FMO

Finance for *Development*

Sustainability Report 2004

Investing in entrepreneurship

→ engine for growth

Why this sustainability report?

Although we published our 2004 financial and development reports earlier this year, we have taken on the challenge to also publish our first sustainability report. We are doing so for two main reasons.

First, sustainability is a part of what we stand for. To date, however, we have achieved only fragmented communication about our position on sustainable development and how we want to evolve over the years.

Secondly, sustainability reporting is increasingly becoming a standard, a hygiene factor for every company. We have decided to start reporting now and to improve our reporting skills over time. Learning comes by doing, and we want to begin now and build our experience. We have sought feedback from KPMG Sustainability. KPMG's supporting role has given us valuable insight and direction, and we intend to have our next sustainability report verified by KPMG Sustainability.

For this first pilot report, we have not requested stakeholder comments to the extent we believe is ultimately preferable. We do, however, aim to increase outside stakeholder input for our next report in order to improve the balance of content.

This first step will help us make a more balanced next report, which we intend to publish in April 2006 along with our financial report.

We welcome your comments and advice about this report. Your feedback will help us improve our sustainability reporting.

September 2005

FMO Sustainability Report 2004

Contents

Key facts and figures

FMO customers	2004
Total assets	EUR 2,025 million
Committed portfolio	EUR 1,982 million
Results before taxation	EUR 54 million
New projects approved (FMO Finance)	
Total	96
Indirect finance	47
Direct finance	49
Total projects in portfolio ultimo 31/12/04	
Total	395
Indirect finance	198
Direct finance	197
Number of new projects per risk category	A B C
• Environmental (n=96)	2 90 4
• Social (n=96)	3 89 4
• Percentage of A/B projects screened	100%
• Percentage of agreed upon action plans	55%
Number of financial institutions trained in setting up an environmental & social management program	36

FMO employees and in-house environment	
Total number of employees ultimo 31/12/04	203 (197 FTEs)
% woman staff	38.3%
% woman in senior management (top 20 FMO staff)	10%
Inflow/Outflow	9.3% / 12.6%
Total training costs	EUR 414,000
Energy use related to building	
• Electricity	788 MWh
• Energy (district heating)	347 MWh
Business Travel	
• Plane	6.99 million km (34,000 km per employee)
• Lease car	148,000 liter (2,000 liter per car)
CO_2 emissions	
• Plane	800 metric tons (3.92 metric tons per employee)
• Lease car	350 metric tons (1.72 metric tons per employee)
• Energy use related to building	400 metric tons (1.96 metric tons per employee)

Other	
Focus countries	50
Standard & Poor's rating	AAA

FMO supports development of the private sector in developing countries and emerging markets as a partner, on an equal footing and in a businesslike manner. FMO provides loans and guarantees, takes equity participations in enterprises and funds knowledge transfer. It does so not for the short term, by means of emergency aid, but rather it aims to achieve a long-term, lasting impact. Investing in entrepreneurship means placing confidence in others; sharing know-how and taking risks in a responsible manner, while respecting good governance, people and the environment. With this approach, FMO helps foster flourishing enterprises and a healthy financial sector in these countries. Only with a strong private sector is a sustained rise in prosperity and living standards possible.

About FMO

With an investment portfolio of nearly EUR 2 billion and more than 200 employees, FMO is one of the world's largest bilateral international development banks for the private sector. FMO is a solid financial institution with a triple-A rating from Standard & Poor's.

Public and private shareholders

FMO has been a successful example of public-private partnership for 35 years. The Dutch government holds 51 percent of the shares and Dutch banks hold 42 percent. The remaining 7 percent is held by employer associations and trade unions, as well as approximately 100 Dutch companies and individuals.

Organization

FMO's activities are carried out by two business units, FMO Finance and FMO Investment Promotion.

FMO Finance provides loans and risk capital to businesses and financial institutions in approximately 50 focus countries on market terms. It does so not just out of its own capital resources, but also with special funds and grants provided by the Dutch government.

FMO Investment Promotion uses funding from the Ministry of Foreign Affairs. A significant element of such support is technical assistance for transferring knowledge and expertise to developing countries. In addition, FMO Investment Promotion executes the Development Related Export Transactions (ORET) program.

A healthy and well-functioning private sector is a prerequisite for poverty alleviation. No government – whether in a developed country or a developing one – can take care of its people, improve the quality of life or sustain growth without a strong business community. FMO finances businesses in developing countries to help them to unlock their potential and contribute to the prosperity of their communities.

