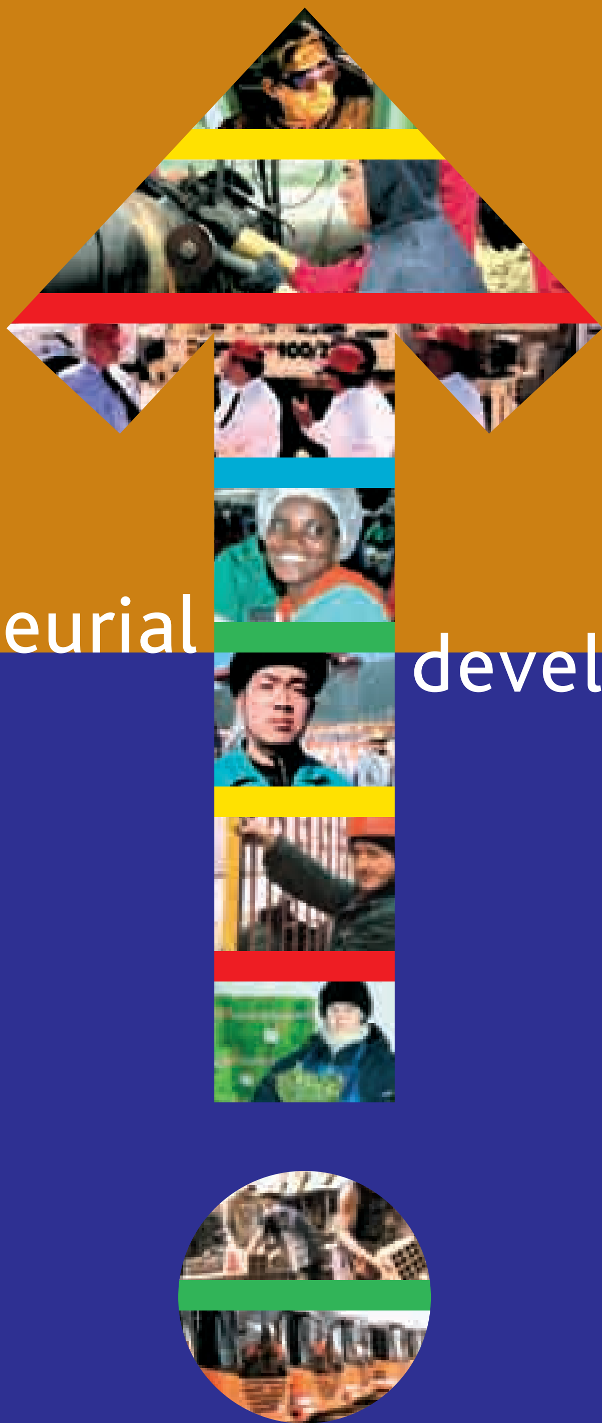
FMO

Finance for *Development*

Sustainability in practice



The entrepreneurial development bank

Sustainability Report 2005

Contents

Foreword from the CEO

Sustainability is in the genes of FMO, it is part of our raison d'être; without it, there is no long-lasting private sector development. For people to prosper, profit and planet are not mutually exclusive. Profitability and sustainability go hand-in-hand. Sustainability is therefore, and has always been, an integral part of our business.

In today's world it is often too easy to have a rather negative outlook on the current state of affairs. Daily headlines and news programs bombard us with stories of natural disasters, economic crises and political instability. Reality cannot be ignored, but my personal experience last year was much more balanced. I spent a great deal of time talking to our clients in all corners of the world. Many of the conversations I had reflected a tremendous amount of optimism. Our clients in developing countries are moving forward and developing their businesses, creating jobs and stimulating their local community's economy. They share our sense of entrepreneurship, which is key to economic development. I have seen the contribution FMO can make to increase development impact and I feel privileged to lead an organization that helps to spread a positive, yet very realistic, message.

As well as assessing the social and environmental impacts on the communities in which we operate, we also champion good corporate governance. Without it, corruption breeds and negative impact is high. Good governance ensures that an organization is transparent, which in turns lends itself to stable, sustainable business; transparency is a key ingredient for corporate governance and vice versa. I think that governance issues will remain one of the top priorities on the agenda of the international business community. Good governance is the only effective tool with long-lasting impact to fight corruption in developing countries.

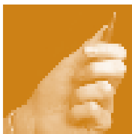
So far I've mentioned the impact that our investments have on the economic development, and by extension on the social and environmental conditions, of the regions in which our projects are carried out. But sustainability starts much closer to home. We are currently pursuing solutions to compensate for our CO_2 emissions and developing a more environmentally conscious procurement policy. For FMO, sustainability is not only core to the enterprises in which we invest, but also to our own business, although smaller in magnitude.

Nanno D. Kleiterp

Last year's sustainability reporting process taught us a lot. It forced us to look more closely at our internal processes; it also encouraged dialogue with our stakeholders. Since the publication of our first Sustainability Report we have taken feedback from 10 different stakeholder organizations, and revised the Report's content based on their comments. The demand was for a shorter, less technical, more concrete Report: one that showed how sustainability impacts on the day-to-day lives of the people involved in our projects. That's why this year one of the sections of the Report (pages 12-19) is dedicated to project case studies and real-life dilemmas encountered in emerging markets in which we invest. Above all, the feedback inspired us to better integrate the messages of the Annual and Sustainability Reports. They are, after all, not separate issues. This has led to a decision to fully integrate both reports in 2007, meaning that there will no longer be a separate Sustainability Report.

We applied the Global Reporting Initiative 2002 guidelines to prepare this report, and believe it represents a balanced and fair view of our organization's economic, environmental and social performance. Furthermore, KPMG Sustainability B.V. has given limited assurance to this report. Nevertheless a report will always remain just an account of the past year; what's important is that we take on new initiatives to improve in the future. And as last year, I value your feedback. It is only by working together that we shall move the world forward in a sustainable way.

Arthur Arnold
Chief Executive Officer



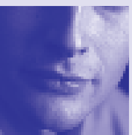
Key Facts and Figures

	2004 [1]			2005		
FMO clients						
New clients contracted (FMO Finance)						
Financial sector [2]			43			52
Companies [2]			45			41
Total			**88**			**93**
Total clients in portfolio ultimo *December 31, 2005*						
Financial sector			198			213
Companies			197			193
Total			**395**			**406**
Number of A/B/C projects [3] of newly contracted clients	**A**	**B**	**C**	**A**	**B**	**C**
• Environmental	6	80	2	6	81	6
• Social	8	77	3	8	81	4
• Percentage of A/B projects screened			100%			100%
• Percentage of agreed upon action plans			55%			53%
Number of financial institutions trained in setting up an environmental & social management program			36			36
Economic Development Impact Score (EDIS) [4]			N/A			55.8
Development Impact Indicator (DII) [4]			N/A			390

	2004 [5]		2005	
FMO In-house environment				
Energy use related to office				
• Electricity	850 MWh	(4.3 MWh/FTE)	856 MWh	(4.2 MWh/FTE) [6]
• Energy (district heating)	374 MWh	(1.9 MWh/FTE)	344 MWh	(1.7 MWh/FTE)
Business Travel				
• Plane [7]	6.99 million kms	(35,492 kms/FTE)	8.10 million kms	(39,890 kms/FTE)
• Company car [8]	148,407 liters	(1,879 l per car)	159,826 liters	(1,848 l per car)
CO_2 Emissions				
• Plane [7]	797 tons	(4.0 tons/FTE)	921 tons	(4.5 tons/FTE)
• Company car [8]	353 tons	(1.8 tons/FTE)	377 tons	(1.9 tons/FTE)
• Energy use	386 tons	(2.0 tons/FTE)	378 tons	(1.9 tons/FTE)
Total	**1,536 tons**	**(7.8 tons/FTE)**	**1,676 tons**	**(8.3 tons/FTE)**

	2004	2005
Other		
Countries where FMO is active	77	79
Standard & Poor's rating	AAA	AAA

[1] Figures for 2004 have been adjusted to reflect contracted clients rather than approved projects. The total of 93 clients in 2005 relate to the 96 contracts as indicated in the FMO Annual Report 2005.
[2] See page 8 for more details.
[3] For an explanation of the Score Card risk categories (A/B/C) see page 9.
[4] Refer to the FMO Annual Report 2005 for more details.
[5] 2004 figures have been adjusted to reflect a more accurate figure.
[6] FTE = Full-time equivalent.
[7] FMO's developing markets can only be reached by plane. See page 20 for more details.
[8] FMO company cars are mainly an employee benefit and are primarily for personal use.



About FMO

FMO has a clear mission – to stimulate growth in developing countries by investing in successful entrepreneurship, thereby maximizing sustainable development impact. Our mission is based on the proven concept that long-term economic growth is stimulated by a healthy private sector. Our financial teams proactively seek out potentially successful enterprises and financial institutions, supporting their growth through loans and guarantees, equity participations and knowledge transfer.

