FMO

Finance for Development

Final Version*

*Please note that our attention has been drawn to certain minor typographical and translation errors in the earlier English version of our annual report, as also made available on this website. Appropriate editorial modifications have been made; financial results remain wholly unchanged.

Annual Report 2003

Finance for Development

FMO in brief

The Netherlands Development Finance Company (FMO)

Mission

The Netherlands Development Finance Company (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., FMO) supports businesses and financial institutions in developing countries and emerging markets by providing capital and know-how. It does so by arranging loans, mezzanine financing, equity investments, guarantees, syndicated loans and other investment promotion activities. Since it was founded in 1970, FMO's basic principle has been that economic growth is the necessary precondition for sustainable development and effective poverty reduction. A strong private sector is essential if these goals are to be achieved.

Portfolio

With an investment portfolio of EUR 1.9 billion and a staff of more than 200, FMO is one of the Europe's largest bilateral, private-sector-oriented development banks. FMO is a sound financial institution with a "Triple A" rating from Standard & Poor's.

Activities

FMO's has two business units, FMO Finance and FMO Investment Promotion. FMO Finance extends financing, at its own expense and risk, to enterprises and financial institutions in Africa, Asia, Europe and Latin America. It also manages special funds focusing on the local small and medium-sized enterprises (SME) and pioneering investments in more high-risk countries and sectors. FMO Investment Promotion also manages programs on behalf of the Dutch government supporting various forms of investments

FMO Annual Report 2003

Content

Supervisory Board
From left to right:
Sjef van Dooremalen
Doekle Terpstra
Cees Maas
Piet Bukman
Lodewijk de Waal
Rens de Leur
Joop Hoekman
Wim Meijer
Willy Angenent

Absent:
Dolf Collee

Report to shareholders

We are pleased to submit the Netherlands Development Finance Company's (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., FMO) 2003 annual report, comprising the management report and annual accounts. The 2003 annual accounts were audited by KPMG Accountants N.V. and endorsed by the Supervisory Board.

Dividend proposal

In 2003, FMO achieved a net profit of EUR 20.6 million. In accordance with Article 6(2) of the Agreement concluded with the Dutch State on November 16, 1998, EUR 19.2 million has been added to the contractually agreed reserve.
Non-retained profit amounts to EUR 1.4 million. The Supervisory Board endorses Management's proposal to distribute a cash dividend of EUR 0.57, or 2.5%, per share with EUR 22.7 nominal value. The remaining EUR 1.2 million will be added to other reserves.

Supervision

The Supervisory Board met four times in the course of 2003 and the Audit Committee met three times. At these meetings, issues under discussion included FMO's strategy and its prospects in the medium term. A member of the Supervisory Board attended a meeting between the Management Team and the Works Council.
The Projects Committee, which in 2003 consisted of six members of the Supervisory Board, met 13 times to advise on financing proposals and on a number of policy issues directly or indirectly related to projects.
The Selection, Appointment and Remuneration Committee, consisting of five members of the Supervisory Board, met during the year to advise the Board on related matters.
The Supervisory Board is pleased to inform shareholders that in 2003, Standard & Poor's upheld its 'Triple A' rating for FMO's long-term financing operations.

Corporate Governance

The Corporate Governance Code for Dutch listed companies, often known as the 'Tabaksblat Code' was published in December 2003. A Board-level committee was set up in the reporting year to explore which of the Tabaksblat provisions could further improve corporate governance within FMO. This committee will finalize its recommendations in 2004. Although the Corporate Governance Code applies mainly to listed companies, it further provides a general framework for 'best practices' in corporate governance. For this reason, FMO, which strives at all times for good governance in its financing projects and other activities, has decided to adopt all of the Committee's principles, unless the Company's specific situation constitutes sound reasons for deviation. In such cases, FMO will justify deviation in detail in its discussions with the relevant authorities, fully in line with the spirit of the Code. A motion to amend the Company's Articles of Association according to the Code's principles and best practices will be placed on the agenda for the General Meeting of Shareholders to be held in May 2005. One principle requires the inclusion of a separate section on Corporate Governance in the annual report. This will occur in the next reporting year.

Changes in Supervisory Board membership

At the annual General Meeting of Shareholders on May 13, 2003, Doekle Terpstra stepped down according to the schedule of resignations. In accordance with the covenant agreed on May 14, 2002, and in consultation with the Supervisory Board, the Netherlands Federation of Trade Unions (FNV) and the Netherlands Federation of Christian Trade Unions (CNV) concurred with the proposal to reappoint Mr. Terpstra as a member of the Supervisory Board on May 13, 2003. The General Meeting of Shareholders did not avail itself of its right to recommend a different candidate nor did it object to the proposal, and Mr. Terpstra was consequently reappointed to the Supervisory Board.

Management and the Supervisory Board carried out their intention of adjusting FMO's existing management structure. A Board of Management was created. This change is in line with FMO's current phase of development, its size and professionalism, and is based on principles of sound corporate governance. At its meeting on May 13, 2003, the Supervisory Board therefore appointed Nanno Kleiterp as FMO's second 'statutory' director. The General Meeting of Shareholders was informed of this appointment. The appointment and re-appointment mentioned above became effective per the General Meeting of Shareholders on May 13, 2003.

The Supervisory Board would like to thank FMO's Management and staff for the dedication and skill with which they carried out their activities in 2003, sometimes under difficult circumstances in the Company's area of operations.

The Supervisory Board endorses the Management report and the other information required by law. We recommend that the General Meeting of Shareholders adopt the annual accounts for 2003 and discharge the Board from liability for its management and the Supervisory Board from liability for its supervision for the year 2003.

The Hague, March 18, 2004

Willy Angenent
Chairman of the Supervisory Board

Amounts in EUR millions 5

FMO key figures - five years

	1999	2000	2001	2002*	2003
Balance sheet					
Net loans portfolio					
corrected for exchange rate effect	971	982	962	904	1.001
Exchange rate effect on net loans portfolio	-1	9	19	-75	-153
Loans portfolio, net	970	991	981	829	848
Shareholders' equity	546	592	633	675	733
Debt securities and debentures/notes	541	714	777	648	914
Total assets	1,272	1,402	1,528	1,458	1,748
Committed portfolio, FMO's account/risk**	1,613	1,789	1,921	1,744	1,677
Committed portfolio of funds managed by FMO**	93	105	143	160	201
Profit and loss account					
Income					
Interest income	103	117	119	106	102
Interest expenses	-36	-40	-42	-30	-26
Interest	67	77	77	76	76
Income on equity investments	8	6	2	3	7
Services and other income	6	9	13	16	22
Total income	81	92	92	95	105
Expenses					
Operating expenses	17	21	25	31	33
Value adjustments					
• to loans	27	34	62	27	20
• to equity investments	10	-2	20	8	3
• general value adjustment	16	14	-13	19	19
Total expenses	70	67	94	85	75
Operating result before taxation	11	25	-2	9	29
Net profit	7	17	4	5	21
Ratios at end of year					
Capital Base/Total assets	42.9	42.2	41.4	46.3	41.9
Return on capital					
• Operating result before taxation	2.0	4.3	-0.3	1.4	4.0
• Net profit	1.2	2.8	0.7	0.7	2.8
Net profit/Total assets	0.5	1.2	0.3	0.3	1.2
Income/Operating expenses	4.7	4.4	3.6	3.1	3.2
Value adjustments loans/Total loans	9.7	11.7	16.0	17.0	13.4
Value adjustments equity investments/Total equity investments	32.6	27.3	37.8	42.2	38.2
Average number of employees	118	142	164	192	196

** Adjusted for comparison purposes*

*** See appendix*

Management and organization

As at december 31, 2003

Supervisory Board

Willy Angenent (1-2-3) (1940)
(resigning 2006) Chairman
Former Chairman of Board of Directors Laurus N.V.

Joop Hoekman (1-3) (1931)
(resigning 2006) Vice-Chairman
Former Director-General International Cooperation, Ministry of Foreign Affairs

Piet Bukman (1934)
(resigning 2006)
Former Minister of Agriculture, Nature Management and Fisheries

Dolf Collee (3) (1952)
(resigning 2004)
Member of Management Board ABN AMRO Bank N.V.

Sjef van Dooremalen (1-2) (1944)
(resigning 2005)
CEO IHC Caland N.V.

Rens de Leur (1-2-3) (1939)
(resigning 2005) Former Director for Export Credit Insurance and Investment Guarantees, Ministry of Finance

Cees Maas (2) (1947)
(resigning 2005) Member of Management Board ING Groep N.V.

