract would be signed with all seven shortlisted parties: Axa Rosenberg, BNP Parisbas, JP Morgan Fleming, Morgan Stanley, Pictet, Scottish Widows and ... Kempen & Co! However, only four of these would actually be managing investments. And indeed, we are among those four!"

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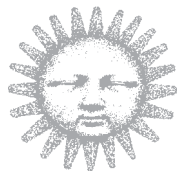
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