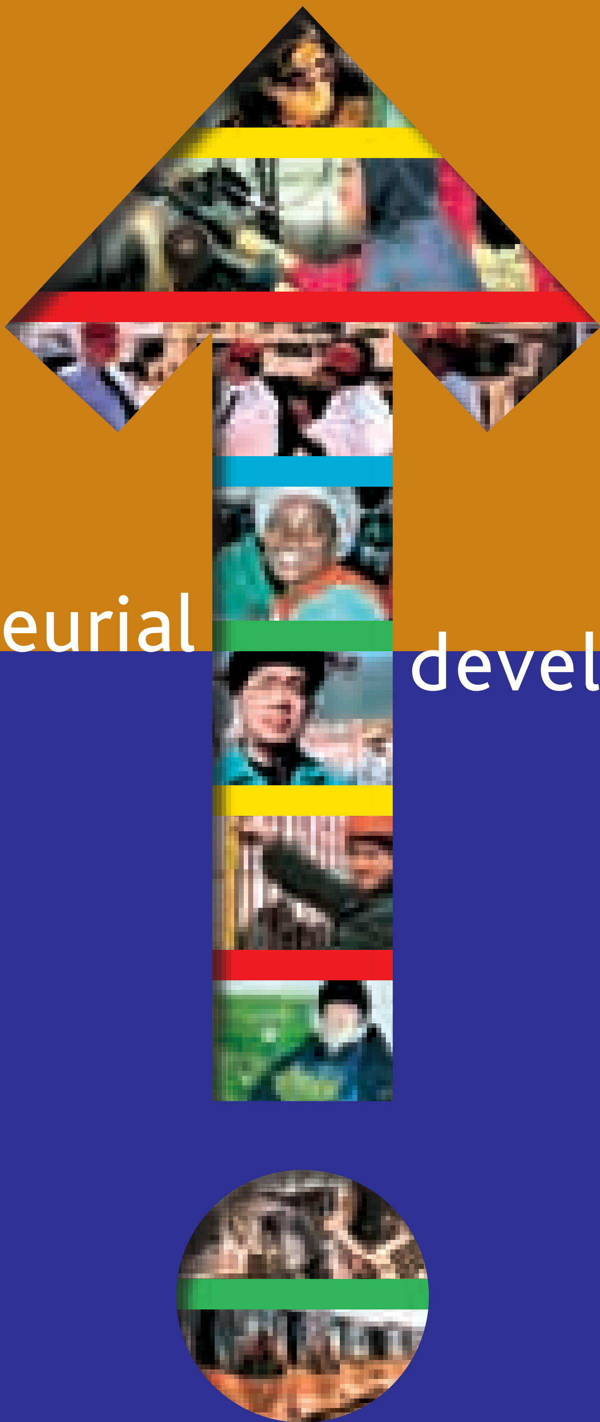
FMO

Finance for *Development*

Development impact



The entrepreneurial development bank

Annual Report 2005

Contents

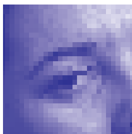
FMO

Finance for *Development*

Annual Report 2005

Our Mission

FMO builds bridges between **entrepreneurs** and **capital**
in challenging **developing markets.**
Our aim is to stimulate **sustainable growth**
by investing in successful entrepreneurship
– maximizing **development impact.**



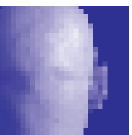
Letter from the CEO

FMO has a clear mission – our goal is to stimulate growth in developing countries by investing in successful entrepreneurship, thereby maximizing development impact. The reporting year, 2005, has been an exceptional time for FMO, especially in moving forward on our development impact goals. However, we also believe we will look back on 2005 as a milestone for many more reasons. I would like to summarize them for you here.

Sustainable growth in developing countries – our approach to entrepreneurial development finance is businesslike. We are not a charity. By adopting a businesslike approach and combining it with potential for social, environmental and governance impact, we are able to make a sustainable difference.

Transparency in our development business – making a sustainable difference is more than a slogan at FMO. We not only talk about it, we also measure and report on the impact our activities help achieve. For this purpose, we have developed the Development Impact Indicator (DII) to measure our performance on an annual basis. In 2005, our first-ever score is 390 and will be used as a benchmark to measure all of our future DII scores. This annual report describes in detail the methodology of the DII that will help us steer FMO in the right direction into the future (see page 9).

Our clients and partners benefit from greater investment – our portfolio has grown 20 percent in 2005 to a record EUR 2.4 billion. This demonstrates our commitment to investing long-term capital in private enterprises and financial institutions in developing countries. Our success is based on building bridges between long-term capital and knowledge, and the people in developing countries who need them most. We realize that if we want FMO to be a credible partner for our entrepreneurial clients, we have to show them that we are entrepreneurial ourselves, willing to take risks, coming up with innovative solutions, and responding to the challenges they face in developing countries.



Shareholders benefit from financial transparency – in 2005, FMO became International Financial Reporting Standards (IFRS) compliant. This further increases our financial transparency. IFRS reporting can increase the volatility of financial performance. However, by implementing IFRS, we believe our performance will be clearer.

Stakeholders benefit from sound governance – we are committed to embedding strong governance principles in the countries where we are active. We do this from a sound governance foundation in our own business. From 2005, FMO adheres to the Dutch Corporate Governance Code. In line with this Code, generally acknowledged as one of the best in the world, we have amended our Articles of Association, restructured our Supervisory Board, and separated responsibilities and accountabilities, allocating these to Shareholders, our Supervisory Board and the Management Board accordingly. In this respect, we are unique among development banks in the same way that we are unique in being the only public-private partnership among our peers.

For the future of FMO – our exceptional financial performance in 2005, with a net income of EUR 73 million, has increased our capital to EUR 950 million. From this strong base, we begin a new phase in our own development. In 2005, the Dutch State made its final contribution to our capital. From now on, we must earn our own sustainability and growth. A solid capital base is an absolute necessity given that, by definition, our activity profile is 'high risk'. Through strong financials, we will be able to confront any crisis that may occur in the future, and we know there will be crises.

On a very personal note, I would like to end by saying that that I am proud to head such an extraordinary financial institution. I thank all our stakeholders for their ongoing support of FMO's entrepreneurial development aims – countless people in developing countries benefit from our activities. Our Works Council and the more than 200 highly motivated colleagues have also provided invaluable advice on ways to streamline and create synergy throughout the organization. We are also very fortunate to have the support of a truly committed Supervisory Board. I am confident that with this team we have an organization that can drive forward our mission today, tomorrow and into the future. I thank you all.

Arthur Arnold
Chief Executive Officer

Amounts in EUR million

FMO Key Figures [1]

	2000	2001	2002	2003 [3]	2004 [2]	2005
	Dutch GAAP				IFRS	
Balance Sheet						
Net loans	991	981	829	848	902	1,010
Equity investments portfolio [4]	89	84	75	82	93	128
Shareholders' equity	592	633	675	733	784	950
Debt securities and debentures/notes	714	777	648	914	895	1,139
Total assets	1,402	1,528	1,458	1,748	1,845	2,329
Committed portfolio for FMO's risk and account	1,789	1,921	1,744	1,677	1,711	2,034
Committed portfolio of funds managed by FMO	105	143	160	201	280	350
Profit and loss account						
Income						
Interest income	117	119	106	102	111	121
Interest expenses	-40	-42	-30	-26	-31	-41
Net interest	77	77	76	76	80	79
Results from equity investments [4]	6	2	3	7	16	11
Other income	9	13	16	22	30	44
Total income	92	92	95	105	126	134
Expenses						
Operating expenses	21	25	31	33	36	41
Value adjustments on:						
• loans and guarantees	48	49	46	39	33	-13
• equity investments and associates	-2	20	8	3	2	5
Total expenses	67	94	85	75	71	33
Profit before taxation	25	-2	10	30	55	101
Net profit	17	4	5	21	37	73
Ratios at end of year (%)						
Shareholders' equity / Total assets	42	41	46	42	43	41
Return on Shareholders' equity						
• Profit before taxation	4.3	-0.3	1.4	4.0	7.1	10.6
• Net profit	2.8	0.7	0.7	2.8	4.8	7.7
Net profit / Total assets	1.2	0.3	0.3	1.2	2.0	3.1
Ratio of operating expenses / income	23	27	32	32	28	31
Value adjustments on loans / total loans	12	16	17	13	8	7
Value adjustments on equity investments [4] / total equity investments [4]	27	38	42	38	29	23
Average number of employees	142	164	192	196	197	203

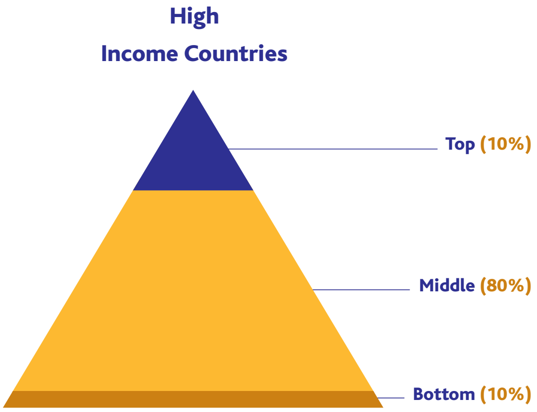
[1] 2000-2003 are non-consolidated figures and have not been adjusted. 2004-2005 are consolidated. Because of the limited differences between consolidated and non-consolidated figures, the figures in the table are considered to be comparable.
[2] Adjusted for comparative purposes.
[3] According to Annual Accounts 2003.
[4] Including associates.

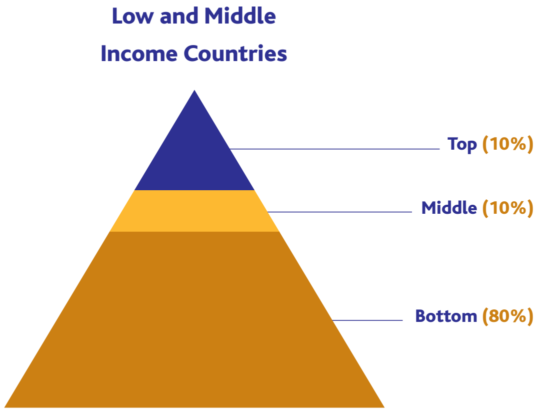
About FMO

FMO stimulates sustainable economic development in high-risk developing markets in Africa, Asia, Europe & Central Asia and Latin America & the Caribbean. We build bridges between private sector entrepreneurs and investment capital and know-how, working in professional partnership with our clients. Our mission is based on the proven concept that sustainable economic growth is stimulated by the development of a healthy private sector. Our expert financial teams proactively seek out potentially successful enterprises and financial institutions, supporting their growth through loans and guarantees, equity investments, and/or knowledge transfer.

Our vision

In all economies, sustainable growth in prosperity and continuous improvement in living standards can only be achieved if there is a strong private sector operating within a public-sector framework that is well regulated. It is key in the structural improvement of all economies and has a major social impact by changing people's perspective and stimulating their aspirations. By supporting private sector development, the 'pyramid' is impacted positively, stimulating the creation of a larger and stronger middle class and the ensuing trickle-down economic benefits for all. The greater the trickle-down effect, the greater the development impact.





How we work

Our investments are long-term and aimed at a lasting development impact. We work in high-risk markets and/or sectors where most commercial investors are not yet willing to enter. FMO is a AAA financial institution. We are a public-private partnership with the Dutch Government holding 51 percent and major Dutch banks owning 42 percent of our shares. Trade unions, private companies and individuals hold the remaining 7 percent. Given our shareholder structure and public accountability, we operate in the same way as any reputable bank. Our flexible, expert teams work according to financial best practices and norms, with clear development and financial goals and objectives, underpinned by transparent risk management procedures. FMO is not a charity. Without healthy returns, we cannot achieve our targeted long-term and lasting impact. Nor will our co-financiers see us as a credible risk partner. Our target return on equity is at least equal to Dutch Government bond returns.

Investing in entrepreneurship means building trust, sharing know-how and managing and mitigating negative social and environmental impacts in a responsible way. At the same time, people, local culture and good governance are key factors in all our activities. Through this integrated approach, we support our clients' own aims of growing into healthy companies or financial institutions with a sustainable outlook. Both capital and know-how help companies generate sustainable returns. In turn, the economic vitality that is created by our clients contributes to increasing prosperity and improves the quality of the societies in which they operate.

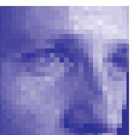
Sustainable development impact

Our projects are ultimately concerned with achieving sustainable growth and prosperity. We consider social and environmental impact in structuring our financing and portfolio management. We work according to the definition of 'sustainable development' by the Brundtland Commission: 'Development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. This prosperity may take the form of new jobs, increased incomes, lower prices, reliable electricity supply, better conditions of employment, or extra tax income.

Additionality and catalytic role

FMO works exclusively in developing markets in Africa, Asia, Europe & Central Asia and Latin America & the Caribbean. Through our special capital structure - the role and contribution of the Dutch Government are essential - we are able to offer financing that private sector parties are unable or unwilling to provide. In short: **we operate in high-risk markets where investment capital is scarce. This is the additionality of our financing.**

All our markets benefit from local entrepreneurial initiatives and investment from outside. However, many face a number of obstacles and risks. Often, these deter investment by both domestic entrepreneurs and outside commercial financiers. This is where FMO plays its *catalytic* role. We have in-depth knowledge of our markets, understand the potential obstacles and are aware of the risks. **With a reputable development finance institution like FMO as a partner, commercial banks and private investors are more likely to participate.** This is true even in high-risk markets.



Development Impact Criteria

ECONOMIC
- Financial output
- Employees
- Customers and end-users
- Suppliers
- Government income
- Balance of payments
- Competitors
- Small enterprise development

SOCIAL
- Labor relations
- Community development
- Stakeholder participations
- Social performance of clients
- Specific social investments

ENVIRONMENTAL
- Exploitation / conservation of non-renewable resources
- Chain stewardship
- Eco efficiency
- Environmental performance of clients
- Specific environmental investments

Score Card

FMO uses a 'Score Card' *ex-ante*, at the time of investment approval, to assess the expected development impact of the financed activity on broader development. Development impact is measured according to economic, social and environmental criteria. High scoring projects have a high potential of success and sustainability and contribute to the quality of the portfolio. Evaluations (*ex-post*) look at investments when they are mature (in principle: five years after approval) and assess whether the expected impacts have indeed been achieved. The Development Impact Criteria graph above demonstrates most of the indicators we use to measure development impact. Below are examples of how the Score Card has been used to assess successful and failed investment projects.

Most of the time it works

South East Asia

In 2000 FMO arranged a USD 135 million financing package for a private South East Asian telecom operator. The structure enabled participating commercial banks to provide loans with a longer tenure than otherwise would have been possible. The financing enabled the company to roll out its mobile network, providing telecommunication services in a country that, thus far, was mainly served by an expensive fixed line network with a low penetration rate. The company succeeded in increasing the number of mobile subscribers from 3.5 million in 2000 to more than 20 million in 2004. People in areas previously unreachable by phone gained access to telecom services and the costs of communication, in terms of tariffs, were slashed. The company's operations also stimulated related economic activities, such as phone shops and the sale of prepaid cards.

Evaluation ratings:

Development outcome: **highly successful**

FMO investment outcome: **satisfactory**

FMO work quality: **satisfactory**

Sometimes it doesn't

Latin America

In 2000, a USD 20 million loan was provided to a large commercial bank in Latin America. It was expected that the loan would enable the bank to maintain its lending to second tier corporates in the country, who would otherwise have fallen victim to reduced liquidity in the banking system. By 2002, the bank ran into serious problems due to spill over effects of the Argentina crisis, combined with large-scale fraud in the bank. The bank eventually collapsed. For the bank's customers and employees, the collapse of the bank was a disaster. Many people lost money and a large number of employees lost their jobs. The country's entire financial sector was affected and its reputation was seriously damaged. This resulted in an economic crisis, at huge costs to society and the government. FMO had to write off almost the entire loan as a loss.

Evaluation ratings:

Development outcome: **highly unsuccessful**

FMO investment outcome: **unsatisfactory**

FMO work quality: **partly unsatisfactory**

Our portfolio

With an investment portfolio (including government funds) of EUR 2.4 billion, 96 new investments in developing countries in 2005, and 438 projects making up the total portfolio, FMO is one of the world's largest bilateral development banks for the private sector. Like any regular bank, FMO has a portfolio of its own account. We also manage special funds for specific purposes. Capital for these funds are sourced primarily from the Dutch Government, which allows FMO to accept risks and take initiatives in market segments that would otherwise be out of our reach. These include Small and Medium-sized Enterprises (SMEs) and (public-private) infrastructure projects in least developed countries. The funds allow FMO to go further than other development banks, setting FMO apart as a leader in innovative financing solutions. See pages 46-57 for a complete overview of our financial products.

Our financing

The dynamics and objectives of our activities take place within the framework of an integrated portfolio risk management approach. We want to avoid undue concentration of risk at country, sector and client levels. Due to our mission, FMO's risk management goes further than standard banking practice. We are not looking only for a viable business plan with market forecasts and risk/return ratios. Our expert teams also evaluate investment proposals based on their expected negative social and environmental impact, and from a governance perspective. In addition, once committed, FMO has a long-term horizon. An average client-partnership lasts at least five years.

Assessing investment

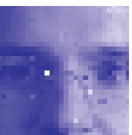
FMO actively seeks projects that are aligned with our investment policies, resulting in around 100 new investments every year. Investment officers are responsible for making an initial selection based on these criteria. Once selected for further review, a dedicated 'deal team' is assembled, made up of one or more investment officers, legal, environmental and social experts. Where necessary, external expertise is brought in. The deal team visits the company and evaluates the investment plan and management. Using FMO's 'Score Card', the economic, environmental and social situation are assessed. All of these factors are incorporated into the financing proposal. This forms the basis for approval by the Investment Committee and the Management Board.

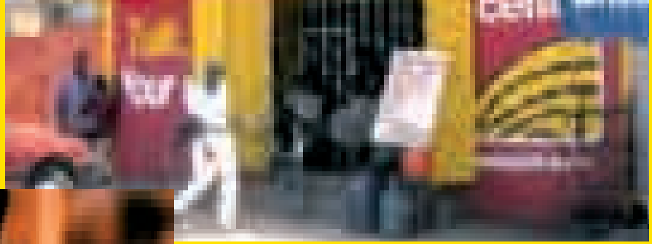
Monitoring projects

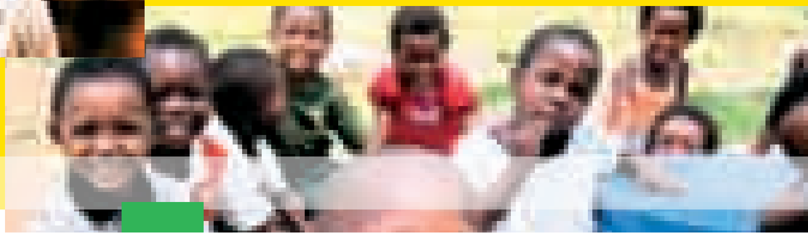
We monitor all investments throughout their duration. In general, projects run efficiently. Some clients repay loans early if refinancing through commercial banks is available or more beneficial. There are, of course, projects that do not run according to plan financially. Our Special Operations Department takes over restructuring terms or negotiating other solutions if this occurs.

Development impact

FMO's primary objective is to select investment projects that lead to long-term, positive development impact. Again using the FMO Score Card, economic, environmental and social development impact variables are evaluated and measured.







Development Impact Indicator

The Development Impact Indicator (DII) has been developed by FMO to measure and report on our progress in sustainable development impact. The DII combines the criteria used in determining the Economic Development Impact Score (EDIS) with the level of new commitments in the reporting year. 2005 has been used as a base year against which all our future DII's will be measured. The score for 2005 is 390. Our long-term goal is to increase this rating 50 percent by 2010, compared to 2005.

DII calculation for 2005

EUR 699 million (new commitments) x 55.8 (EDIS) / 100 = 390

The world of FMO

Strategic partnerships

FMO's strength lies in our network of local, European and international partners. These can be counterparts in European countries, financial institutions in our focus markets, and individual companies in those countries. With several partners we have established an official cooperative relationship, aligning certain internal processes to provide a better and more focused service. Our network links us with the knowledge and expertise of thousands of people in companies and financial institutions in dozens of developing countries. The worldwide partner network has been built up over 35 years. To be most effective, we focus our activities in nearly 50 countries and sectors, such as the financial sector, infrastructure (roads, telecom, energy, water) and second tier companies in trade and industry.