Wim Meijer (1) (1939)
(resigning 2006) Former Chairman of Management Board Rabobank Netherlands

Doekle Terpstra (1956)
(resigning 2007) Chairman of Netherlands Federation of Christian Trade Unions (CNV)

Lodewijk de Waal (1-3) (1950)
(resigning 2004) Chairman of Netherlands Federation of Trade Unions (FNV)

(1) member of the Projects Committee
(2) member of the Audit Committee
(3) member of the Selection, Appointment and Remuneration Committee

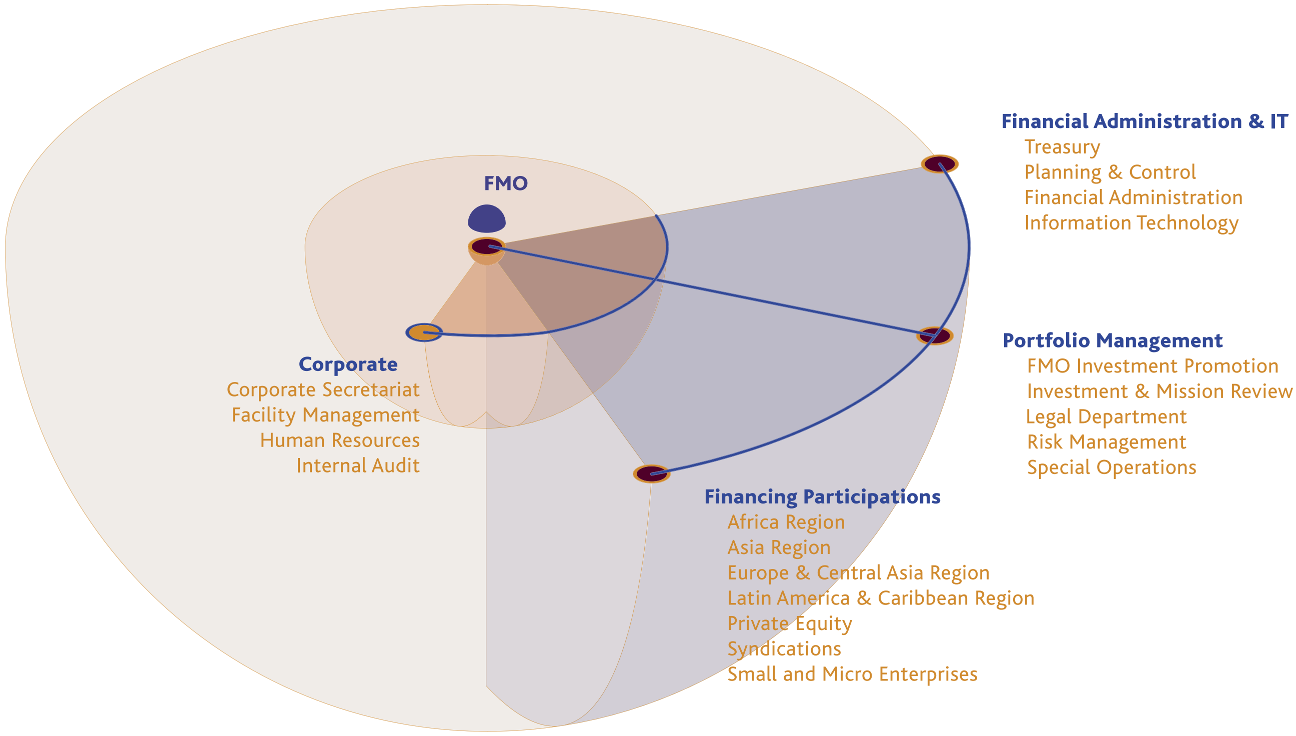
Management Board

Michael Barth (1949)
*Chief Executive Officer**
Nanno Kleiterp (1953)
*Chief Operations Officer**
Wiegert Mulder (1964)
Chief Financial Officer
Nico Pijl (1951)
Chief Portfolio Officer
Jan-Thijs Both (1961)
Human Resources Manager

Managers

Corporate

Martin de Jong (1947)
Policy Advisor
Eric Kahle (1962)
Facility Management
Ben de Koning (1964)
Internal Audit
Boudewijn Rietveldt (1944)
Corporate Secretary



Financing & Participations

Klaas Bleeker (1945)
Syndications
Janos Bonta (1950)
Latin America & Caribbean Region
Emile Groot (1950)
Small & Micro Enterprises
George Meltzer (1954)
Europe & Central Asia Region
Brigit van de Reyt (1968)
Private Equity
Wim Wienk (1953)
Asia Region
Joost Zuidberg (1964)
Africa Region

Financial Administration & IT

Richard Drexhage (1945)
Treasury
Frank de Graaf (1955)
IT Management
Johan van Olffen (1975)
Finance & Control
Peter Reijgers (1961)
IT Projects

Portfolio Management

Huub Cornelissen (1956)
Investment & Mission Review
Frank Gosselink (1964)
Risk Management
Rik Harmsen (1961)
Legal Department
Joan Melis (1963)
Special Operations
Jaap Wientjes (1956)
Investment Promotion

Works Council

Yvonne Kurstjens-Bol (1968)
Chair
Martijn de Groot (1969)
Secretary
Rodolphe van den Berg (1947)
Gerrit-Jan Brunink (1965)
Steven Duyverman (1963)
Michèle Klaassen (1970)
Lidwien Schils (1965)

** Statutory Directors*

Management report

Introduction

Despite the continuing challenges in its areas of operations, FMO achieved a clear improvement in its 2003 results. The Company benefited positively from the emerging economic recovery and, from the strategic reorientation initiated some years ago.

1 Least Developed Countries Infrastructure Fund
2 Emerging Markets Investment Facility
3 Netherlands Investment Matching Fund
4 Fund focusing on micro, small, and medium-sized enterprises
5 Seed Capital Fund, focusing on financial institutions
6 Investment Fund focusing on the Balkan countries
7 Development-Related Export Transactions
8 Investment Promotion & Technical Assistance
9 Technical Assistance Emerging Markets

Management Board
From left to right:
Nico Pijl
Nanno Kleiterp
Michael Barth
Wiegert Mulder

After a period of deep recession, the world economy is recovering slowly. Although global economic activity continued to decline in 2002, signs of cautious recovery emerged in the reporting year. This shift is reflected in the growth of private capital flows to developing countries, following some years of considerable declines. Private capital flows to developing countries rose from USD 124.2 billion in 2002 to USD 187.5 billion in 2003*, an upward trend, which is expected to continue in 2004.
The growth in foreign flows to Africa, Eastern Europe, and Latin America was still modest. However, it almost doubled in Asia. Investors are still very selective and their risk tolerance is low.

This positive trend aside, the fundamental gap between North and South remains unacceptably large. Its reduction continues to be one of the most important moral, political, and economic challenges for the coming decades. Recent years have seen a large number of studies on the various elements of development issues and on the equally numerous initiatives required to reduce this gap. Whatever the point of departure, the fact remains that economic growth is essential to tackling the development challenge effectively. Without a dynamic private sector, that growth, and the ensuing sustainable reduction in poverty, is impossible. Often, it is the environment in the countries themselves, which impede the development of a dynamic private sector.

At the same time, there are significant opportunities for improvement. This is clear from Doing Business in 2004, a recent study by the World Bank on the commercial and business environment in developing countries. Compared to developed countries, in many developing countries, it takes an inordinate amount of time and money to set up a new business, collect debts, or declare a company bankrupt. In such circumstances, where risks are high and private investors are extremely cautious, a development bank like FMO can play an essential, catalytic role.

The enormous potential for improving the private sector's contribution to the development process was also discussed at length in the recent pioneering report by the United Nations Development Program (UNDP), Unleashing Entrepreneurship: Making Business Work for the Poor. FMO is honored to have been able to make a substantial contribution to that report.