Our organization

FMO finances sustainable economic development in challenging 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 clients

FMO's strength is our network of local and international partners. These include counterparts in European countries, financial institutions in our focus markets, and individual companies in those countries.

Our portfolio

With an investment portfolio (including government funds) of EUR 2.4 billion, 96 new investments with 93 clients in developing countries in 2005, and 438 projects making up our total portfolio, FMO is one of the world's largest bilateral development banks for the private sector.

Our shareholders

FMO is a public-private partnership with the Dutch Government holding 51 percent and major Dutch banks owning 42 percent of our shares. Private companies, trade unions and individuals hold the remaining 7 percent.

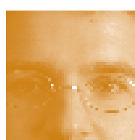
Our products

FMO provides a range of financial products tailor-made to support our sustainable development impact goals. We focus on three key sectors: the **Financial Sector** as a means to improve access to financial services for all types of enterprises, from large exporting companies to small and medium-sized enterprises (SMEs) and micro-entrepreneurs; **Infrastructure** to create the backbone for economic activity, from harbors, to telecom, energy and water; and **Trade & Industry** to enhance the development of second tier enterprises.

Our reasons for a Sustainability Report

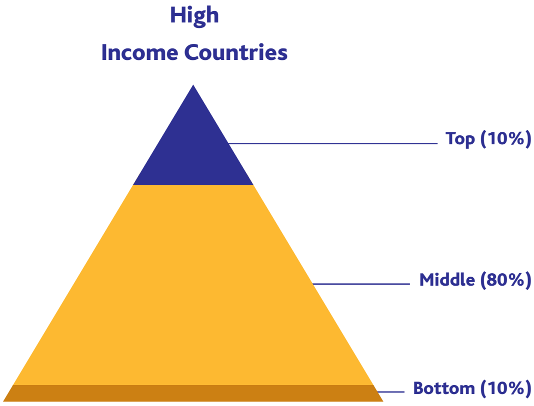
Making a sustainable difference is more than a slogan at FMO. We not only talk about it, we also measure and report on the impact our activities help achieve. In September 2005 we published our first Sustainability Report, not only because transparent sustainability reporting is increasingly becoming an industry standard, but more importantly, because sustainable development is part of what we stand for. We use our Score Card *ex-ante* to assess the potential development impact of a financial investment and *ex-post* to evaluate whether the expected impacts have been achieved; this assessment is built into our business strategy and processes. In 2005 we established the Development Impact Indicator (DII) to measure our progress in sustainable development impact on an annual basis.

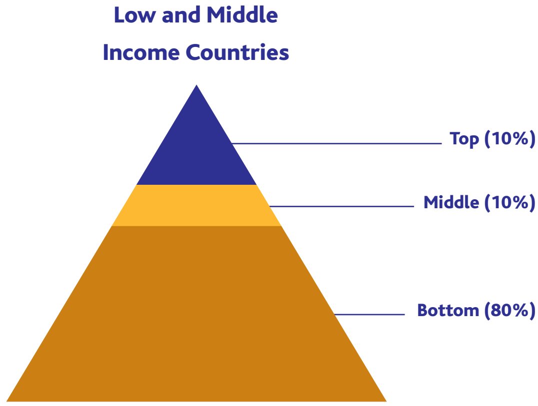
Our Annual Report 2005 provides more details about sustainability at FMO. We have also chosen to include information about our human resources in that report. Therefore, the "Practicing what we preach" chapter in this report only includes in-house environmental information. The GRI matrix provides references to both our annual and sustainability reports, which are conveniently provided to you in one folder. While both reports can be read independently, FMO is best understood after reading the combination of the two. Sustainability is so much a part of how we do business that it is counter-intuitive to report on them separately. Just as sustainability is integral to our business, so is it integral to our annual reporting. The decision made in 2005 to present these reports together precludes their full integration into the Annual Report 2006.



Our commitment to sustainable development

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 provides an enabling environment. Therefore we invest in potentially successful and well-managed businesses, financial institutions and projects. This approach 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 empowerment of people.

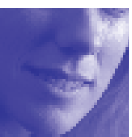




Investing in entrepreneurship means partnership, building trust, sharing know-how and managing and mitigating negative social and environmental impacts in a responsible way. At the same time, people, local culture and good governance are key factors in all our activities. Through this integrated approach, we support our clients' 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.

Internal evaluations have confirmed that independent development impact indicators such as 'contribution to economic growth' and 'social and environmental development impact' are interrelated. Our findings show that most projects that have a positive impact on economic growth also rate well in terms of their contribution to environmental and social development impact, and vice versa. Positive impact on economic growth therefore requires a minimum level of business success, which translates positively to sustainability. On the other hand, FMO clients who do not perform well economically often place low priority on improving their social and environmental policies and management systems. This finding lends support to the reverse hypothesis: that paying proper attention to sustainability issues is, generally, good for business.

We are therefore guided by the principles of sustainable development. The integrated approach of economic prosperity, social development and environmental preservation is part of our way of doing business. We work according to the definition



of sustainable development of the Brundtland Commission: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

As one of the largest Dutch private sector investors in the developing world, we further aim to make an effective contribution to poverty alleviation and the UN Millennium Development Goals of job creation, access to healthcare and clean drinking water and global partnerships through co-financing. Unfortunately, not all of our efforts to reach these goals are always clearly measurable.

The governance of sustainability

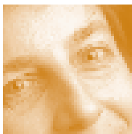
Sustainability is an integral part of the risk management system at FMO. In addition to the general risk management know-how every bank has, FMO has a dedicated team of 7 (6.3 FTEs) environmental and social specialists for assessments, assistance and advice.

The responsibility for FMO's sustainability policy is vested in our Supervisory Board. As part of its responsibilities, the Supervisory Board assesses the policies and progress on sustainability and its impact on development. With the appointment of Professor Jacqueline Cramer to the Supervisory Board in 2005, specific expertise in sustainability now forms part of this body.

Standards and policies

The management and mitigation of environmental and social risks is the basis on which we work.
We have a set of policies on corporate governance and environmental and social practices that guide our processes. Our exclusion list identifies "no go activities."
A healthy private sector can only function within an appropriate public framework. Clear, predictable and enforceable government regulations and a robust legal system are necessary for economic stability. Arbitrary legislation, corruption, bureaucratic systems and a lack of protection of ownership rights can create hurdles for entrepreneurs, who therefore make little attempt to emerge from the informal economy.
Our *corporate governance* guidelines are based on international standards as promoted by the Organization for Economic Cooperation and Development (OECD) and the Institute of International Finance (IIF).

For *environmental and social assessment*, we apply World Bank and International Finance Corporation (IFC) guidelines. Furthermore, we apply social criteria related to labor conditions based on the International Labor Organization (ILO) conventions. These criteria are described in more detail in the *FMO Policy on Sustainability* and the *FMO Social Policy*.
These documents, along with the *FMO Exclusion List*, are available for review on www.fmo.nl under the link Publications: Investment Policies.



Sustainable development in practice

FMO's mission has practical implications in the communities and environments in which we work. Our investment officers and social and environmental specialists regularly carry out detailed onsite analyses and evaluations based on our investment criteria; these make a real difference to our decision-making process, which in turn have an impact on the regions in which we operate.

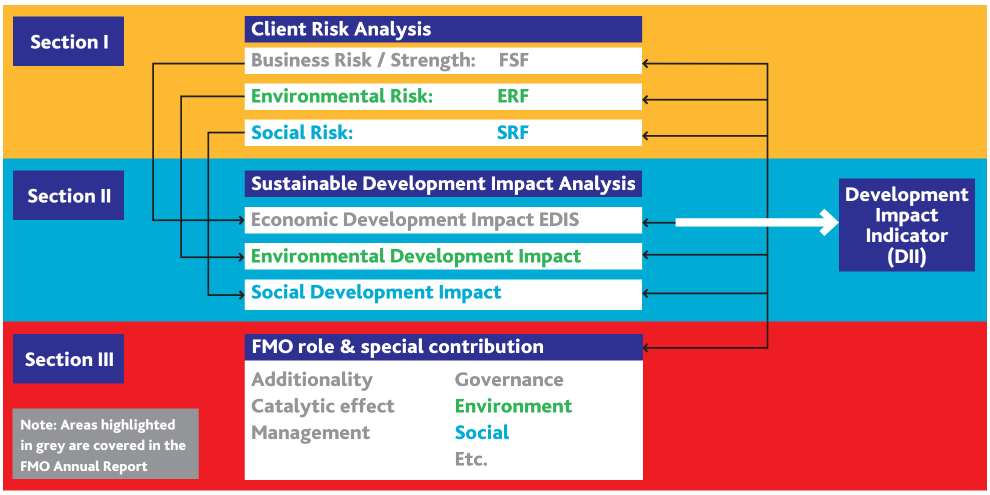
Our financing process

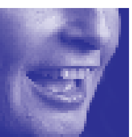
Our main contribution to sustainable development is through our core activities: financing and investing. This means that financing decisions are based not only on financial viability, but also on the assessment of corporate governance, and environmental and social impacts. When financing companies directly (company financing: CF), we assess the activities of the company; when financing financial institutions (FI), we assess the way the institution screens and manages these impacts when selecting its clients.