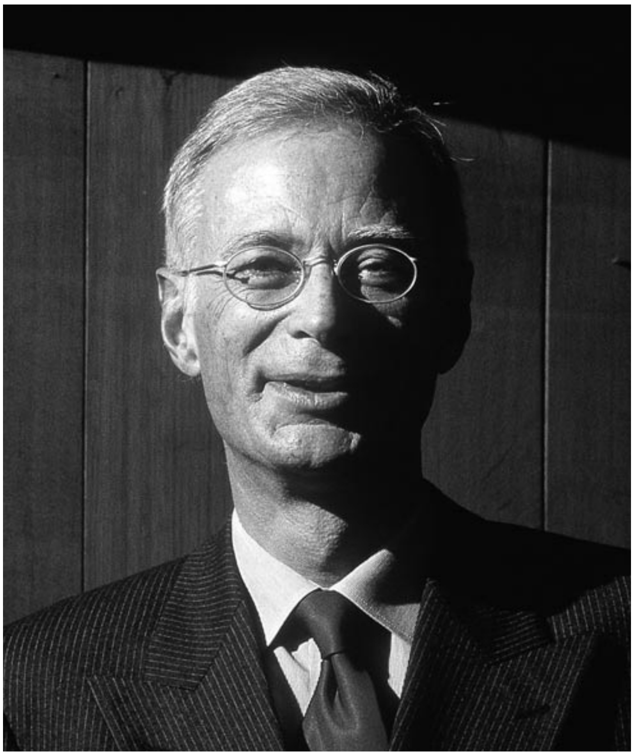
Foreword from the CEO

Sustainability is an integral part of our decision-making. We assess all our investments on four dimensions: their financial, environmental, social and governance impact. Together, these dimensions determine a company's ability to contribute to its success and continuity, to its sustainable development impact in its community, and ultimately to the quality of our portfolio.

Weighing these four dimensions is not a standard box-ticking activity. We often face dilemmas and hard choices. Do we rigidly hold to social and environmental standards when a company's continuity – and thus the employment of many people – is at risk? Do we want to impose Western standards on companies and economies in an entirely different lifecycle? No, certainly not. We do, however, have minimum requirements based on international guidelines. If these are not met, we can support our clients in designing and implementing action plans to meet the standards in due time. We have lively debates with our clients and among ourselves about these issues. The depth of these debates, to me, shows that sustainability is at the core of our organization.

To realize development value, one has to appreciate three things. The first is time. Sustainable development deals with the perspective of different generations. We want to help developing countries meet their needs, without compromising the ability of future generations to meet theirs. Raising living standards in the Western world to current levels has taken many generations. Therefore it will take time in developing countries as well. The same is true for environmental and social standards. As much as we want to realize change, not everything will happen at once. Entrepreneurs in developing countries have difficulty finding financial partners who are there for the long run. And how can the private sector develop without a long-term commitment? I believe FMO's ability to provide long-term financing is a differentiating and determining factor.

Secondly, one has to understand the local context, and that, I believe, is one of the strengths of FMO. We offer tailored financial services in a broad variety of industries and countries with respect for the local context. There is no 'one size fits all'. We cherish diversity and authenticity and want to avoid that 'Western' good intentions conflict with the needs of people in developing countries.



We want to find solutions that are appreciated by our clients and that allow them to flourish as part of the world economy.

Finally, I believe that modesty is of crucial importance. We have to recognize the limitations of what we can do given the size of our organization. We want to facilitate development, but we can always improve our effectiveness. We want to promote sustainability, but we are aware that we still have a lot to learn. So there is one aspect in which we cannot be modest: our ambition. More of the same is not always effective, more of making a difference is.

This is the first time we have published a sustainability report, and we readily acknowledge that this pilot has room for improvement. The Global Reporting Initiative Guidelines and the financial sector supplements have proven helpful in identifying strengths and weaknesses. This process has taught us a lot about how we can improve our sustainability reporting skills next year and, more important, how we can improve our business.

Working with our private sector clients, cooperating with investment partners and governments, and interacting with other stakeholders determines our success. I trust that this report will serve as a platform for building on our existing relationships and finding new partners. On behalf of the entire FMO community, I invite you to give us your feedback and to work with us in encouraging sustainable growth in developing countries. Sustainable entrepreneurship is crucial for people in developing countries. That is what FMO is all about.

Arthur Arnold
Chief Executive Officer

FMO supports the private sector in developing countries and emerging markets in Africa, Asia, Latin America and Central and Eastern Europe. We accomplish this with a wide range of financial products and services. Our goal is to contribute to structural economic growth in these countries, thereby making an impact on development and obtaining a healthy return in a sustainable way.