Key partners

Multilateral Development Banks

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Investment Corporation (IIC)
- International Finance Corporation (IFC)
- European Investment Bank (EIB)
- Corporación Andina de Fomento (CAF)
- Central American Bank for Economic Integration (CABEI)

European Development Finance Institutions

- Belgian Investment Company for Developing Countries (BIO)
- Commonwealth Development Corporation (CDC)
- Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG)
- Norwegian Investment Fund for Developing Countries (NORFUND)
- Société de Promotion et de Participation pour la Coopération Economique (PROPARCO)

Dutch Government

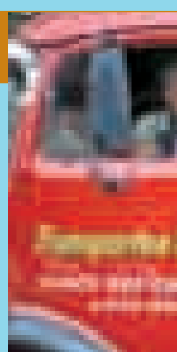
- Ministry of Economic Affairs
  - Agency for International Business and Cooperation (EVD)
  - Foreign Economic Relations (BEB)
- Ministry of Finance
- Ministry of Foreign Affairs
  - Minister for Development Cooperation (OS)

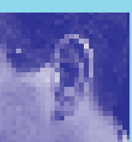
Dutch Companies

- ING Bank
- ABN AMRO
- Rabobank
- Triodosbank

LATIN AMERICA & THE CARIBBEAN
Key Partners

- Accion
- Advent
- Banco Commercial
- Banistmo
- Darby
- Probanco
- Standard Bank





FMO Committed Portfolio

EUR 567 million (24%)

EUROPE & CENTRAL ASIA
Key Partners

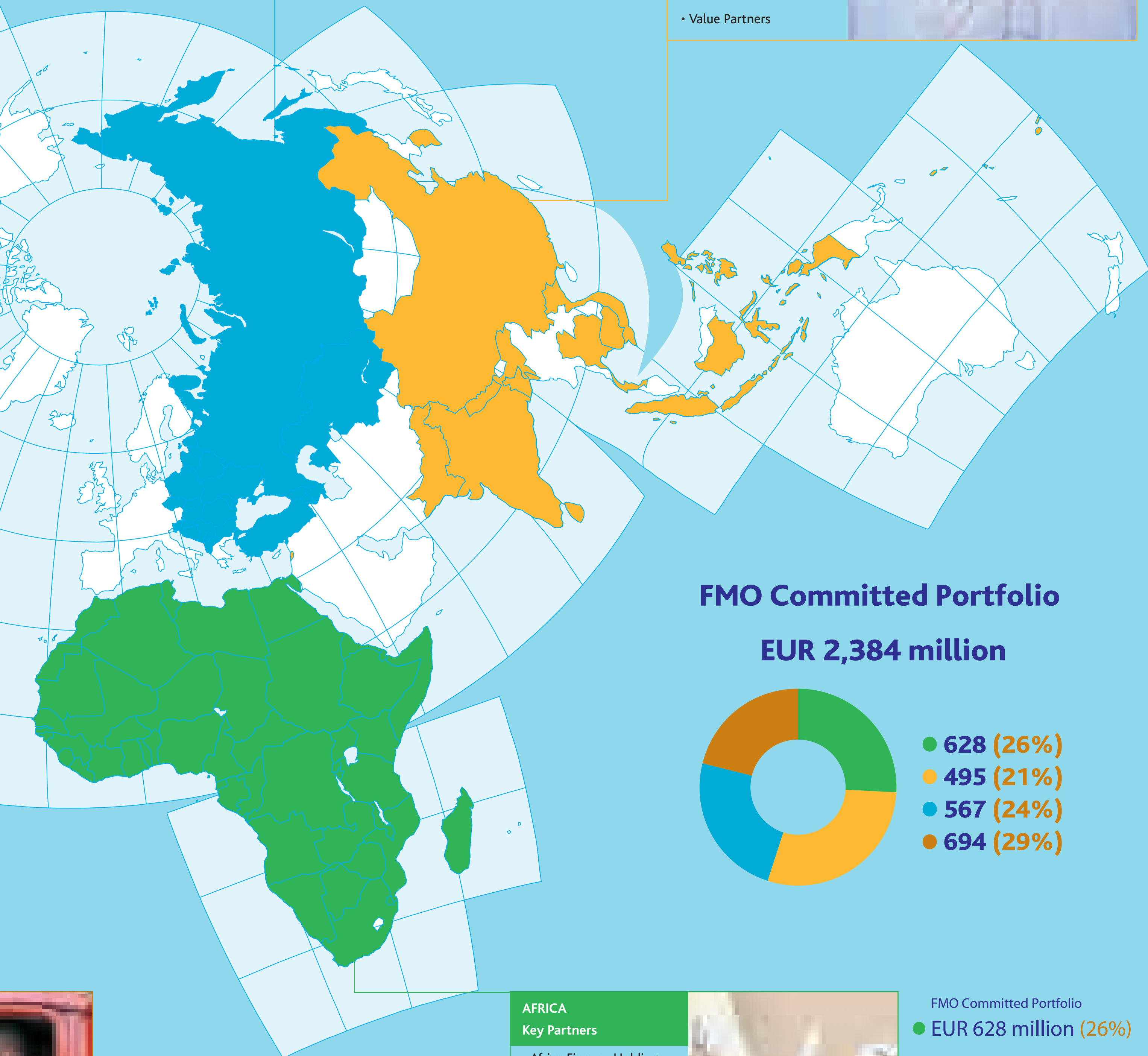
- Balkan Accession Fund
- Procredit Holding
- Raiffeisen Zentral Bank International
- TBIH Financial Services Group

FMO Committed Portfolio

EUR 495 million (21%)

ASIA
Key Partners

- Aga Khan Foundation for Economic Development
- Indorama
- Shorecap
- Standard Chartered Bank
- Value Partners



FMO Committed Portfolio

EUR 2,384 million

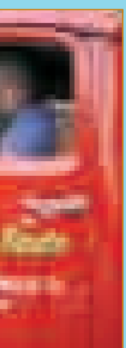
- 628 (26%)
- 495 (21%)
- 567 (24%)
- 694 (29%)

AFRICA
Key Partners

- Africa Finance Holdings
- Africap
- Bank of Africa
- Celtel International
- First Afriland Bank
- La Fayette Investments
- Tuninvest/Africinvest

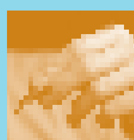
FMO Committed Portfolio

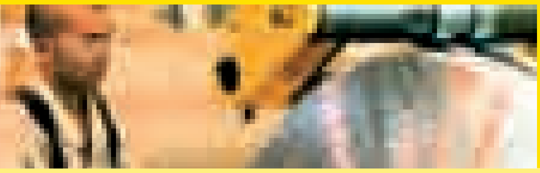
EUR 628 million (26%)



FMO Committed Portfolio

EUR 694 million (29%)





LATIN AMERICA & THE CARIBBEAN

Businesslike

Manufacturing

Nico K.G. Pijl (1951), *Chief Risk & Finance Officer*

Nico Pijl was appointed Chief Risk & Finance Officer in 2005. From 1986-2005, he held a variety of FMO positions, including Chief Portfolio Officer, Senior Investment Officer, Regional Manager Latin America & the Caribbean and later on Asia. Prior to FMO he worked for nearly 10 years at the United Nations and the World Bank.

R. Arthur Arnold (1946), *Chief Executive Officer*

Arthur Arnold was appointed CEO on January 1, 2005. Prior to joining FMO, he was President and CEO of the World Council of Credit Unions for five years. From 1992-2000, he served Rabobank Group as Director of Investment Banking and Chairman of the Management Board of Rabobank International. Prior to Rabobank, he worked for ABN AMRO Bank for 24 years in management positions across the globe.

Nanno D. Kleiterp (1953), *Chief Investment Officer*

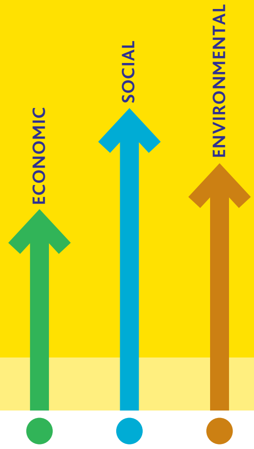
Nanno Kleiterp has been responsible for FMO's risk-bearing portfolio as Chief Investment Officer since 2000. From 1987-2000, he held a number of positions with FMO, including Manager Small-Medium Enterprises, Regional Manager Latin America and Chief Finance Officer. Prior to FMO he gained extensive experience in private sector development while working in Nicaragua, Mexico and Peru.

Stimulating development through long-term financing

In Brazil Mangels is the leading manufacturer of alloy wheels and cooking gas cylinders and a major cold-rolled steel-milling operator with galvanizing facilities. In 2004, Mangels embarked on a three-year, USD 40 million investment program. The program will enable the company to significantly expand its production facilities, and implement two new production lines for air compressors and natural gas tanks.

Says Adelmo Felizati, CFO, Mangels, 'The majority of the investment program will take place at the existing plants in São Paulo and Minas Gerais. By financing this project, FMO and DEG will be helping us to meet the growing demand for our products, and meet the Brazilian government's objectives of stimulating development and employment in these two regions.'

FMO's long-term loan facility of USD 10 million and DEG's USD 20 million will help fund Mangels investment program, and improve its debt structure. Long-term financing of this kind is not available on the local capital market.



Brazil

Mangels

Score Card Development Impact

Report of the Management Board

Development impact performance in 2005

For our shareholders, 'shareholder value' equals development impact. This means that potential development impact is an integral component in the selection of clients, and is monitored during the investment period and after exit. In 2000, FMO revised its investment strategy and focused on a smaller number of target countries and sectors in order to increase development impact, with particular focus on the financial and infrastructure sectors (power and water, telecommunication and transport infrastructure). As our base year, 2005 is the first year we are able to report on development in measurable terms with a Development Impact Indicator (DII), combining the level of new investments and our Economic Development Impact Score (EDIS). At the end of 2005 our DII score was 390.

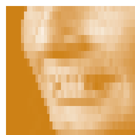
See page 9 for more information about DII.

Financial performance in 2005

We pursue our mission of increasing development impact through a clear strategy: entering into more challenging countries and moving strategically towards higher-risk market segments. The strategy is further based on consistent focus of increasing the deal flow, the full utilization of possible special government funding, and growing the number of equity and quasi-equity transactions.

Highlights 2005

- Operating profit before value adjustments of EUR 93 million (2004: EUR 91 million);
- Net profit rose to EUR 73 million (2004: EUR 37 million);
- The committed portfolio (including government funds) grew 20 percent to EUR 2,384 million (2004: EUR 1,991 million);
- New commitments grew 16 percent to EUR 699 million (2004: EUR 605 million);
- New commitments through government funds are up 107 percent to EUR 153 million (2004: EUR 74 million);
- Equity and mezzanine finance grew 36 percent to EUR 742 million (2004: EUR 544 million);
- Early repayments grew to EUR 82 million (2004: EUR 66 million);
- AAA rating confirmed by Standard & Poor's.



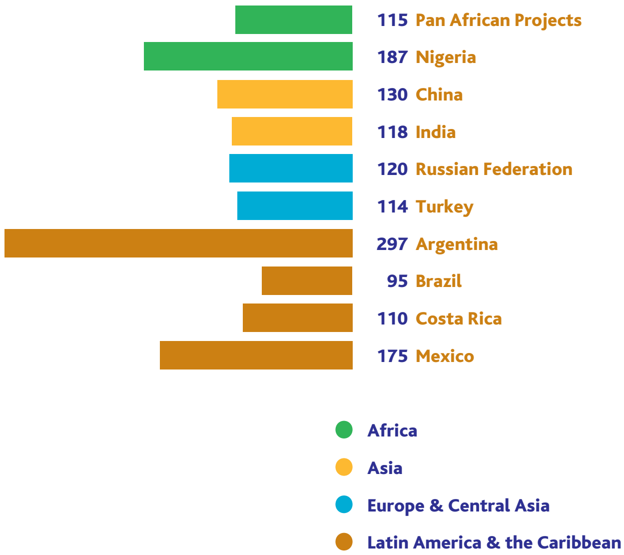
The portfolio

The quality of the portfolio has improved in recent years. This trend continued in 2005, supported by a favorable economic climate. The improvement was clearly shown by a further decrease of the non-performing loan portfolio, from 10 percent in 2004 to 9 percent in the reporting year. The quality of the equity portfolio is also improving.

Portfolio spread

Africa is FMO's fastest growing region, now representing 26 percent of the financing portfolio. At the same time, Africa is the region with the highest risk in terms of market liquidity and currency stability. FMO still manages, however, to grow a profitable portfolio in the region, a confirmation of the viability of our strategy. Europe & Central Asia represents 24 percent of the portfolio. In this region there was a distinct role for FMO to develop good corporate governance, especially in Russia and Kazakhstan. In Ukraine a number of successful Investment Facility Emerging Markets (IFOM) projects were also financed. Around 21 percent of the portfolio is in Asia. FMO provided several credit lines to Sri Lankan banks after the Tsunami. In China and India, FMO was able to co-finance several projects with international and local banks, seeking out distinct areas where development value could be achieved. Latin America & the Caribbean represent 29 percent of FMO's portfolio. In this region, and to a lesser extent Europe, a significant number of outstanding investments were repaid early and exchanged locally for cheaper (commercial) loans.

Top 10 countries in portfolio (EUR million)



Portfolio growth in 2005

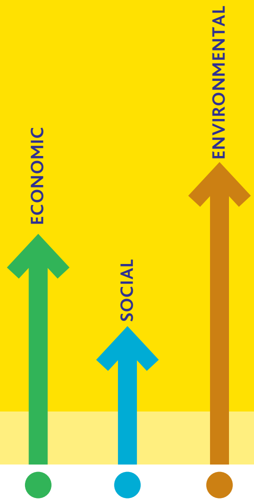
FMO's portfolio grew steadily by 96 new contracts for a total amount of EUR 699 million. The total portfolio now consists of 438 projects, totaling EUR 2,384 million (2004: EUR 1,991 million). The majority of new financing was contracted in Africa (32 percent), followed by Latin America & the Carribean (26 percent), Europe & Central Asia (25 percent) and Asia (17 percent).

Cementing Nigeria's future

Dangote Industries Ltd (DIL) is a diversified Nigerian company and the largest importer of cement in the country. It currently imports and distributes four million tons of cement per year. In 2002, Obajana Cement Plc (OCP), a subsidiary of DIL, drew up plans to construct a new cement production plant, power plant and associated facilities.

As Samaila Zubairu, CFO, OCP, points out, 'Nigeria consumes over 10 million tons of cement annually, but only 2.7 million tons are produced locally at present. This means that the deficit has to be imported. We anticipate that the OCP production plant alone will enable us produce about 5 million tons of cement per annum. This will create employment, reduce the percentage of imports, save the government foreign exchange, and thereby make money available for education and healthcare projects.'

FMO, Africa Merchant Bank, IFC, EIB and the local First Bank arranged a syndicated loan of USD 479 million that will provide medium-term debt finance for the construction, testing, maintenance and management of the planned cement and power plant at OCP.

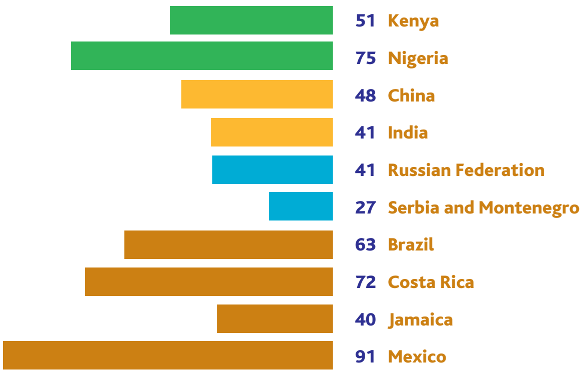


Nigeria

Dangote Industries

Score Card Development Impact

Top 10 countries in new contracts (EUR million)



Commitments

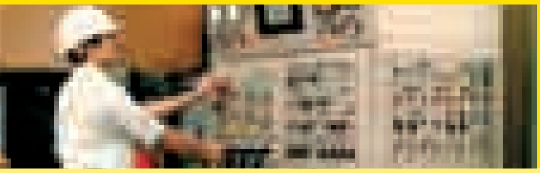
In 2005, the emphasis was on the full utilization of government funds (see below). This resulted in a significantly higher level of commitments. These funds now represent 16 percent of our business. Moreover, FMO's own commitments were higher than targeted. The strategy, initiated some years ago, to increase deal flow, is now starting to pay off. The appreciation of the US dollar also contributed significantly to above target performance. The government funded Development Related Export Transactions (ORET) program reached a record EUR 183 million in commitments as a result of the extended mandate.

Government funds

Apart from the business activities carried out for its own accounts, FMO manages a number of special government funds. These funds, such as the LDC Infrastructure Fund and Netherlands Investment Matching Fund (NIMF), form an important part of our business. After a slower than expected start, the LDC Infrastructure Fund and NIMF Funds are now performing well and generate a healthy deal flow. The SME Fund, Seed Capital Fund and Balkan Fund will be consolidated and managed under the name MASSIF in 2006. This new financial sector fund for the microcredit and SME financing is growing significantly. During the UN International Year of Microcredit, FMO has been able to play an important role. We are one of the largest Dutch providers of microfinance, disbursing EUR 10 million in 2005 – bringing our total microfinance portfolio to EUR 59.5 million. Through MASSIF, FMO facilitates loans to micro-entrepreneurs and small enterprises by strengthening the financial intermediaries (institutions) who provide these loans. The largest share of the fund, 38 percent, is invested in Africa and 25 percent in Asia. FMO was able to place 53 percent of the fund in high-risk local currencies.

Local currency fund

Through its successful management of the local currency SME Fund, FMO has had a positive experience in investing directly in local currencies. We extend this experience to other sectors requiring local currency debt. With the assistance of the Dutch Government this may lead to the establishment of a new local currency fund in 2006. The fund will offer local currency loans to FMO clients on a larger scale and become active in the local borrowing and currency derivatives markets. In the long-term, FMO plans to provide hedging solutions to third party financiers such as other development banks and also seek the involvement of other investors. Our goal is to have a substantial portion of our transactions in local currency as well as a more direct involvement of the local capital markets in FMO funding by 2010.



ASIA

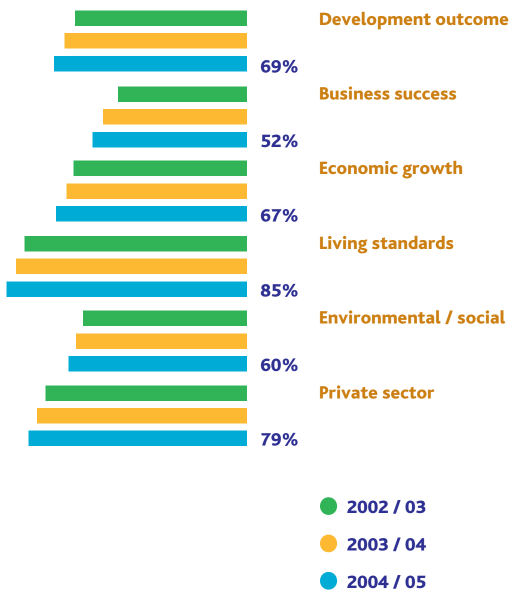
Leverage

Manufacturing

Evaluation

FMO's internal evaluation unit assesses the development impact of recently matured investments. This enables us to compare the actual impact with expected results and provides us the experience necessary to improve our policies and strategies. In 2005, projects committed in 2000 were subjected to an in-depth evaluation. Of the 33 projects concerned, two-thirds contributed significantly to overall economic, social and environmental development in their countries. Good development outcomes were typically accompanied by good financial returns. Not surprisingly, FMO financial returns were disappointing when development impact results were poor.

% of projects with good development outcomes, moving average



An analysis of 118 projects evaluated since 2003 shows that around 85 percent of these projects contributed strongly to improving living standards. Projects in FMO's focus sectors (financial institutions and infrastructure) more often produced good development outcomes than projects in other sectors. Projects in low income and lower middle-income countries more frequently achieved good development and investment outcomes than projects in upper middle-income countries, in part because the latter group of countries was more often affected by crises.

Sustainability – progress in 2005

In 2005, FMO continued its structural sustainability approach, focused on people, the planet and profit in a balanced way. It was also a year of initiatives and developments. We adopted the Equator Principles, a financial industry benchmark for assessing and managing social and environmental risks in project financing. The principles are applied to all our financing, not just to project financing above a certain investment threshold. In September 2005 we published our first Sustainability Report 2004. It provides insight into FMO's vision on sustainability, how we have integrated it into the organization, and how we are building safeguards to maintain standards in our day-to-day business operations. Our Sustainability Report 2005 was published in May 2006. Both reports can be downloaded from www.fmo.nl.

Expanding steel company sets new standards

Uttam Galva Steels Ltd (UGSL) is one of the largest producers and exporters of high-end steel in India. UGSL was affected by the recession in the steel industry in the mid-1990s, but has since made a successful turn-around. It now exports more than 70 percent of its products to 116 countries worldwide, and has a turnover of around USD 490 million.

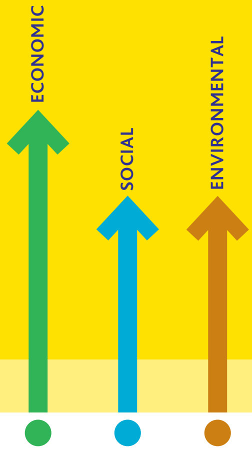
Says **Ankit Miglani**, Commercial Director, UGSL, 'Despite our success, local and international banks were hesitant to provide us with financing, until FMO stepped in. This capital will enable UGSL to expand further, safeguard its existing workforce, and create a significant percentage of new jobs. Furthermore, FMO has helped us set benchmarks in our environmental policy. Because we trade internationally, we have set standards far higher than those required by the Indian government.'

FMO contributed USD 25 million to a USD 75 million Trade Advance Facility. As a result of FMO's involvement in UGSL, other European banks have now come on board.

India

Uttam Galva Steels

Score Card Development Impact



Financial Results

2005 was an exceptional year for FMO. The growth of financing using government funds was strong. Influenced by operational and organizational improvements from previous years and by the current positive economic climate, the quality of the portfolio further improved. This led to a notably lower level of value adjustments. Net profit increased from EUR 37 million to EUR 73 million.

Portfolio and production

The FMO Finance portfolio grew by 20 percent, from EUR 1,991 million (2004) to EUR 2,384 million (2005) due to a substantial increase in new commitments and the appreciation of the US dollar.

In 2005, new commitments increased by 16 percent, from EUR 605 million to EUR 699 million. The increase in commitments from government funds was especially notable, rising from EUR 74 million (2004) to EUR 153 million (2005).

The outstanding portfolio increased even though the positive economic environment triggered a significant amount of early repayments. The (net) outstanding portfolio, including guarantees, for FMO's account grew by 16 percent, from EUR 1,111 million to EUR 1,287 million. The loan and equity portfolio related to the government funds increased by 46 percent, from EUR 187 million to EUR 273 million.

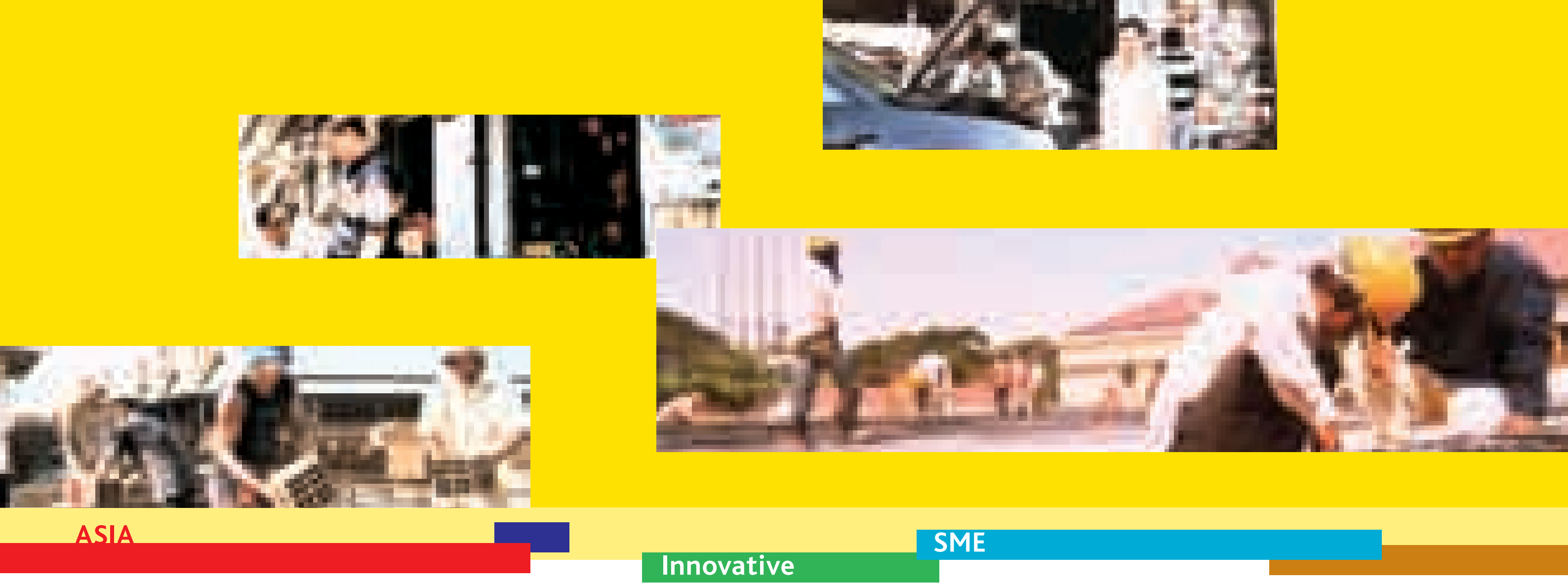
Income and operating expenses

Total net income doubled from EUR 37 million in 2004 to EUR 73 million. Total income amounted to EUR 134 million compared with EUR 127 million in 2004, caused by the growth of non-interest income. The results on financial transactions increased substantially from EUR 6.7 million to EUR 17.3 million. Revaluation of derivatives related to the asset portfolio was an important factor affecting this positive result.