Our financing process consists of five basic steps:
1) identifying opportunities
2) appraisal and approval
3) contract
4) monitoring and
5) impact evaluation.

Careful assessment of the expected impact on people, planet and profit is embedded in all five steps.
FMO actively seeks projects that are aligned with our investment policies, resulting in around 100 new company and financial institution investments every year. Investment officers are responsible for making an initial selection based on these policies. 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 structure. Using FMO's 'Score Card', the economic, environmental and social risks, the economic, environmental and social development impacts, and the special contribution and role of FMO 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. Figure 1 shows the structure of the Score Card and its three sections.

Figure 1





Score Card Section I

Client risk analysis

In this Sustainability Report, the business risks are not elaborated upon, as these are covered in-depth in the FMO Annual Report 2005.

A/B/C Categorization

Our clients receive an environmental and social risk categorization as soon as due diligence is underway.

We categorize our new contracts as either Category A (high risk), Category B (medium risk) or Category C (low risk).

This general categorization of environmental and social risks are shown below and basically defines the level of due diligence in the appraisal phase.

Figure 2

Sustainability 'Score Card' Risk Categories [1)]

Category A	Category B	Category C
Projects likely to have significant adverse impacts Environmental impacts may be irreversible and lead to major loss of natural habitation or degradation of biodiversity. Social impacts may affect vulnerable groups or ethnic minorities, involve involuntary displacement, affect cultural heritage sites or create highly unsatisfactory labor conditions. In these cases, a full environmental and social impact assessment is required and action plans are drawn up to mitigate the risks. Examples include infrastructure and agriculture projects.	*Projects with specific limited adverse impacts* Environmental impacts are usually site-specific, few (if any) are irreversible, and there is limited adverse impact on natural habitat or biodiversity. There are no significant adverse social impacts, neither is there a high risk of unsatisfactory labor conditions. However, environmental and social impact assessment is required; in most cases, mitigation strategies are pre-determined performance standards, guidelines or design criteria. Examples include general industrial projects and plants on existing sites.	*Projects likely to have minimal or no adverse impacts* Projects that have minimal or no adverse environmental impacts include software development companies and consultancy firms. Projects that have minimal or no adverse social impacts include small companies (with fewer than 20 employees) with a high-skilled labor force and no risk of unsatisfactory labor conditions. No impact assessment is therefore required.

NOTE: For financial institutions, we assess the predominant sectors the institution finances using the same criteria as above. Based on their portfolios, we then categorize them as FI-A, FI-B or FI-C.

Figure 3 compares the environmental and social categorization of newly contracted projects in 2005 with company and financial institution financing.

The Score Card results and figures 5, 6 and 7 in the following sections only take into account Category A and B clients; Category C clients are not scored on these aspects.

Figure 3

Environmental and Social Risk Category Breakdowns

	Environmental		Social	
	Company Finance (CF)	Financial Institution (FI)	Company Finance (CF)	Financial Institution (FI)
Category A	12%	2%	20%	0%
Category B	88%	87%	78%	94%
Category C	0%	11%	2%	6%

[1)] This is a brief overview of the Score Card Risk Categories.
Refer to www.fmo.nl for complete details as well as descriptions of the FMO Score Card Manuals.

Risk criteria

Following the initial risk categorization, the environmental and social risk scores of our clients are measured in more detail against FMO's investment policies in these fields in the appraisal phase. The scores take various criteria into account, as shown in figure 4. Each of the criteria applies to company financing (CF), financial institutions (FI) or both.

A client's performance in the various risk areas as listed in Figure 4 is measured using the average environmental and social risk management spread along the criteria excellent, good, partly unsatisfactory and unsatisfactory. The higher the percentage in a 'better' category, the more likely that the average risks in the portfolio are mitigated.

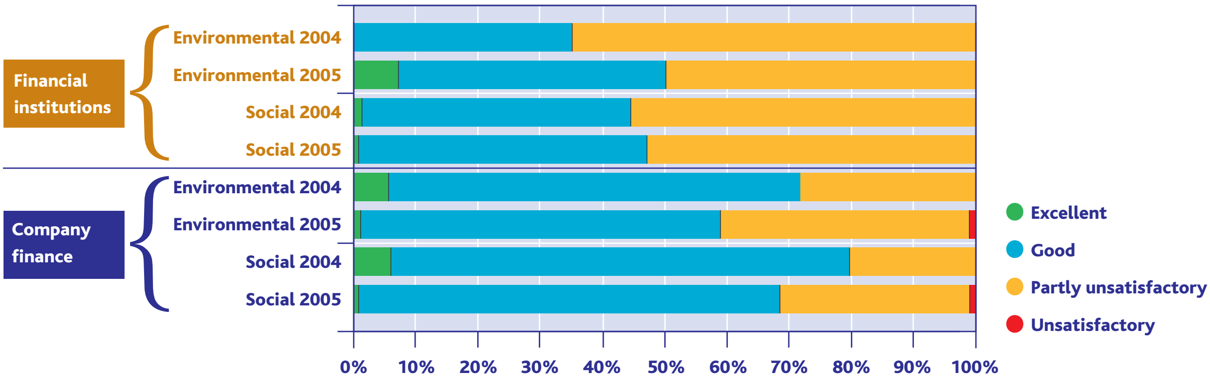
Figure 5 provides an overview of the average environmental and social risk management spread of our contracted clients in 2005, compared to 2004, for both companies and financial institutions.

Figure 4

Social and Environmental Risk Criteria

Social	**Environmental**
• Social policies (CF/FI)	• Environmental policy (CF/FI)
• Core labor standards (CF/FI)	• Environmental management (CF/FI)
• Primary labor conditions (CF/FI)	• Direct environmental impacts and safety performance (CF)
• Direct social impacts (CF)	• Specific environmental
• Specific social liabilities (CF)	
• Social management system (FI)	

Figure 5 **Average risk score (contracted clients)**



This figure illustrates that on average financial institutions in 2005 had a better risk profile than in 2004. This is partly explained by the fact that a number of the new contracts were repeat deals with existing clients, who already have adequate policies and management systems.

The company clients in 2005 on average showed higher risks compared to 2004 (more 'partly unsatisfactory'). These companies did not meet our environmental and social risk criteria. This served as a framework to develop a mutually agreed upon action plan, targets and timeframe between FMO and the potential partner. The plan was then incorporated in the financing contract. In 2005, 53 percent of our new contracts include an environmental and/or social action plan, aimed at achieving compliance with our criteria.

Score Card Section II

Impact on development

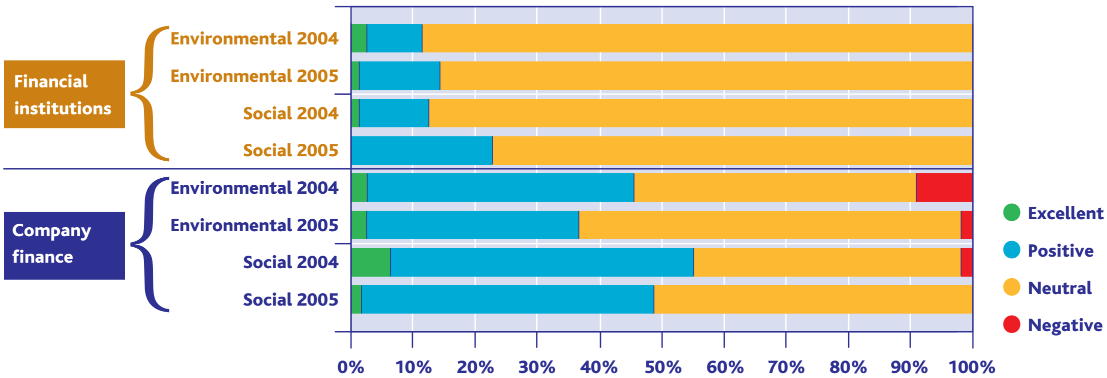
Development impact is measured according to economic, social and environmental criteria (figure 1). The Economic Development Impact Score (EDIS), and the Development Impact Indicator (DII) which is based on the EDIS, are explained in detail in our Annual Report; social and environmental impacts are covered in this report.

High scoring projects have a high potential to be successful in terms of sustainability, and therefore to contribute to the quality of our portfolio.
Our evaluations 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 as explained in the Annual Report illustrate most of the indicators we use to measure economic, social and environmental development impact in both company and financial institution financing.