FMO in 2003

In 2003, FMO clearly began to reap the benefits of the organizational and operational improvements fully implemented by the Company over the past few years. The past year saw a record number in new commitments. This included both traditional and more complex, structured capital market transactions. The quality of the Company's portfolio has improved significantly, reducing the need for provisions. Thanks to a reduction in

FMO Finance

Financing FMO's own account/risk:
loans,
mezzanine financing,
risk capital

Funds

- LDC Fund [1]
- IFOM [2]
- NIMF [3]
- Small-scale Enterprise Fund [4]
- Seed Capital Fund [5]
- Balkan Fund [6]

FMO Investment Promotion

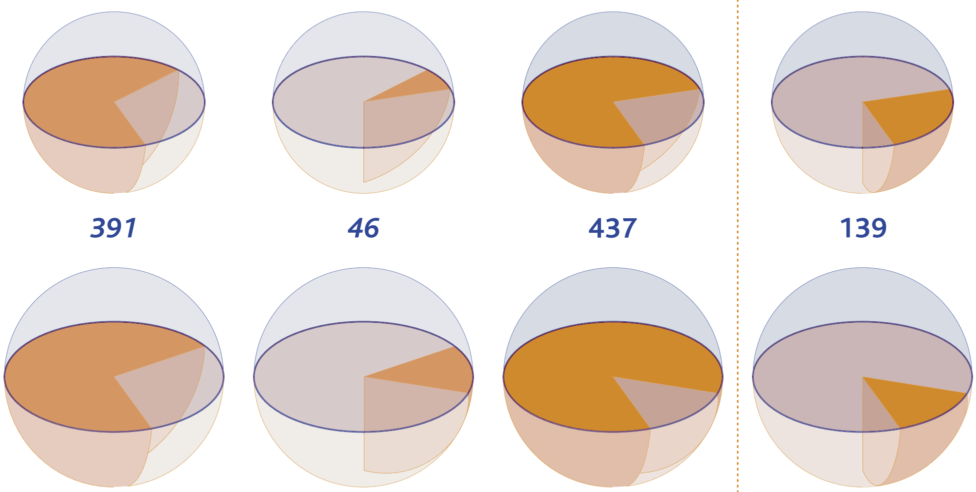
Programs

- ORET [7]
- IPTA [8]
- TAEM [9]

FMO has a wide range of products and programs. Acquired by FMO in 2000, the Netherlands Investment Bank for Developing Countries (NIO) administers a number of special bilateral development aid programs – including Development-Related Export Transactions (ORET) – on behalf of the Dutch government. The following table lists the activities of FMO Finance and its associated funds and of FMO Investment Promotion and its associated programs

* *Institute of International Finance*

Commitments FMO Finance and FMO Investment Promotion
(amounts in EUR millions)



	FMO Finance			FMO Investment Promotion	Total
	Own risk	*Funds*	Total FMO Finance	Government programs	
2002	*391*	*46*	437	139	576
2003	*458*	*92*	550	94	644

total expenses and an increase in income, FMO's financial result improved significantly, generating net profits of EUR 20.6 million in the reporting year (2002: EUR 5 million).

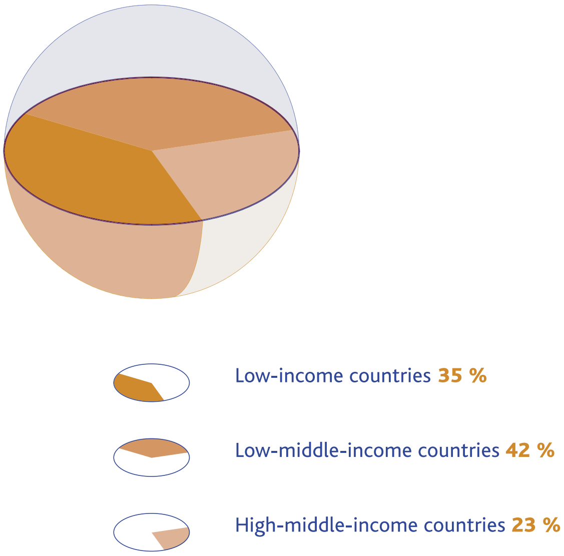
In 2003, FMO Finance again financed a substantial number of enterprises – both large and small – in the various regions where it is active. There was a record number (96) of direct finance operations and many thousands of indirect fundings through financial institutions supported by FMO, and through 'special programs'. These include a number of trade finance projects in countries facing long-term economic crisis, such as Argentina. In 2003, FMO also succeeded in further expanding its activities and enhancing its role in the financial sector. That sector, often referred to as the 'brain' of development, is essential for effectively mobilizing and allocating resources at both local and international levels. FMO's focus on a number of other specific sectors was stronger growth in the infrastructure portfolio, particularly in the energy and telecom sub-sectors. For example, through ten projects worldwide, FMO makes an effective contribution to financing the telecom infrastructure in developing countries, particularly in Africa. Steady progress has also been made on financing local SME sectors and microfinance projects, both crucial for economic growth.

FMO's activities in Africa are growing constantly. Although some financial institutions saw activities in the region decline in 2003, FMO was able to increase both the amount and the number of financing activities. This was the direct result of the strong ties the Company has with local partners and its access to special government funding programs. Both components enable FMO to add real value.

Dutch companies showed a great deal of interest in programs for technical assistance and the export of capital goods. The number of applications for technical assistance exceeded the available budgets.

The acquisition of the Emerging Markets Investment Facility (IFOM) from NIB Capital Bank NV was completed in the first half of 2003, and

Portfolio FMO Finance by country income category (volume)



this new facility, including its specialized team, was successfully integrated into FMO's operations. IFOM encourages Dutch SMEs to invest in emerging markets by providing subordinated loans. Access to IFOM has been expanded in cooperation with the Ministry of Economic Affairs.

FMO also made a number of internal improvements in efficiency, including further standardization of reporting on government funds and programs; the implementation of a new IT system for FMO Finance; and stringent cost control. As a result, 2003 saw operating costs flatten against rapidly increasing income.

The reporting year saw the continuation and intensification of the program aimed at ongoing professionalization. This program, initiated in the late 1990s, has focused specifically on further improvements in approval criteria and on portfolio management. The Company makes use of a detailed scorecard to analyze investment proposals and to carry out a critical annual review of the existing portfolio. Importantly, the latest review clearly showed a positive correlation between development impact and the financial return on projects. In 2003, FMO further evaluated all new projects on corporate governance, social and environmental aspects. Where necessary, the Company sourced additional information on existing projects to improve insight into the development impact of the current portfolio. The reporting year also saw the start of a long-term project whereby FMO will help financial institutions in its focus areas to develop policies on corporate social responsibility. This program is supported financially by the Ministry of Foreign Affairs.

In late May 2003, the FMO's Chief Executive Officer was appointed Chair of the Board of Directors of the Association of European Development Finance Institutions (EDFI), a group of 13 European development banks. One of EDFI's main objectives is to foster cooperation among its members; it is now evolving from a network organization into a strong partnership. Changes in the Association's legal form in November 2003 mean that it can carry out transactions for its own account, thus significantly increasing its effectiveness. EDFI and the European Investment Bank (EIB) has set up a joint venture, European Financing Partners (EFP) tasked primarily with financing private-sector projects in Africa.

In the reporting year and within the EDFI context, FMO intensified its cooperation with major partners, such as the Dutch government; the European Investment Bank (EIB); and other bilateral investment banks, including Proparco (France); CDC (United Kingdom); the Scandinavian development banks Finnfund, Norfund, Swedfund and IFU; and DEG (Germany). The cooperation with our German colleagues at DEG will be intensified further. One in five of FMO's new financing projects already involves DEG as one of the partners.

It should also be noted that FMO recently carried out a successful move to new premises in The Hague. On September 12, Her Royal Highness Princess Máxima of the Netherlands officially opened our new building, which complies with stringent environmental standards and brings all our staff together at a single location.

Outlook for 2004

FMO is active in countries where economic prospects are uncertain. As a consequence, developments in FMO's revenues and provisions are comparatively volatile and results for the coming year are difficult to predict.
In general, the global economic recovery seems set to continue in 2004. However, geopolitical and other major risks clearly remain. One of the fundamental tasks of development banks is to ensure that developing countries also benefit from the recovery. As effective risk partners, development banks like FMO can stimulate private investors and commercial banks to invest in emerging markets. Within this framework, FMO will focus more on reinforcing its local and international partnerships. In 2004, we expect even closer cooperation with the Dutch Ministry of Foreign Affairs and, in particular, with the Minister for Development Cooperation. In the memorandum Mutual Obligations (Aan Elkaar Verplicht), the Minister, Agnes van Ardenne, stresses the importance of a strong private sector for reducing poverty in the long-term. One of the focal points of Dutch bilateral policy from 2004 will be to reinforce the local business climate in a number of selected partner countries.