Operating expenses increased by 14 percent. A contributing factor was one-off write-downs on software that increased depreciation costs; without this item growth in costs would be 9 percent. Extra costs were taken due to the implementation of IFRS in 2005.

FMO Finance committed portfolio per sector (EUR million)

1,161	(49%)	Financial Sector
577	(24%)	Infrastructure
512	(21%)	Trade & Industry
134	(6%)	Others



FMO Finance committed portfolio per product (EUR million)

1,387	(58%)	Loans
401	(17%)	Mezzanine
341	(14%)	Equity investments
255	(11%)	Guarantees

Value adjustments

The most important item contributing to the strong increase in profit is the continuing positive development of value adjustments. The positive economic environment and consistent emphasis on intensive portfolio-management resulted in a further improvement in the quality of the portfolio, resulting in a release of value adjustments of EUR 8 million (2004: dotation of EUR -35 million).

Specific value adjustments on loans and guarantees have been evolving favorably. Value adjustments taken during earlier years (at a time of crisis in FMO's area of operations) have been partly recouped by means of successful collection of outstanding debts. The total value adjustments as a percentage of the outstanding portfolio of loans and guarantees were 14 percent (2004: 16 percent) at the end of 2005. In the equity investment portfolio adjustments amounting to EUR 5 million were taken (2004: EUR 2 million).

US dollar sensitivity

The largest part of the FMO's portfolio is still US dollar denominated, although the US dollar sensitive part of FMO's portfolio is decreasing (2001: 87 percent, 2005: 73 percent). FMO reports in euros, which means that it must take into account fluctuation of the US dollar. The exchange rate fluctuations affect the balance sheet and profit and loss account items reported by FMO, as well as the production figures and portfolio positions. However, the effects on net profit and equity are mitigated since the US dollar denominated part of our investment portfolio is funded in the same currency.

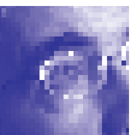
Balance sheet

Total assets increased from EUR 1,845 million to EUR 2,329 million. The growth came primarily from the growth in short-term deposits and the portfolio of loans and equity investments. The amount of short-term deposits with banks increased substantially because of the high level of prepayments, lower amounts called by counterparties under the European Medium Term Note (EMTN) program and attractive funding conditions.

Due to changes in accounting policies, the implementation of IFRS and deconsolidation of government funds and NIO, the composition of the balance sheet has changed. The figures of 2004 have been adjusted in order to maintain comparability.

Funding

FMO's EMTN program was an important source of funding. In 2005, 60 new notes were issued on attractive terms totaling EUR 502 million. 43 contracts totaling EUR 313 million were redeemed.



Microfinance is a macro success

ACLEDA Bank was set up in 1993 to finance rural micro-entrepreneurs and SMEs in Cambodia who would otherwise have no access to credit. The bank was a success from the start and now has over 140,000 customers, 139 offices and a balance sheet of over USD 123 million.

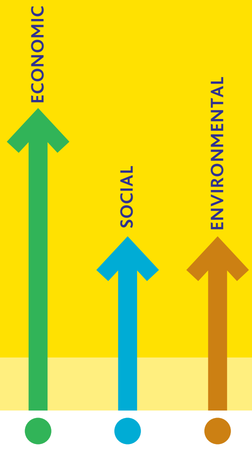
According to **In Channy**, General Manager, ACLEDA Bank, 'Our objective is to provide the best banking products and services through our extensive branch and office network. More specifically, our aims for 2006 are to grow our loan portfolio by 46 percent and increase our net profit by 20 percent. The FMO equity investment and the loan of USD 4 million that we received in 2004, has been beneficial not just because it provides us with important capital, but also because the involvement of an international financier increases confidence in Cambodian financial institutions.'

FMO became a shareholder in 2000, when ACLEDA went from being an NGO to a Specialized Bank and needed to increase its share capital in order to obtain a commercial banking license in December 2003.

Cambodia

ACLEDA Bank

Score Card Development Impact



The EMTN loans are predominantly converted into variable-rate US dollar funding by means of interest currency swaps. In addition, derivatives are taken in order to control interest rate and currency risk. At the end of 2005 the nominal value of the outstanding derivatives was EUR 1,405 million.

AAA rating

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

Development fund

In 2005 the Dutch Government made its final contribution (EUR 37 million) to the Development Fund, increasing this fund to EUR 658 million. Under the Agreement State-FMO dated November 16, 1998, yearly contributions were scheduled to end in 2005. From 2006 the growth of equity will be fully determined by FMO's results.

Change in accounting policies

IFRS

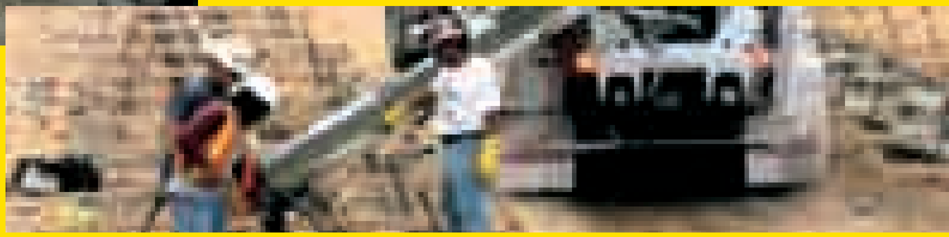
Until 2004, FMO applied generally accepted accounting principles in the Netherlands ("Dutch GAAP") when reporting the annual accounts. FMO's 2005 annual accounts are reported under International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). Important adjustments concerning the implementation of IFRS include fair value reporting of equity investments, amortization of interest-linked front-end fees, on-balance disclosure of derivative instruments and valuation of retirement benefit plans. The financial statements are prepared under the historical cost convention and modified by the revaluation options to fair value for available for sale investment securities, cash and cash equivalents, applicable funding items and all derivative contracts.

Government funds

Apart from financing activities from its own resources, FMO provides finance from special government funds, within the conditions and objectives of the funds. These funds are not consolidated in the annual accounts. The economic risk related with these funds is taken by the State and FMO has limited control on policy issues regarding the funds. FMO receives remunerations for managing the funds. The investment portfolio of the funds is included under the balance sheet and further disclosure is included in the notes to the annual accounts.

NIO

FMO's fully owned subsidiary Nederlandse Investeringsbank voor Ontwikkelingslanden N.V. (NIO) acts as an administrator of funding provided to developing countries on behalf of the Ministry of Foreign Affairs. The activities of NIO are entirely at the expense and risk of the Ministry and the policies and conditions of the NIO activities are determined by the government. Therefore NIO is not consolidated in the annual accounts of 2005. The figures of NIO are disclosed in a separate, audited annual report.



LATIN AMERICA & THE CARIBBEAN

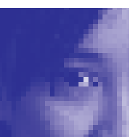
Committed

Transport

Mexico

Risk Management

FMO's risk management can be compared with that of any financial institution. FMO applies an integrated portfolio risk management approach, which covers all balance sheet items. Risk awareness is deeply embedded throughout the organization, enabling dynamic, risk-focused management of all our activities. This risk perspective and awareness is crucial. In recent years, the FMO organization has grown significantly, both in terms of professional personnel and capital invested. Financing activities have become increasingly complex. At the same time, and in line with our integrated approach, the risk management focus has shifted away from deal level to the portfolio as a whole. In addition, external regulatory requirements, such as the implementation of International Financial Reporting Standards (IFRS) in the reporting year, and Basel II from December 2006, have been important drivers in positioning the balance sheet as the primary risk management tool. With the increasing complexity of deals, risk management information has become an important source for Investment Officers in their analysis of potential projects.



Rail company aims to improve both transport and trade

In 1999, Ferrocariles Chiapas Mayab S.A. de C.V. (FCCM), a subsidiary of American rail operator Genesee & Wyoming Inc, acquired a concession to operate two railway lines in the south of Mexico. Under the concession, FCCM obtained the exclusive rights for freight transport along these lines but as a condition, had to carry out a modernization program and invest in additional rolling stock.

Says **Luis Pacheco**, CFO, FCCM, 'Our aim was to be able to compete with road transport by cutting costs and improving connections. Unfortunately, hurricane Stan hit in October 2005, putting the south-bound line out of service until at least the end of 2006.' The total investment cost of USD 50 million was initially financed on a corporate basis.

IFC (USD 20.5 million) and FMO (USD 7 million) agreed in 2000 to finance FCCM on a project finance basis. Putting FCCM on a firm financial footing was expected to assist the development of ones of Mexico's poorest and least developed regions, and strengthen integration and trade between Mexico and Guatemala.

Ferrocariles Chiapas Mayab S.A. de C.V.

Score Card Development Impact

Risk management framework

The risk management framework within FMO facilitates the identification, measurement, monitoring and mitigation of risks. Within this framework a distinction is made between project, portfolio and organizational risk management.

Project risk management

At the project level, the Investment Committee (IC) assesses all individual financing proposals on specific counterparty and country risk. In addition, all financial exposures are subject to a periodic review by the Investment Review Committee (IRC). The Investment & Mission Review Department (IMR) advises the IC and IRC on the acceptance and subsequent periodic review of financial transactions on financial sustainability, environmental impact and social impact, and monitors associated processes and procedures. For this purpose a Score Card is used.

Portfolio risk management

Management of FMO's portfolio risks is the responsibility of the Asset and Liability Management Committee (ALCO). Its key responsibilities include setting policies on credit, country, currency, interest rate and liquidity risks as well as capital adequacy. The Risk Management Department (RM) assesses and advises the ALCO on the overall portfolio and balance sheet risks. In its monthly meetings, the ALCO assesses risk reports and advises on new products and limits. These limits are designed to avoid risk concentrations, and are based on external ratings. In 2005, RM and the Investment Directorate increased their cooperation on assessment of the more complex projects in the portfolio. This resulted in the development of a so-called 'Region Risk Monitor', covering interest and currency developments, country ratings as well as an assessment of the country portfolio.

Our Score Card provides us with a consistent methodology for assessing the quality of the financing portfolio not only as a whole, but also per region, sector and fund. It measures the financial, environmental and social risks; and the economic, ecological and social development impact of the financing transactions; the additional character of the financing transaction in the capital market; and the added value of FMO in the transaction. See page 7 for more information.

Organizational risk management

On an organizational level a distinction is made between operational, reputation and compliance risks. Each department, as part of their day-to-day business, manages operational including reputation risks. Our Legal and Compliance Department monitors compliance against the Dutch Corporate Governance Code, our internal Code of Conduct and other applicable compliance policies and procedures. FMO's Internal Audit Department also plays an important role in our risk management framework by conducting regular audits on critical operating processes in accordance with an annual audit plan agreed upon with the Management Board and the Audit Committee of the Supervisory Board. These audits address the reliability of FMO's financial reporting, the effectiveness and efficiency of its operations as well as the compliance procedures. The director of the Internal Audit Department meets periodically with the Audit Committee.

AFRICA Leverage Trade

Key risks

The section below provides a high level description of FMO's key risk areas and their related controls:

- credit risk, including country risk;
- market risk, including currency risk, interest rate risk, equity risk and, to a limited extent, commodity price risk;
- liquidity risk; and
- operational risk.

Credit Risk

FMO's most significant risks are the credit risks related to our investment activities in high-risk sectors and markets. In this context, credit risks include both the risk of credit quality deterioration of a specific counterparty as well as the risks relating to the country in which the counterparty conducts its business. Given FMO's mission to contribute to the structural and sustainable economic growth in the countries in which it invests, its credit risks are often significantly higher than those of commercial banks.

FMO is exposed to credit risk in both its investment and treasury operations. It can affect the value of FMO's positions. Credit risk is managed through stringent selection procedures on counterparties and projects.

Investment credit risk

FMO manages investment credit risks by pursuing strict acceptance policies for counterparties and projects. These policies include organizational and administrative procedures, investment criteria, and limits per country, sector, debtor and group. This approach is determined to a significant extent by FMO's agreement with the Dutch State, which restricts certain activities, sectors and countries. Limits are designed to spread credit risk. Counterparty risk is determined by scoring on financial strength and risk mitigating structures and frameworks. Country risk, which includes all country-specific events that can adversely impact the credit quality of counterparties, is assessed based on ratings from external agencies and other external information.

Treasury credit risk

FMO is also exposed to credit risks on its liquid assets, its treasury investment portfolio and the positive fair value of derivative instruments. Again and according to treasury investment policy, stringent selection procedures are in place for the acceptance of counterparties. FMO works exclusively with financially strong parties. Limits apply by country, industry sector, debtor, and type of transaction.

Market Risk

The value of FMO's positions can be affected by fluctuations caused by movements in markets. These movements can be changes in foreign currency exchange rates, interest rates, equity prices and commodity prices. The latter is of limited relevance, as FMO is only exposed to commodity risk when it affects the value of collateral for trade finance transactions.

Currency risk

Currency risk is defined as the potential loss that could result from adverse changes in foreign currency exchange rates. Currency risks are minimized and, where possible, eliminated by funding assets with liabilities in the same currency. FMO's placements are denominated primarily in US dollars, while the majority of borrowings in the capital markets are in other currencies. The resulting risks are mitigated by means of derivatives instruments, such as (cross) currency swaps and currency forwards. In its equity

Increasing exports by building relationships

Founded in 1997, South African Fruit Exporters (SAFE) is today one of the largest fresh fruit exporters from South Africa. SAFE itself does not grow fruit but handles the logistics of delivering the fruit from the producer to the consumer.

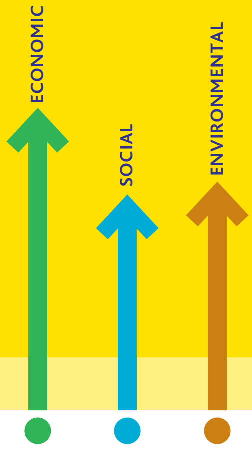
Says **Erwin Bouland**, Director, SAFE, 'We already had a good network of large customers in Russia, the Netherlands, Spain, England and Germany but our objective was to further increase our business opportunities, in particular with supermarkets in Western Europe. To achieve this, we needed an injection of external finance because the payment terms of most large supermarket chains are just too long for us.'

FMO provided EUR 6.5 million risk capital, which enabled SAFE to attract further working capital facilities from commercial banks. This will not only increase SAFE's export capacity, but the fruit producers who supply SAFE will continue to benefit from SAFE's knowledge and expertise in the areas of storage, transportation and marketing.

South Africa

South African Fruit Exporters

Score Card Development Impact



activities, FMO runs currency risks that cannot be covered as future cash flows are unknown. When equity investments are made, the expected returns in local currencies are assessed in terms of their adequacy in compensating potential currency risk.

Interest rate risk

The value of FMO's positions can fluctuate as a result of changes in market interest rates. The fixed interestrate tenor of the underlying financial instrument indicates risk exposure. Interest rate risk is managed by matching the interest rate sensitivity of assets and liabilities. For this purpose, we use derivative instruments, such as interest rate swaps and forward rate agreements.

Equity risk

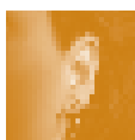
FMO only accepts equity risk in its investment operations. Country specific provisions are established on the equity portfolio, based on country risk and estimated recovery rates.

Liquidity risk

Liquidity risk arises when companies have insufficient funds to meet financial commitments, or when assets have to be sold at a price below fair value to meet such commitments. In line with the FMO treasury investment policy, cash positions and liquid instruments are maintained to cover liquidity risk. The retention of a sizeable portfolio of liquid investments is consistent with the agreement with the Dutch State. FMO's AAA credit rating from Standard & Poor's facilitates access to several financial markets for funding.

Operational risk

Operational risk is defined as the risk resulting from inadequate procedures, information systems or mistakes/fraud by employees. This definition of operational risk includes reputation risk. Apart from the policies in place on IT systems, operational risk is limited through comprehensive internal controls. FMO has a clear division of duties on closing transactions, settlement and positions.



In Control Statement

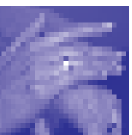
Given the inherent high-risk nature of our business and the markets in which we operate, we, the Management Board, are responsible for taking appropriate measures for the design and operation of the internal risk management and control systems and to ensure that these systems are consistent with FMO's objectives and operations. These systems have been designed to detect opportunities and risk on a timely basis, to manage significant risks and to facilitate the realization of the strategic, operational and financial targets.

To fulfill our responsibilities, we systematically analyzed and, where necessary, extended the organisation's internal risk management and control processes during the year. Together with senior management a comprehensive risk assessment has been conducted during which a number of improvement areas have been identified. In general these relate to operational management and the need to strengthen the monitoring of compliance with internal policies, procedures and instructions. This increased focus on compliance monitoring will be complemented with a Management Talent and Development Program aimed at further enhancing the professionalism and managerial capabilities of our staff. The Internal Audit Department, which renewed its Audit Charter and increased its staff size in 2005, also plays an important role in our enhanced compliance monitoring.

The Management Board regularly considers FMO's risk management and internal control practices and discusses all related significant aspects with its senior management. The results of the Management Board's review of FMO's internal risk management and control systems, including changes and planned improvements, have been discussed with the Audit Committee which has reported these to the Supervisory Board.

Based on our review of the company's risk management and internal control systems, and cognizant of their inherent limitations described below, we have concluded that there is reasonable assurance that:

- we have sufficient insight into the extent to which FMO's strategic and operational targets will be realized;
- FMO's internal and external (financial) reporting is reliable, and that
- applicable laws and regulations are being complied with.



It is important to note that the proper design and implementation of a risk management and internal control system significantly reduces but cannot fully eliminate the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and the occurrence of unforeseeable circumstances. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Properly designed and implemented risk management and internal control systems will therefore provide reasonable but not absolute assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business. In this context reasonable assurance refers to a degree of certainty that would be satisfactory for a prudent manager in the management of his affairs in the given circumstances.

The Hague, March 16, 2006
The Management Board

Arthur Arnold
Chief Executive Officer

Nanno Kleiterp
Chief Investment Officer

Nico Pijl
Chief Risk & Finance Officer

Outlook 2006

The world economy is expected to grow 3 percent in 2006, with emerging markets growing faster (5.5 percent) than the developed world. Growth in Africa is expected to remain at more than 5 percent. The highest growth is expected in Asia (up to 7 percent), powered by the sustained high economic growth (10 percent) in China and India. Although growth is expected, there are a number of concerns for developing economies in 2006. Higher oil prices will initially benefit oil-exporting countries, but will also create higher import bills and subsequent inflationary pressures and public finance challenges in other countries. Developing economies with large external debts remain sensitive to stronger than expected interest rates hikes. And finally, the elections in Latin America could have an adverse impact on financial markets.

FMO in 2006

Building on our strong presence in Africa, FMO will maintain a focus on this fast-growing region. Long-term capital is still scarce and this offers vast opportunities. The main challenge in Latin America & the Caribbean remains the adjustment of our strategy to maintain a strong market position and to fend off possible adverse effects to profitability due to the increased influx of international and local long-term capital. In 2006 elections will be held in ten countries, making the region vulnerable. These include Mexico and Brazil, Latin America's largest economies. The key focus in Asia is to assist clients in managing their risk profile, benefiting from several local currency financing possibilities. In Europe & Central Asia, there will be a strong focus on Turkey, Ukraine and Kazakhstan. Due to their expected EU entrance in 2007, activities in Bulgaria and Romania will be stopped. Corporate Governance issues in Russia and Kazakhstan will be a challenge in 2006. Volume growth is expected from various initiatives in the capital markets, such as guarantees and credit enhancement. FMO's main goals for 2006 include increasing development impact through a high level of production of new commitments and a higher average Economic Development Impact Score (EDIS) of new projects. Internally, we will focus on further streamlining operational processes and further implementation of the Management & Talent Development Program.

Portfolio development

It is expected the level of commercial bank lending activity in emerging markets will remain high. Nevertheless, the lower market segments in these countries still do not have easy access to capital. As a result, FMO will focus on developing the equity and capital markets in these countries – taking more risks to maintain our 'additionality' role. In 2006, the number of commitments is expected to increase by 7 percent. In moving to higher-risk market segments, the complexity of FMO's portfolio will also increase. The challenge is to find a balance between efficient straightforward transactions, and more complex, custom-made solutions with other investment partners that gives us more of a role in the areas of social, environmental and corporate governance issues.

Partnerships

Partnerships are becoming increasingly important to generate deal flow and spread risks. In 2006 FMO will work further on the development of international and local partners. For efficiency reasons the internal organization structures of FMO and partners will be more and more aligned. FMO will enter more frequently into risk sharing agreements with large banks. Inherent to the long-term character of our investments and relationships, there will be a trend that clients become partners.

Entrepreneurial banking

In 2006 the Dutch Government will no longer provide FMO with additional capital. Therefore, FMO financing activities must generate a healthy profit to facilitate FMO's growth ambitions. There will be increased focus on equity financing, aimed at growing the share of the equity business by 2010 to 25 percent of net profit, compared to the current 13 percent. A significant increase is expected in the number of commitments from the funds FMO manages for the Dutch Government. FMO aims to grow the share of fund activities in the portfolio to 25 percent (2005: 16 percent). FMO is in the process of combining several funds for reasons of synergy. More combination financing solutions are also expected between ORET and the LDC Infrastructure Fund. Technical Assistance will become part of FMO's core business and be known as Capacity Development. This will result in the closure of the Technical Assistance Department and the relocation of technical assistance specialists within the regional departments.

In terms of local currency financing, this currently only represents 11 percent of FMO's portfolio. Many of our clients however are faced with a currency mismatch between their income and financing. One of our priorities is to take initiatives in this area by increasing our local currency financing activities in 2006. Local currency financing fits into our strategy of actively targeting second tier segments of local corporates. In combination with the bad experiences of currency mismatches in several countries in recent history, the demand for this type of financial product is expected to increase as interest rates in local capital markets show a tendency to decrease. It is expected that MASSIF will show considerable growth in the coming years. The Ministry of Foreign Affairs and several commercial parties have shown interest in contributing (further) to this fund. In terms of operational capacity the IFOM Facility and NIMF Fund have been consolidated. This will lead to increased synergy of activities earmarked to match foreign direct investments from The Netherlands and abroad respectively.

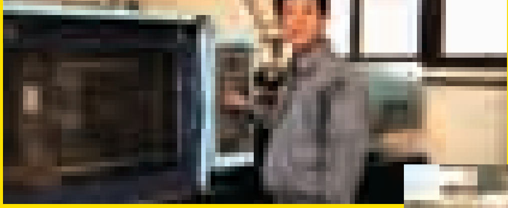
In general, we expect a growth of 5-10 percent compared to 2005, mainly coming from Africa, mezzanine and equity investments, transactions with second tier companies, bottom and high-risk segments of the financial markets and government funds.

The Management Board wishes to express its sincere thanks to the Supervisory Board, clients, partners, our Works Council and all personnel for an exceptional year in 2005.

Arthur Arnold
Chief Executive Officer

Nanno Kleiterp
Chief Investment Officer

Nico Pijl
Chief Risk & Finance Officer



ASIA

Loyal

Manufacturing

Regional Developments

FMO's activities around the world are influenced by the economic and political climate. This is why our local partner network is so vital in monitoring local developments – it gives us an inside perspective on the prevailing and expected climate. The reporting year was characterized by continued economic growth and political stability in FMO's core markets. In spite of high oil prices that represent a real challenge for fossil-fuel dependent developing countries, the majority of our core markets have also benefited from favorable global economic conditions – growing worldwide demand for imports, low global interest rates, and sustained high commodity prices.