Figure 6 represents the environmental and social development impact scores of our newly contracted clients. As per our risk analysis, the graph shows the average spread of the relevant indicators of the various client groups in different categories (excellent, positive, neutral, negative).

For financial institutions, the environmental and social development impact is quite similar in 2004 and 2005. The higher positive social development impact in 2005 may be explained by the focus on microfinance, which scores high on 'specific social investments'. Company clients showed less negative development impact, mainly due to the fact that the 2005 clients have less representatives which score low on the 'exploitation/conservation of non-renewable resources' criteria.

Figure 6 Environmental and Social Development Impact (contracted clients)



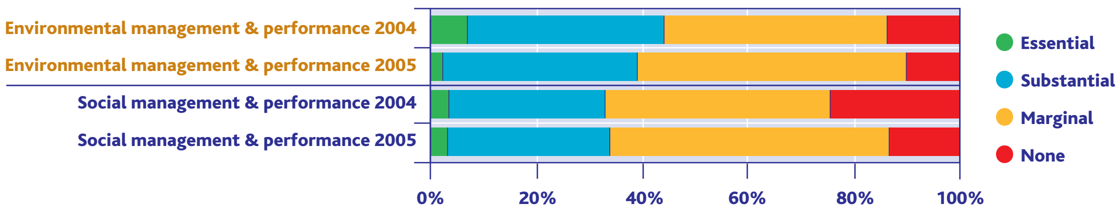
Score Card Section III

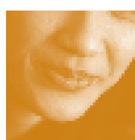
FMO's role and contribution

FMO's contribution is not merely financial. We play a valuable role in our projects by supporting our clients' corporate governance and social and environmental sustainability. Our contribution focuses on management, governance, procedures & control, business opportunities, capital market development, SME development, environmental management & performance and social management & performance.

Figure 7 illustrates FMO's contribution to environmental and social management & performance for clients contracted in 2004 and 2005. Financial institutions receive training and guidance on environmental and social management; we advise company clients with the implementation of their action plan. This graph shows that for the 2005 clients, FMO was able to play a more supportive role than in 2004.

Figure 7 FMO's special contribution on environmental and social preformance (contracted clients in 2004 and 2005)





The case studies

In this year's report, we have dedicated pages 12-19 to case studies of projects in which we believe sustainability issues were of particular relevance; we have made a representative selection which includes all of the regions and business sectors in which we work. Some are success stories; others are examples of cases in which we decided not to invest, after facing dilemmas over the social and environmental practices of the companies in question. The projects range from Latin America to Asia and from Africa to Europe. Some are financial institutions that in turn invest in other micro-, small- and medium-sized enterprises; others are primary industries; others still involve community projects. They all, however, have one thing in common: the necessity to be, and remain, socially, environmentally and financially sustainable.

Drinking stops investment drive

In a recent case in Africa, FMO declined to invest in the extension in production of an ethanol plant following a decision not to support them due to their involvement in the production of alcohol for consumption.

FMO had initially been informed that a major part of the ethanol produced after extension of the production capacity would be used to produce 'biofuel', an environmentally friendly alternative to petrol. This would have obvious environmental benefits in terms of the reduction of CO_2 emissions, which made it a potentially interesting

Dangote Industries

Constructing a cement production plant in Nigeria means valuable import substitution and employment opportunities for local people. But at what price? FMO, together with the International Finance Corporation (IFC), is leading the way in managing the environmental and social risks associated with the project through a stringent action plan.

Dangote Industries Ltd is the largest importer of cement in Nigeria; but only 2.7 million of the 10 million tons consumed annually are produced locally. The solution? Thanks to a syndicated loan of USD 479 million from over 20 financial institutions in 2005, a subsidiary of Dangote, Obajana Cement Plc, is able to continue its plans to construct a cement production plant that enables Nigeria to produce a further 4.4 million tons of its own cement per year.

As a result of this import substitution, more income will be generated for Obajana as the plant will be able to sell locally produced cement rather than imported cement. Moreover, Dangote will make huge savings in hard currency payments (US dollars) that the company currently requires from the Central Bank for purchasing cement abroad; these dollars can be used in future for other purposes. The full

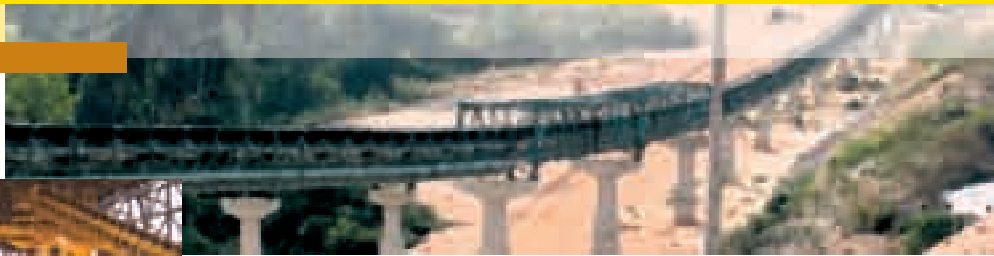
Project:	Obajana Cement, subsidiary of Dangote Industries
Country:	Nigeria
Year contracted:	2005
Amount contracted:	USD 18.5 million from FMO; total USD 479 million from all banks
Type of financing:	Syndicated loan
Risk category:	A
Action plan agreed?:	Yes

profitability of the business will accrue to Nigerians as a result of avoiding the costs of imports and transport of cement, thereby increasing the country's wealth. In addition, construction of the plant will create around 1,500 jobs, while operation of the plant in the future will create a further 500 jobs. Related activities will also generate several times this number of indirect employment opportunities.

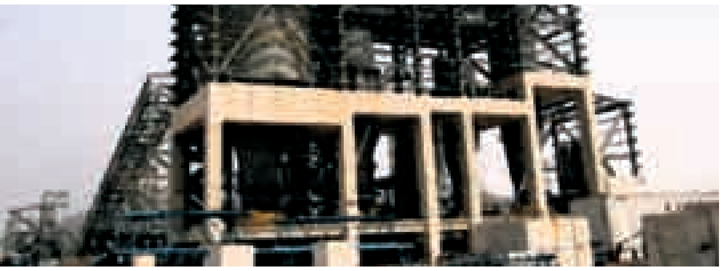
All this sounds positive for the local community, but still the project is rated as Category A: the highest risk category. Construction of the plant and associated activities – an open pit limestone mine, a small reservoir, a conveyor belt and a dedicated gas pipeline investment. The plant, however, also used a significant proportion of the ethanol for producing hard liquor, as well as industrial alcohol. The effects of excessive alcohol consumption are well known and present a high social risk. This could not be mitigated except by a strong commitment of the local plant to shift its focus of liquor production to biofuel.

On further investigation, the company could not offer concrete evidence that its primary production was going to be biofuel. One reason is that the market for biofuel is driven by government incentives, which are long-term and vague. Moreover, the production of hard liquor is more profitable than producing its alternatives, such as industrial ethanol, meaning that there was little financial incentive for the company to change markets. As a result, FMO decided that the social risks were unacceptably high and did not invest.

Project:	Ethanol production plant
Region:	Africa
Risk category:	B
Status:	Rejected



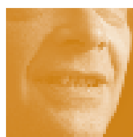
– result in erosion, air pollution, water pollution and loss of vegetation in the area in which the building work takes place. Despite the employment opportunities, negative social impacts are also projected. The presence of large numbers of migrant workers and truck drivers is likely to increase health problems such as HIV AIDS. It is also unlikely that local infrastructure and services will be able to keep up with rapid urban development, as a result of the expected influx of job seekers.



Clearly Dangote has a lot to do in terms of minimizing the risks involved in such a project; together, FMO and IFC are responsible for assessing the environmental and social risks associated with the project. Following FMO's seven visits to the site (three together with other development and commercial banks in the syndicate), an environmental and social management plan was drawn up to do just this. Included in the plan is the creation of Dangote's specialist team, including an Occupational Health & Safety Manager and a Pollution Monitoring and Control Manager, who are responsible for managing 'grey' or industrial environmental issues; a Natural Resources Manager, who is responsible for managing 'green' environmental issues such as erosion and dust pollution; a Community Development Manager and a Community Health Manager who are responsible for managing issues affecting the community such as malaria, HIV AIDS and the overall influx in population.

The key to making this project a success lies in formulating 'tailor-made' solutions. Our process in achieving this involves analysis of the environmental and social impacts, prioritization of the most important of those impacts, and finally a mitigation strategy based on our findings. In this case it entails managing expectations within the local community, training the labor force in health and safety issues, evaluating the risks of mining by looking at other similar case studies elsewhere, putting in place a traffic safety program, or all of the above.

At all stages in this long-term investment, FMO and IFC people are on hand to give guidance and advice on creating the best social and environmental risk mitigation strategies. Only with these in place is it possible for the project to create a social license to operate – for Obajana Cement, for Dangote, and for the developing country. Once again, sustainability is the key to long-term profitability.