Our commitment to sustainable development

FMO is a development finance company. The dynamics and objectives of our operations are similar to those of mainstream banks. We want to avoid undue concentration of risks at country, sector, client and other levels. Our activities take place within the framework of an integrated portfolio risk management approach.

A financial institution with a mission

There are, however, clear differences between FMO and mainstream banks, even those that also promote sustainable development. The Dutch Government holds 51 percent of our shares. Through our special capital structure, we are able to provide financing that other parties are unable or unwilling to provide in sufficient amounts or under reasonable conditions. In short: we can go where other parties are forced to stop. We call this the *additionality* of our financing. Furthermore, our involvement has what we call a *catalytic role*. Our financing can mobilize funds from other shareholders and financiers. With a reputable development bank as a partner, commercial parties are more inclined to take on investment risk. This way we catalyze much more capital than what we could provide on our own. Between 2000 and 2004, FMO provided new financing totaling approximately EUR 2 billion. Due in part to our support, all sorts of private players were persuaded to take part, jointly investing a further EUR 6 to 8 billion. Every euro invested by FMO generates an additional EUR 3 to 4 of investment in developing countries. (Source: ‘Waarde in ontwikkeling’ June 16, 2004, external evaluation by Cap Gemini.)

Two sources of funding for FMO Finance
We have a portfolio of investments that we run for our own account and risk, just as a regular bank. In addition, we manage specific funds for specific objectives. By and large, the Dutch government provides the money for these funds, which allows FMO to accept risks and take a position in market segments that would otherwise be out of reach. These funds give FMO a unique position compared to other development financial institutions. Examples of such funds are The Least Developed Countries Infrastructure Fund and the Netherlands Investment Matching Fund, as well as various funds aimed at financial sector development to serve micro-entrepreneurs and small businesses. The combination of our own activities and those provided through the funds are referred to as 'FMO Finance'.

Sustainable development as part of our economic performance
In our financing process, we are guided by the principles of sustainable development. The integrated approach of economic prosperity, social development and environmental preservation is part of our risk management framework. We work along the lines of 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”.

We believe a healthy private sector is a prerequisite for sustainable development. Therefore we invest in potentially successful and well-managed businesses, financial institutions and projects. We work in a businesslike manner because this approach contributes most to achieving a long-term, lasting impact in the countries where we do business. Without healthy returns we can not have long-term and lasting impact, and can not act as a credible risk partner vis-à-vis our co-financiers. Our target return on equity is at least equal to Dutch government bond returns, approximately three to four percent. To safeguard our continuity, we provide financing on normal market terms and conditions as applied in the financial sector.

Our first objective is to help our clients to become healthier companies, to help realize projects that generate returns in a sustainable way. The safeguarding and mitigation of environmental and social risks is the basis on which we work. The economic vitality that is created by our clients contributes to increasing prosperity and improving the quality of the societies in which they operate. Thus we try to achieve an impact on development. The greater the knock-on effect, the higher the impact on development. This is what we call engine for growth.

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.

The principles that drive us

FMO is a development bank with a mission: we want to contribute to the structural and sustainable economic growth in the countries where we do business. Sustainability is deeply embedded in our DNA. From our inception we have been driven to make a difference. This is not only an implicit commitment, but an explicit part of our code of conduct, policies and our contract with the Dutch government. Supporting businesses in their objective to create value is our starting point for sustainable development.

In our processes we:

- are committed to high ethical standards: we do not tolerate corruption, fraud or bribery, or violations of human rights;
- aim to find a balance in people, planet and profit;
- focus on long-term prosperity and wellbeing;
- actively use our leverage as a business partner to encourage, where necessary, environmental and social improvements at the projects we finance;
- are open to dialogue and are transparent about what we do.

The governance of sustainability

Sustainability is about more than just the way you think, more than principles and policies. Above anything else, it's about how you perform. This means that sustainability must have a solid place in our organization and our portfolio. For that reason, sustainability is an integral part of the risk management organization at FMO. In addition to the general risk management know-how every bank has, FMO has a dedicated team of 7 (6.1 FTEs) environmental and social specialists for assessments, assistance and advice.

Ultimate responsibility for sustainability is vested in the Management Board. As part of its responsibilities as supervisors, the Supervisory Board assesses the policies and progress on sustainability and its impact on development. In May 2005, Professor Jacqueline Cramer was appointed as a member of the Supervisory Board. Her expertise in sustainability was a decisive factor for her appointment.