Our markets

Economic growth in Asia remains robust. China and India have developed into major economic growth drivers; exporting countries benefit from the increased prices of natural resources. The regional growth rate gap, however, is widening, reflecting the impact of higher oil prices. Latin America & the Caribbean are slowing down, struggling to achieve UN Millennium Development Goals. Africa's real GDP grew by more than 5 percent in 2005, roughly the same rate that was achieved in 2004. Growth in emerging Europe remains strong. Bulgaria and Romania are already enjoying increased attention from commercial banks, anticipating their EU-membership in 2007.

Higher ratings

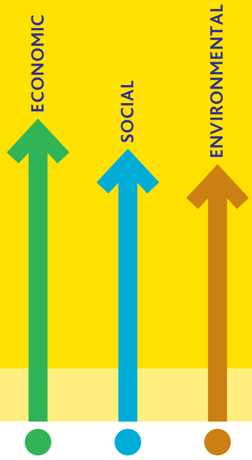
All these factors have contributed to a positive climate that has led the financial markets and international banks to lower their risk assessments for major developing countries. The number of countries that have been upgraded by rating agencies far outnumbers those that have been downgraded. Many emerging markets have significantly reduced the ratio of public debt to GDP in recent years. We have also seen a further decrease in the interest spreads for emerging markets to the lowest level since 1998, illustrating the financial markets' upbeat assessment of the risk profile of emerging markets. This translates into higher levels of capital flows to developing economies, which accelerated in 2005.

Increasing productivity while respecting the environment

NorthPole China Ltd is one of the major manufacturers of tents and camping gear in the world. The company came into existence in 1998 after the investment firm Warburg Pincus and Co (WP) acquired the production companies of Jinwoong Inc. Jinwoong had run into liquidity difficulties during the Asian crisis but was saved by WP and renamed NorthPole.

Says **Eric Sung**, CEO, NorthPole, 'We still needed long-term funding in order to stimulate future growth. The loans we received from FMO helped us to build a new production facility, which will improve productivity and the working environment for our staff. We already use materials sourced locally, which benefits the economy in Xiamen, Fujian Province, and we are also expanding a product line made with more environmentally-friendly materials.'

FMO provided NorthPole with two senior loans totaling USD 15 million and a convertible loan of USD 5 million. This type of long-term funding was scarcely available in China at the time.



China

NorthPole China

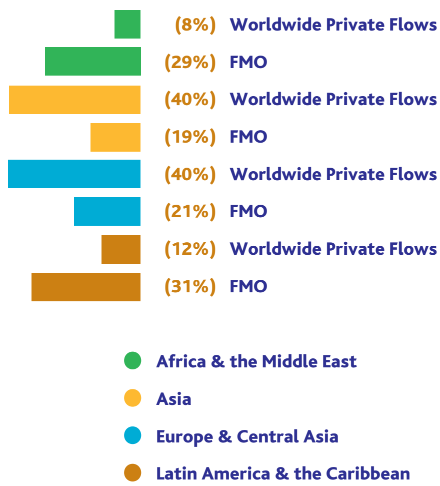
Score Card Development Impact

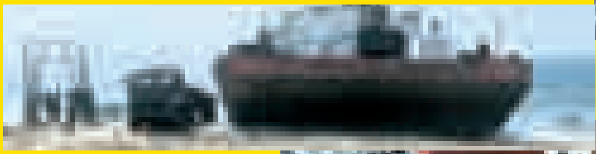
This was accomplished by high returns from many developing economies' stock markets. In addition to the positive cyclical factors, structural stability in many developing economies was improved due to sustained efforts on fiscal and monetary policies, and structural reforms.

Private investment

It is hard to estimate the exact size of capital flows to emerging markets because many transfers take place through unofficial channels. However, the current favorable economic climate attracts large amounts of private investment money. Net private capital flows to emerging markets totaled a record USD 358 billion in 2005, a 12 percent increase from 2004. Of this, 80 percent of the capital went to just 10 countries. Transfer of remittances amounted to well over USD 165 million, but was widely spread over many countries and continents, primarily for consumer goods. Official Development Assistance amounted to approximately USD 80 billion but was mainly concessional funding on a government-to-government basis. Comparatively, FMO makes a more significant impact in the quality of its capital investments. 80 percent of our financing reaches the private sector in countries where Foreign Direct Investment (FDI) is minimal and it is leveraged four to five times by private investments. The difference in the distribution of FDI and FMO's investments is shown in the adjacent table, clearly indicating that FMO and other development banks undeniably play a role in countries and regions less favored by private investors.

Foreign Direct Investments in 2005



AFRICA

Flexible

Energy

Bringing energy to rural communities

Artumas Group Inc. is a Canadian-based independent energy producer delivering a total energy solution to targeted regions in rural Africa. This involves creating least-cost electricity by converting stranded natural gas reserves to power generation, and by upgrading and operating regional transmission and distribution infrastructure. Artumas is currently developing the USD 97 million Mtwara Energy Project in Tanzania. The project will bring reliable electricity to tens of thousands of families in this remote and electricity-starved region in Southern Tanzania.

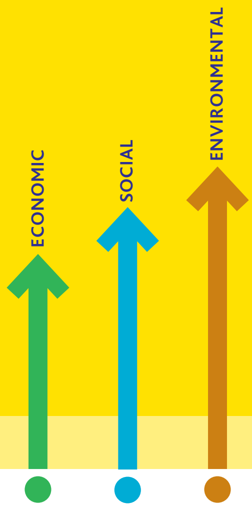
Says **Ian Horswill**, Senior VP Engineering, 'Our focus is on natural gas reserves that are not targeted by large companies, to which we can apply creative technical and commercial solutions, generating maximum value for our shareholders and for the host country. At the same time, we are also serious about our commitment to the environment and to the health and training standards of our staff.'

FMO provided a USD 1.7 million grant to fund development costs and is entitled to become a 20 percent shareholder in the project.

Tanzania

Mtwara

Score Card Development Impact



Africa

The African region was generally economically and politically stable in 2005. An impressive number of countries achieved democratic milestones that positively influenced the economic climate in their markets. GDP growth rose to 5.1 percent across the region. Governments in a number of countries continued to develop policies favorable to the private sector. Exceptions to this generally positive trend most notably included the Ivory Coast and Zimbabwe, where political instability and inappropriate economic policies have a negative impact on economic performance. Although the African region has not traditionally been regarded as an attractive market for international investors, banks and other investors are showing increased interest in the region, mostly targeting larger-sized investments and resulting in price pressure in that segment.

Regional committed portfolio per sector (number and volume)

Sector	At December 31, 2005	projects	New contracts, 2005	projects
Financial sector	EUR 270 million	77	EUR 82 million	18
Infrastructure	EUR 233 million	25	EUR 81 million	6
Trade & Industry	EUR 119 million	12	EUR 37 million	4
Others	EUR 6 million	6	EUR 3 million	3
Total	EUR 628 million	120	EUR 203 million	31

AFRICA Partner Banking

Portfolio development

Although Africa is the world's highest risk area, it is FMO's fastest growing region – representing 26 percent of the financing portfolio. In line with our strategy of focusing on challenging markets and the infrastructure and financial sectors, we entered into 31 new contracts totaling EUR 203 million in the reporting year. The Africa portfolio now consists of 120 projects, totaling EUR 628 million in investments. Divestments in 2005 amounted to EUR 68 million. FMO is now one of the most active development banks in sub-Saharan Africa. In line with our Access 2010 goals (see page 52), Nigeria and French-speaking West Africa were priorities in 2005. FMO managed funds and partnerships were the main drivers.

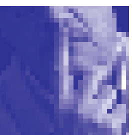
Tailor-made financing

As elsewhere, FMO focuses in Africa on sectors where the highest development impact can be achieved, such as infrastructure, including (mobile) telecom, power and water, and SME financing. FMO's strategy in Africa is to make infrastructure and the financial sector projects a priority. In 2005, FMO co-financed a number of large infrastructure projects, such as an offshore single mooring buoy to supply the Tema Oil Refinery in Ghana and the new mobile telephone network for Wataniya Telecom in Algeria. The reporting year also showed a peak in guarantees. A number of (partial) guarantees were provided for capital market transactions in local currency. FMO arranged a guarantee for 75 percent of the amount of a local currency KES 4.5 billion bond issue for Celtel Kenya. A substantial exit was made in the form of an equity sale of Celtel International shares to a Kuwaiti party. The financial sector is another important growth area. Within this sector, targets were mainly banks and housing projects. While the pipeline for bank financing is mature, the provision of financing for low-cost housing, predominantly to support the emerging middle class in Africa, is still in its early stages. In 2002, FMO identified this trend and has built up a strong pipeline. Second tier businesses also play an important role in the portfolio. Through private equity, funds and capital market guarantees, FMO was able to grow its portfolio beyond target level.

Partnerships

In 2005, FMO expanded its relationships with several financial institutions and infrastructure clients. In Nigeria, partnerships with a number of large local banks were established. In a milestone financing arrangement, we were the co-arranger of a consortium of major international and Nigerian financial institutions, including the Fortis affiliate, the African Merchant Bank. Together with other parties, a contract was signed with Obajana Cement Plc, a subsidiary of Dangote Industries Limited in Nigeria, for a USD 479 million loan to provide long-term debt finance for a cement plant and a power plant in Obajana. FMO and the Shell Foundation launched the East African Small Enterprise Fund in 2005, a new fund for small African entrepreneurs. This initiative was achieved with a unique blend of African and international investors: the Shell Foundation, GroFin Capital, CDC from the United Kingdom and DFCU Bank in Uganda. It is expected that the cooperation between these partners and financiers will have a major economic impact on the local economy.

Although many of our projects carry a higher risk profile in this region, developing infrastructure and financial services is crucial for economic growth. In taking higher risks, FMO plays a strategic and catalytic role, encouraging other investors to participate in projects. Dutch Government funds further

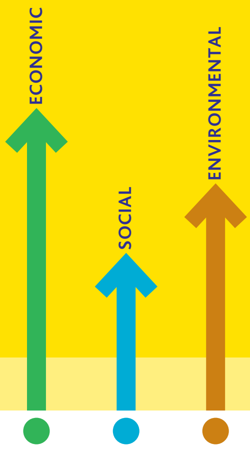


Leading the way in convertible loans

Access Bank is a publicly quoted company on the Nigerian Stock Exchange with over 80 outlets in the major commercial centers of Nigeria. When the new management took control in 2002, the Bank was successfully recapitalized and now ranks among the top 10 banks in Nigeria in terms of total assets.

Aigboje Aig-Imoukhuede, Managing Director, Access Bank, says, 'FMO has supported us tremendously over the last three years. Before year-end 2005, Access Bank had to achieve the new minimum capital requirement for banks in Nigeria of USD 188 million. At the beginning of October, we closed a USD 15 million convertible loan - the first ever to a Nigerian financial institution. It quickly became apparent we would need additional equity to reach this threshold. FMO rapidly converted the loan into shares, thereby supporting us at a crucial stage in our existence, and proving its entrepreneurial spirit.'

FMO also facilitated the long-term technical assistance assignment of ING Advisory Services with the goal of implementing retail banking for consumers as well as small and medium-sized companies.



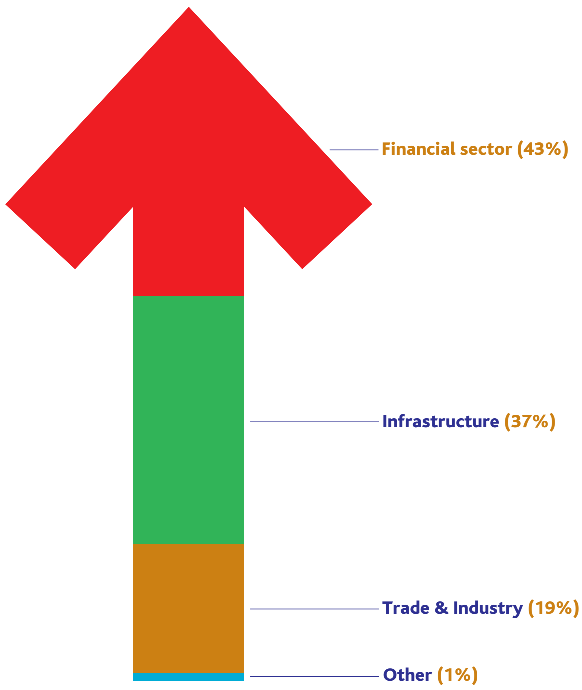
Nigeria

Access Bank

Score Card Development Impact

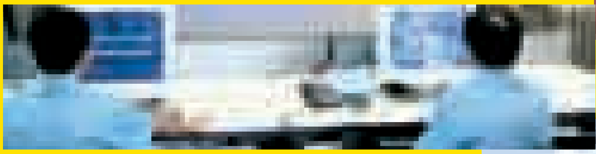
facilitate higher risk business in Africa. In 2005, 30 percent of our activities in the region were conducted through funds. The LDC Infrastructure Fund is extremely important in the region. Following its establishment in 2002, it is now showing significant results with recent financing made available to Bengaz (Benin) and Sotogaz (Togo), shareholders in the West African Gas Pipeline, enabling the companies to become marketers of gas in those countries. FMO is also especially active in mezzanine financing through the funds provided by the Dutch Government.Through this type of financing, FMO participated in setting up a new power company, Aldwych International Ltd., aimed at developing power projects in Africa.

FMO Committed Portfolio (per sector)



Focus 2006

In 2006 our approach will gradually shift from the traditional country focus towards an approach based on forging long-term cooperation with preferred partners, such as financial parties and corporates. Our aim is to choose partners that have strategic objectives in Africa and who intend to make further capital investment on the continent. We plan to further support larger infrastructure projects that have significant development impact on the local economy, especially projects focused on housing, water, power, telecom and transport. The introduction of innovative financing structures involving local currency is a third priority. Building on our strong presence in Africa, we will maintain a focus on this fast-growing region.



ASIA

Quality

Infrastructure

Meeting the demand for cleaner energy

It is estimated that gas usage in China will grow from 3 percent to 10 percent of total energy consumption by 2010. The Chinese government supports the use of gas, and has already laid main pipelines from east to west between major cities. China Gas Holding, a piped gas distributor, aims to offer gas as an alternative form of energy to less industrialized areas in China, while at the same time delivering reasonable returns to its shareholders. Natural gas is environmentally more friendly then coal as it has no sulfur emissions and very few carbon emissions.

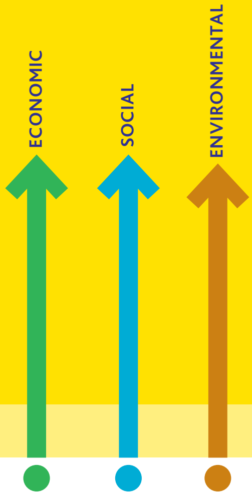
Says Eric Leung, CFO, China Gas, 'FMO was able to provide us with long-term financing to support our capital-intensive projects in China – a facility that couldn't be matched by other commercial banks.'

FMO and French development bank, PROPARCO, have extended a nine-year USD 50 million loan facility to China Gas to develop these natural gas projects. FMO, together with Templeton also invested USD 20 million in the form of equity.

China

China Gas

Score Card Development Impact

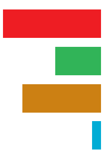


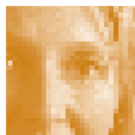
Asia

China continues to strengthen and has become the regional growth engine. As the top global manufacturer, import demands of raw materials and semi-finished products are huge. China's export sectors also continue to grow, fueled by high Asian and worldwide demand. China received the highest proportion of FDI in the region. India maintains high growth rates notwithstanding recent government changes. Strong domestic demand as well as a shift from their long-standing domestic focus to an increasingly export oriented economy, fuel India's growth. Vietnam is attracting increased attention from external investors. Thailand and Indonesia are actively pursuing financial and economic reforms. Corporate governance is still the major concern for foreign investors in both countries. In the Philippines, political tension continues to challenge economic growth, resulting in few investment prospects. Bangladesh is still heavily dependent on donor funding. Sri Lanka is going through an election cycle. Economic activity and investment opportunities in the telecom and power sectors in Pakistan are increasing. Afghanistan offers good prospects as the country becomes more stable.

Regional committed portfolio per sector (number and volume)

Sector	At December 31, 2005	projects	New contracts, 2005	projects
Financial sector	EUR 199 million	47	EUR 56 million	8
Infrastructure	EUR 108 million	11	EUR 26 million	1
Trade & Industry	EUR 167 million	29	EUR 45 million	5
Others	EUR 21 million	8	EUR 5 million	2
Total	EUR 495 million	95	EUR 132 million	16





ASIA

Loyal

Tourism

Portfolio development

With the fast growing Asian economies, investment prospects are growing rapidly. 21 percent of the FMO portfolio is allocated to Asian countries. In line with our development mission and in response to changing markets, our focus has shifted towards promising sectors that lack access to investment financing. Using our AAA rating to mobilize local savings through capital market transactions, we are now providing financing to second tier companies. Through structuring bilateral loans or syndicated loans in international markets we continue to cater to projects with larger financing needs. In 2005, we entered into 16 new commitments. Our total investment through 95 projects in the region is now EUR 495 million.

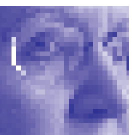
Tailor-made financing

Development value can be created in various ways. By addressing specific issues at the beneficiary level of our financial support, FMO increases the development contribution to the local community. In China, FMO mediated a framework agreement between our mezzanine fund and Value Partners to assist investment companies in their implementation of environmental and social improvement plans and corporate governance programs - essential building blocks that contribute to sustainable development. In Vietnam, we invest in financial institutions in the Mekong Delta and arrange extensive training programs to improve management skills, specifically on asset and liability management. Similar programs have been established in Bangladesh and Sri Lanka where the introduction of environmental and social management training for financial institutions is also a success.

Partnerships

In 2005, we worked on expanding existing and developing new partnerships. In cooperation with PROPARCO, FMO extended a nine-year syndicated facility of USD 50 million to China Gas Holding Limited, a listed company on the Hong Kong Stock Exchange. Its main activity is to distribute piped gas to households and private companies in Mainland China. A mezzanine fund was set up with Value Partners, a Hong Kong-based, and award winning fund manager. The fund provides growth capital to small and medium-sized private sector companies with limited access to financing in China. With FMO's support, these companies are growing into world-class modern companies that benchmark against international best practices. In addition to loans in the region, FMO further invested in equity along with Franklin Templeton Investments.

With major liquidity searching for high-yield investment destinations throughout the region, FMO has turned its attention to those markets and sectors lacking access to investment capital.
In the reporting year, we focused on (micro) finance institutions regionwide that cater primarily to the middle or lower-end of the business market.
One example is Finansa, a financial institution in Thailand. FMO provided a partial guarantee, enabling fund diversification through a bond issue in mid 2005.
Another focus area is capital markets, through which we aim to mobilize the region's high savings to projects with capital needs. Through capital markets we also facilitate access for companies to local currency facilities. The financial sector continues to be very interesting for FMO, with a focus on the Mekong Delta. Infrastructure is important, but we have seen that commercial banks have increased interest in this sector, a sign for us to reduce our activities in this area.

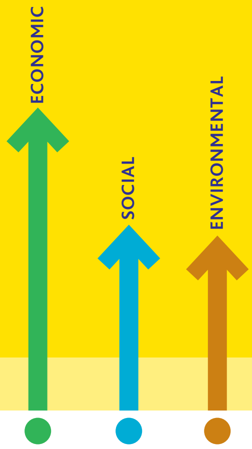


Rebuilding a country through tourism

The Aga Khan Fund for Economic Development established Tourism Promotion Services Afghanistan to invest in the Kabul Serena Hotel. Built in the 1950s, the hotel has been completely renovated and now features 176 rooms, restaurants, a business center and modern conference facilities. The hotel will meet an acute shortage of quality hotel rooms in Kabul for international visitors. The reopening has created over 300 jobs, 85 percent for locals. As some goods and services are sourced from local suppliers, the hotel also indirectly stimulates the economy and employment.

Says **Asif Sharma**, Director of Finance, Kabul Serena Hotel, 'The Government of Afghanistan invited us to address development priorities in the nation's tourism industry by erecting facilities that will have an immediate, positive impact on the local economy, as well as on the urban and cultural landscape of Kabul.'

The renovation of the hotel was made possible thanks to an equity investment of USD 19.7 million from FMO, Aga Khan Fund and Norfund. IFC provided a subordinated loan.



Afghanistan

Kabul Serena Hotel

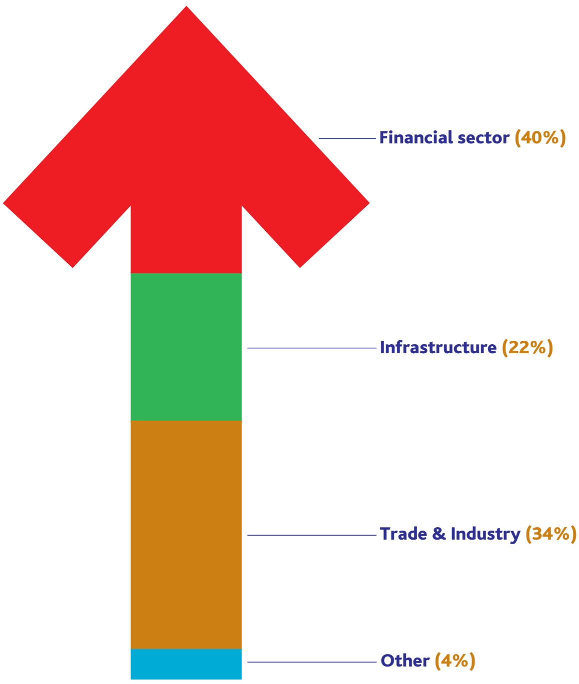
Score Card Development Impact

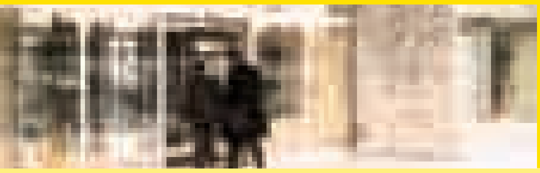
Cooperation with Standard Chartered Bank throughout the region has expanded. In India, this resulted in a structured financing scheme for steel manufacturer UTTAM GALVA. Commercial banks were still hesitant about providing financing due to a recent restructuring. Standard Chartered Bank approached FMO seeking funding that would supplement loans provided by commercial banks. In Afghanistan, FMO has developed a new partnership with AKFED, the for-profit development arm of the Aga Khan Foundation. FMO decided to invest in the equity of the Kabul Serena Hotel which is majority owned by AKFED. The hotel is a landmark private sector investment in Afghanistan and its redevelopment is an indicator that the investment climate is improving, albeit slowly. FMO co-invested with Norfund.

Focus 2006

In Asia we plan to focus our attention on supporting second tier companies and financial sector development, especially in the Mekong Delta region. Joint deals with China Development Partners and a renewed focus on Indonesia will result in a substantial increase of our portfolio. Major projects have also been targeted for India, which will result in increasing commitments during 2006. As in China, a mezzanine fund for India will be established. Throughout the region more financing will be provided in local currency. At the same time, focus will be placed on providing subordinated financing structures.