Best Practice Committee to make Latin American fund 'best-in-class' for sustainability

FMO was the first investor to commit to Alothon Fund L.P., a private equity fund whose aim is to promote sustainable business in Latin America, especially in Chile, Argentina, Brazil and Mexico. In 2005, we committed to investing USD 10 million in the Fund.

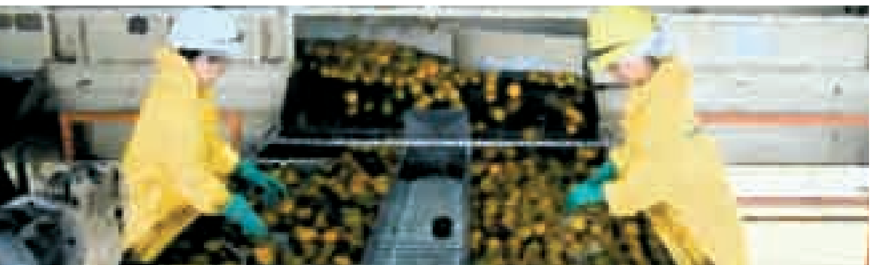
As the first investor to pledge to the Fund, FMO is playing its catalytic role by encouraging others to invest. Our goal is that our investment will leverage significant additional funding from other qualified institutional investors. Not only in terms of financing, FMO together with the Fund's management team are also leading the way in the Fund's aim to increase sustainable enterprise. A 'Best Practice Committee', which among others will include FMO's Environmental Specialist Hans-Stefan Michelberger and Alothon's Fund Manager Ettore Biagioni, is being set up to ensure that corporate governance and environmental and social practices of the Fund's client companies are 'best-in-class'.

TicoFrut

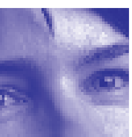
To invest or not to invest? In a recent case involving a Costa Rican fruit juice producer, FMO faced the challenge of weighing up the high social risks against the huge positive economic impact the investment could have on the local community.

TicoFrut, a Costa Rican orange and pineapple juice producer, is a recent partner of FMO. We committed to a USD 60 million syndicated loan in 2005, only after carrying out an extensive social and environmental due diligence. The project was categorized as a high-risk 'Category A' project due to the social risks involved, such as the labor conditions of seasonal migrant workers. Large-scale plantation development projects also carry high risks for the environment. As well as offering financing, it is imperative for FMO to assist TicoFrut in reaching compliance with international environmental and social standards, by helping them to mitigate the risks involved.

Project:	TicoFrut
Country:	Costa Rica
Year contracted:	2005
Amount contracted:	USD 7.5 million from FMO as subordinated loan; USD 12.5 million from FMO as senior loan; and USD 40 million as syndicated loan from other bank partners.
Type of financing:	Subordinated and senior loans
Risk category:	A
Action plan agreed?:	Yes

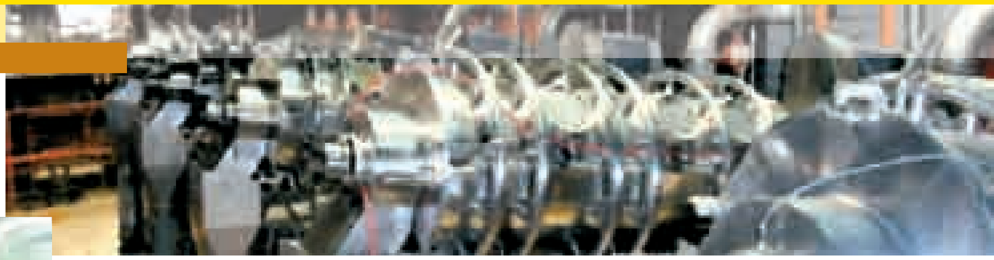


Before FMO and its partners committed to the loan aimed at increasing the size of the plantation, FMO's social and environmental specialists, Sofie Michaelsen and Alwin Kool, went to the plantation in order to investigate the company's social and environmental performance. Michaelsen commented, "In this specific project, labor conditions carry the highest risk, as TicoFrut hires seasonal migrant workers. Harvest workers are predominantly



Project:	Alothon Fund L.P.
Region:	Latin America
Year contracted:	2005
Amount contracted:	USD 10 million
Type of financing:	Equity (participation)
Risk category:	FI-B
Action plan agreed?:	Yes

As the sectors represented in Alothon's portfolio will be broad – everything from healthcare to technology – the social and environmental risks are not yet known, and the exact role of the Committee will be largely dictated by the Fund's future investments.

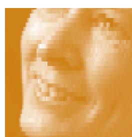


Nicaraguan immigrants, who do not have any legal status and are therefore very vulnerable to exploitation in terms of labor conditions. Not being granted access to basic social security services is another problem migrant workers face. We also looked into the relationship between the company and the local community, and reviewed agreements with smallholders supplying fruit to TicoFrut's juice processing plant, all of which are impacted by the company's practices."

However, TicoFrut demonstrated a sound commitment to social and environmental sustainability. We know already that working conditions at the processing plant in general are good, and this suggests that migrant workers are similarly well treated. According to a representative of TicoFrut, seasonal workers can earn more than the Costa Rican minimum wage during the harvest, which they can then take back to Nicaragua to improve the quality of life for themselves and their families. TicoFrut points out that they are offering them an employment opportunity under conditions that are significantly better than in Nicaragua. Moreover, TicoFrut's policy is not to use insecticides, which significantly reduces the threat to the environment.

Given the potential risks, however, it was a requirement of FMO that TicoFrut adopts a social and environmental action plan in order to mitigate the risks that had been identified. One of the risks we recognized was that some workers in the processing plant were working a greater number of hours per week than was endorsed by FMO. Following FMO's social guidelines, the company has agreed to introduce three shifts per day in the processing plant in order to ensure a reduction of the working week to an acceptable number of hours, even during peak season. TicoFrut also works with the Costa Rican government to control immigration numbers by registering each migrant worker, and ensuring that all workers are covered by industrial accident insurance. Says Michaelsen, "although we're very satisfied with TicoFrut's performance at the moment, we intend to monitor the company closely to ensure that exploitation of seasonal workers will not occur in the future. We're also carrying out a social audit during this coming harvest period to assess working conditions of migrant harvest workers, and further action points may be drawn up as a result of this. We're confident, however, that we have the full buy-in of TicoFrut's team. Our aim is to raise awareness of the issues and help TicoFrut to incorporate international labor standards into its core business activities."

Despite the project's high-risk status, TicoFrut represents a sound investment for FMO. Through robust due diligence, well-planned mitigation strategies and the company's own commitment to managing the issues, social and environmental risks can be minimized and positive impacts, such as improved labor conditions, can be maximized. FMO is in the unique position of being able to take such risks and manage them so that investment can make a positive difference to the community.



Environmental and social management ‘support missions’

In many cases, FMO requires its clients in the financial sector to appoint a coordinator who is responsible for the development of an environmental and social management system. As part of FMO’s role, we provide training to the coordinator on how to implement the new system in their organisation. Without further support, however, implementation can be a difficult task for the coordinator. That’s where FMO’s ‘support missions’ come in.

In one support mission, we visit several clients in different regions around the globe; we spend on average one day in face-to-face meetings and workshops with each client. Typically, such visits include a meeting with the newly appointed coordinator to get their feedback on the progress of the environmental and social management system within their institution, as well as a meeting with a board member in order to discuss environmental and social developments in the private sector and how to gain support for the management system. Moreover, a site visit includes a workshop

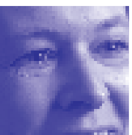
ACLEDA Bank

FMO’s investments in financial institutions have a knock-on effect on the communities in which they operate. Through investing in a Cambodian bank, our goal is to improve the lives of many small entrepreneurs and their families, while ensuring the continual conservation of the area’s ecology.

Project:	ACLEDA Bank
Country:	Cambodia
Year contracted:	2004
Amount contracted:	USD 4 million
Type of financing:	Loan
Risk category:	FI-B
Action plan agreed?:	Yes

ACLEDA bank was established in Cambodia in 1993, with the aim of financing rural micro-entrepreneurs and small and medium-sized enterprises (SMEs) that would otherwise have no access to credit. ACLEDA’s mission is to increase the quality of life of the local people through providing access to financial services; at the same time, the bank has incorporated respect for the society and environment into its operations and aims to raise awareness of these issues in its current and prospective clients. FMO became a shareholder in the bank 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. Thanks to an investment of USD 4 million by FMO in 2004, ACLEDA is now able to finance more businesses and mobilize more savings, with the aim of improving the local economy, taking care of the environment and benefiting the community.