For FMO, government funds and programs represent a very important supplement to the Company's services package. The more industry programs mesh with FMO's own activities, the more effectively FMO's market knowledge and partner network can be deployed. In 2004, the synergy between the funds and FMO's own financing projects will receive an extra boost through the creation of the Financial Sector Development Fund. FMO will supplement government funding with its own funds on the basis of positive experience with small-enterprise financing via local financial institutions. If this is a success, FMO eventually intends mobilizing third-party funding in this area, thus allowing it to reinforce its support base and to significantly widen the scope of its activities.

In conclusion

This year and for the first time, FMO is presenting an '2003 Annual Report: Development Impact' with this financial report. The development report will deal with the impact of FMO investments on economic, social and environmental policy, and in the area of corporate governance.

FMO can look back on a successful year, primarily due to the commitment and professionalism of its staff. Management would like to thank them all for their outstanding efforts in 2003.

Financial results

FMO's results improved significantly in 2003. Net profit for 2002 was EUR 5 million. In 2003, FMO generated four times that amount, or EUR 21 million. This significant increase can be related directly to higher revenues and lower provisions on both loans and equity investments.

Portfolio

The greater part of FMO's finance portfolio is sensitive to fluctuations in the USD/EUR exchange rate. The 20% fall in the value of the dollar against the euro in the course of the financial year had a significant impact on the size of the portfolio. Excluding currency effects, the Company was able to generate substantial growth in its portfolio for loans and guarantees. Disbursements were largely according to forecasts and exceeded repayments and write-offs.

At EUR 550 million, FMO Finance's new commitments were significantly higher than in the previous year (2002: EUR 437 million). FMO Investment Promotion's new commitments in 2003 came to EUR 94 million (2002: EUR 139 million). This decline was due to the temporary non-availability of IPTA funds and an exceptionally high number of new contracts within the framework of the ORET program.

Revenues and expenses

FMO's total revenues amounted to EUR 105 million (2002: EUR 95 million). As a result of active management and workout of problem loans and investments, FMO's Special Operations unit has generated more revenues through increases in both 'other income' and results of equity investments. Increased revenues have also been achieved through greater income from syndication activities, higher revenues from treasury activities, and an increase in activities related to government funded special programs and funds. Execution of government programs and funds, and the fees this generates, has resulted in a larger fixed component in FMO's income structure. The level of these fees can vary from year to year due to incidental portfolio profits. In 2003, FMO received incidental profits from the Seed Capital Fund and from the Balkan Fund. Both interest income and interest expenses were lower than in 2002. This was due primarily to a fall in the weighted average interest rate on interest-bearing assets and liabilities. The change in the value of the US dollar against the Euro has resulted in downward pressure on total revenues.

The performance of FMO's equity investment portfolio showed an improvement. For the first time in many years, proceeds from equity investments exceeded provisions in 2003. Ongoing improvements in the quality of the equity investment portfolio are expected to limit future loss reserves. FMO also expects capital gains will constitute a larger proportion of its income in future, although it must be stressed that this kind of income can vary greatly from year to year, and is also influenced by such factors as fluctuations in the exchange rate for the various currencies involved.

Operating expenses increased by 9% compared to 2002. After years of strong growth in its activities and necessary catch-up investments to further strengthen and professionalize the organization, cost levels have now become more stable.

Provisions

Efforts in recent years to tighten loan acceptance criteria and to intensify portfolio management resulted in a downward trend in provisions, with the Company allocating EUR 42 million in 2003 compared to EUR 54 million in 2002. Specific loan provisions fell by EUR 7 million and those for equity investments were limited to EUR 3 million compared to EUR 8 million in 2002.
The Special Operations unit contributed to the resolution of problem loans and investments, resulting in the release of EUR 26 million of provisions.
Total loan provisions as a percentage of the gross loan and equity investment portfolio fell to 20% at year-end (2002: 22%).

Historical figures for the past 10 years show a downward trend in provisions. In the reporting year, therefore, FMO was able to adjust its provisioning policy, resulting in a lower allocation of EUR 4 million.

Dollar sensitivity

FMO operates in a dollar-related environment and some 80% of its total portfolio transactions consist of financing projects in USD. As the Company reports in euros, it must take the effects of dollar fluctuations into account. Such fluctuations influence both balance sheet and income statement items, as well as total commitments, disbursements and portfolio volumes. The effect on net profit is limited because the balance sheet and a large part of the profit and loss account are covered by (natural) hedges.

Funding

FMO borrows against favorable conditions, specifically through its Euro Medium Term Note program (EMTN). As in previous years, the emphasis was on structured loans in Japanese yen. FMO works with derivatives, so that ultimately variable-interest funding in USD is acquired at a lower cost of borrowing. A total of EUR 578 million in EMTN loans was raised and EUR 154 million repaid. At year-end, the nominal value of derivatives contracts amounted to EUR 2,073 million. These were mainly interest-currency swaps, to manage interest and foreign exchange risks.

Balance sheet

Total assets grew by EUR 290 million in 2003, partly as a result of an increase in funds held in bank accounts, cash, and interest-bearing securities. This increase is due to both FMO's smart utilization of market opportunities for treasury activities and to timely preparations for the implementation of the new International Financial Reporting Standards (IFRS) effective January 1, 2005. In this context, FMO is building interest risk management for its own assets through bonds rather than through derivatives, which do not qualify as hedging instruments.

AAA rating

Standard & Poor's reconfirmed FMO's 'Triple A' rating for its long-term financing operations during the reporting year.

Development Fund

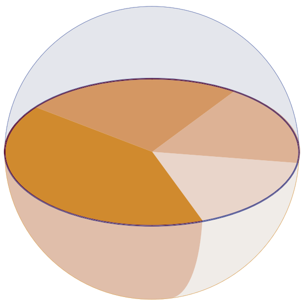
In 2003, the Dutch State deposited EUR 37 million in the Development Fund, bringing the Funds' assets to EUR 583 million. The proceeds from net assets, including the Development Fund, made a significant positive contribution to FMO's results. These monies have been invested in the domestic and international capital markets and used for loans and equity investments in FMO's areas of operations.

Introduction consolidated financial statements

From the reporting year, FMO has consolidated its annual accounts and included them in the notes. Given the further integration of NIO into the FMO organization, NIO is now categorized as a group company. Its financial data has subsequently been consolidated. In addition, FMO's other equity holdings – FMO Participaties B.V. and FMO Antillen N.V. – have also been consolidated.

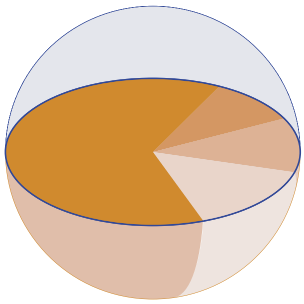
Consolidation produces total assets of EUR 3,098 million against Company assets of EUR 1,748 million. The main differences are due to NIO's activities, which include EUR 1,327 million in government-guaranteed loans. NIO loans are largely financed from bonds (EUR 604 million), debt securities (EUR 200 million), and bank loans (EUR 536 million). In addition, interest income in the consolidated profit and loss account amounted to EUR 141 million against EUR 102 million in FMO's own profit and loss account.

Portfolio FMO Finance by sector
(outstanding and committed, amounts in EUR millions)



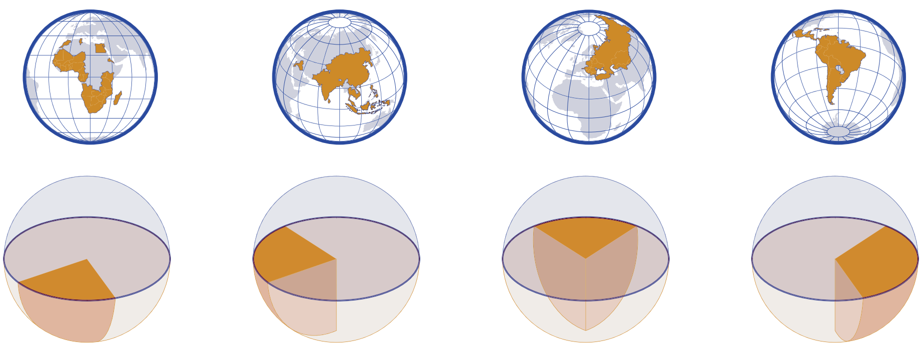
- Financial sector **778** *(41 %)*
- Infrastructure **446** *(24 %)*
- Industry **335** *(18 %)*
- Other **319** *(17 %)*

Portfolio FMO Finance per product
(outstanding and committed, amounts in EUR millions)