FMO Committed Portfolio (per sector)





EUROPE & CENTRAL ASIA

Innovative

Banking

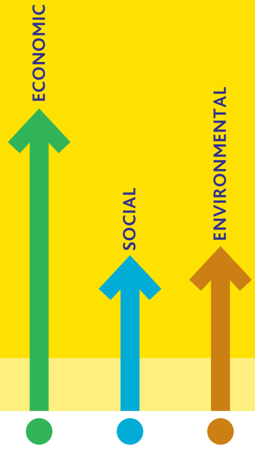
Montenegro

Share participation in a Montenegrin Bank

In 2001, FMO was invited to take a share participation in Crnogorska Komercijalna Banka (CKB) in Montenegro. FMO's involvement in the Bank has led to increased transparency and improved corporate governance resulting in, among other things, the publication of annual reports, something no other bank in Montenegro has done. CKB is now the largest bank in Montenegro with assets of around EUR 300 million, a market share of almost 50 percent, and around 280 members of staff.

Says **Aleksandra Popovic**, Assistant General Director, CKB, Montenegro, 'Cooperation with FMO has been of strategic importance for us. FMO has supported the process of bringing back confidence in the Montenegrin banking system and economy.'

FMO and DEG have invested more than EUR 5 million in CKB's equity over the past five years. More recently, they also provided a EUR 10 million for refinancing the sub-loans in relation to eligible projects. Following the project's success, it is expected that strategic investors will buy out FMO's shares and assist the Bank in its next phase of development.



Crnogorska Komercijalna Banka (CKB)

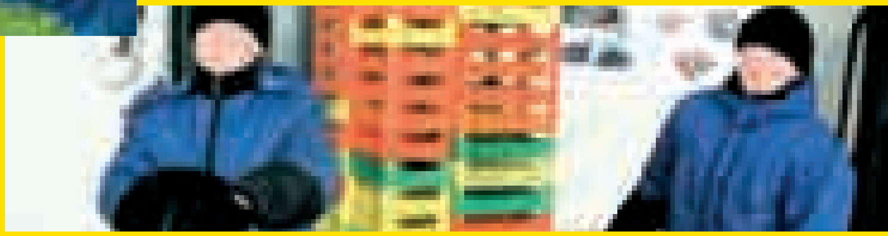
Score Card Development Impact

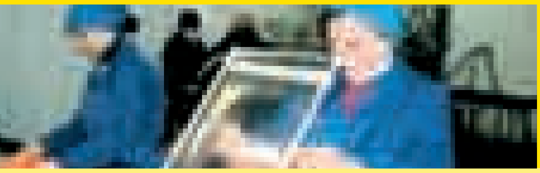
Europe & Central Asia

The Europe & Central Asia region is showing a healthy growth rate of nearly 8 percent per year, partly as a result of rising oil prices. Bulgaria and Romania are growing thanks to strong domestic demand. There is a strong investor interest in these countries, anticipating their entry into the EU in 2007. However, strong credit growth in these countries is financed primarily by expensive loans from abroad. The Balkan countries are growing at a slower pace. An exception is Serbia, where consumer credit is booming, prompting the central bank to impose restrictions on credit growth. Turkey shows healthy growth of 5 percent per year. Domestic demand is growing. The capital market is becoming stronger. A high level of liquidity in the market is shrinking margins. In Russia and Kazakhstan, lack of corporate governance and state intervention continues to affect foreign investments. Reversed privatizations and gas conflicts might ultimately create an unstable political and economic environment. The situation in Central Asia and the Caucasus is relatively turbulent, with many countries holding elections and experiencing general upheaval.

Regional committed portfolio per sector (number and volume)

	At December 31, 2005	projects	New contracts, 2005	projects
Financial sector	EUR 369 million	50	EUR 119 million	14
Infrastructure	EUR 68 million	15	EUR 5 million	2
Trade & Industry	EUR 90 million	38	EUR 16 million	7
Others	EUR 40 million	15	EUR 3 million	1
Total	EUR 567 million	118	EUR 143 million	24





Portfolio development

Still one of our top focus regions, we are gradually exiting some Eastern European countries, such as Bulgaria and Romania, as they move closer to EU accession. At year-end 2005, our portfolio in Europe & Central Asia represented 24 percent of FMO's total investment. In the reporting year, we contracted 24 new investments totaling EUR 143 million. Our total portfolio in the region is EUR 567 million. Divestments totaled EUR 110 million. Investments in Turkey's Akbank and Romania's Mobifon were prepaid in 2005. A major international telecom operator acquired Mobifon.

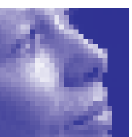
Tailor-made financing

FMO has a unique position in the region, offering long-term, high-risk capital that is generally not available through other financial institutions. The countries that make up this region are all in very different stages of development. For this reason, FMO's development impact is always tailored to local needs. In some countries, stimulating economic reconstruction generates most development value. In all our focus countries, SME development and improving environmental standards are priorities. Through the Access 2010 (see page 52) initiative, we targeted financing to strong local financial institutions to support SME and micro-enterprise development in the West Balkan. In Russia and Kazakhstan, transparency issues continue to be challenging. FMO is now involved in corporate governance programs to improve transparency.

Partnerships

More and more commercial parties are interested in investing in Central & Eastern Europe, requiring FMO to redefine its investment strategy. FMO has moved into the more high-risk sectors, including mezzanine, capital market transactions and second tier companies. The number of trade financings is slightly decreasing, due to the fact that commercial banks are increasingly prepared to take these risks. Several equity deals have been contracted. As a result, partnerships are becoming increasingly important to source new projects and spread the portfolio risk. We extended two facilities to Raiffeisen International and are entering risk-sharing agreements with major international banks, such as ING. These banks have the resources and the experience for quality deal sourcing; FMO guarantees a certain part of the risk. In Turkey, we extended a syndicated loan to Intercity, a rapidly growing car fleet management company, to expand its activities. FMO also has a long-standing relationship with this company as a shareholder.

In the Balkan region, FMO cooperated in setting up of the European Fund for Southeast Europe (EFSE), an extension of the donor programs coordinated by KfW. This fund, an excellent example of a public-private partnership, targets microfinance, SMEs and (residential) housing finance. The fund was established by several development banks and was given a boost during the UN International Year of Microcredit. FMO was able to play an important role, accelerating the process, and now holds a position on the Board and Investment Committee. Besides participating in EFSE, FMO also provided two credit lines to Serbian financial institutions focused on SMEs. Through IFOM, 13 new projects with Dutch SMEs have been contracted. In Hungary, Agrotech,

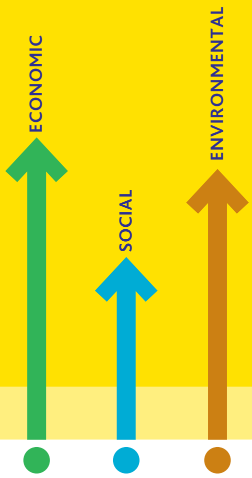


Local facilities improve supply and demand

Olvita, a daughter company of the Olviya Group, trades in frozen fruit and vegetables - a relatively new business in Ukraine, as 80 to 90 percent of these products are currently imported. The large seasonal price fluctuation of fruit and vegetables makes the processing of fresh domestic produce for distribution in winter commercially and socially important. In addition, the country has a shortage of modern cold-store facilities, and the logistics network is weak, despite the growth of supermarket chains in Ukrainian cities.

Olvita aims to improve this situation by building new processing and storage facilities near the capital Kiev. As **Yurij Boguslavskij**, Director, Olviya Group BV, The Netherlands notes, 'The project is of importance to both Ukrainian growers and consumers: growers will have a guaranteed market for their products, and supermarkets will be able to increase the quality and range of goods they can offer customers.'

FMO provided a long-term loan of EUR 2.5 million to support the construction and maintenance of Olvita's new facilities.



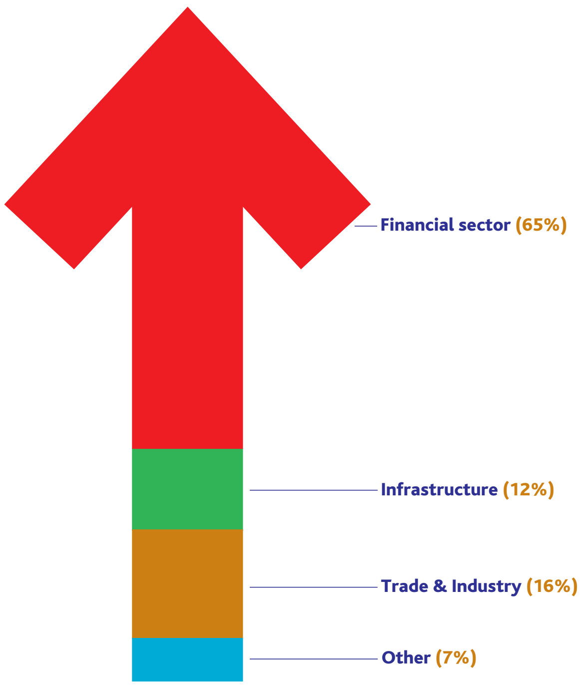
Ukraine **Olvita** **Score Card Development Impact**

a model pig farm was financed. Thanks to FMO's involvement a large commercial bank was prepared to co-finance this project. In Ukraine, FMO generated financing for Olvita, a fast growing and successful company, active in the food industry. This investment was used to build cold storage facilities and modernize food distribution channels in Ukraine, indirectly supporting Ukrainian farmers.

Focus 2006

In 2006, FMO will focus on Russia, Ukraine, Kazakhstan and Turkey. Anticipating that Romania and Bulgaria will enter the EU in 2007, we plan to direct our attention further south and east, particularly to the Balkan and Caucasus regions. In line with the Access 2010 initiative, focus remains on the West Balkans by providing financial support and capacity development to financial institutions focusing on SMEs and microfinance. Equity and mezzanine financing will be actively promoted, along with guarantees and credit enhancement, to stimulate further development of capital markets and generate growth for FMO. Prepayments in 2006 are expected to reach the same level as in 2005.

FMO Committed Portfolio (per sector)

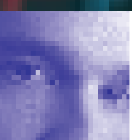


LATIN AMERICA & THE CARIBBEAN

Partner

Banking

Latin America



Driving development through cooperation

Corporación Andina de Fomento (CAF) is a multilateral financial institution, headquartered in Venezuela, and recognized internationally for its performance and professionalism. In 2005, CAF and FMO signed a Cooperation Agreement to enhance the effective and efficient use of development sources in Latin America, and ensure that the private sector has better access to financial services.

Says **Felix Bergel**, Director, CAF, 'We view the Cooperation Agreement with FMO as an excellent vehicle for combining the efforts of two institutions, both of whom have shared aims and expertise in Latin America.'

CAF and FMO will develop strategies and initiatives in the field of financing for large and mid-size corporations in the region, through the development of local currency financing alternatives, and risk-sharing partnerships with local financial institutions. The aim is also to align CAF and FMO's appraisal processes so that companies benefit from shorter processing times and lower costs.

Corporatión Andina de Fomento (CAF)

Latin America & the Caribbean

After the economic slowdown in the late 1990s and early 2000s, the region's economic growth leveled off in 2005 due to more moderate growth in commodity prices and world trade. Economic growth in Argentina remained strong. Consumer and business confidence continues high. Inflation, however, has accelerated, driving up consumer prices. In Brazil, growth slowed from mid-2004, but stabilized in 2005, led by recovery in private consumption and investment. Economic activity in Chile expanded rapidly, thanks to favorable export developments and an increase in investment. In the Andean region, economic activity expanded. Bolivia was on the verge of national and social collapse. The coming year will show how the election of Evo Morales affects prospects. In Mexico, growth was slower than expected due to lower demand from the US industrial sector. Despite higher oil prices (imported) and political uncertainties, growth in Central America remained fairly strong due to increased agricultural prices (sugar, coffee), ratification of the Central American Free Trade Agreement (CAFTA) in most countries and an increased inflow of remittances.

Regional committed portfolio per sector (number and volume)

	At December 31, 2005	projects	New contracts, 2005	projects
Financial sector	EUR 323 million	57	EUR 99 million	15
Infrastructure	EUR 168 million	26	EUR 38 million	4
Trade & Industry	EUR 136 million	15	EUR 52 million	4
Others	EUR 67 million	7	EUR 32 million	2
Total	EUR 694 million	105	EUR 221 million	25

Portfolio development

This region represents 29 percent of FMO's total portfolio. Due to higher international commodity and agriculture prices the region benefited from higher export income resulting in a stronger local economic environment. These circumstances and a more stable political environment resulted in renewed interest of international investors for the region. Our portfolio remained stable due to early repayments, primarily through transfer of loans to commercial providers. This has led to a shift in our focus to higher risk countries and sectors. In 2005, we entered into 25 new projects in the region totaling EUR 221 million. A number of these new projects are the result of FMO's strategy of seeking out strong partners with a similar focus.

Tailor-made financing

Infrastructure projects and investments that support second tier companies generate significant development impact. Latin America & the Caribbean, however, still lag behind when it comes to structurally stimulating the growth of middle-income groups and reducing poverty. FMO is addressing this issue in the region through microfinance, credit card services and housing projects. Several countries, such as Brazil, Chile, Colombia, Mexico, and Peru, have seen an increase in liquidity in local markets. In order to maintain our additionality and increase development impact, we have shifted our focus to microfinance institutions, the SME market segment and the infrastructure sector. A number of projects were contracted in these focus areas in 2005. Opportunities arose mainly in the northern regions and Argentina, as liquidity in the southern part of the region has increased significantly.

Partnerships

FMO believes the development of partnerships has potentially more impact on the quality and growth of the portfolio than the focus on a specific country policy. This led to strengthening of the relationship with development bank Corporación Andina de Fomento (CAF). A Cooperation Agreement was signed which enhances the effective and efficient use of development resources in Latin America. With Honduran banks Banco Ficohsa and Banco Mercantil (Bamer), FMO further initiated the development of a facility to co-finance medium and larger sized companies. Through this facility, more employment and better working and living conditions will be created for lower income groups in Honduras.
In cooperation with our longstanding German partner DEG, FMO granted a seven-year loan totaling USD 27.5 million to Banco Uno Panama and Banco Uno El Salvador. The loan is to be used to extend Banco Uno's credit card services to lower-income households and small businesses. This gives many people and small businesses in Central America first-time access to financial services. It enables them to borrow and save money, gaining access to the formal economy. FMO will also help Banco Uno comply with international Corporate Governance standards by forming an enterprise with a single holding company and an independent Board of Directors.

A consortium of major international financial institutions and Hipotecaria Su Casita signed a USD 100 million loan facility in Mexico. The facility provides long-term debt finance for the provision, acquisition and refinancing of mortgage loans in Mexico. This will improve access to housing for middle and lower income groups. In relation to Access 2010 (see page 52), significant progress was made with several microfinance institutions in the Andean

Boosting exports through long-term lending

TicoFrut S.A. is an orange and pineapple juice producer located in Costa Rica. Its primary product is frozen concentrated orange juice, 95 percent of which it exports to the USA through its own and related distribution channels.

Pierre Zoffoli, CFO, TicoFrut, says, 'TicoFrut is supplied with oranges from third parties and its own farms. Our processing plant currently has the capacity to process 16 million boxes of oranges per year, but we want to plant new trees in order to optimize economies of scale.' The USD 60 million syndicated loan provided by FMO and its partners will be used to re-finance TicoFrut's existing debt and invest in new trees. The long-term character of the loan will ensure TicoFrut has sufficient liquidity while the trees mature, a period of around six years.

FMO will also assist TicoFrut in further professionalizing its production methods, labor practices and corporate governance to become one of the major citrus exporters to the American market.

Costa Rica

TicoFrut

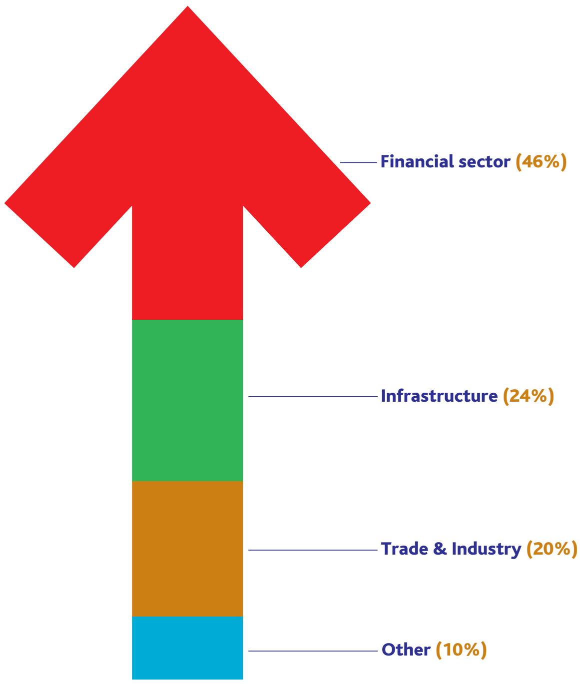
Score Card Development Impact

region and Central America. FMO is actively marketing the full range of products in this sector, including funds for capacity development. By providing a local currency loan to the microfinance institution Banco Sol in Bolivia with a counter value of USD 3 million, FMO supported strongly the access of poor Bolivians to the formal banking sector. Due to improved market conditions in Argentina, FMO supported Vincentin and Asociación de Cooperativas Argentinas (ACA) by converting structured trade finance facilities into long term financing in order to enhance investments in fixed assets and to improve the balance sheet structure.

Focus 2006

The main challenges in 2006 will be adjusting our regional strategy to maintain additionality and moving into higher-risk market segments. The region's dynamics and high volatility will require constant monitoring. The outcomes of local elections will be carefully watched to assess their effect on regional policies. FMO's goal in the region is to increase portfolio growth and its additionality, market visibility and competitive differentiation. We will also further diversify our pipeline within focus sectors and concentrate on second tier businesses and infrastructure projects where FMO can offer added development impact.

FMO Committed Portfolio (per sector)



Entrepreneurial Banking

Our products

FMO provides a range of financial products that can be tailored to individual project needs. Given our development impact goals, we focus on three key sectors:

Financial Sector

as a means to improve access to financial services for all types of enterprises, from large exporting companies to SMEs and micro-entrepreneurs;

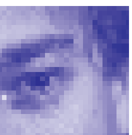
Infrastructure

from roads and harbors, to telecom, energy and water, to create a backbone for economic activity; and

Trade & Industry

to enhance the development of second tier enterprises.

	Financial Sector	Infrastructure	Trade & Industry	
Tailor-made Finance	Loans | Guarantees | Equity & Quasi-Equity Syndicated Loans | Capital Market Product Local Currency Products			Capacity Development
Funds & Facilities	MASSIF	LDC Infrastructure Fund	NIMF & IFOM	
Grant Program		ORET		



Tailor-made Finance

FMO provides a variety of financial products for own risk and account. These vary from straightforward loans and equity participations to structured finance and local currency solutions.

Funds & Facilities

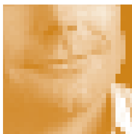
Together with the Dutch Government, FMO has set up various special purpose funds enabling us to accept risks and take a position in market segments that would otherwise be out of reach.

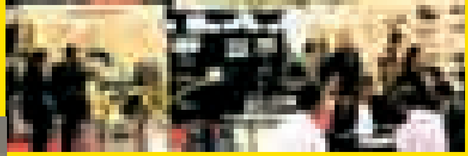
- **MASSIF** contributes to the development of financial services for small businesses and micro entrepreneurs by increasing financial resources available to them and by strengthening the financial intermediaries that cater to these groups.
- **Least Developed Countries (LDC) Infrastructure Fund** provides long-term financing for (public-private) projects in energy, telecom, transportation, water, environmental and social infrastructure projects.
- **Netherlands Investment Matching Fund (NIMF)** provides long-term risk capital for international companies that want to invest in emerging markets.
- **Investment Facility Emerging Markets (IFOM)** supports the development of emerging markets by encouraging investments by Dutch SMEs.
- **Capacity Development** stimulates the transfer of knowledge to enterprises in developing markets, from developed industrialized countries as well as from other developing countries.

In 2005, FMO began developing a new fund aimed at mitigating currency risks by providing local currency loans. This may lead to a new Local Currency Fund in 2006.

Grant Program

Through NIO, FMO administers a grant program on behalf of the Dutch Government. The Development Related Export Transactions (ORET) program supports the development of local infrastructure through grants for capital goods transactions by Dutch and international enterprises.





Global Equity

Economic development in emerging markets creates new opportunities for local businesses to grow and expand, regardless of company size. While opportunities are increasing, financial partners who are willing and able to provide part of the necessary risk capital remain limited. FMO offers emerging market companies cost effective, long-term risk capital by providing equity and quasi-equity products. Through FMO's involvement, companies are able to attract additional funds from other investors and financial institutions as well. By creating access to equity products, FMO fulfils its additional role in markets and sectors where companies need strong balance sheets to stimulate growth. If a company can attract equity, then it can attract debt more easily. This is FMO's catalyst role.

From 2000, FMO has been gradually expanding equity products and the value of the equity portfolio has increased significantly. We are now recognized as one of the world's pioneers in emerging markets.

FMO enters into equity investments on the basis of an investment plan, market analysis, due diligence study and the long-term commitment of the management and co-financiers. Financial return objectives are determined based on market conditions. In general, the investment horizon is five years. A well-defined exit strategy is part of the negotiations. Implementation of the investment plans always remains the client's responsibility, but FMO monitors the investment intensively. When appropriate, FMO also structures mezzanine transactions, combining elements of equity and debt.

FMO provides private equity directly and indirectly. FMO makes direct equity investments in private companies with local partners or through co-investments with local and regional private equity funds. To ensure the participation and leading role of other experienced private investors, FMO normally takes a minority interest and subscribes to between 10 percent and 25 percent of a project's equity.

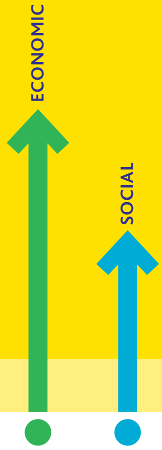
FMO also finances indirectly through its participation in local and international private equity funds with proven track records. FMO's investments in local and regional private equity funds are especially aimed at stimulating local second tier companies. In both its direct and indirect equity investments, FMO actively contributes its expertise and provides input in guiding and monitoring the investment.

Exhibiting new products, promoting investment

Tüyap Tüm Fuarcilik Yapim A.S. (Tüyap), established in 1979, is the leading fair and exhibition organizer in Turkey, hosting three million visitors each year.

Says **Bülent Ünal**, Chairman, 'Tüyap has been instrumental in bringing new projects and investment to Turkey. We have established relationships with other countries in our region as well as acting as a bridge for the import of new technologies from other regions.'

Despite financing received from FMO in 1998 totaling USD 4.4 million, the earthquake that hit Turkey in 1999 and the subsequent economic crisis had a negative impact on Tüyap's liquidity position. When this threatened the continuity of the company FMO and IS put together a financing package of more than USD 14 million. This package enabled Tüyap to repay its main lender and created a healthier balance sheet structure with less debt.



Turkey

Tüyap Tüm Fuarcilik Yapim A.S.