FMO not only provides capital; we have an ongoing commitment to help ACLEDA uphold its principles with regard to sustainability. In terms of deciding which companies to invest in, some cases are clear cut: ACLEDA has an exclusion list which prohibits the bank from investing in any business which promotes certain practices, such as prostitution, trade in wildlife, use of hazardous substances, and so on. Other cases, however, present dilemmas: for instance, a shopkeeper applying for a loan may have a 12-year-old son who works in the shop after school – ACLEDA must decide whether this constitutes



with the coordinator to help them implement the management system, and a workshop with the credit and risk officers to ascertain the environmental and social risks in the institution's current portfolio and to discuss the means of mitigating them.

Until now, FMO has conducted seven missions during which it has visited 37 financial institutions in 14 countries. We are convinced that these missions are an effective way of sharing sustainability messages among financial institutions around the world.

Program:	Financial Institutions Program
Scope:	Sustainable finance
Activities:	Training, support, coaching
Target group:	FMO FI clients
Region:	Worldwide
Budget & period:	EUR 2.2 million; 2004-2008
Funded by:	Ministry of Foreign Affairs

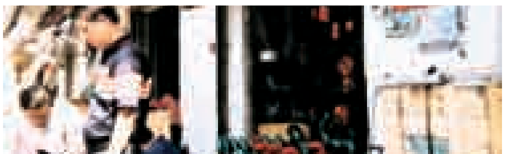
child labor. The bank's lending criteria also outline its positive discrimination towards businesses that preserve ecological cycles or promote education, healthcare and community projects.

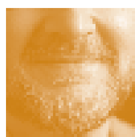
ACLEDA has around 2,500 employees of which many are loan officers, all of whom need to be trained in order to ensure that they properly evaluate the social and environmental impact of approved loans. Through its Financial Institutions Program (FIP), FMO provided a training course designed specifically to raise awareness of the potential impacts. We used a 'train-the-trainer' approach, allowing information to be disseminated from the designated environmental manager and environmental coordinator down to each of the individual loan officers. Following the course, our Environmental Specialist, Anton van Elteren, has had ongoing contact with ACLEDA, and is on the other end of the telephone ready to advise should any dilemmas arise.

Says Anton van Elteren, 'of course, FMO's investment is dependent on certain standards being met, but in this case FMO and ACLEDA are working towards the same goals. This means that although we make recommendations and provide guidance, the bank must decide how best to fulfill its sustainability requirements. ACLEDA recognizes that complying with such standards is not only beneficial to the Cambodian community, but also ensures long-term profitability. Without sustainable businesses, the local economy cannot improve on a more permanent basis.'

Not only is ACLEDA applying its sustainability criteria to its potential future investments; it is also applying such criteria to itself. FMO's 'practice what we preach' mentality is strongly endorsed by ACLEDA, whose health & safety and waste management policies are strongly focused, internally and externally.

At present, ACLEDA is successfully implementing processes and policies that allow its business to be, and remain, sustainable. In the future, however, we are confident that ACLEDA will not only be putting its processes into practice, but also reporting on its own performance and that of its clients; in 2005 they plan to report according to the GRI. By becoming leaders in sustainability best practice in Cambodia, ACLEDA intends to pave the way for its Asian competitors to follow suit.





Investment allows Russian airline to clean up emissions and noise pollution

With increasing attention being paid to the effects of air travel on the environment coupled with the understanding that economic development will more and more require the use of airplanes, investment in commercial airlines and air cargo always presents a dilemma. In 2002 FMO faced just such a challenge in the case of a Russian air cargo company seeking financing, whose pollution levels - both in terms of noise and emissions - were cause for concern.

The airline's noise pollution and CO_2 emissions were unacceptably high by European Union (EU) standards; moreover, the company's transparency was low and their corporate governance was under-developed. As a condition of providing financing, together we drew up an action plan. This allowed the company sufficient time to improve their processes and FMO to invest on the proviso that approximately 10 percent of our financing would be used to improve the airline's environmental performance.

European Fund for Southeast Europe

Funding of micro-entrepreneurs and small and medium-sized enterprises (SMEs) in Eastern Europe is also part of our mission, and what better way to ensure that the money makes it to where it's needed than by investing in a fund specializing in micro finance: the European Fund for Southeast Europe (EFSE).

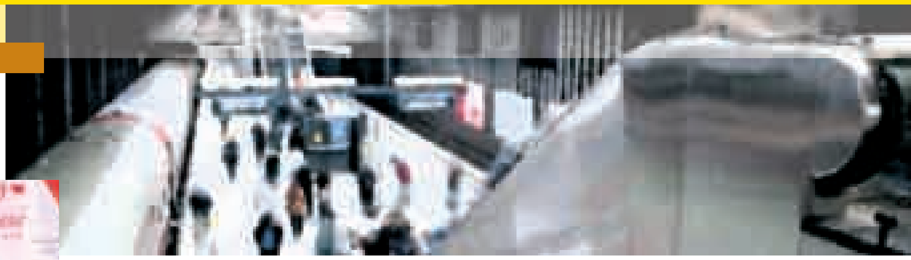
Project:	European Fund for Southeast Europe (EFSE)
Region:	Europe & Central Asia
Year contracted:	2005
Amount contracted:	EUR 20 million
Type of financing:	Investment fund
Risk category:	FI-B
Action plan agreed?:	Yes

The EFSE is a financial institution set up to provide finance for micro-entrepreneurs and SMEs for housing and rural loans in Southeast Europe. Its portfolio is currently worth EUR 126 million, but it wishes to grow that figure through outside investment. The EFSE will initially provide financing to Bosnia-Herzegovina, Serbia, Montenegro and Kosovo, and Macedonia, and may expand to other Southeast European countries. As a result of its investments, the Fund aims to provide capital to improve living conditions and create job opportunities in the regions in which it operates.

Before FMO agreed to invest EUR 20 million in the Fund, a full social and environmental evaluation was made to ensure that sustainability requirements were met. Pimhein Kool, one of FMO's Environmental Specialists, investigated the potential risks: 'in line with FMO's procedures, we used a social and environmental checklist to evaluate the risks; we also contacted other banks and financial institutions that had invested in the Fund to ask them what their experiences had been. Finally, we looked at the Fund's policies and other documentation to check that everything was above board. As the Fund will be mainly financing low to medium risk

Three years later, the company is one of the few Russian air cargo companies to be permitted to fly in the EU. As a result of meeting EU standards, the company is not only more sustainable, but also more profitable in that it can compete with other players in the market. Furthermore, as Western standards are being applied globally, companies that don't comply are coming under criticism and face losing business long-term.

Project:	Russian Air Cargo
Country:	Russia
Year contracted:	2002
Amount contracted:	USD 12.5 million
Type of financing:	Senior secured loan (including portion of sub-debt)
Risk category:	B
Action plan agreed?:	Yes

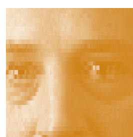


sectors, such as housing, this project falls into Category B of our Score Card. The Fund will therefore be required to implement social and environmental risk management procedures; there must also be an 'exclusion list' – this details certain types of businesses or practices which the Fund refuses to condone by investing in. All of these measures make the EFSE a sound investment for us.'

However, though the Fund's social, environmental and corporate governance practices are strong, there is always room for improvement. In this case, we recommended that the Fund Managers participate in one of our tailor-made one-week courses; as the Fund is investing in third parties, we also recommended that selected members of the third parties attended the course so that the knowledge could be shared, and information disseminated, in the right directions. At a minimum, these third parties will be required to comply with national standards for environment, health, safety and labor. Furthermore, over time they will be required to implement social and environmental management systems of their own, so that not only the EFSE itself exemplifies best practice, but also its clients.

Following the initial training course and implementation of the management system, FMO will continue to monitor the performance of the Fund. On a quarterly basis, development impact performance – including analysis of the outreach of the loans provided as well as of sustainability – will be monitored and reported on. Development impact will be monitored annually and includes the following: reporting on the creation of employment, especially employment opportunities for women; the expansion of the business economy and profitability; and the sustainability of newly started businesses. In the case of housing projects, reporting is also carried out on the impact of the quantity of housing and the quality of living conditions.

If the development of the Fund goes according to plan, as a result of the full and successful implementation of the social and environmental management system, the EFSE promises to be beneficial both to its investors and, more importantly, to the Southeast European communities in whose projects it seeks to invest.



Practicing what we preach

Internal environmental performance

As a single operation organization, FMO's direct impact on the environment is relatively small. Nevertheless, we are committed to reporting on our own 'footprint' on the environment. Due to our international client base, the most significant effect we have is related to the high amount of air travel that is required of our employees to pursue FMO's development business.

Air travel

FMO is aware of the economic and environmental effects of air travel. However, due to the global nature of our business and the growing portfolio, our staff are inevitably required to travel more - helping our clients to mitigate social and environmental risks. Ironically, reducing the social and environmental risks of our business portfolio often forces us to have an undesirable environmental impact in performing our duties.