A professional organization

"I observed at close range the drive toward greater professionalism. It began with the environment, but then the attention switched more to social issues. Visible progress has been made in these areas. Whereas FMO talks primarily with the management of clients, FNV would talk with employees first. Do the things that are being said correspond with the perceptions of employees, works council and trade unions? I get the impression that the necessary progress has also been made in that area. In addition, local circumstances must, of course, also be taken into account."

Lodewijk de Waal,
former chairman of FNV, the largest Dutch labor union confederation and member of the FMO Supervisory Board

"I observed at close range the drive toward greater professionalism"

Standards and policies

We have a body of policies on corporate governance, and environmental and social aspects that guides our processes. These policies are available on our website at www.fmo.nl.

This normative framework guides us in our financing decisions. Our exclusion list identifies ‘no go areas’. 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). We assess the quality of corporate governance within our clients’ organizations. The structure and mandate of the board, shareholders’ rights, accounting standards and transparency are issues that have a high impact on a clients’ risk profile.

For environmental and social assessment, we apply World Bank and IFC guidelines. Furthermore, we apply social criteria related to labor conditions based on the ILO-conventions. These criteria are described in more detail in the policy paper ‘FMO Social Policy’. This normative framework also applies to ORET.

If a company does not meet our criteria, we may still approve financing, provided that agreement on a program of improvement is reached. Such an action plan should be carried out within a specific timeframe, and is incorporated in the financing contract. One can say that the bigger the challenges to sustainability issues in one of our projects, the bigger our role to encourage tangible results and measurable progress. This way we act as a ‘driver for change’.

The Equator Principles

Since 2003 a growing number of international banks have adopted the Equator Principles. These principles have been developed for managing social and environmental issues related to financing development projects. (www.equatorprinciples.com)

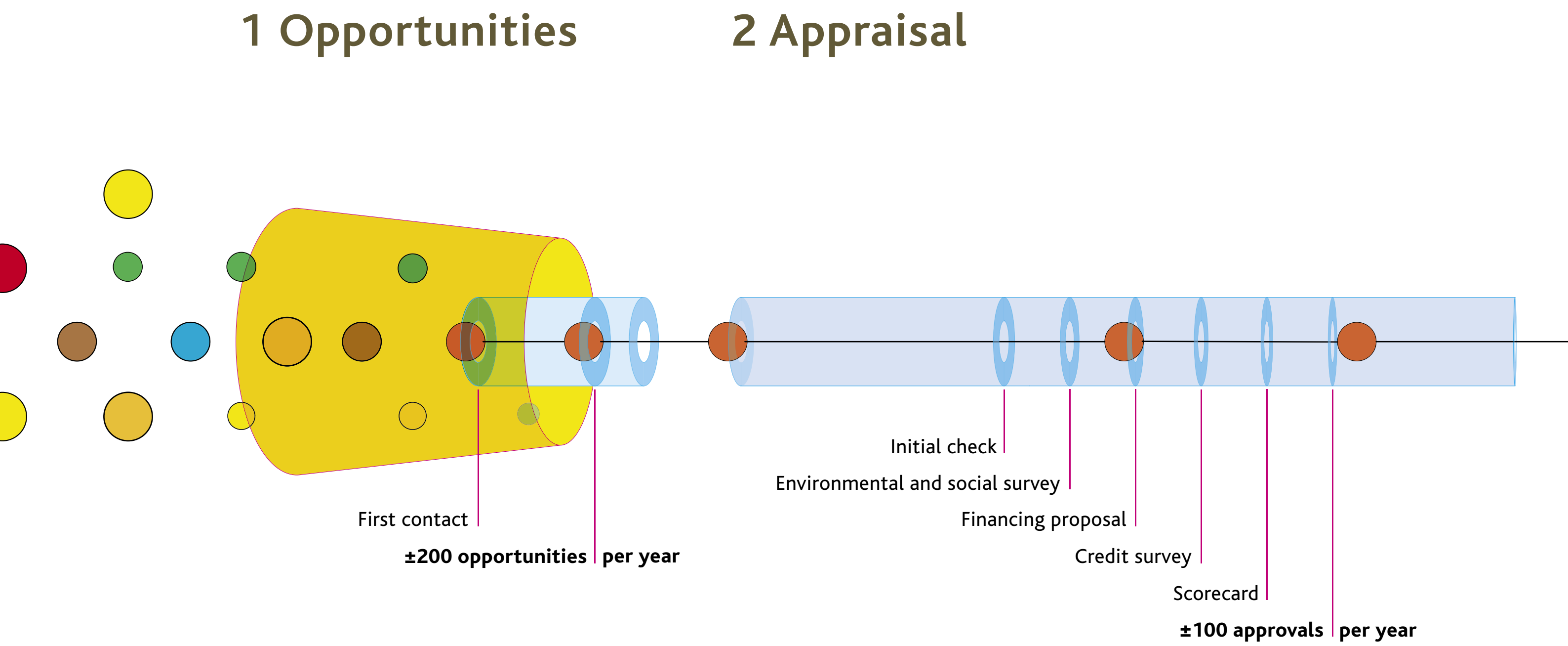
We apply the Equator Principles to all our category A and B financing projects (see page 13). In this way, we go beyond the Equator Principles, because they promote a standard for project financing of USD 50 million or more.