Score Card Development Impact

2005 has been a very good year for FMO's Private Equity Department. New commitments were made in all of FMO's regions and the deal flow strongly developed. Divestments took place in Africa, Europe and Asia. Based on the quality of FMO's equity portfolio the Fair Value has increased significantly. In 2005, FMO's equity products generated around 13 percent of FMO's net profit. The goal into the future is to grow this part of our business to 25 percent of net result.

Partnerships

The strong pipeline is basically a result of FMO's strategy in building relationships with local investment partners. These partners, like private equity funds, have local presence in the market and share the same investment philosophy. The investment interests are aligned with FMO. The number of partners has increased over the years, and relationships have intensified. This resulted in an increase of commitments in private equity funds, as well as an increase in co-investments and co-investment opportunities. Based on commitments, FMO's equity portfolio today is comprised of 50 percent private equity funds, 30 percent co-investments and 20 percent direct investments.

Product development

With respect to product development, FMO has provided tailor-made financial products to many companies in emerging markets. These products mainly consist of combinations of equity and debt instruments, covering the financial needs of our clients and at the same time providing leverage capacity for these companies. In all our investments, it is a pre-condition for FMO to be additional to commercial parties, and where possible have a catalytic role.

Since equity and quasi equity are still considered to be underdeveloped asset classes in the majority of emerging markets, these 'new' products bring concrete economic development impact.

Regional developments

The majority of new investments in 2005 have taken place in Africa and Latin America, mainly in the financial sector, infrastructure and second tier companies. These are the main focus areas of FMO on a global basis. In 2005 FMO provided EUR 5 million risk capital to South African Fruit Exporters (SAFE). FMO's funding was partly used as working capital, and partly to increase SAFE's logistical infrastructure. FMO's financing was also a catalyst for SAFE to attract working capital facilities from commercial banks. These facilities enabled SAFE to increase its turnover and negotiate better terms from its customers, resulting in better prices for the farmers who supply SAFE. Working closely together with our partner DEG, FMO invested approximately EUR 5 million in African Reinsurance Corporation (Africa Re) in 2005. FMO's investment is part of Africa Re's growth strategy, which enables it to remain the leading provider of reinsurance services in Africa. Africa Re is now better positioned to continuously provide its clients with service quality of the highest international standard.

Due to the fact that some Eastern European countries moved closer to EU accession, FMO decided to orientate its focus towards new countries, like Ukraine. This led to the situation that the growth of the equity portfolio in Europe & Central Asia developed relatively slow, compared to previous years. In Asia a number of new investment opportunities have been identified, both in China and India.

AFRICA

Innovative

Telecommunications

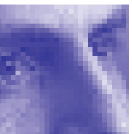
In many countries around the world, we have seen booming stock markets; in some countries stock prices reached all time high records, like India, South Africa and China. Moreover, the interest from strategic investors for emerging markets increased, resulting in a growing market for mergers & acquisitions. For instance in Turkey and Brazil. This new environment leads to various good opportunities for divestments.

Srei Infrastructure Finance (SREI) is an Indian leasing company that provides financial services to small contractors and sub-contractors, primarily in infrastructure. FMO invested approximately EUR 2 million in SREI's capital in 1997. Following FMO's investment, SREI has realized significant growth, with total assets growing from EUR 75 million to EUR 250 million. In addition to our equity investment, FMO provided several long-term loans to SREI, which were used for lending to small builders in the infrastructure sector. In 2005, SREI reached a new phase in its development by listing its shares on an international stock exchange. FMO has sold its initial investment to international private investors, but will remain involved with SREI by providing finance at terms on a maturity beyond what is available in the Indian capital markets.

It is FMO's mission to further stimulate this asset class in emerging markets. Therefore, FMO has been an important sponsor to various initiatives like Emerging Markets Private Equity Association, the African Venture Capital Association and FMO also became a member of the Latin America Venture Capital Association. In order to support these initiatives FMO strives to inform local companies, the financial sector and local governments of the importance of this asset class for sustainable growth. Being a leader in private equity in emerging markets, colleagues from the equity department are well-known guest speakers to various international conferences.

Focus 2006

The goal is to further expand our equity business throughout all of FMO's regions. We will continue to grow the portfolio, with quality as priority, measured by fair value of the portfolio. As some Eastern European countries move closer to EU accession, we will focus on countries further east. Ukraine is a new target market in 2006. In Asia we will expand our network in Vietnam in co-operation with our regional department. We will further increase and intensify our network of partners, and increase our commitments to local and regional private equity funds. In Africa, we will target relatively larger transactions, with companies aiming for cross-border growth. By expanding our team with expertise in Asia, we believe that growth will also come from a larger portfolio in Asia. Apart from investment opportunities in the financial sector and mid-sized companies, we have identified strong need for quasi-equity in the infrastructure sector. With a highly motivated team and with colleagues with backgrounds in various challenging fields, and with promising market conditions, we believe that 2006 will be as successful as 2005.



Boosting mobile telecommunications in Kenya with a landmark bond issue

Founded in 1998, Celtel International is one of the leading pan-African mobile operators with over 9 million customers in 14 countries. One of these countries is Kenya, where Celtel offers its services through its 60 percent owned subsidiary Celtel Kenya.

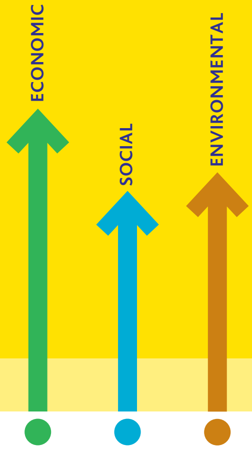
Says Lex Roukens, Corporate Finance Director, Celtel International, 'In December 2005, Celtel Kenya issued the largest-ever bond on the Nairobi Stock Exchange, with a value of Ksh 4.5 billion (USD 60 million). FMO acted as credit enhancer by guaranteeing 75 percent of the issue. We selected FMO as our partner based on their AAA status, their thorough understanding of the African financial markets and their competitive offer'.

The proceeds will be used for network expansion and to connect new customers in rural areas. By offering mobile telecommunications services, Celtel actively contributes to economic development in Africa, while demonstrating that it is possible to conduct a business across sub-Saharan Africa that follows best business practices.

Kenya

Celtel International

Score Card Development Impact



Funds

Micro and Small Enterprises Financing

In most economies small private companies are the primary source of employment. FMO contributes to the improvement of financial services for small businesses and micro entrepreneurs by strengthening the financial intermediaries that work with these groups. This applies to both the provision of credit and the mobilization of savings and deposits. MASSIF is one of FMO's tools to support the creation of strong and stable local financial service providers. In 2005 MASSIF committed EUR 67 million and the portfolio grew to a total amount of EUR 212 million.

Hedging risk

In addition to the regular SME activities of FMO, MASSIF often provides financing for start up financial institutions. A unique aspect of the fund is to also provide local currency financing, instead of lending in US dollars or euros. FMO is willing to take the local currency risk because MASSIF is spread across 48, mainly smaller countries, in 104 different investment projects. In this way a sort of natural hedge is created with around 30 foreign currencies in countries that are not so sensitive to international currency movements. In 2005, there was clearly increased interest in this product, particularly among FMO clients in Africa and Asia.

Focus on microcredit

With 2005 being the UN International Year of Microcredit, a tremendous amount of attention was placed on microfinance activities during the year. Socially responsible investors have become more interested in this type of investment because it has proven to have long-term, sustainable impact.

In 2005, FMO invested an additional EUR 10 million in microfinance institutions, bringing the outstanding microfinance portfolio to EUR 59.5 million. The challenge in the future is to carefully manage all the capital that is now being directed to microfinance institutions around the world and to focus on the contribution local savings can make. FMO expects to play an active role in the future.

Developments 2005

Through MASSIF FMO provides capital for start up financial institutions, as well as loans for more established financial players. Access Bank in Nigeria, for example, is a stable and well-developed financial institution that focuses on the middle and top segments of the business community. A EUR 12.7 million MASSIF loan stimulated this bank to go 'down market' and provide financial services to SMEs and second tier companies, contributing to local employment and development. After the tsunami tremendous amounts of donor aid were earmarked for Sri Lanka. Even though this serves an obvious immediate humanitarian need, FMO always looks for investments that have a long-term development impact. The FMO approach in the region was to provide EUR 10 million in loans for housing projects and SME development, targeted at rebuilding the community and creating jobs. This program will be continued in 2006. In Central America, Banco Uno Panama and Banco Uno El Salvador partnered with FMO to focus on the needs of its customers. Through a USD 27.5 million loan, Banco Uno established credit card services to lower-income households, giving 700,000 consumers the ability to buy goods and services to improve their lives or run their local business.

MASSIF

Prior to 2005, the SME Fund, the Balkan Fund and the Seed Capital Fund operated successfully independently, reaching the micro and SMEs market. All were interlinked with similar reporting and administrative processes and served the lower segments of the market through deals with commercial banks, microfinancing institutions, leasing companies, consumer finance institutions, housing finance corporations and investment funds that provide private equity. To make the funds more efficient and create a synergy for clients and partners, the three funds were combined in 2006 under the name of MASSIF.

Access 2010

A critical aspect of all FMO investment projects is to create measurable, long-term development impact. To accomplish this, FMO's strategy has been to focus on what the company does best and develop financing products that lead to tangible and identifiable results. In mid 2004, the Access 2010 initiative was launched with the goal to focus on four small regions (Mekong Delta, the Balkans, Western Africa and Central America) and to leave a 'footprint' in the financial sector. These regions are in the early phase of financial development and FMO believes that through partnerships and innovative financing solutions, a real difference can be made.

Focus 2006

The outlook for FMO's small business activities and for MASSIF is positive. In 2006, MASSIF expects to disburse approximately EUR 71 million. Focus will be on increasing the level of local currency loans as compared with US dollar and/or Euro loans. More attention will be given to tapping into the additional money made available from the UN International Year of Microcredit and directing this to micro and SME financing activities. In terms of development impact, the goal is to increase the Development Impact Indicator more than 50 percent by 2010.

LDC Infrastructure Fund

Infrastructure is the backbone of economic activity. Water, health care, energy and communications are basic necessities for any country, but are often lacking in least developed countries. The Least Developed Countries (LDC) Infrastructure Fund enables private sector investors to invest in long-term projects that contribute to improving the daily life of people living in least developed countries. The LDC Infrastructure Fund was created in 2002. It encourages private investors to invest in infrastructure in least developed countries. Long-term financing is most often provided for projects in energy, telecom, water, transportation, environmental and social infrastructure projects, particularly in Asia and Africa.

Developments 2005

In 2005 the Dutch Government gave a clear mandate to focus more on water projects, health care and education. This is in line with reaching the UN Millennium Development Goals of providing access to drinking water, achieving universal primary education and making essential drugs affordable and available in developing countries. In 2005, the LDC Infrastructure Fund contracted EUR 52 million in new financing and surpassed the performance from the previous three years. The two most significant projects in 2005 taken together included Bengaz, Benin (EUR 15 million) and Sotogaz, Togo (EUR 15.4 million).

Water Projects

An innovative project contracted in 2005 was PlayPumps. Through a EUR 900,000 grant, approximately 130 water pumps will be installed in Mozambique by means of children's 'merry-go-round' at school-sites that drive a submerged pump, connected to an elevated water storage tank that provides water to the local community.

Energy

Residents of Togo and Benin will have access to affordable natural gas by the end 2006 thanks to a landmark deal contracted in 2005 with Bengaz and Sotogaz. The project facilitates the building of a connection to the West African Gas Pipeline that runs from Nigeria to Ghana, transporting gas from oil production fields in Nigeria. The project provides sustainable energy at affordable prices and helps the environment by reducing large amounts of CO_2 emission that would have otherwise been flared.

Health Care

FMO's strategy in the health care sector remains focused on working with 'equipment vendors' such as Siemens, Philips and GE. These types of companies provide tangible equipment that have an immediate use and contribute to improving the daily medical care options for the local population. No new contracts for health care projects were signed in 2005, but these remain a priority for the LDC Infrastructure Fund in 2006.

In 2005, FMO began implementing the Access 2010 strategy. The pipeline has been identified and initial investments have been disbursed. TPC, a microfinance institution in Cambodia, received a loan of USD 750,000 and an equity transaction of USD 250,000 in three currencies: Thai Baht, Cambodian Riel and USD. In Nicaragua, a financing package of USD 5 million was provided to Findesa to finance small and low-income housing and small and medium enterprises. Two leasing companies in Serbia received financing totally EUR 10 million to finance small and medium-sized enterprises, and in Honduras USD 5 million was approved to two medium-sized Honduran banks to finance housing projects. An important part of the Access 2010 strategy is to support Capacity Development in the target regions. These types of investments projects will be pursued in 2006. The ultimate aim of Access 2010 is to increase its DII score at least 50 percent by 2010.

Education

Although education is high on the government's agenda, no contracts for educational projects or investments were completed in 2005. This is due to the fact that investment in this sector is extremely sensitive and often requires a local partner or guarantee. FMO used 2005 to evaluate what types or projects it could be involved in and which partners to work with. The strategy developed in 2005 will be implemented in 2006.

Telecom

No contracts in the telecom sector were signed in 2005. However, several new opportunities were identified and we expect to contract new telecom projects in Haiti (EUR 10 million) and Bangladesh (EUR 30.8 million) in 2006.

Focus 2006

The future of the LDC Infrastructure Fund looks positive. In 2006, expectations are that the Dutch Government will extend it for an additional five to seven years, with continued focus on water projects, health care and education. More combined financing solutions will be offered between ORET and the LDC Infrastructure Fund.

IFOM & NIMF

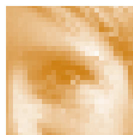
Foreign direct investment enhances and stimulates economic growth. FMO is involved in this type of financing activity through joint venture investment funds with the Dutch Government. The Netherlands Investment Matching Fund (NIMF) provides long-term risk capital (equity or quasi equity) for international companies that consider investment in emerging markets, and the Investment Facility Emerging Markets (IFOM) encourages Dutch SMEs to invest in these countries.

NIMF

Emerging markets offer many new business opportunities, ranging from export markets to product innovations. Limited local knowledge and perceived financial risks and financing issues however, often prevent international companies from expanding into these markets. Through NIMF, FMO shares in the risk of foreign direct investment in exchange for a healthy return. The fund was established in 2002 with EUR 53 million in investment capital.

Developments 2005

NIMF enables FMO to match corporate investments made by international companies with direct equity investments from EUR 1 to 5 million in a local private company with strong growth potential. As with all equity investments, FMO actively contributes its expertise and input to the guidance of the company. More than EUR 15 million was invested in 2005.
The Dutch logistics company Rynart Transport received new equity of EUR 5 million to expand its successful logistics business from Hungary into Turkey. In China, a EUR 5 million equity investment from NIMF enabled China Gas to obtain an additional EUR 50 million in financing for a natural gas distribution project.
The pipeline network will provide households and businesses with gas in less industrialized areas in



China. In Thailand, a chemical plant built by Indorama received EUR 5 million quasi-equity enabling the company to secure an additional EUR 32 million loan. These investments illustrate how the fund has evolved to solve the gap that exists for equity investments, creating bankable financing options.

Focus 2006

In 2006, we expect to commit EUR 17 million in a number of projects. One major project – a water sewage facility – was approved in 2005 with Build King, a Hong Kong company. Other possibilities include investments in Latin America, Africa and Asia. Continuation and extension of the NIMF Fund is expected to be agreed upon in 2006.

IFOM

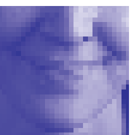
Financial markets in emerging market economies are often inefficient. Together with higher risks, this makes it difficult for local enterprises to raise capital for their investments. Investments by Dutch enterprises in these local enterprises or in their subsidiaries can make a contribution to strengthen the market sector in these countries. Through the IFOM Facility, Dutch SMEs are encouraged to invest in emerging markets through a loan or guarantee, tailored to the specific finance needs of the local enterprise. The EUR 77 million facility was established in 1993.

Developments 2005

In 2005, IFOM financed 12 investments totaling EUR 18 million. The main region of activity was Eastern Europe. IFOM financing is expanding to other parts of the world, with 10 percent of the projects now in China, 5 percent in Africa and a first investment in Turkey. The facility has evolved into appealing to two types of investors. On one hand, Dutch companies looking for new markets are finding IFOM more interesting. This was the case for Thegra Ukraine (TU), a subsidiary of Theeuwes Group. In 2005, FMO co-invested in this company through a long-term subordinated loan of EUR 2 million to construct a seed processing facility in Ukraine. This will create 30 new jobs locally and secure a solid future for TU in the Ukrainian market. On the other hand, a number of Dutch businesses find it difficult to continue producing their products economically in The Netherlands. Through IFOM, new markets are accessible. Van Hout Veneers, a third generation Dutch wood-processing factory in The Netherlands faced continuity problems. Rather than closing the business, an innovative IFOM loan of EUR 800,000 enabled the company to establish the joint venture Samill Ltd. in Ukraine. Samill provides Van Hout with affordable raw materials and acceptable transport costs to markets in Western Europe. In turn, Van Hout has transferred its know-how to the local work force in such areas as innovative veneer production techniques and the Western approach towards administrative organization and financial control.

Focus 2006

In 2006, IFOM plans to further develop its cooperation with Dutch commercial banks. This will lead to more co-financing and risk sharing. IFOM and NIMF plan to form a closer working relationship. Matching investments will be provided in the form of equity and mezzanine loans.



Getting small businesses on their feet

The Aspire East Africa Fund, launched in 2005 by GroFin, FMO, Shell and partners, aims to stimulate growth of the private sector and financially support underserved entrepreneurs. The focus is on start-up and early stage growth companies in Kenya, Tanzania and Uganda, who have difficulty in accessing capital due to their limited track record and/or collateral constraints. The Fund aims to invest in approximately 60 enterprises over the next three years, creating an estimated 720 new jobs, and indirectly benefiting in excess of 7.000 people.

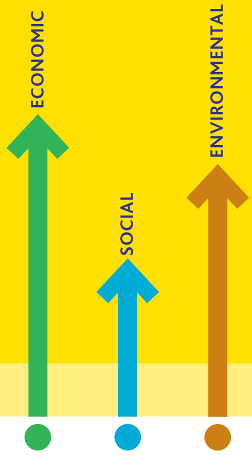
Says **Jurie Willemse**, Managing Director of Fund Manager GroFin, South Africa, 'The Fund is the first of its kind in the region and addresses the "missing middle" that is currently not serviced by traditional financiers and banks.'

FMO has committed USD 3 million to the Fund, and assisted in training personnel with a EUR 150,000 grant. Uganda and Kenya now boast skilled teams of local people who can assist entrepreneurs with their business development and finance needs.

East Africa

GroFin

Score Card Development Impact



Capacity Development

Know-how and training is key to sustainable development of the private sector in emerging markets. When provided with specialized skills training and technical assistance, the potential for a company or entrepreneur to succeed and become profitable is greatly increased. FMO has one of the biggest and most active Capacity Development programs in the world, stimulating the transfer of know-ledge to enterprises in developing markets, mainly from more developed industrialized countries.

Investing in the future

FMO has provided technical assistance funding since 1978. Both the Dutch Ministries of Foreign Affairs and of Economic Affairs fund technical assistance to finance job related skills training for strengthening local management and employee performance. The Investment Promotion and Technical Assistance (IPTA) program also provides resources for activities such as advice and feasibility studies that are particularly valuable in the start-up phase of an enterprise. By lowering the threshold for investment, technical assistance grants contribute to the long-term viability of a company by investing in the quality of a company's people, systems and procedures.

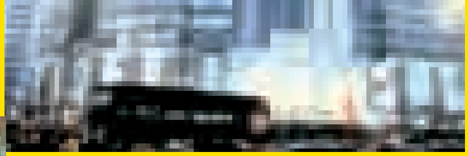
Through the Financial Insititutions Program (FIP) FMO was able to train and support financial institutions in identifying and addressing opportunitities and threats that result from social and environmental issues with their clients; organized an asset and liability management course for financial institutions in Asia; financed training for financial intermediaries in risk management in Nurcha, South Africa; and financed consultancy for local banks in Tanzania and Uganda seeking to develop their market expertise, products and operational banking skills. FMO also financed technical assistance to support small providers of renewable energy in Latin America, and provided training for the development of standards, procedures, management and information systems to the SEAF South Balkan Fund.

Developments 2005

In 2005, the demand for technical assistance increased from 74 requests in 2004 (EUR 6.8 million) to 139 in 2005 (EUR 16.4 million). The Dutch Ministry of Economic Affairs discontinued the Technical Assistance Emerging Markets Subsidy regulation per December 31, 2004. In the year under review, FMO continued to disburse subsidies that were contracted before the end of the regulation and performed an administrative monitoring and reporting function on behalf of the Ministry. No new requests for this regulation were contracted in 2005. FIP was able to train 36 financial institutions and to coach another 36 financial institutions individually. 2004 was the first year a capacity development grant was financed out of the LDC Infrastructure Fund. In 2005, the number of approvals increased from two to 13, resulting in a disbursement of EUR 2.3 million.

Focus 2006

Technical Assistance has become part of FMO's core business - known as Capacity Development since January 2006. This resulted in the closure of the Technical Assistance Department and the relocation of technical assistance specialists within the regional departments.



ASIA

Pioneering

Investment Fund

Development Related Export Transactions

Sustainable economic development and a flourishing private sector cannot be realized without a good social and economic infrastructure. Investments in those sectors often cannot be financed on a commercial basis, so an element of subsidy becomes necessary. In 2002, the Dutch Government delegated the execution of the Development Related Export Transactions (ORET) program to NIO, a wholly owned subsidiary of FMO. NIO executes activities on behalf of the State. In this way ORET stimulates investments in infrastructure in developing countries. Funding has been provided since 2002, totaling more than EUR 400 million. The primary focus region has been Africa, followed by Asia.

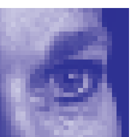
Developments 2005

In 2005, FMO received 72 applications for ORET, compared with 27 in 2004. A total sum of EUR 79.6 million was contracted (EUR 75.3 million in 2004). In 2005, ORET disbursed approximately EUR 88 million, about 6 percent more than in 2004. ORET represents over 10 percent of the total FMO contracts (EUR 699 million).

The significant increase in ORET applications can be attributed to a number of factors. Most significantly, many companies that had submitted an application for an ORET grant in 2004 asked FMO to hold the request until the new ORET program was introduced in 2005. An important change to the program was that it became ‘untied’ for Least Developed Countries (LDC’s). This means that capital goods or services funded through ORET do not have to be imported from The Netherlands. This factor, in conjunction with more flexibility, accounted for 35 of the requests in 2005 - almost half of the total.

In 2004, an agreement was reached with the Agency for International Business and Cooperation (EVD), the organization that administers the Economic Cooperation Projects Program, to improve and streamline the quality of the information needed to process an ORET grant. This led to a more intensive cooperation between FMO and EVD in 2005.

In conjunction with the UN Millennium Development Goal to provide access to safe drinking water and sanitation, there is also particular attention on projects in the water sector. In particular, 2.5 million people



Stimulating growth in China's inner regions

FMO and Value Partners Ltd, one of the most successful fund managers in Hong Kong, have set up the first mezzanine fund targeting China: the Development Partners Fund (DPF). Mezzanine financing is an innovative hybrid form of capital that was not previously available in China. Accessing this type of capital allows private Chinese entrepreneurs to invest in a longer-term, more flexible manner.