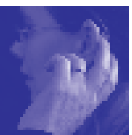
FMO had an exceptional year in 2005, resulting in more international air travel than ever before. The total number of kilometers flown increased 16 percent to 8,097,770 kilometers. This amounts to 39,890 kilometers per employee, an increase of 12 percent. The total amount of CO_2 emissions attributed to air travel was 921 tons, an increase of 16 percent. FMO is fully aware that as the company continues to grow; our CO_2 emissions are likely to grow accordingly. We are confident that the long-term development impact of our increased activities outweighs the negative impact of the increased CO_2 emissions.

Company cars

While some FMO employees use company cars to commute to work, they are primarily an additional employee benefit to remain competitive in the Dutch labor market. The number of company cars leased by FMO employees in 2005 was 87, an increase of 9 percent. The total amount of fuel consumed by company cars rose by 8 percent to 159,826 liters in 2005. The total amount of CO_2 emissions attributed to the use of company cars was 377 tons, an increase of 7 percent. This growth was caused mainly by an increase in the total number of company cars. For now, FMO intends to compensate for this by buying carbon credits.

Energy and heating

In addition to electricity, FMO uses district heating to heat its office. The total amount of electricity used increased slightly by 1 percent to 856MWh and the amount of district heating reduced by 8 percent to 344MWh. The total amount of CO_2 emissions attributed to electricity and district heating decreased by 2 percent to 378 tons.



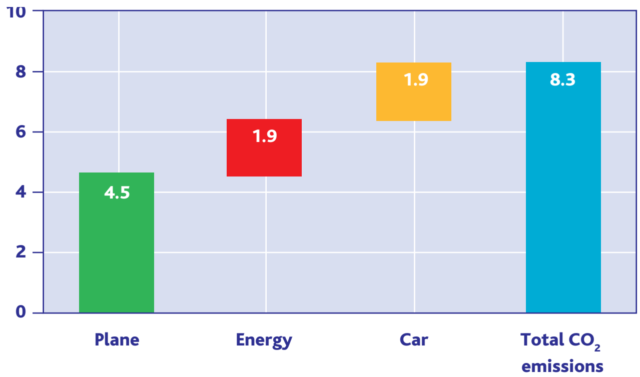
CO_2 emissions

FMO is committed to reducing CO_2 emissions; we made a decision in 2003 to become CO_2 neutral. To achieve our goal, we will buy carbon credits in 2006 to offset our 2005 emissions, including the private use of company cars. This will be done on an annual basis from 2006.

FMO is currently evaluating its goals and targets in regard to financing renewable energy projects in emerging markets. In addition, we plan to establish a Sustainable Purchasing Policy in 2006, in which the purchase of CO_2 neutral services will be an integral factor. This will alleviate our need to purchase carbon credits separately.

The figure below provides a breakdown of the total FMO CO_2 emissions in 2005. The total amount of CO_2 emitted per full-time equivalent was 8.3 tons. Air travel accounts for the major share of our CO_2 emissions.

CO_2 emissions FMO 2005 (tons/fte)



Water usage

Water usage at the FMO office is primarily dependent on the number of employees. Despite the 4 percent increase in average employee numbers in 2005, our water usage rose only slightly by 1 percent to 1,215 cubic meters. Per day our employees use an average of 24 liters of water per person.

Paper usage

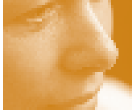
As an administrative organization, the primary raw material we use is paper. In 2005, we measured our use of paper for the first time. FMO used a total of 11,201 kilograms of paper, or 55.2 kilograms per full-time equivalent.

Waste management

We measured the amount of waste for the first time in 2005 (excluding paper). The total amount of 489 cubic meters of waste equals 2.4 cubic meters per full-time equivalent.

Procurement policy

Currently we do not have a general procurement policy. We are committed to define it with environmental and social criteria in 2006.



KPMG Assurance Report

To the readers of the FMO Sustainability Report 2005.

We have been engaged by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) to review the FMO Sustainability Report 2005 (further referred to as The Report). The Report, including the identification of material issues, is the responsibility of the company's Management Board. Our responsibility is to issue an 'Assurance Report' on The Report.

Context and scope

In The Report FMO describes its efforts and progress in regard to sustainability and reporting. Our engagement was designed to provide the readers of The Report with limited assurance on whether:

- the social and environmental risk criteria of Score Card Section I as described in the 'Scorecard Manual for scorecard existing company ('DI') [1] and the 'Scorecard Manual for financial institutions ('FI')', both dated February 19, 2004 (further referred to as the Score Card Manuals) have been properly applied in the risk assessments for acceptance of projects that were contracted in 2004 and 2005 and projects that were reviewed in 2005;
- the other information in The Report is fairly stated.

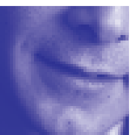
'Fairly stated' means that the report properly reflects the information contained in the underlying sources such that it is consistent with the source information. To obtain a thorough understanding of the financial results and financial position of FMO, the reader should consult the FMO Annual Report 2005, Audited Annual Accounts for the year-ended December 31, 2005.

Standards and criteria

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000): *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. Among others this standard requires that:

- the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in The Report, and that they comply with the requirements of the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants to ensure their independence;
- when providing limited assurance, which is a lower level than reasonable assurance, a negative form of conclusion is used.

[1] DI and CF both refer to 'existing companies' as described on page 10.



There are no generally accepted standards for reporting sustainability performance. FMO applies its own internal sustainability performance reporting criteria, derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative and internal corporate guidelines for reporting, as detailed on page 26-27 of The Report.

Work undertaken and conclusions

Application of social and environmental risk criteria

For assessing the proper application of the environmental and social risk criteria of Score Card Section I for acceptance of projects that were contracted in 2004 and 2005 and projects that were reviewed in 2005 we conducted:

- interviews with staff responsible for conducting the environmental and social risk assessments;
- a review of a sample of 10 project files selected by us;
- a review of the systems used to generate, aggregate and report the data on environmental and social risk scores.

Based on the above nothing has come to our attention to indicate that the social and environmental risk criteria of Score Card Section I as described in the Score Card Manuals have not been properly applied in the risk assessments for acceptance of projects that were contracted in 2004 and 2005 and projects that were reviewed in 2005.

Other information

For the other information in the report we conducted:

- a media and internet search in relation to FMO to obtain insight into the relevant sustainability aspects in the reporting period;
- a review of the systems and processes used to generate this information;
- a review of internal documentation and intranet sources;
- a review of the project files for the case studies mentioned in the Report;
- interviews with staff in order to assess the information included in the Report.

Following our review we discussed changes to the draft Report with FMO, and reviewed the final version of The Report to ensure that it reflected our findings.

Based on the above, the other information in The Report does not appear to be unfairly stated.

Commentary

Without affecting the conclusions presented above, we would like to draw readers' attention to the following: In the sustainability report FMO reports on its internal environmental performance data and provides explanations for trends. This information is, only to a limited degree, placed in the context of strategic considerations, policies and/or targets. As a result it does not become fully clear from the report what FMO's (strategic) views are on the aimed direction of this performance in comparison with its core business. We therefore recommend to elaborate in the next report on the views and targets of FMO in relation to this internal performance, supported by policies where deemed necessary.

Amstelveen, April 28, 2006

KPMG Sustainability B.V.

Prof. Dr. G.C. Molenkamp

GRI Matrix

A Annual Report	W www.fmo.nl	NA Not applicable	NI Not included

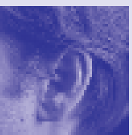
Vision and Strategy		Page
1.1	Vision and Strategy	2-3, 5
1.2	CEO Statement	2-3
Profile		
2.1	Name of organization	28
2.2	Products and/or services	5, A
2.3	Operational structure	5, A
2.4	Organization structure	A
2.5	Countries located	A
2.6	Legal form	28
2.7	Nature of markets served	A
2.8	Organization scale	A
2.9	Stakeholders	3, 26
2.10	Contact person(s) for the report	27-28
2.11	Reporting period	26
2.12	Previous report	3, 5
2.13	Boundaries of report	26-27
2.14	Organization changes	NA
2.15	Reporting on joint ventures	NA
2.16	Re-statements	27
2.17	GRI principles applied	3, 26
2.18	Criteria/definitions used	24-27
2.19	Measurement changes	27
2.20	Policies and internal practices	7, W
2.21	Independent assurance	22-23
2.22	Additional information and reports	26

Structure and Governance		Page
3.1	Governance structure	A
3.2	Number of independent, non-executive directors	A
3.3	Expertise board members	A
3.4	Board-level processes	A
3.5	Executive compensation	A
3.6	Policy oversight, implementation and audit	A
3.7	Mission and value statements	7, W
3.8	Shareholders' mechanisms	NI
Stakeholder Engagement		
3.9	Stakeholder selection	26
3.10	Approach to consultations	3
3.11	Type of information	3
3.12	Use of information	3
Policies and Management Systems		
3.13	Explanation precautionary approach	A
3.14	Externally developed voluntary initiatives	NA
3.15	Principal memberships in industry	A
3.16	Policies for managing impacts	6-7
3.17	Managing indirect impacts	6-11, A
3.18	Decisions during the reporting period	NA
3.19	Pertaining to 3 P performance.	6-11, A
3.20	Certification systems	NI