- Loans **1,181** *(63 %)*
- Guarantees **195** *(10 %)*
- Mezzanine **225** *(12 %)*
- Equity investments **277** *(15 %)*

Portfolio FMO Finance by region
(outstanding and committed, amounts in EUR millions)

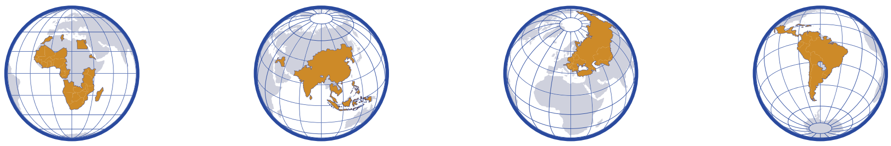


	Africa	Asia	Europe & Central Asia	Latin America & Caribbean Region	
Total volume	393	448	388	649	1,878
Percentage	21 %	24 %	21 %	34 %	100 %

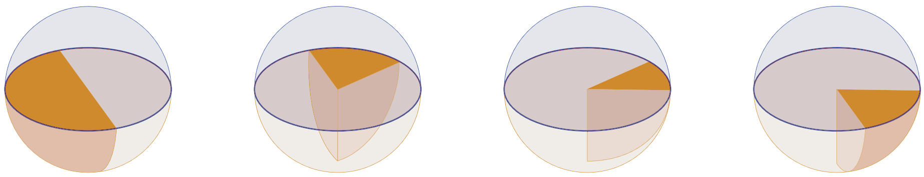
FMO Finance

FMO Finance provides financing at commercially competitive terms to businesses and financial institutions in developing countries through: loans, mezzanine financing, equity investments, guarantees and syndicated loans.

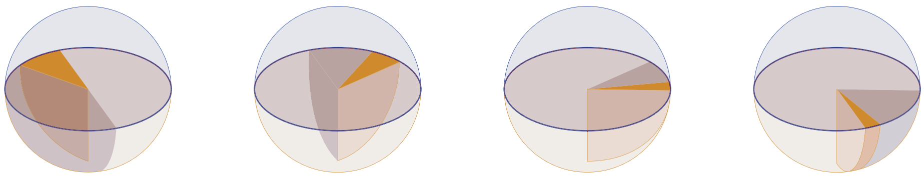
Number of financial institutions aimed at micro, small and medium-sized enterprises reached by FMO
Small-Scale Enterprise Fund
Seed Capital
Balkan Fund



Number of financial institutions in portfolio by region



Of which newly contracted in 2003



	Africa	Asia	Europe & Central-Asia	Latin America & Caribbean Region	**Total**
Number of financial institutions in portfolio by region – **Total**	48	18	11	18	**95**
	50 %	19 %	12 %	19 %	100 %
Of which newly contracted in 2003 – **Total**	10	7	3	3	**23**

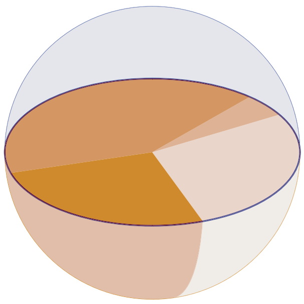
Africa region – FMO further expanded its activities in Africa in 2003. The Company's growth strategy is based on closer cooperation with local and international partners, combined with a focus on groups of countries and sectors.

In Africa, FMO focuses on the development of the financial sector, infrastructure, and export projects – particularly mining and oil – in three geographic focus areas:
• West Africa: Ghana, Nigeria, and the countries of the 'France CFA' zone;
• East Africa: Kenya, Tanzania, and Uganda;
• Southern Africa: Mozambique, South Africa, and Zambia.
Economic development differs from country to country. Political unrest had a significant negative impact on economic growth in the Ivory Coast and Zimbabwe. However, political and economic developments were positive in Cameroon, Ghana, Kenya, Mozambique, and Uganda. Peaceful changes of government in Ghana and Kenya were beneficial for economic stability in both.

Africa has an isolated position within the world economy. Economic interaction between African countries is also limited. As a result, fluctuations in the global economy have relatively little effect on the regions. African countries have, however, benefited from the greater demand and higher prices for raw materials. However, the global recession had a dampening effect on the level of

foreign investment in 2003. The African economy is based primarily on local micro, small and medium-sized businesses, with only a few developing into large-scale enterprises with a pan-African market. The active private sector is only developing slowly, also due to complex government decision-making processes and bureaucratic delays that are not conducive to private enterprise. The multilateral New Partnership for Africa's Development (NEPAD) is therefore attempting to improve conditions for doing business in the continent. To date, this has not yet to lead to any concrete action, but FMO is monitoring closely the progress of this initiative taken by Algeria, Egypt, Nigeria, Senegal and South Africa.

Portfolio
FMO Finance in Africa
(outstanding and committed, amounts in EUR millions)



Financial sector **103** *(26 %)*

IInfrastructure **159** *(41 %)*

Industry **21** *(5 %)*

Other **109** *(28 %)*

Total 393 *(100 %)*

Portfolio development

In the reporting year, FMO further sharpened its focus on particular countries and sectors in the Africa region. In 2003, 56% of all FMO's new commitments were in focus countries and 78% were in focus sectors, with 27 new financing contracts being concluded for a total of EUR 142 million. A total of EUR 46 million was invested from the various funds in 13 African projects. Both disbursements and commitments from the

Small-scale Enterprise Fund progressed satisfactorily, with EUR 13.4 million being invested in five projects. Five new companies received a total of EUR 5.4 million from the Seed Capital fund.

The reporting year saw further projects being financed from the Least Developed Countries Infrastructure Fund (LDC). This provides support for constructing and reinforcing the socio-economic infrastructure in these countries. Given its specific purpose, the fund is used mainly in Africa. FMO contracted EUR 27.4 million for three African projects to improve the telecom infrastructure in Tanzania and Uganda and to finance the Songas electric power project in Tanzania.

Local financing is an important supplement to project financing in Africa and FMO mobilizes local currency funding there by providing guarantees. Options for doing so have increased because institutionalized local savings have been boosted in a large number of African countries, specifically through pension funds and social insurance institutions. It was encouraging that FMO was able to extend the first syndicated loan to finance a power station in Nigeria, doing so in cooperation with partners that included the Africa Merchant Bank.

Outlook for 2004

FMO will continue its current Africa policy in 2004. Strategic priorities will remain the financial sector, infrastructure, and export projects. The Company expects to further support the privatization effort and the upgrading, through investment programs, of local infrastructure via joint ventures with international enterprises. FMO will use the LDC Fund to promote public-private partnerships. Furthermore, FMO sees opportunities to increase syndicated loans and to provide long-term financing on local capital markets.

FMO aims to further strengthen local relationships and to expand its local and international networks; this will involve partnerships with international and local banks, and with development institutions. This approach was initiated in 2003 through the establishment of various cooperation partnerships.
In 2003, FMO began setting up 'Africinvest', a new private equity fund. This strategic partnership will play a major role in improving the quality of feasibility studies and the transparency of the enterprises in which the fund invests. Another important initiative in the field of private equity is the African Venture Capital Association. This was set up in 2000 and is rapidly developing into a central forum for the private equity sector in Africa. EFP, the partnership between EDFI and EIB, will be active primarily in Africa.

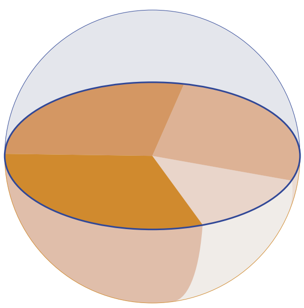
FMO hopes to reinforce current partnerships with its local African banking network during 2004.
In the area of infrastructure, FMO works with banks, development institutions, and donors to set up large-scale finance projects. These relationships will be further intensified in 2004.
Specifically, FMO worked more closely with the Emerging Africa Infrastructure Fund in 2003, and the two organizations completed their first joint financing project for an electricity company in Cameroon.

Asia region – The reporting year saw economic recovery in Asia. In line with recovery, FMO's activities in the region showed strong growth.