We applaud the Equator Principles initiative because it has been an important step in mainstreaming sustainability in finance. We have therefore become an adopting institution in 2005.

Millennium Development Goals

In October 2004, the Dutch government reported on the evaluation of the State-FMO agreement covering the period 1999-2003. The evaluation, carried out by Cap Gemini, demonstrates that FMO has evolved into a sustainable development bank and an effective channel for private sector development in developing countries. With more than EUR 500 million in new contracts a year, FMO is one of the largest Dutch private sector investors in the developing world. FMO thus makes an effective contribution toward poverty alleviation and the Millennium Development Goals.

FMO’s participation has a positive effect on prosperity creation, social and environmental aspects and private sector development: 70 to 80 percent of the projects score between ‘excellent’ and ‘satisfactory’ in this regard.



Our financing process

Our main contribution to sustainable development is through our core activities: financing and investing. We distinguish five basic steps in our financing process. Careful evaluation of the expected impact on people, environment and prosperity is embedded in all five.

1 Identifying opportunities. Not only do we receive investment applications, we also actively seek projects that fit with our objectives. Investment officers make a first selection on the basis of our criteria and present brief project descriptions to management.

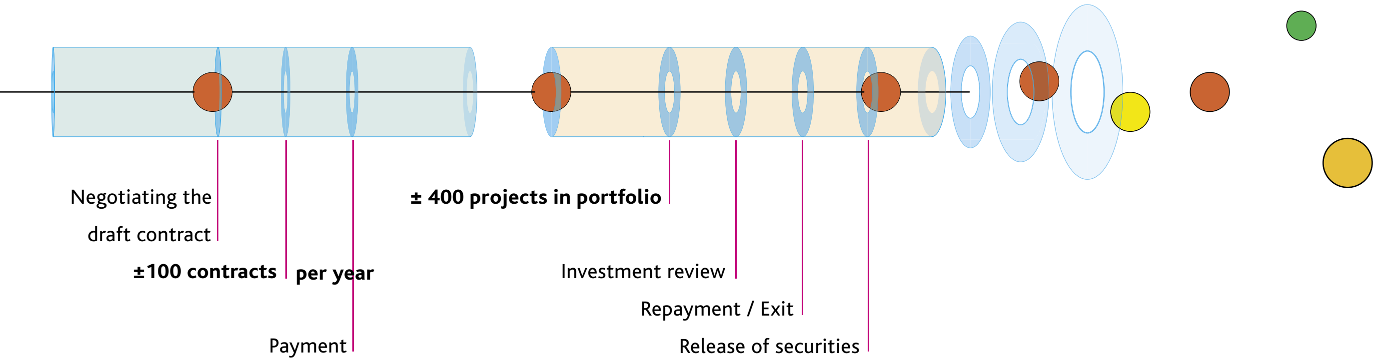
2 Appraisal phase. For promising projects, a deal team, including one or more investment officers and a lawyer, is established. Depending on the risk profile of the project (see A, B and C qualifications described on page 13 an environmental and/or a social specialist is included. The team conducts a thorough investigation and a due diligence review. An FMO delegation visits the company and speaks with management and stakeholders. External experts may be engaged for specific assessments. A financing proposal, which also addresses the economic, social and political situation in the country, is prepared. On the basis of this proposal and the scorecard, FMO makes an investment decision.

3 Contract phase. The investment officer negotiates conditions of approval with the client. This process may include supplementary conditions and agreements with respect to corporate governance, the environment or social aspects. Non-financial covenants in the contract can be defined as default clauses. It must be clear that we do not have a one-size-fits-all approach. In our assessments, we face different dilemmas. Some clients, for example, require our focus on environmental aspects, whereas others ask for corporate governance solutions. In our assessment procedures, we use decision moments to identify the best approach for the given case.