Financial services sector supplement: social performance

		Page
CSR 1	CSR policy	6-7
CSR 2	CSR organization	6-7
CSR 3	CSR audits	22-23
CSR 4	Management of sensitive issues	NI
CSR 5	Non-compliance	NI
CSR 6	Stakeholder dialogue	3
INT 1	Internal CSR policy	6-7
INT 2	Staff turnover and job creation	A
INT 3	Employee satisfaction	A
INT 4	Senior management remuneration	A

		Page
INT 5	Bonuses fostering sustainable success	A
INT 6	Female-male salary ratio	NI
INT 7	Employee profile	A
SOC 1	Charitable contributions	NI
SOC 2	Economic value added	A
SUP 1	Screening of major suppliers	NI
SUP 2	Supplier satisfaction	NI
IB 1	Investment policy	7, W
IB 2	Customer profile	9-10, A
IB 3	Fostering social capital	11, A



Performance Indicators

Economic Indicators		Page
EC 1	Net sales	A
EC 2	Geographic breakdown of markets	A
EC 3	Procurement spending	NI
EC 4	Contracts paid in accordance with agreed terms	NI
EC 5	Total staff costs	A
EC 6	Distributions to providers of capital	A
EC 7	Retained earnings	NI
EC 8	Taxes	A
EC 9	Subsidies received	A
EC 10	Donations to community	NI
Environmental Indicators		
EN 1	Total material use other than water	21
EN 2	Recycling materials	NI
EN 3	Direct energy use	NA
EN 4	Indirect energy use	20
EN 5	Total water use	21
EN 6	Biodiversity rich habitats	NA
EN 7	Impacts on biodiversity	NI
EN 8	Green house gas emmisions	4, 20-21
EN 9	Ozone-depleting substances	NI
EN 10	Air emissions by type	NI
EN 11	Waste	21
EN 12	Significant discharges to water by type	NA
EN 13	Spills of chemicals, oils, and fuels	NA
EN 14	Impacts of products and services	8-19
EN 15	Percent of products that is reclaimable	NA
EN 16	Incidents of non-comliance	NI

Social Indicators		Page
LA 1	Part time/full time distribution	A
LA 2	Net employment	A
LA 3	Representation by independent trade union organizations	NI
LA 4	Labor/management relations	A
LA 5	Occupational health	NI
LA 6	Health and safety committees	NI
LA 7	Injury, lost day, work-related fatalities	A
LA 8	Policies or programs on HIV/AIDS	NI
LA 9	Training per employee	NI
LA 10	Equal opportunity	NI
LA 11	Gender diversity senior management	A
HR 1	Human rights guidelines	NI
HR 2	Investment and procurement	NI
HR 3	Human rights performance	NI
HR 4	Non-discrimination	NI
HR 5	Freedom of association policy	NI
HR 6	Child labor	NI
HR 7	Forced and compulsory labor	NI
SO 1	Impacts on communities	11-19
SO 2	Bribery and corruption	NI
SO 3	Political contributions	NI
PR 1	Preserving customer health and safety	10
PR 2	Product information and labeling	W
PR 3	Respect for privacy	NI

Financial services sector supplement: environmental performance

		Page
F1	Policies applied to core business lines	6-7
F2	Screening of environmental risks	8-10
F3	Threshold(s) for risk assessment	4, 6-9
F4	Monitoring aspects raised in risk assessment process(es)	8
F5	Addressing risks and opportunities	NI
F6	Audits of risk systems and procedures	22-23
F7	Interaction with stakeholders about risks and opportunities	8-11

		Page
F8	Engagement with companies in portfolio	8-11
F9	Assets subjected to screening	NA
F10	Share voting policy	NA
F11	AUM with right to vote shares	NA
F12	Value of products and services	NI
F13	Value of portfolio	A

Reporting Principles

This is FMO's second Sustainability Report. For the first time it is being published at the same time as our Annual Report. This has allowed us to align these Reports more closely. In the Sustainability Report we have strived to explain our commitment to sustainability by giving more detailed case studies. We advise interested parties to read both Reports, since the combination of the two gives a more complete picture of how we live our principles and how we have performed in 2005.

Scope and structure

This Sustainability Report covers our global activities and performance. In this report we focus our attention on our core business processes and on specific examples. Thus we aim to give you a balanced picture of how our sustainability principles affect our business. We have included a chapter on our own direct environmental performance. However, since we have elaborated on our human resources performance in our Annual Report, we have chosen not to report on this in our Sustainability Report.

We anticipate full integration of the Annual Report and the Sustainability Report in 2007. We believe that an integrated approach of the reporting process suits our organization best and will be most informative and complete for our stakeholders.

Selection of topics

We have written this Report for a wide range of FMO stakeholders, including clients, shareholders, employees, non-governmental organizations, governments, opinion leaders and other interested parties.

The Report focuses on our business activities and covers topics that we feel are of interest for these selected target groups. We have used the GRI Guidelines 2002 and the social and environmental sector supplements for financial services.
The GRI matrix on pages 24-25 refers to both Reports, providing an overview of where to find information on the respective subjects.
The Report includes information based upon interviews with FMO Investment Officers, Environmental and Social Specialists and other staff. We have strived to present information that gives a balanced view of our financing process and portfolio.

Reporting process

We have only one office, our head office. Therefore most information was accessible in The Hague, through existing systems. For the reporting process we set up a project team that included representatives from Risk Management, PR & Communications, Human Resources, Facility Management, Corporate Affairs, and the Investment & Mission Review Department. This team met on several occasions

to discuss objectives, key messages and progress. We also held interviews with some managers to obtain stories and data. KPMG Sustainability B.V. has provided limited assurance on this report; refer to pages 22-23.

Restatements 2004

In our Sustainability Report 2004 we reported on Score Card results of our approved projects. However, approval as such does not necessarily mean that we actually close the deal. We therefore decided to report on contracted clients in this report since it more accurately reflects our Score Card results. In addition, we have calculated our energy use in 2005 by the exact square meters of office space used by FMO to get a more accurate number. For the adjusted figures, see the *Key Facts & Figures* on page 4. And finally, we cannot report this year on our environmental and social development impact compared to 2004 due to new scoring methods implemented in 2005.

Disclaimer

This Report is not intended as a solicitation, invitation, offer or inducement to engage in any financing activity; to make or refrain from making any financing activity or from exercising or not exercising any rights in connection with any financial instrument or to enter or refrain from entering into any agreement. The Report is made for the purpose of stakeholder relations and to give details of FMO's commitment to sustainable development. Nothing in this document is intended to extend FMO's existing obligations. This Report may refer, via websites or other means, to information provided by third parties. The reasonableness, accuracy or completeness of such information has not been verified by FMO, and links to other sites do not constitute FMO's approval or endorsement of such sites or their products or advertisements. FMO accepts no liability whatsoever in connection with any such information that has been or will be provided by third parties.

All policies, procedures, criteria, instructions, statements, guidelines or anything similar that have been mentioned in the Report are intended for FMO internal purposes only, and under no circumstance should they be construed as creating any rights whatsoever to third parties. In assessing our compliance with any of the policies and guidelines, the standards applied are subjective and any decision in relation thereto remains within FMO's discretion. FMO does not guarantee its adherence to these policies, procedures, criteria, instructions, statements, guidelines, and nor does FMO accept liability for whatever consequences may result from its not adhering to them. FMO reserves the right to change, amend or withdraw policies, procedures, criteria, instructions, statements and guidelines at its discretion at any time.

FMO reserves the right not to make available (details of) the policies, procedures, criteria, instructions, statements, guidelines or anything similar that have been mentioned in the Report to third parties.

To provide feedback or for more information on the Sustainability Report, contact us at sustainability@fmo.nl.

Masthead

Consultancy, concept, copy and design

Triple Value Strategy Consulting, The Hague
The Write Company, Amsterdam
Huddles bv, 's-Hertogenbosch
FMO N.V., The Hague

Photography

Datema and Mulder Photography, Everdingen
FMO also wishes to thank our clients and partners around the world who contributed photographs for use in illustrating the Case Study profiles.

Printing

This report was printed on Biotop paper. It is made without using artificial whiteners and chlorine bleach and is certified under the Forest Stewardship Council (FSC). The paper satisfies the international standard for permanently maintainable paper (ISO standard 9706) and can be archived longer than 200 years. The printing was done by an ISO 14000 certified printer using environmentally friendly ink.

Publications

For copies of FMO publications contact:

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

Mailing Address
P. O. Box 93060
2509 AB The Hague
The Netherlands

Street Address
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

P +31 (0)70 314 96 96
E info@fmo.nl
W www.fmo.nl

Sustainability Report 2005