FMO was primarily active in its Asian focus countries: Bangladesh, China, India, Indonesia, the Philippines, Sri Lanka, Thailand, and Vietnam. There was a considerable improvement in political stability in a number of countries, although the threat of terrorism. The war in Iraq and its aftermath cast a shadow and Indonesia was particularly hard hit by a number of bombings. Apart from the effect of terrorism, in the first half of the year, the tourist industry in Asia was visited by the SARS epidemic, which claimed a number of victims, mainly in China.
China and India, in particular, experienced striking economic growth rates. In China, growth was at a sustained high level of around 9%, with the area around Shanghai as the main economic driver. India achieved growth of 6.5%, due in part to a good year for agriculture. Thailand also maintained a growth rate of more than 6%, while Vietnam's GNP [GDP] rose by 7.2%, giving that country its highest level of growth since 1997.

The high savings ratio in the region has resulted in the availability of ample funding resources; however, in most cases only established local enterprises have access to these funds. This impedes the development of the SME sector and

Portfolio
FMO Finance in Asia
(outstanding and committed, amounts in EUR millions)



Financial sector **141** *(31 %)*

Infrastructure **123** *(28 %)*

Industry **122** *(27 %)*

Other **62** *(14 %)*

Total 448 *(100 %)*

of the local economy. To some extent India is something of an exception, although thus far only with limited success in gradually creating broader access to growing prosperity. The Indian middle class now numbers some 350 million, comparable to the total consumer market of the European Union. Against this background, FMO plays an important additional role as a catalyst. The Company hopes to contribute to reinforcing various Asian economies by reducing the risks for foreign investors and by promoting local enterprise.

Portfolio development

The number of focus countries in the Asia region was the same in 2003 as in the previous year, with 90% of FMO's activities in the region in those countries. During the reporting year, FMO contracted 22 new projects representing a total amount of EUR 126 million. A total of EUR 23 million from the special funds was invested in nine Asian projects. The Small-scale Enterprise Fund financed six projects, including leasing companies in Cambodia, Sri Lanka, and Vietnam, for a total of EUR 13 million. FMO contracted EUR 8 million from the LDC fund.

One special project with a high development impact was the refinancing of the Haripur power station in Bangladesh. This 360-megawatt plant provides the country with cheap and relatively environmentally friendly electricity. The project involves a syndicated loan in which FMO is joined by Sweden's Swedfund (which is contributes its own funds) and the LDC fund.

The emphasis in the reporting year was primarily on the financial sector. One example is the guarantee FMO extended in the Philippines for the Planters Development Bank, enabling it to acquire local currency financing from Citibank. FMO was also active in the area of trade finance. Many local banks in the weaker focus countries are unable to participate in financing international imports and exports because they do not comply with international financial quality requirements; this is particularly true where corporate governance is concerned. By transferring know-how, FMO provided support to banks in Bangladesh, Cambodia and Vietnam.

One notable trend is FMO's increasingly early involvement in structuring finance projects. An Indian paper producer, for example, was listed on the Luxembourg stock exchange due in part to a convertible loan provided by FMO. In the energy sector, FMO not only participated in the project in Bangladesh, but also helped finance the construction of a power station in Thailand.

Outlook for 2004

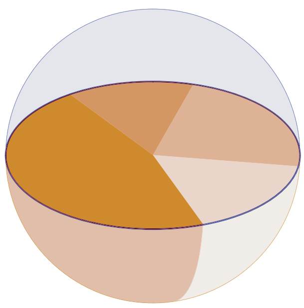
In light of macro-economic recovery, FMO expects its Asia region portfolio will grow both in quantity and quality in 2004. In addition to growing demand for syndicated (A/B) loans, the volume of activity will increase on the capital markets, in trade financing, and in project financing. In 2004, FMO will continue to focus on the financial sector. The telecom sector will also constitute a major challenge because the demand for telecom products will remain high. In the reporting year, FMO made arrangements for further cooperation with the Asian Development Bank (ADB). For example, the two organizations have worked together on developing an introduction program in the Netherlands, through which Dutch banks make contact with ADB's regional trade financing program.

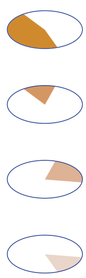
Europe & Central Asia region – The impending enlargement of the European Union will be a major economic incentive for emerging markets in Europe and Central Asia. In 2003, FMO expanded its activities in the Balkans.

Economic development in the Europe & Central Asia region vary, primarily due to geopolitical factors. The ten countries that will join the EU in 2004, generally have a low level of economic growth. Nevertheless, the accession of these ‘transition countries’ will have a positive effect on the economies of the surrounding area where a significant number of FMO’s focus countries are located. How internal markets in the surrounding area develop is crucial for potential entry to the EU. In Bulgaria and Romania especially, expectations of future entry are high, leading to increased economic activity in both.

However, it is not merely the accession of new EU member states that gives reason for optimism. The large populations involved mean significant potential for growth in the regional market. Turkey, an FMO focus country with a population of some 65 million, is one example, although it is still struggling with high inflation. The Turkish economy will only receive a real boost when its accession to the EU has been approved definitively. Economic growth in Kazakhstan and Russia is to a large extent based on higher oil prices and stable leadership.

Portfolio
FMO Finance in Europe & Central Asia
(outstanding and committed, amounts in EUR millions)





Financial sector **180** *(46 %)*

Infrastructure **53** *(14 %)*

Industry **88** *(23 %)*

Other **67** *(17 %)*

Total 388 *(100 %)*

Besides its existing focus countries Bulgaria, Kazakhstan, Romania, Russia, Turkey, and Ukraine, FMO expanded its activities in the year under review to Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, and Serbia. The most important sectors in the region were the financial sector and exporting companies. In this region, FMO's focus in 2003 was concentrated even more on SMEs. In this segment of the market, the Company can operate more decisively and provide greater added value than the multilateral development banks, particularly in the area of long-term investment. The way multilateral banks deal with applications for financing imposes too great a burden on the average medium-sized enterprise and takes too much time.

By taking over the Emerging Markets Investment Facility (IFOM), FMO now has more options for supporting SMEs in the Europe & Central Asia region. Corporate governance and social and environmental aspects play a major role when credit decisions are taken.

Portfolio development

In the reporting year, FMO continued the upward trend of 2002. Total financing provided by FMO itself rose from EUR 197 million in 2002 to EUR 267 million in 2003. EUR 1 million was provided from the Balkan Fund for a reconstruction project in Bosnia. One project was financed from the Small-scale Enterprise Fund for a total of EUR 3.3 million. FMO used IFOM to contract for three new subordinated loans amounting to a total of EUR 2.2 million. These were extended to a Russian company producing flexible insulation and trading in agricultural tools, a Romanian tire wholesaler, and a Bulgarian producer of cooling systems.

Various projects contributed to FMO's positive result in this region. For example, the Company provided its first financing in the contractual savings sector, specifically in the area of old-age pensions. The transition countries are, in fact, increasingly bringing their pension systems into line with West-European models, but the infrastructure for this shift is only available to a very limited extent. During the reporting year, there were initial contacts with a group of private investors offering annuity products to support company sponsored pension systems.

FMO also commenced working with the Raiffeisen Zentral Bank (Austria). This institution has been operating in Eastern Europe and Central Asia since the early 1990s and, like FMO, focuses on the SME sector. FMO now cooperates with RZB in Bosnia, Romania and Ukraine.

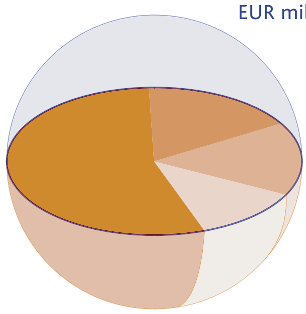
Outlook for 2004

FMO expects the volume of its investments in this region to remain steady in 2004. In order to maintain and even increase the quality of its portfolio, the Company will continue to carefully assess the return on investments, both from the financial and from the development impact perspective. In this connection, FMO will be increasingly selective in its activities, for example by selecting projects where it will have early involvement. Although the expectation is that demand for syndicated loans will continue to be met by multilateral development banks, there will still be a role for FMO. In the more developed areas of the region, commercial banks can now operate without risk-mitigating partners. SMEs are not currently provided with sufficient assistance by other financial institutions. FMO's new focus on financing SMEs will continue to apply in 2004, and the Company hopes this will enable it to meet the demand for investment funding in this sector.

Latin America & Caribbean region – The political and economic situation in this region varied. FMO achieved good results with trade financing, infrastructure financing, and capital market transactions. The number of syndications also increased.