3 Contract

4 Monitoring

5 Impact



4 Monitoring. Once the final contract is signed, financing can be disbursed as soon as the conditions precedent have been fulfilled. Each project is reviewed annually to determine the current situation with respect to the client's creditworthiness and scorecard results. We monitor our action plans and we aim to remain well informed throughout the lifecycle of our financing.

5 Impact. Five years after committing to a project, we make a critical ex-post examination of the project's impact on economic development, the environment, employment and other variables included in the scorecard. On-site measurements and research provide better understanding of the effect of our investments on sustainable social-economic growth.

The sustainability scorecard
Our sustainability scorecard plays a key role in the financing process. The first scorecard we developed dates from the late 1990s. Over the years, we have found ways to improve this tool and in 2004 we implemented an improved version of the sustainability scorecard. It allows for better identifying and weighing risks to assess the sustainability of the projects to be financed. We are the first to admit that this way of scoring still leaves room for different interpretations. It relies heavily on the expert judgments of investment officers and environmental and social specialists. But, overall, the scorecard is a helpful tool and our growing experience allows us to improve our decision-making over time.

This scorecard contains three sections:
I Company risk assessment; the potential down-side of a project;
II Impact on development; the potential up-side of a project;
III FMO's role and special contribution to the project. This includes the additionality and catalytic roles described earlier.

Thus we can identify progress on our two main objectives return and impact on development in a uniform manner. Outcomes are monitored throughout the lifetime of a project. Implementing environmental and social action plans requires much time and effort from our clients. We continue to develop our monitoring activities and system in a more structured way.

We help promising companies to prosper, and when necessary, to improve their governance and social and environmental practices, enabling them to become engines for sustainable development in their countries.

Our clients: engines for growth

This section provides specific information about the results of our financing process. We believe that the framework we use and the conditions we include in our contracts are often ambitious for our clients, but never unrealistic.

Geographic focus

In 2004, FMO's total portfolio increased by 5 percent to EUR 1,982 million. We experienced strong growth in Africa and Eastern Europe. The Latin American share of our portfolio decreased, mainly due to currency fluctuations. In Asia, we experienced a decrease due to improved economic conditions, which positively affect availability of facilities from commercial banks.

The growth objective for our investment portfolio is 5 to 10 percent per year.

Direct and indirect finance

During 2004, we approved 96 new projects, including 47 to financial institutions. The financial sector is a focus for us because without banking services and capital markets, businesses would be unable to develop their activities. Financing the financial sector, which includes banks, lease companies, venture capital funds and micro-credit institutions, is called indirect financing.

We also finance private enterprises and projects directly, so-called direct financing. We concentrate on a few sectors that are vital for a country's development. One priority is infrastructure: reliable railroads, highways and ports, telecommunications and water and energy supply are crucial enablers for development. Another priority is national trade and industry. In this area, we concentrate on 'second-tier' companies: medium and large enterprises just behind the number-one players in their sectors, which often lack proper access to long-term financing. We approved 49 new direct financing projects in 2004.

1 Portfolio FMO Finance

Per region outstanding & committed as at 31 December 2004 in EUR

Scorecard section I

2 Portfolio FMO Finance

Per type outstanding & committed as at 31 December 2004 in EUR

38 % Indirect finance
62 % Direct finance

Company risk assessment

Financial health is the first part of company risk assessment. Although we use the same methodology for direct and indirect financing, there are some differences in focus because of the characteristics of these two sectors. In direct financing, the shareholder structure is the determining risk factor. Financial strength, market position, quality of management, corporate governance and our experience with the client are elements we take into account.

For financial institutions, the risk depends to a larger extent on the stability of the financial system in the country. Trust is the essential risk determining factor. Therefore external elements are also considered in this scorecard. Quality of supervision and regulations, stability of the financial sector are scored next to solvency, liquidity and quality of assets, for example.

Furthermore, we assess the environmental and social risk category of a company. Projects are qualified with A, B or C, following the World Bank environmental risk categories. We also use risk categories A, B and C for social risks. We developed these categories based on the environmental methodology. These categories include both the social impact on external groups affected by the activity to be financed, and the internal impact on employees. For financial institutions, we include the assessment of their portfolios.

Three risk categories

A

Projects likely to have significant adverse impacts

Environmental: impact may be irreversible and lead to loss of major natural habitat or to significant degradation of biodiversity.

Social: project may affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, affect significant cultural heritage sites, or involve high risk of unsatisfactory labor conditions.

A full environmental and social impact assessment is required. Examples include infrastructure and extraction projects.

B

Projects with specific impacts

Environmental: impacts are usually site-specific and few, if any, are irreversible. In most cases, mitigation measures are pre-determined performance standards, guidelines or design criteria. Potential adverse impacts on major natural habitat or areas of high biodiversity are limited.