The focus of the fund will be on SMEs in China's interior, where economic growth lags behind economic centers such as Beijing and Shanghai. Says **Mark Kooijman**, General Manager, DPF, Hong Kong, 'The commercial objective of our Fund is to make sound investments in private enterprises in order to generate high economic returns for our shareholders.
FMO provides us with technical assistance, and works closely with us to improve the corporate governance standards and environmental and social management of investee companies.'

FMO (contributing USD 22.5 million) and Value Partners (contributing USD 60 million) jointly manage the Fund.

ECONOMIC SOCIAL ENVIRONMENTAL

China

Development Partners

Score Card Development Impact

in the Sudanese capital Khartoum will gain access to clean drinking water as of 2008. The total cost of the water purification plant is USD 108 million. The financing has been arranged through a USD 58 million investment, half ORET grant and half loan for which a letter of intent has been signed with the LDC Infrastructure Fund, and a USD 50 million loan from the Industrial Development Cooperation (IDC), the South African development bank.

First time applications were received from seven African countries, Guatemala and Peru. China remained a strong target area and Indonesia showed significant growth.

Concessional loans

Apart from ORET, NIO manages a EUR 1.2 billion concessional loan portfolio on behalf of the Dutch Government. NIO is also responsible for the financial administration of bilateral development projects (EUR 321 million in outstanding commitments).
In 2005, NIO completed three major debt-restructuring deals in Nigeria, Sri Lanka and Indonesia.

ORET Program 2000-2005 (EUR million)

Year	Contracts	Disbursements
2000	73	83.6
2001	91	78.2
2002	34	62.8 [1)]
2003	36	74.7
2004	27	82.8
2005	72	87.9

[1)] In February 2002 the management of ORET was transferred to FMO.

Focus 2006

In 2006, even closer cooperation between ORET, FMO's government funds and FMO's own financing products is expected, with the goal to provide a more integrated and complete financial package for clients in developing countries. This should result in more jointly financed products such as ORET and LDC Infrastructure Fund working together.
As LDC's learn that ORET is no longer tied to Dutch suppliers, we expect more interest for ORET. This should allow for a broader range of investment possibilities in LDC's. With the UN Millennium Development Goals' focus on the water sector, we expect increased interest in projects related to clean drinking water and sanitation. A higher concentration of applications is expected for projects in Africa compared to Asia and Latin America.

AFRICA Committed Transport

FMO Organizational Chart

MANAGEMENT BOARD

Chief Investment Officer
Nanno D. Kleiterp

Chief Executive Officer
R. Arthur Arnold

Chief Risk & Finance Officer
Nico K.G. Pijl

INVESTMENT

Africa
Joost M. Zuidberg
Director
Until January 31, 2006

Ruurd J. Brouwer
Director
As of February 1, 2006

Asia
Wim J.M. Wienk
Director

Europe & Central Asia
Huub W.H.M. Cornelissen
Director

Latin America & the Caribbean
Brigit L.J.M. van de Reyt
Director

Private Equity
Brigit L.J.M. van de Reyt
Director

Investment Promotion
Ruurd J. Brouwer
Director

Financial Markets
Erik J.H. van Dijk
Director

CORPORATE

Human Resources
Jan-Thijs M. Both
Director

Corporate Affairs
Ernst F. van Splunter
Director
Until December 31, 2005

H. Philip Rogaar
Director
As of May 1, 2006

Internal Audit
Ben M. de Koning
Director

IT
Roeland van der Plaat
Director
Until December 31, 2005

a.i. Ronald Hoekman
Director
As of February 1, 2006

RISK MANAGEMENT & FINANCE

Investment & Mission Review
George A.M. Meltzer
Director

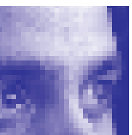
Special Operations
Roel Messie
Director

Legal Department
Jeannette Franken
Director

Finance & Control
H. Joan Melis
Director

Risk Management
Frank J.M. Gosselink
Director

Works Council
Steven Duyverman. Chairman
Martijn de Groot
Rianne Heijboer
Alwin Kool
Mariëlle van Luttervelt-Pubben
Caroline Noothoven van Goor



Restructuring urban transport systems

In the absence of good public transport, many Ghanaians travel by local taxi buses. The rapid increase in population has brought increasing traffic congestion and it can take hours to get to work. In 2005, the Ghanaian bus company, Metro Mass Transit, took delivery of 100 Dutch city buses. The buses, which can carry the same number of passengers as 40 taxi buses, provide affordable public transport in Ghana's seven main cities.

Says **Cas van Eerden**, General Manager, Metro Mass Transit, 'We currently serve around 100,000 passengers a day. We've introduced a regular timetable, and reduced travel times. Our ultimate objective is to establish a solid business structure by training local mechanics, drivers and management teams, and then withdrawing to pursue markets elsewhere.'

FMO is providing EUR 6 million for the construction of 100 new city buses, under the ORET program, and will fund the appointment of a Dutch technical director with the Ghanaian transport company for a period of two years.

Ghana

Metro Mass Transit

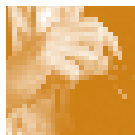
Human Resources

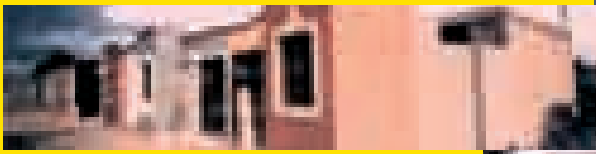
As a leader in providing innovative financing solutions to high-risk partners in developing countries, FMO operates in a highly specialized environment. Our role as a public-private development bank means that we must attract experts in international finance, economics and risk management. Individuals with backgrounds in social, environmental and corporate compliance also form a key part of our team. Financing is provided in more than 50 countries so staff must have expertise and in-depth knowledge of international capital and money markets, world politics and regional cultures and customs. Working cross-border and cooperatively with industry leaders, private sector entrepreneurs, government officials and other financing partners is fundamental to tailor-made solutions for FMO clients. It is this combination of skills and a personal commitment by personnel to improve the quality of life in the developing world that makes working at FMO a rewarding challenge. In 2005, management and personnel continued to implement departmental realignments, training programs and system upgrades focused on improving the quality of service to clients and partners worldwide.

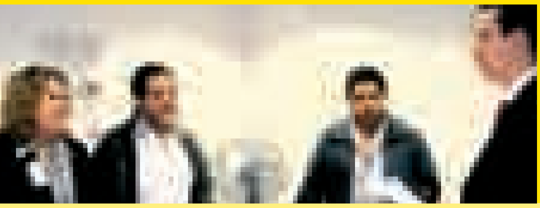
FMO corporate culture

As a professional, results-led organization focused on the challenging task of achieving sustainable development impact, personal commitment to FMO's mission and goals is the foundation of our corporate culture. Our team comprises individuals from all over the world with backgrounds in banking, portfolio & risk management, finance, law, and environmental & social issues. This multi-discipline, multi-national component further contributes to culture within FMO. We are an organization characterized by personal responsibility and accountability, a continuous desire to learn, to discover new and improved ways of working, and to develop new initiatives with colleagues, partners and clients.

This culture was affirmed in 2005 through an Employee Satisfaction Survey. The response was high (80 percent). In general, employees are positive about and committed to the mission. They are satisfied







with FMO as an employer, the content of the work and the opportunities for professional and personal development. To further improve the organization, personnel suggested enhancing internal processes, more communication, visionary leadership, and even more career advancement options, both internally and externally. The survey is being used to set specific company-wide goals in 2006. A limited follow up survey will be conducted at the end of 2006 to measure results in specific areas.

Personnel development

The global financial and business sectors in which FMO operates are becoming increasingly complex and demanding, also from a regulatory perspective. We, as a financial institution, are increasingly arranging new types of financial structures and services. This is why FMO invests heavily in improving and developing personnel skills and expertise. We encourage employees to develop and broaden existing skills and knowledge and to acquire new capabilities and experience. Individual initiatives are supported and guided by managers. Training programs and other educational opportunities are available to personnel. Hands-on experience is gained through working with colleagues and national and international partners. All of these training and skill-building elements contribute to maintaining and enhancing the level of professional knowledge throughout the organization.

In 2005, a major initiative to improve the professionalism of the organization was established through the Management & Talent Development Program. Designed to cultivate the leadership and management capabilities of senior managers, the program aims to create both continuity and reinforce our culture. Focus areas are training managers in communication – both internal and external, team-building, results-oriented approach and personal leadership skills. In 2006, 20 senior directors participated in the program; 30 middle managers are scheduled to participate in 2006.

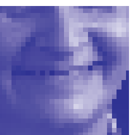
The FMO Team

At year-end, the FMO team comprised 218 FTEs and totaled 227 personnel (2004: 192 FTEs/ 204 personnel). We recruited 44 new colleagues; 21 employees left the organization (2004: 27). Part-time staff in 2005: 65 or 29 percent (2004: 57 or 28 percent). Personnel are allocated according to key business areas: commercial (108), support staff (68), corporate staff (31) and senior management (17). English is the official working language of the organization. Dutch and other languages are spoken, depending upon the region. The percentage of women in senior management positions has increased to 10 percent (2004: 5 percent). Our goal is to attract and retain more women in (senior) management positions in the coming years.

One FMO

FMO is a multi-faceted organization. In practical HR terms, we have been working towards creating an 'One FMO' corporate culture – a more efficient and professional organization supported by a solid management team and integrated operational systems that benefit clients, partners and personnel. As in previous years, improving and clarifying internal operating procedures was a priority in the reporting year.

In early 2005, a first step was taken to increase organizational efficiency and provide better service to clients. This led to a decision to downsize the Management Board from four (two statutory and two non-statutory directors) to three statutory

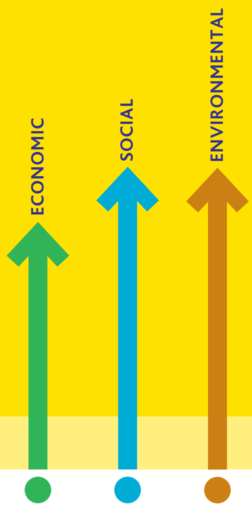


Affordable mortgages for low-income groups

Hipotecaria Su Casita (HSC) is a fast growing lender, and has the special mandate of granting mortgages to low-income groups. HSC is the second largest player in this market in Mexico. Current demographic trends point to significant new housing needs in Mexico, especially in lower income segments, of about 750,000 housing units per year.

Mark Zaltzman, Director Corporate Finance, HSC, says that 'organized and eco-friendly housing developments permit better access to basic services, such as health care and drinking water, for the ultimate beneficiaries of this project: the individual borrowers.'

FMO is the arranger of a USD 100 million syndicated loan facility with a tenor of five to seven years, provided by a consortium of international financial institutions (Caja Madrid, DEG and Inter-American Investment Corporation), and has contributed USD 20 million to this amount. This investment will directly contribute to alleviating the current housing deficit by providing long-term debt finance for the origination, acquisition, and refinancing of mortgage loans.



Mexico

Hipotecaria Su Casita

Score Card Development Impact

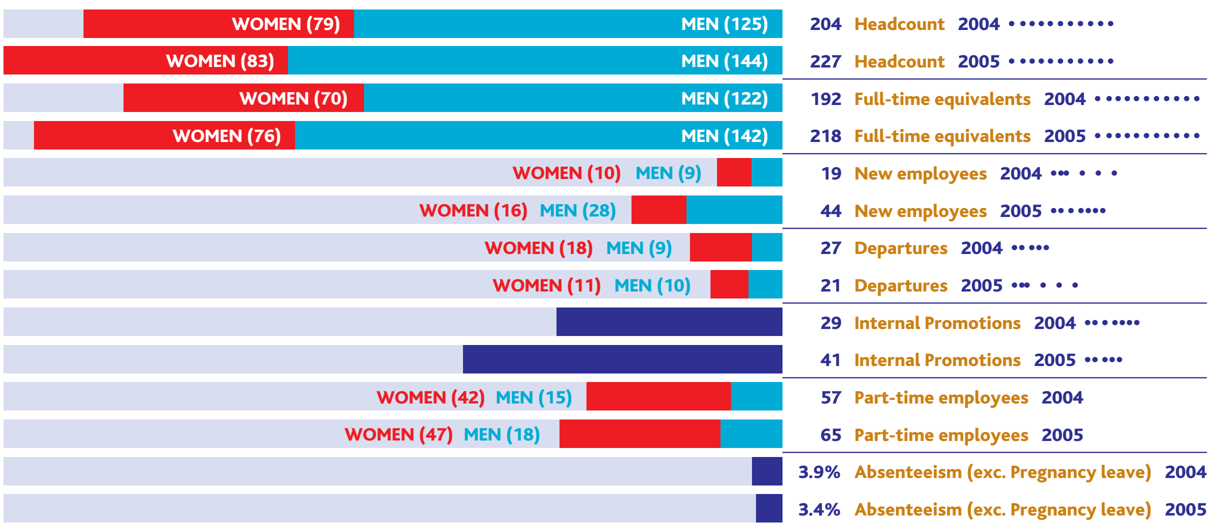
directors and to re-allocate tasks and responsibilities. The Management Board now consists of a Chief Executive Officer, a Chief Investment Officer and a Chief Risk & Finance Officer.

To facilitate better customer relationship management, the roles of Business Development and Portfolio Management were separated. This means that the Business Development team is now solely responsible for initiating deals and researching new target clients. The Portfolio Management team takes over once the deal has been contracted, handling the day-to-day client portfolio management. Initial reaction from clients has been positive. Preparations for relocating technical assistance staff within the regional teams, under the new name of Capacity Development, were implemented in 2005. The Mid-Office Department was established in November 2005 to ensure better and more accurate recordkeeping of financial portfolio data. Further development of business IT systems remains high on the agenda. A new general ledger system for the back office and additional IT systems for FMO Finance product administration are being implemented in 2006.

In 2006, key clients and partners are participating in an electronic survey to investigate how we can further improve products, services and communication methods. The results will be incorporated into our best practices during 2006.

Works Council

In 2005, the Management Board met with the Works Council formally on five occasions. Issues discussed were organizational strategy, corporate policy, actual and proposed organizational changes (including implementation processes), and the content and conditions of the employment package, including different aspects of the remuneration policy, such as performance related remuneration and the pension scheme. These meetings and a number of informal sessions resulted in several changes in the organizational structure. In addition, the Management Board has taken suggestions and recommendations on conditions of the employment package and working conditions in general.



From left to right: **Lodewijk de Waal, Jacqueline Cramer, Dolf Collee, Willy Angenent and Cees Maas.** Missing from photo: Joop Hoekman.

Supervisory Board Member		Initial Appointment [1]	End of Current Appointment	SB Committee Membership
Willy Angenent, Chairman, *Dutch, 1940*		2002	2006	• Audit Committee • Selection, Appointment and Remuneration Committee • Projects Committee [2]
Dolf Collee	*Dutch, 1952*	2001	2008	• Selection, Appointment and Remuneration Committee
Jacqueline Cramer	*Dutch, 1951*	2005	2009	• Selection, Appointment and Remuneration Committee [3]
Joop Hoekman	*Dutch, 1931*	1994	2006	• Audit Committee [3] • Projects Committee [2]
Cees Maas	*Dutch, 1947*	1997	2009	• Audit Committee, Chairman
Lodewijk de Waal	*Dutch, 1950*	1996	2008	• Selection, Appointment and Remuneration Committee, Chairman • Projects Committee [2]

[1] Maximum term of office is 12 years including re-appointments.

[2] Dissolved on May 18, 2005. Additional committee members included W. Meijer, L.C.F.A.J.S. de Leur and J.J.C.M. van Dooremalen.

[3] From May 18, 2005.

Supervisory Board

Willy Angenent (1940), Chairman

Willy Angenent serves as Chairman of the Supervisory Boards for FMO, Vedior N.V., Altera Vastgoed N.V. and Hermans Holding B.V. From 1998 until mid 2000 Mr. Angenent was Chairman of the Board of Management of Laurus N.V. Between 1992 and 1998 he was a member of the Board of Management of Vendex International N.V. He held various positions with Unilever in the Netherlands, Latin America, France and the United Kingdom from 1970 until 1991.

Dolf Collee (1952)

Dolf Collee is a member of the ABN AMRO Bank Managing Board. He is Member of the ABN AMRO Bouwfonds Nederlandse Gemeenten N.V. Supervisory Board, Member of the Delta Lloyd ABN AMRO Verzekeringen Holding BV Supervisory Board, Vice Chairman of Capitalia Gruppo Bancario (Italy) Board of Directors, Member of K & H Bank Hungary Board of Directors, Chairman of Kobalt Media Services BV Supervisory Board and a Member of SVM PACT Supervisory Board.

Jacqueline Cramer (1951)

Jacqueline Cramer is director of Sustainable Entrepreneurship Strategy & Innovation Consulting and advises business leaders in the area of implementation of sustainable entrepreneurship. Presently she is also a professor of Sustainable Entrepreneurship at the University of Utrecht and a member of the Supervisory Boards for Shell Netherlands, ASN Bank Funds, Dutch Sustainability Research, University of Maastricht and the Hogeschool Arnhem Nijmegen. She is also a member of the Dutch Socio-Economic Council and a member of the Advisory Boards of the Netherlands Institute for Health and Environment, Dutch World Wildlife Fund for Nature and the Innovation Network on Sustainable Agriculture.

Joop Hoekman (1931)

Joop Hoekman, a retired diplomat, served The Netherlands for nearly 30 years in posts around the world, including as Ambassador in London, Reykjavik and Dakar. He also has extensive experience in The Hague, working as Director General of the Department for Financial Economic Development Cooperation from 1974-1980 and managing Dutch aid programs from 1984-1988. He is currently 'Plenipotentiary' of the Minister for Netherlands Antillean and Aruban Affairs. Mr Hoekman retired as Chairman of the Board for the International Reference Centre for Community, Water Supply and Sanitation (IRC) in October 2005 and is a former member of the Board of the Netherlands Senior Experts Program.

Cees Maas (1947)

Cees Maas has worked for ING since 1992. In July 1996 he was appointed Chief Financial Officer and in 2004 became Vice-Chairman of the Management Board. Between 1976-1992 he worked for the Ministry of Finance, serving as Treasurer-General between 1986-1992. From 1971-1976 he held positions at Erasmus University. He is also Vice-Chairman and Treasurer of the Board of Directors of the Institute of International Finance, Chairman of the European League for Economic Cooperation (ELEC), Dutch Chapter, European Treasurer of the Trilateral Commission and a member of the Capital Markets Consultative Group (IMF) and Board of the Rembrandt Society.

Lodewijk de Waal (1950)

The former Chairman of the FNV, Lodewijk de Waal was appointed as the Director General of humanitarian association Humanitas from July 2006. He has more than 32 years experience with trade union organizations in national and international context. He is also member of the Supervisory Board of Delft University, member of the Advisory Council of the Association of Dutch Healthcare Insurers, chair of the governing board of the Netherlands Development Organization SNV, and Chair of the Governing Board of the International Water and Sanitation Centre IRC.

LATIN AMERICA & THE CARIBBEAN

Businesslike

Energy

Report of the Supervisory Board

The reporting year has been a period of significant financial growth for FMO. At the same time, the effort to integrate activities and create a synergy throughout the organization, accompanied by management training, departmental realignments and a broadening of the finance portfolio have firmly positioned FMO to better serve clients and partners in the coming years. Furthermore, we are pleased to report that in 2005, Standard & Poor's once again confirmed its AAA rating for long-term FMO financing.

During 2005, FMO outperformed its financial targets. For full details of the annual accounts, refer to page 76 of this annual report. KPMG Accountants N.V. audited the annual accounts of the *Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.*. The Auditors' Report is on page 142. The Supervisory Board endorses the Report of the Management Board and the other information required by law. It is proposed that the Annual General Meeting of Shareholders adopt the Annual Accounts 2005 and also discharge the Management Board with respect to its management and the members of the Supervisory Board with respect to their supervision in the year 2005.

Profit appropriation and dividend

FMO recorded an historic net profit of EUR 73 million in 2005. In accordance with Article 6(2) of the Agreement with the State, November 16, 1998, a sum of EUR 69.1 million from these profits has been added to the contractual reserve. The distributable profit component amounts to EUR 4.3 million.

In line with the Management Board's proposal, the Supervisory Board recommends a cash dividend of EUR 3.25 per share and that the remaining EUR 3.0 million be added to other reserves.

Working method

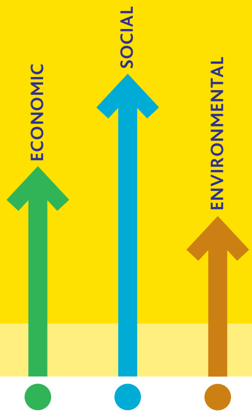
In line with the Dutch Corporate Governance Code and relevant legislation, FMO's Supervisory Board and its committees are tasked with overseeing and monitoring the progress of the company's strategy and its medium-term objectives, and providing strategic advice to the Management Board. A transparent reporting structure is in place. Regular meetings with the Management Board and senior management take place throughout the year. In between the regularly planned meetings there is frequent contact between Supervisory Board Members, enabling them to remain well informed and provide advice. The Chairman of the Supervisory Board meets informally once a month with the Chief Executive Officer.

Expansion of much needed power supply

Jamaica Energy Partners (JEP), owner of the Dr Bird power barge in Jamaica, has recently expanded its existing facility from 74MW to 123.5MW, by adding another barge to its 'fleet.' The combined electrical power of the two barges will be fed into the national distribution grid, bringing much needed extra power to the island.

According to **Juan Paez**, Director, JEP, Jamaica, 'We want to expand our presence while preserving our original investment in the island. Once the expansion is fully operational, we expect to produce about 20 percent of the electricity consumed on the island.'

JEP is using its existing cash flows to finance part of the new barge. The lenders, including FMO, who provided a loan of USD 15 million in a total financing package of USD 78 million, recognized the solid performance of the company in managing the existing unit, giving them the confidence to participate in this project.



Jamaica

Jamaica Energy Partners

Score Card Development Impact

Key issues that were addressed by the Supervisory Board in 2005 were:

- the restructuring and downsizing of the Supervisory Board;
- the appointment of Nico Pijl as Chief Risk & Finance Officer to the Management Board;
- the adoption and implementation of the new Dutch Corporate Governance Code and related amendments to the Articles of Association;
- the role and constitution of the committees;
- remuneration policies;
- quarterly and annual financial reports;
- and the corporate strategy, including the role of government funded activities.

During 2005, the Supervisory Board met with the Management Board six times. There was an additional meeting without Management Board members to evaluate both the Supervisory and Management Board's own performance and the individual performance of members of each Board.

Composition of the Supervisory Board

In accordance with the decision taken by the Supervisory Board at a meeting on March 17, 2005, the size of the Supervisory Board was reduced from 10 to six members. Wim Meijer, Piet Bukman, Sjef van Dooremalen, Rens de Leur and Doekle Terpstra resigned from the Supervisory Board. Cees Maas retired by rotation and was reappointed at the Annual General Meeting of Shareholders on May 18, 2005. The Annual General Meeting of Shareholders appointed Jacqueline Cramer as member of the Supervisory Board on May 18, 2005. Based on the competences profile of the Supervisory Board, Ms. Cramer's expertise in environmental issues and sustainable development were important factors for her appointment. In line with new legislation, Ms. Cramer's nomination for appointment was proposed by the Works Council.