The weak dollar and rising raw-material prices had a positive effect on regional developments and on the balance of trade. Exporting countries such as Brazil and Peru were able to benefit from this situation. The election of the ex-trade union leader Luiz Inácio Lula da Silva as president of Brazil did not lead to a fundamental change in economic policy. After the crisis in the first half of 2003, there was a notable recovery, partly due to the strong export position of trade and industry. Capital flows to Brazil recovered. Aided by the country's improved international rating, short-term interest rates (up to three years) fell by the end of 2003 to their lowest level for years. Mexican exporters suffered due to competition from China on the American market. As a result, the Mexican economy stagnated during 2003. After the crisis, the situation in Argentina appears to be stabilizing somewhat, with the larger exporters in particular benefiting from the weak dollar and the weaking of the peso. Peru and the Central American countries continued to present a moderately positive picture, but Bolivia is still struggling with ongoing social unrest. The Dominican Republic also failed to achieve expectations. It had to deal with fraud in the financial sector; its financial difficulties became so serious that FMO was forced to suspend its activities there.

Portfolio FMO Finance in Latin America & Caribbean Region (outstanding and committed, amounts in EUR millions)



Financial sector **354** *(55 %)*

Infrastructure **111** *(17 %)*

Industry **104** *(16 %)*

Other **80** *(12 %)*

Total 649 *(100 %)*

Portfolio development

In 2003, FMO achieved positive results with innovative capital market transactions in Mexico and Peru. The number of syndications rose; with FMO itself contributing EUR 24 million, a total of EUR 117 million was provided in the form of syndicated loans. In the reporting year, FMO financed 22 projects for a total of EUR 154 million. Three loans totaling EUR 8.7 million were provided from the Small-scale Enterprise Fund. Overall, EUR 177 million was paid out. As in 2002, FMO made loss provisions for the financial sector in Bolivia, the Dominican Republic, and Uruguay.

FMO again generated good results through its partnerships with such institutions as the International Finance Corporation (IFC), Deutsche Investitions- und Entwicklungsgesellschaft GmbH (DEG), Citibank, ABN AMRO, and Credit Suisse First Boston (CSFB). In Peru, FMO cooperated with the Inter-American Development Bank to provide a partial guarantee facility for a construction company, allowing it to place a bond with local institutional investors. Also notable are the three syndicated loans made to Argentinian soya meal exporters; FMO's syndicated export loans enabled them to improve their export position despite the economic crisis. Syndicated loans were extended to two telecom companies in difficult markets such as El Salvador and Nicaragua. El Salvador was also the location of the first NIMF loan in the region (EUR 4 million), for a cross-border investment.

In the financial sector, FMO booked success with SME transactions in Bolivia, Costa Rica and Peru. Credit lines were also set up for a number of banks using FMO Finance funds. In Brazil, a loan was contracted for a goods railway company in cooperation with FMO's German partner DEG. In Panama and in Mercosur, FMO arranged finance for a water purification project and an inland shipping project. Economic stability in Colombia improved in 2003 and the country is addressing its problems of political unrest. The spiral of violence would appear to have slowed somewhat, enabling FMO to cautiously raise its profile in this market. It is also noteworthy that FMO organized a panel discussion on corporate governance in Colombia during the annual meeting of the Central American Development Bank.

Outlook for 2004

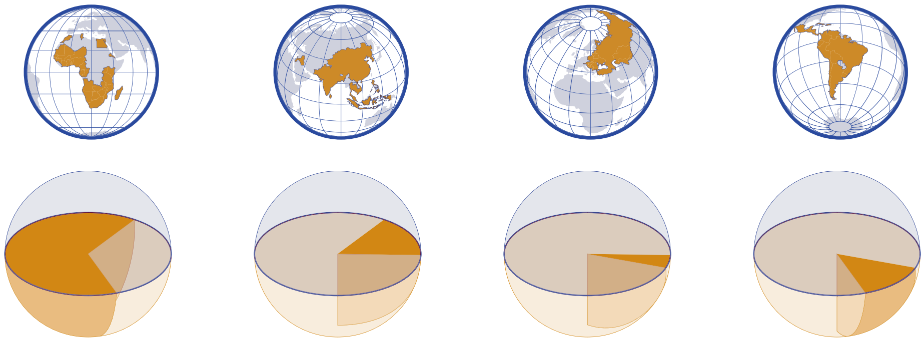
The financial sector proved to be relatively vulnerable during a series of economic crises affecting the region. FMO is therefore working to diversify its portfolio by expanding capital market transactions and financing projects for export companies, the energy sector (oil and gas), and infrastructure. Returns will be improved by increasing the scale of transactions, raising fee income, and by carrying out more mezzanine transactions. In addition to monitoring and guaranteeing the financial preconditions, FMO will focus on the institutional aspects and will stress the importance of corporate governance policy.

Now that these markets have stabilized, there will be a greater emphasis on long-term financing projects in Argentina and Brazil. Prospects are promising for a number of syndicates in Argentina, Honduras, and Brazil (telecom and energy-exporting companies). FMO expects to help finance a large energy project in northern Chile as part of an IFC syndicate. In Mexico, where the economy is expected to pick up, the Company sees good prospects in capital market transactions for corporates. In Peru, the focus will also be on the financial sector and infrastructure transactions (telecom and energy). The reorientation in Colombia will continue. Interest-rate movements and to a lesser extent, changes in the value of the dollar remain unpredictable factors and continue to affect economic trends in the region. By making certain strategic choices for 2004, FMO believes it has positioned itself effectively in the Latin America & Caribbean region. The biggest challenges continue to be balanced socio-economic policy and improved corporate governance.

FMO Investment Promotion

By investing in developing economies and emerging markets, companies from the Netherlands and other Western countries can promote the development of the local private sector. FMO supports this flow of investment via its Investment Promotion Department with a range of financing products focusing on means of production, infrastructure, and the development of human capital. Organizations in the West act as its partners.

Activities FMO Investment Promotion in 2003
(new commitments, amounts in EUR millions)



	Africa	Asia	Europe & Central-Asia	Latin America & Caribbean Region	Total
Total	61	15	4.5	12.5	93
	65 %	16 %	5 %	14 %	100 %

In Mutual Obligations, the Dutch Minister for Development Cooperation stresses the importance of a healthy private sector in developing countries. International opinion supports the premise that Western know-how and capital can make a substantial positive contribution. This view of development cooperation is reflected in the government programs and funds administered by FMO.

FMO Investment Promotion is responsible for financing technical assistance and managing FMO's relationships with its partners in the Netherlands and Western Europe. IP is also responsible for implementing the ORET program. This program, which IP administers on behalf of the Minister for Development Cooperation, provides subsidies to support Dutch exports of capital goods and services. This system enables FMO to support investment in the hard and soft infrastructure which is so vital for the private sector.

Technical Assistance is an important component of IP and thus of FMO. Few other development banks have the facilities that FMO can offer in this area. FMO finances the transfer of technical know-how and skills, but it also plays a specific role during the preparatory stages of investment and financing. These are both areas where all too often enterprises in developing countries and emerging markets lack essential knowledge and skills.

In order to finance this activity, FMO is able to call on a number of funds and programs provided by the Dutch ministries of Economic Affairs and Foreign Affairs (IPTA, TAEM, LDC Fund, ORET, and FIMP - Financial Institutions Environment Program).

Trends

The reporting year was the first full calendar year during which ORET was administered by FMO. Business and industry are showing a lot of interest in the program and FMO received 36 ORET subsidy applications in 2003. A total of EUR 113 million was committed via this program during the year and EUR 86.6 million contracted for. In 2003, ORET also disbursed 18% more than in 2002, meaning that 75% of ORET's EUR 104 million budget was paid out. In the reporting year, FMO also commenced a program to further professionalize the way ORET is implemented and to cut processing time. Furthermore, the Company paid increased attention to financial technical analysis and to the environmental, social and economic impact of the program.

There was also a great deal of interest in the IPTA and TAEM programs in 2003, with a total of EUR 6.9 million being committed to some 69 companies. The available budgets for the two programs were fully utilized. FMO is now one of the largest international providers of technical assistance to enterprises in developing countries and emerging markets.

NL Desk

The NL Desk is the 'investment window' for companies wishing to invest in the private sector in developing countries or emerging markets. Such companies can request information – by telephone or via the website – on the whole range of products offered by FMO. FMO entirely redesigned its website in 2003 and its products are now much easier to access. A mailbox has been set up for businesses to submit questions and this saw a great deal of traffic in the course of the year.

FMO increased its name recognition among Dutch companies in the year under review, through various media and targeted marketing campaigns. These efforts were one of the reasons for a great increase in the number of applications and business plans submitted by companies.