Social: no significant adverse social impact or a high risk of unsatisfactory labor conditions.

Environmental and social assessment is required. Examples include general industrial companies and plants on existing sites.

C

Projects likely to have minimal or no adverse impact

Environmental: project examples include software development companies and consulting firms.

Social: small companies (fewer than 20 employees), with a high-skilled labor force and no risk of labor issues.

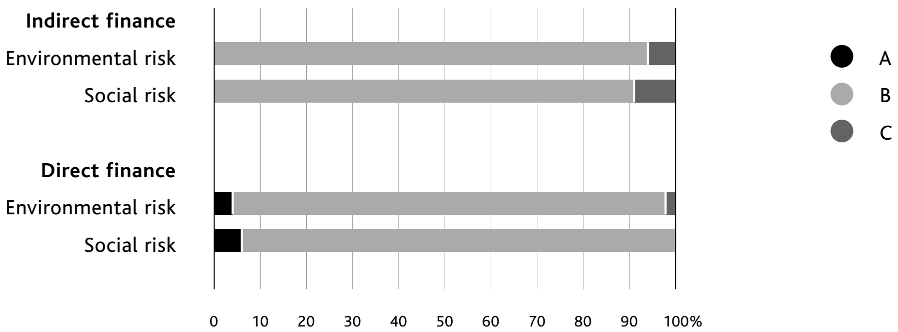
No scoring of environmental or social items.

Financial institutions -A -B and -C

For the financial sector, we assess the predominant sectors the potential client finances. If these include many A projects, we qualify the financial institution as FI-A. When B or C financing is predominant within their portfolios, we qualify the financial institution as FI-B or FI-C.

3 Risk categories

Approved projects in 2004



Graph 3 shows that the vast majority of projects we approved in 2004 are in category B. Only in direct financing we had five category A projects (two environmental and three social).

In previous years, we closed contracts with financial institution clients with an A status. Five of the 198 financial institutions in our portfolio have an environmental A.

The environmental and social qualification of financial institutions is based on the way an institution assesses its own clients on these aspects. We evaluate this aspect by increasing awareness and giving tailor-made advice and training. Subsequently, we assess the environmental and social policies of the company, as well as management, performance and liabilities. With financial institutions, we pay additional attention to their client analysis and the use of an exclusion list. As a result, the client's product chain is also subject to our assessment. One of the outcomes of our scoring may be 'partly unsatisfactory'. This means that a client doesn't quite meet our standards, but is committed and willing to take action to comply. We then agree on specific action plans. (See next paragraph.)

Finding the right balance

We assessed a project in the extractive industry in Africa. The project qualified as a typical 'A' project from an environmental and social perspective.

Robust environmental management could prevent ecological degradation. The project involved a western company with a well-developed environmental policy willing to improve its environmental management systems. The economic impact is likely to be positive because the project will create more than 700 jobs in the poor and isolated region. Nevertheless, construction of a road into the region and the resulting resettlement of residents could cause social conflict and distress. The influx of migrant workers during construction and operation might lead to increased spread of HIV/AIDS. All these social aspects must be monitored during set up of the project. An independent consultant conducted an audit.

FMO designed an action plan for both the environmental and social aspects. The plan sets out specific conditions – including creation of partnerships through consultation with all involved parties – which were incorporated in the contract.

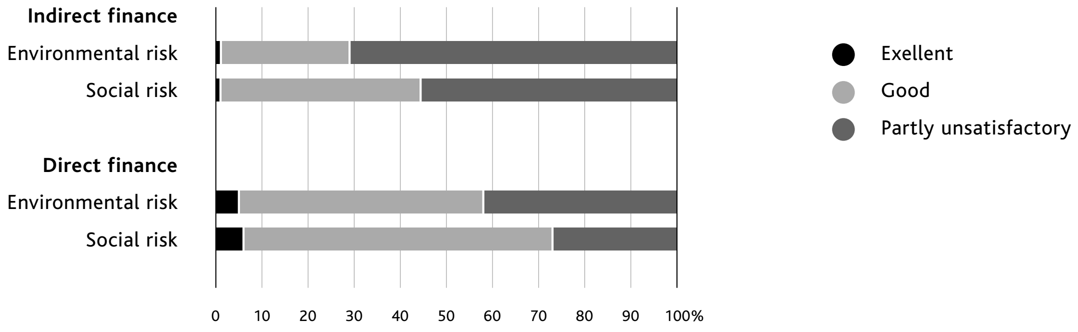
During our due diligence process, we balance the positive and negative impacts. The environmental and social risks are or will be mitigated to reach our standards. In addition, the project will bring development value for the people of the region. On this basis, we approved the proposal.