The Board wishes to thank Wim Meijer, Piet Bukman, Sjef van Dooremalen, Rens de Leur and Doekle Terpstra for the great dedication and skill with which they carried out their responsibilities as members of the Supervisory Board and as members of the various committees.

Board members Angenent and De Waal attended six Supervisory Board meetings with the Management Board; Board members Collee and Hoekman five times; Board member Cramer four times; Board member Maas three times; Board members Bukman, De Leur and Van Dooremalen twice; and Board members Meijer and Terpstra once.

Governance

During the reporting year, the Supervisory Board and the Management Board implemented the Dutch Corporate Governance Code. The Articles of Association and various regulations were amended and new regulations were introduced. The Supervisory Board was reduced in size from 10 to six members to bring it into line with that of the organization. The system by which various organizations (including ministries, employer associations, trade unions) could propose candidates for appointment to the Supervisory Board was terminated. Members are now are appointed by shareholders at the Annual General Meeting.

In order to guarantee a clear separation of responsibilities between the Supervisory Board and the Management Board, the detailed analysis and consideration of individual financing proposals by the Supervisory Board through its Projects Committee

was delegated to the Management Board. Shareholders approved the relevant proposals, including new Articles of the Association and the Corporate Governance Compliance Regulations at the Annual General Meeting of Shareholders (May 18, 2005) and the Remuneration Policies for the Management Board at an Extraordinary Meeting of Shareholders (November 24, 2005).

Independence of the Supervisory Board Members

The Supervisory Board values the independence of its members. All members are independent, with the exception of one member, as regulated in Article 2, section 2.2, of the Standing Rules of the Supervisory Board. This article complies with the relevant regulations of the Dutch Corporate Governance Code. By virtue of the same regulations, Members must report all conflicts of interest immediately to the Chairman of the Supervisory Board. Any conflict of interest between FMO and Board Members should be avoided, if possible. All professional relationships between a member of the Supervisory Board and FMO must be explained in the Notes of the Annual Accounts. In 2005, the Supervisory Board acted according to this policy.

Committees

The Supervisory Board had three committees in 2005: Audit; Selection, Appointment & Remuneration; and the Projects Committee, which was discontinued in May 2005 and its responsibilities delegated to the Management Board.

Report of the Audit Committee

The Audit Committee consists of Cees Maas as Chairman and Willy Angenent and Joop Hoekman as Members. The Committee works in accordance to a Supervisory Board mandate and reports to the full Supervisory Board. The Committee met three times in 2005 to discuss FMO's financial condition and operational risks, corporate governance, interim financial reports (including IFRS impact), internal risk reports, internal audit reports and developments within FMO relating to IT systems, the pension scheme, and compliance issues. On March 16, 2006, the Audit Committee met, without the Management Board, with external accountants to review the quality of FMO's financial reporting, cooperation between financial departments and other related financial matters.

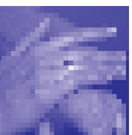
Report of the Selection, Appointment and Remuneration Committee

The Selection, Appointment and Remuneration Committee consists of Lodewijk de Waal as Chairman and Willy Angenent, Dolf Collee and Jacqueline Cramer as Members. The Committee met on five occasions during the reporting year. Key issues discussed were the composition of the Supervisory Board, the new competencies profile for the Supervisory Board, remuneration policy (including pension policy) of the Management Board, the proposed nomination of a new member of the Supervisory Board and the re-appointment of a current Supervisory Board Member.

General Meetings of Shareholders

Annual General Meeting

The Annual General Meeting of Shareholders was held on May 18, 2005 and chaired by Willy Angenent, the Supervisory Board Chairman. During the meeting, Arthur Arnold, Chief Executive Officer, presented an overview of FMO's business activities for the year and announced the financial results for 2004.



Adding value to the agricultural supply chain

Set up in 1997 as a subsidiary of the Theeuwes Group, Thegra Ukraine (TU) combines trade activities with the outsourced processing of oil-seeds that it buys from local farmers. TU is currently constructing its own seed processing facility, which will create around 30 new jobs, increase production and improve the quality of the product.

Says Victor Theeuwes, CEO, Theeuwes Holding B.V, The Netherlands, 'The objective of the company is to add value to the supply chain from farmer to end user, in a country with huge agricultural potential. This will maximize the income of the local farmers, and secure a solid future for TU in the Ukrainian market.'

FMO has co-invested in this project through a long-term subordinated loan of EUR 2 million. In a market where local financing is scarce and expensive, the loan will strengthen TU's balance sheet, and enable it to attract additional commercial finance.

ECONOMIC

SOCIAL

ENVIRONMENTAL

Ukraine

Thegra

Score Card Development Impact

Annual General Meeting key issues 2005

- Approval of the Annual Accounts 2004
- Approval of the profit appropriation and the allocation to the general reserves
- Granting discharge to the Management Board for their managing of the company and to the Supervisory Board for their supervision
- Appointment of the external auditor to audit the 2005 accounts
- Corporate governance structure
- Changes in the Articles of Association
- Termination of the 'covenant' dated May 14, 2002, between FMO and the State
- Dividend policy
- Appointment and re-appointment of two Supervisory Board Members
- Remuneration of the Supervisory Board

Extraordinary Meeting of Shareholders

An Extraordinary Meeting of Shareholders was held on November 24, 2005. At this meeting, the remuneration policy for members of the Management Board was approved.

Annual Accounts 2005

The Annual Accounts 2005 included in this report have been prepared by the Management Board and audited by KPMG Accountants N.V. The Auditors' Report can be found on page 142. During their meeting of March 16, 2006, the Supervisory Board extensively discussed and approved the Annual Accounts 2005. The Supervisory Board recommends that shareholders accept the Accounts for approval during the Annual General Meeting of Shareholders on May 17, 2006. In accordance with the Articles of Association, the Supervisory Board also recommends that the Annual General Meeting grants discharge to members of the Management Board for their management of the company and to members of the Supervisory Board for their supervision.

Other developments

Within the meaning of the Dutch Corporate Governance Code's best practice provisions II.3.4, II.6.3 and II.6.4, no transactions took place during the financial year in which there were conflicts of interest involving Management Board members, Supervisory Board members, or natural persons and/or legal entities holding at least 10 percent of the company's shares.

Our gratitude goes to the Management Board and personnel of FMO for their ongoing commitment and dedication to stimulating long-term development impact. It is their efforts that have resulted in an exceptional performance for FMO in 2005.

The Hague, March 16, 2006
The Supervisory Board

Willy Angenent, Chairman

Dolf Collee

Jacqueline Cramer

Joop Hoekman

Cees Maas

Lodewijk de Waal

AFRICA Evolved Water

Remuneration Report

This report has been prepared by the Selection, Appointment & Remuneration Committee and was unanimously accepted by the Supervisory Board of the *Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.* (FMO). It is based on the remuneration policy that was approved by the Extraordinary Meeting of Shareholders on November 24, 2005. If changes are deemed desirable, they will be submitted to the Annual General Meeting of Shareholders for approval. This report addresses the remuneration specifics for 2005 and the way policy will be pursued in 2006 and beyond.

Remuneration Policy

The purpose of the remuneration policy is to attract, motivate and retain qualified people who will contribute to the success of FMO, including Supervisory and Management Board members.

General employment terms & conditions

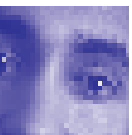
All personnel, with the exception of the Management Board members, are employed according to terms included in the General Bank-CAO (Collective Labor Agreement). Remuneration levels are in line with prevailing market conditions and are based on responsibilities, experience and performance of the individuals concerned.

Working method

Every year, the Supervisory Board's Selection, Appointment & Remuneration Committee advises on remuneration of the Management Board. Based on this advice, the Supervisory Board considers and decides annually the remuneration package of the Management Board members. The remuneration of the Supervisory Board is determined by the Annual General Meeting of Shareholders based on a proposal by the Supervisory Board. This working method is fully in line with the Dutch Corporate Governance Code.

Remuneration of the Supervisory Board

In 2005, the Supervisory Board was reduced in size from 10 to six members. The remuneration level of the Supervisory Board had remained unchanged since 1997. In conjunction with the increased workload of a smaller Board, the remuneration of the Board and its committees was adjusted in 2005. FMO does not compensate members of the Supervisory Board with performance related pay, shares or loans. See page 70 for an overview of the remuneration received by Supervisory Board Members in 2005.



Delivering clean water the fun way

Roundabout PlayPumps, an NGO, was founded in South Africa in 2004 to provide free, clean, drinking water to poor rural African communities. The PlayPumps system consists of a children's roundabout that drives a submerged pump, connected to an elevated water storage tank. While children play on the roundabout, water is pumped into the tank at a much faster rate than any hand-driven pump can reach. Roundabout Outdoor, a separate commercial company, sells advertising space on the storage tanks, generating revenue for the project and ensuring its sustainability. Half of the space is reserved for health-related advertisements, including hand washing and HIV campaigns.

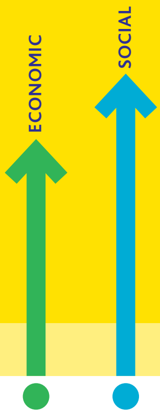
Says **Sarel Nienaber**, Director, Roundabout PlayPumps, 'The partnership with FMO has not only enabled us to expand into Mozambique, it has attracted other partners to this project, enabling us to bring free, clean drinking water to hundreds of thousands of children. In addition to meeting one of the UN Millennium Development Goals, the children are also being given the right to play.'

FMO provided a grant of USD 120,000 to Roundabout PlayPumps, and will shortly release a second disbursement of USD 980,000.

Mozambique

PlayPumps

Score Card Development Impact



Remuneration of the Management Board

The remuneration strategy for Management Board members is to provide a package that attracts and retains capable executives with relevant expertise in international finance. The Hay Group evaluates the compensation package at least every three years using data from a number of financial institutions in The Netherlands as reference. The remuneration of the individual Management Board members (see page 70) for 2005 was adjusted as per April 1, 2005, based on the March 2005 assessment.

Remuneration elements

The Hay Group monitors developments in the remuneration market for financial sector executives in The Netherlands and advises FMO's Selection, Appointment & Remuneration Committee.
The remuneration elements include a fixed annual salary, performance-related pay, contribution to pension plan and other components.

The fixed salary

For the fixed salary component, the job function is graded according to Hay points. Based on this grading, the median remuneration scale level is then applied. The fixed salary component of the remuneration policy is assessed at least every three years, the last of which was in November 2005.

Performance-related pay

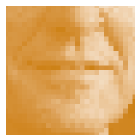
This remuneration component consists solely of short-term variable salary in the form of performance-related bonuses according to a system effective as of January 2003. Financial targets are determined annually by the Selection, Appointment & Remuneration Committee at the start of the year, and are assessed at the start of the following year. Financial targets relate to business volume, value adjustments, operating expenses, and profit before value adjustments and taxes. The Committee determines if targets have been achieved. In addition, a number of non-financial targets are formulated each year. These targets relate to issues requiring management's special attention during the reporting year. In 2005, key issues included the implementation of FMO's development impact concept, relationship management of the top-100 clients, improvements in the performance of government funds and programs and human resources policies. Both 'at target' and an 'outperformance' (a predetermined percentage above target) scores have been established. For Management Board members, the total at target (financial and non-financial) score amounts to 12 percent and the outperformance score to 20 percent of the total fixed income. In the case of the Chief Executive Officer, these figures are 15 percent and 25 percent respectively.

Pension scheme

As a result of a change in the attitude in The Netherlands toward retirement schemes, the Supervisory Board was tasked with bringing Management Board pension plans into line with new developments in the industry. These changes relate specifically to the two statutory directors who had been employed by FMO before joining the Management Board. In early 2006, the Supervisory Board decided to change their pension plan to an average wage level arrangement.

Other components

Other employment benefits include a fixed expense allowance, contributions to lease-cars and mortgage subsidy. All of these benefits are taxable and also apply to other personnel.



ASIA Crisis Support Manufacturing

Remuneration of the Supervisory Board

At the Annual General Meeting of Shareholders on May 18, 2005, a revised annual remuneration of Supervisory Board Members was approved, effective as per May 18, 2005.

On December 31, 2005, the Supervisory Board consisted of six members (2004: 10). The members of the Supervisory Board were paid a total remuneration of EUR 106,000 (2004: EUR 127,000).

Role	Compensation (in EUR 1,000)
Supervisory Board: Chairman	20
Supervisory Board: Member	12.5
Audit Committee: Chairman	3
Audit Committee: Member	2
Selection, Appointment & Remuneration Committee: Chairman	2
Selection, Appointment & Remuneration Committee: Member	1

Remuneration of the Management Board

Statutory and Non-Statutory Members

On December 31, 2004 the Management Board consisted of two statutory and two non-statutory members. On December 31, 2005 it consists of three statutory members. Total remuneration for statutory and non-statutory members is shown in the adjacent table.

(in EUR 1,000)	2005	2004
Remuneration Management Board [1]	968	1,125

[1] Exclusive of severance pay.

Statutory Members

The remuneration to the statutory members for 2005 is EUR 936 (2004: EUR 703) and is specified in the adjacent table.

(in EUR 1,000)	Periodic remuneration[3]	Performance - related pay	Pension	Other [4]	Total 2005	Total 2004
R.A. Arnold [1]	258	55	75	16	404	-
N.D. Kleiterp	191	34	46	20	291	297
N.K.G. Pijl [2]	158	29	37	17	241	-
R.M. Barth [1]	-	-	-	-	-	406
	607	118	158	53	936	703

[1] R.A. Arnold was appointed CEO on January 1, 2005. Mr. Barth resigned on the same date.

[2] N.K.G. Pijl (Chief Risk & Finance Officer) was appointed statutory member on May 18, 2005. The remuneration covers the period January 1 – December 31, 2005.

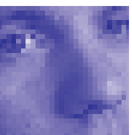
[3] Members of the Management Board have no shares, options or loans related to the company.

[4] Includes fixed expense allowance, contribution to company car and mortgage subsidy.

Similar to all FMO personnel, Management Board members further received a one time only payment of 1 percent of annual income on April 1, 2005.

Remuneration in 2006 and beyond

FMO intends to continue the current remuneration policy into 2006 and beyond.



Assisting expansion through high-risk financing

Shinmoorim, a Korean producer of quality printing paper, was in the midst of a major expansion project when Southeast Asia was hit by the economic crisis in 1997. Korean banks had to withdraw their financing, threatening capital destruction and job losses. This was despite the fact that Shinmoorim was, in principle, in a good position to take advantage of the currency devaluation, expand its exports, and generate foreign exchange.

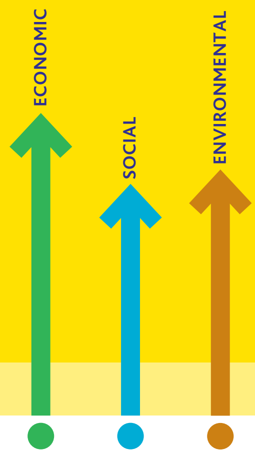
Says **Young-Sik Kim**, Chief Development Officer, Shinmoorim, 'The company wanted to expand its production capacity in order to become more competitive. FMO's investment in the project has not only meant that we have survived the crisis, but our production, sales and profits have also increased dramatically.' FMO, IFC and other investors put together a financing package to strengthen Shinmoorim's balance sheet and enable it to complete its expansion program.

FMO's contribution was by means of a USD 8 million participation in an IFC B-loan, and a subordinated convertible bond issue of USD 5 million to strengthen the company's financial base.

South Korea

Shinmoorim Paper

Score Card Development Impact

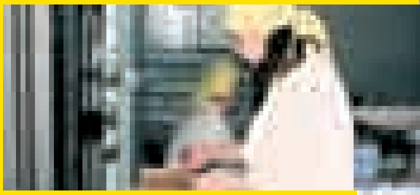


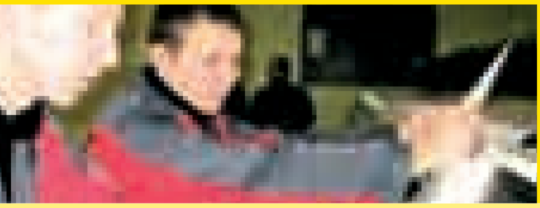
Corporate Governance

FMO is a public-private development bank. Commitment to sound and transparent governance and reporting of its activities and accountabilities is top priority. The Dutch Corporate Governance Code (the Code), effective January 1, 2004, applies specifically to listed companies. However, in the interests of transparency to all stakeholders, FMO decided to adopt the Code as its own best practice in 2005. The Annual General Meeting of Shareholders approved this on May 18, 2005 and the remuneration policy was approved at an Extraordinary Meeting of Shareholders on November 24, 2005. The company now complies fully with the Code where applicable.

Governance Structure

The Management Board and the Supervisory Board of FMO endorse the basic principles on which the Code is based: the company is a long-term partnership of stakeholders who, directly or indirectly, influence or are influenced by the achievement of FMO's objectives. Stakeholders include employees, shareholders and other capital-providers, clients and partners, the Dutch Government and other groups in The Netherlands and in the countries where we operate. The Management Board and the Supervisory Board are responsible for taking these interests into account at all times in their strategies and day-to-day business activities aimed at achieving FMO's mission and viable continuity. Respective responsibilities and accountabilities are detailed in various charters and regulations that can be found on www.fmo.nl.





EUROPE & CENTRAL ASIA

Reliable

Banking

Amendments to Articles of Association

FMO is a company with a two-tier board as defined by Article 2:153 of The Netherlands Civil Code. Legislation on the two-tier company board regime in The Netherlands was amended and became effective on October 1, 2004. Amendments were implemented in the Articles of Association in 2005. These amendments had three direct affects on FMO's governance structures, bringing them further into compliance with Code principles:

1) Members of the Supervisory Board are now appointed by the Annual General Meeting of Shareholders at the nomination of the Supervisory Board.
2) The Supervisory Board is now required to nominate two of its six members based on recommendations of the Works Council.
3) Financial statements are adopted by the Annual General Meeting of Shareholders.

Role of the Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders has core powers, such as decisions on statutory changes, legal merger, and adoption of the annual accounts. From a governance perspective, it has power of appointment, suspension and dismissal of members of the Management and Supervisory Boards. Furthermore, the Annual General Meeting adopts the remuneration policy for the Management Board and determines the remuneration for the Supervisory Board. Other shareholders' meetings may be held at the request of the Management Board or the Supervisory Board. Shareholders representing at least 5 percent of the company's issued capital may also convene a meeting. During the reporting year, the Annual General Meeting of Shareholders was held on May 18, and an Extraordinary Meeting was convened on November 24. At the latter meeting, shareholders approved the remuneration policy for the Management Board.

Role of the Supervisory Board

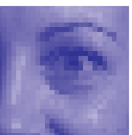
The Supervisory Board supervises the Management Board's management of the company and oversees the general course of business; it further assists with advice and expertise. Until May 18, 2005, the Supervisory Board consisted of 10 members appointed by the Board itself. In line with the Code and legislative amendments, new appointment procedures were approved by the Annual General Meeting of Shareholders on May 18, 2005. From that date, the Annual General Meeting of Shareholders appoints members of the Supervisory Board at the nomination of the Supervisory Board. In addition, the size and profile of the Supervisory Board were brought into line with the size and requirements of the organization. From May 18, 2005, FMO's Supervisory Board consists of six members. Revised Supervisory Board profiles can be found on www.fmo.nl; biographies of members are on page 63.

Supervisory Board Committees

The Supervisory Board has two dedicated committees composed of members with relevant experience: the Audit Committee and the Selection, Appointment & Remuneration Committee. Both committees operate under the overall responsibility of the Supervisory Board and report to the full Board regularly. The role and competencies of these committees are detailed on www.fmo.nl.

Audit Committee

The Audit Committee supervises and advises the Management Board on the financial position of the company and on issues related to risk management

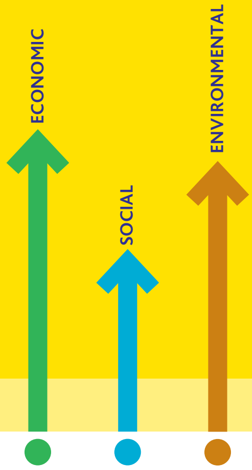


Extending financial services to Siberian SMEs

Sibacadembank, now the largest bank in Novosibirsk (West Siberia), focuses on local SMEs, retail, credit cards and mortgage lending. FMO's investment in the Bank's SME line has had major developmental impacts on the region. The SME clients have benefited from better funding for their investments, whilst the local economy has benefited from the transfer of know-how and technology.

Says **Pavel Kovalenko**, Head of International Relations, Sibacadembank, FMO's investment of USD 18 million, together with investments from other organizations, 'opens new perspectives for the bank in international activity.'

Of the total amount invested by FMO, USD 3 million has been used for the Trade Facilitation Program (under the same EBRD facility), enabling banks like Sibacadembank to arrange longer-term import and export trade financing for their SME clients. USD 7.5 million was provided to fund investment plans for fast-growing local SMEs, while a subordinated loan of USD 7.5 million was supplied to improve Sibacadembank's capital structure enabling further growth in assets.



Russia | **Sibacadembank** | **Score Card Development Impact**

policy, auditing systems and compliance with relevant legislation and both external and internal regulations. In addition, it monitors the performance of external auditors.

Selection, Appointment & Remuneration Committee

The Selection, Appointment & Remuneration Committee is responsible for proposals to the Supervisory Board on the appointment and re-appointment of members of the Supervisory Board and the Management Board. It monitors FMO's remuneration policy, preparing proposed adjustments where necessary, and advises on remuneration of individual Management Board members.

Role of the Management Board

The Management Board is charged with developing and implementing strategy and the day-to-day management of FMO. It is responsible for compliance with legislation and regulations, such as the implementation and maintenance of internal risk management and auditing systems. From May 18, 2005, it consists of three statutory directors as required by the Articles of Association: Chief Executive Officer, Chief Investment Officer, and Chief Risk & Finance Officer.

Code Compliance

Every year, FMO sets out the main features of the corporate governance structure in its annual report and will submit any substantial changes therein to the Annual General Meeting of Shareholders for approval. Information on corporate governance, rules and regulations can be found on www.fmo.nl.

Internal risk management and control systems

In accordance with best practice provision II.1.4, the Management Board is required to declare that the internal risk management and control systems are adequate and effective. The Management Board has, therefore, taken measures in 2005 to implement the so-called 'In control framework' required by the Code. See pages 24-25 for our 'In Control Statement'.

Dutch Corporate Governance Code

The 'Code' refers to the Dutch Corporate Governance Code, principles of good corporate governance, originally published on December 9, 2003. It came into effect for listed companies on January 1, 2004. Compliance to the Code was implemented into the Dutch Civil Code per December 31, 2004. Internationally, it is well respected and considered a comprehensive regulatory Code. Its basic premise is 'comply or explain'. The Code can be reviewed on www.fmo.nl.

FMO has rules and regulations in place that form the structure and framework for corporate governance. These rules and regulations, all in compliance with the Code, can be reviewed online. Under the Corporate Governance link you will find:

- Dutch Corporate Governance Code
- Compliance Dutch Corporate Governance Code
- Profile of the Supervisory Board
- Standing Rules of the Supervisory Board
- Standing Rules of the Audit Committee
- Standing Rules of the Selection, Appointment and Remuneration Committee
- Standing Rules of the Management Board
- Whistleblowers' Scheme
- Articles of Association FMO

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