Outlook for 2004

Partly due to ORET, the relationship between FMO and Dutch business and industry was reinforced in 2003. In 2004, FMO Investment Promotion intends to further boost its profile among companies in both the Netherlands and FMO's focus countries. The tailor-made, intensive approach to enterprises and potential partners during the reporting year will continue in 2004.

FMO will also continue to be an important player in the field of technical assistance as this activity helps to prepare deals. Greater use will be made of this capability as this also has the effect of mitigating risk and increasing sustainability. This meshes with FMO's financing and equity investment activities. This approach will also be pursued in 2004. Focusing on the sectors and countries where FMO already has expertise will increase the quality and impact of its technical assistance capability.

Quality control and risk management

Credit, country and market risks are inherent to the financing activities and the promotion of investment, which form FMO's core business. The development of the Company's financial products and services and monitoring of the portfolio's risk profile demand careful consideration of these risks.

The Portfolio Management directorate manages the processes for controlling and improving the quality of the Company's portfolio. It evaluates risks before projects are approved and services, and monitors the risk profile of the total portfolio. Within Portfolio Management, dedicated departments are responsible for Investment & Mission Review (IMR) and Risk Management (RM).

Credit risk and development impact

The IMR department evaluates and monitors the risks when financing commitments are made or, subsequently, reviewed. IMR also analyzes the development impact of projects. Credit risk in developing countries and emerging markets is inherent in the Company's portfolio. FMO therefore ensures that these typically high risks are well managed by pursuing a strict approval policy. The IMR department is also responsible for monitoring the review process, which is intended to periodically assess the effectiveness of projects and the return they generate. Our team of social and environmental experts makes a major contribution in this field.

Scorecards

IMR uses a 'scorecard' system to evaluate financing proposals according to a standardized methodology. It identifies the level of financial risk associated with a given proposal, together with the development impact and added value of FMO. In order to assess the development impact, the scorecard also clarifies the quality aspects of a particular proposal, including the economic, environmental, and social effects, and corporate governance issues. The scorecard is also used during credit reviews.

A new version of the scorecard was introduced in 2003. The previous version dated from 2000 and was subjected to extensive evaluation in 2002. The latest version is better suited to clarifying the development impact of the various financing proposals and FMO's role in them. This makes it easier to evaluate the portfolio more systematically.

Evaluation of portfolio

The scores of the whole portfolio are used to support the analysis of projects at product, sector, country, and regional level. This allows FMO to produce an accurate and effective estimate of the risks associated with the portfolio and the development impact of the Company's financing activities.

In 2003, FMO continued its systematic evaluation of projects. In the reporting year, investments made in 1998 were reviewed. The aim is to evaluate the FMO portfolio according to such criteria as effectiveness, efficiency and results. In this way, the Company is more accountable for the return on its investments and can learn from past experience. The resulting expertise, experience and best practices are used to systematically improve and benchmark acceptance and management policy.

Market risk

The Risk Management (RM) unit focuses primarily on the market risk factor, making it more transparent through analyses and periodical reporting. This mainly involves country and concentration risk, currency and interest issues, and the liquidity and solvency aspects of the portfolio. A system of control is used to improve the quality of the portfolio by setting limits at project, sector, country, or regional level and by clarifying the minimum margin necessary to cover the expected risk.

A new system for managing country risks was introduced in 2003. Depending on a country's rating and the risk associated with the product, a particular weighting is assigned which facilitates a more evenly balanced portfolio.

FMO also bears a certain amount of risk through its treasury activities to attract funding, make loans, and arrange financial instruments such as derivatives. Here too, RM manages the level of risk by setting limits and by means of periodical reporting. The introduction of the new

International Financial Reporting Standards (IFRS) will lead to an adjustment of the portfolio and to a review of the most suitable financial instruments; work already started on this review during the reporting year.

Besides the activities of the Portfolio Management directorate, FMO has a number of committees that determine risk assessment policy and assess specific risks.

The Investment Committee (IC) assesses each new financing proposal. Depending on its nature and size, authorization of a project takes place at various levels within the organization. The Asset & Liability Committee (ALCO) assesses the risk reports and determines the proposed limits. The Credit Review Committee (KRC) reviews the entire portfolio of financing projects at least once a year and determines the required level of loss provisions.

Organizational developments

The effects of FMO's strong growth and professionalization in recent years became very clear in 2003. This has resulted in further improvements in efficiency, cost control, and portfolio development.

The number of FMO staff remained virtually the same in 2003 as in the previous year. At year-end, FMO had a staff of 212 (196 full-time equivalents) as opposed to 200 at the end of 2002 (192 full-time equivalents). Staff turnover fell in 2003 to 6.6% (2002: 8%). During the reporting year, FMO reached an important milestone by rewriting and evaluating all job descriptions. This process commenced in 2002 and was successfully completed in 2003. The new job descriptions will increase management's understanding and involvement in determining the level of responsibility attaching to each job. A number of operational processes and activities were also improved or restructured and teamwork and professional know-how were further reinforced.

Efficiency

During the reporting year, FMO introduced a number of initiatives to further improve the Company's efficiency. The results of the staff satisfaction survey carried out in 2002 were discussed throughout the organization in 2003. This led to dedicated projects at group and team level to improve efficiency. A new IT system was also implemented, aimed at providing support for front and middle-office staff. A greater range of registration and reporting tools led to improvements in the active management of financing activities. Working on the basis of FMO's specific procedures, the new system can clarify the status and life cycle of financing activities. The introduction of this system was also the first step towards replacing FMO's current information system, including back office, and creates the basis for further efficiency improvements within the organization.

New premises

FMO's new offices form a significant improvement for the Company, particularly in terms of efficiency. All FMO staff are now housed in a single building, greatly facilitating internal cooperation. Our new working environment meets contemporary standards for high-quality office space and it also gives expression to the values for which FMO stands: sustainability, flexibility and sound business practice.
The new building makes use of sustainable, environmentally friendly materials. As a significant number of FMO staff are out of the country for much of the year, a 'flexwork' system has been introduced; fewer work units means a reduced burden on the environment. In 2003, FMO also decided to purchase emission rights to fully cover the Company's CO_2 output.
The general consensus among staff is that their new working environment is pleasant and comfortable. The contemporary, flexible set up means that staff can choose from a range of different 'office environments' depending on the kind of work they need to do; this leads to greater communication and teamwork.

Works' Council

FMO's management team had regular and constructive meetings with the Works' Council during the reporting year. There were six formal meetings during which a variety of topics were discussed; these included FMO's corporate policy and its results, proposed changes within the Company's organization, and job appraisal.

Changes in the Collective Labor Agreement led to changes in the pension plan for FMO staff; the package of employment terms and conditions was amended accordingly. Here too, the Works' Council played an important role. Administrative processing of these changes will be completed in the course of 2004.

Knowledge generation

The ongoing development, updating, and sharing of professional know-how continues to be one of the driving forces behind FMO's activities. In 2003, management and staff worked hard on developing their professional expertise and skills. A personal development plan allows employees to plan their careers and personal development.

The generation of knowledge is based primarily on practical experience, active cooperation – with similar organizations and external partners – and is reinforced through training. A major contribution is made by the large number of contacts we have with clients, partners, banks, and other European development organizations. These contacts will be expanded and intensified in the course of 2004.

Corporate Culture

In a rapidly changing organization like FMO, our corporate culture plays an important role in holding the organization together. The corporate culture at FMO is an open and informal one, giving staff ample opportunity to develop initiatives and take responsibility.

The challenge is to maintain a businesslike, committed corporate culture that matches FMO's mission. Achieving results and taking responsibility are important components of the culture we pursue, one in which management and staff work together and are mutually accountable.

Address

Netherlands Development
Finance Company
*(Nederlandse Financierings-
Maatschappij voor
Ontwikkelingslanden N.V.)*

Postbus 93060
2509 AB The Hague
The Netherlands

Street address:
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

E-mail: info@fmo.nl
Internet: www.fmo.nl

Translation

This is a translation of the Dutch Annual Report (FMO Jaarverslag 2003). In the event of any conflict in interpretation, the Dutch original is leading.

Masthead

Concept and copy:
FMO, The Hague
Voxx Communicatie adviseurs, Amsterdam

Design:
Cascade - visuele communicatie, Amsterdam

Photography:
Aatjan Renders, Amsterdam

Printing:
Drukkerij WC den Ouden, Amsterdam

Paper:
Munken Lynx, wood-free offset
Chlorine-free, Nordic Swan certificate