The production chain

A pulp and paper producer in Eastern Europe contacted FMO about financing its expanding business. Early assessment revealed that the traceability of the wood – the basic material for the production process – was poor, and sustainability certification would be out of reach. The project would end up being non-compliant with the IFC Forestry safeguard policy. Moreover, the product stewardship element of the ecological impact would be 'unsatisfactory'. We concluded that opportunities for improvement were too small, and therefore decided not to pursue the opportunity.

4 Average risk score

Approved projects in 2004



Graph 4 illustrates that:

- There are no significant differences in the scoring on the indicators of environmental and social risk in direct financing.
- In indirect financing, more than half the projects fall into the category 'partly unsatisfactory'.
- For environmental risk, this is because financial institutions do not yet have general environmental policies and environmental management systems.
- For social risk, it is important to note that two out of four indicators relate to the clients of the financial institutions (social policy and social management system). On these aspects the scoring is relatively low.
- The social indicators related to internal organization (labor standards and conditions) scored at least 'good' in more than 80 percent of cases.
- FMO has a dedicated program to help financial institutions improve their social and environmental performance. (See Financial Institutions Program later in this section.)
- The vast majority of direct financing projects score at least 'good', on both the environmental and social dimensions.

"Our clients share our belief in the basics of sustainable development. Without that, there is no way we can do business"

Understanding the needs of our clients

"The fact that we can provide financing that other banks can't, potentially results in a powerful position vis-à-vis our clients. However, a relationship is built on trust, not power. We want to anticipate our clients' needs and serve them well, just like commercial banks do.

In 2004, we had a roundtable session with some clients (from Ghana and Mexico) to get a better understanding of how they see FMO. It turned out that they were positive about us, but they also see room for improvement.

I think we have to tailor our services and conditions. We have to prioritize and differentiate. Our clients share our belief in the basics of sustainable development. Without that, there is no way we can do business. However, not all aspects are equally important in all cases. Different sectors, different industries and even different countries call for other priorities. Also, the depth of our involvement in financing defines the extent to which we should include additional conditions. Our clients expect a focused approach, one that helps them improve their businesses. This benefits all parties."

Jan-Albert Valk
Investment Officer at FMO

Action plans

Not all projects we assess meet all our standards right from the beginning. However, when we are confident that a prospect has a trustworthy ambition and the capabilities to improve its performance, we consider financing. In those cases, our contracts include agreed action plans, which define specific measures to meet our standards within a stated timeframe. By using our influence in this way, we act as a driver for change and create development value. In 2004, we approved 96 projects, of which 55 percent have an agreed action plan. Examples of agreed actions vary from setting up HIV/AIDS awareness programs to lifting labor standards, setting up environmental management systems and improving the financing process of our financial institution clients. Our credit review committee conducts an annual review of progress on action plans.

Potential for Improvement

Insufficient

A large producer and distributor of agricultural products in the Far East contacted FMO. The company's environmental standards were quite high, but the project was a high-risk project from a social perspective. Labor rights and conditions for the rural workforce did not comply with international standards, nor with national legislation.

In addition, we identified problems in relationships with small-scale farmers, but the company owner seemed willing to consider improving standards and performance. We investigated possibilities to set up a realistic improvement plan for these social issues. We involved an external expert from a Dutch trade union. Doubts about the company's willingness to improve labor conditions and relationships with farmers remained. Finally, the company decided to stop the negotiation process. We suspect that our social assessment has contributed to this decision.

Sufficient

Starfish is a Sino-Dutch fish-processing company in China (with shipping company Vrolijk and Giko BV). The company requested financing from FMO, so we conducted research into its environmental and social aspects. On the basis of our assessment, we consulted with Starfish management and reached an agreement about standards and transparency, which was outlined in an environmental and social action plan at the end of 2004. With the implementation of this plan in 2005, Starfish has the potential to become a model for the industry.

Socially responsible entrepreneurship

"Apart from an FMO loan of EUR 2.3 million, we have drawn on the Technical Assistance program, as we attach particular importance to socially responsible entrepreneurship. This means that we also wanted the Chinese company to comply with European quality standards for the environment, food safety and health. We also wanted to ensure efficient management, a good internal information system, good contracts and terms of employment, and a healthy work environment."

Richard Oerlemans,
Chief Financial Officer of Giko

"We also wanted the Chinese company to comply with European quality standards for the environment, food safety and health"

Scorecard section II

Impact on development

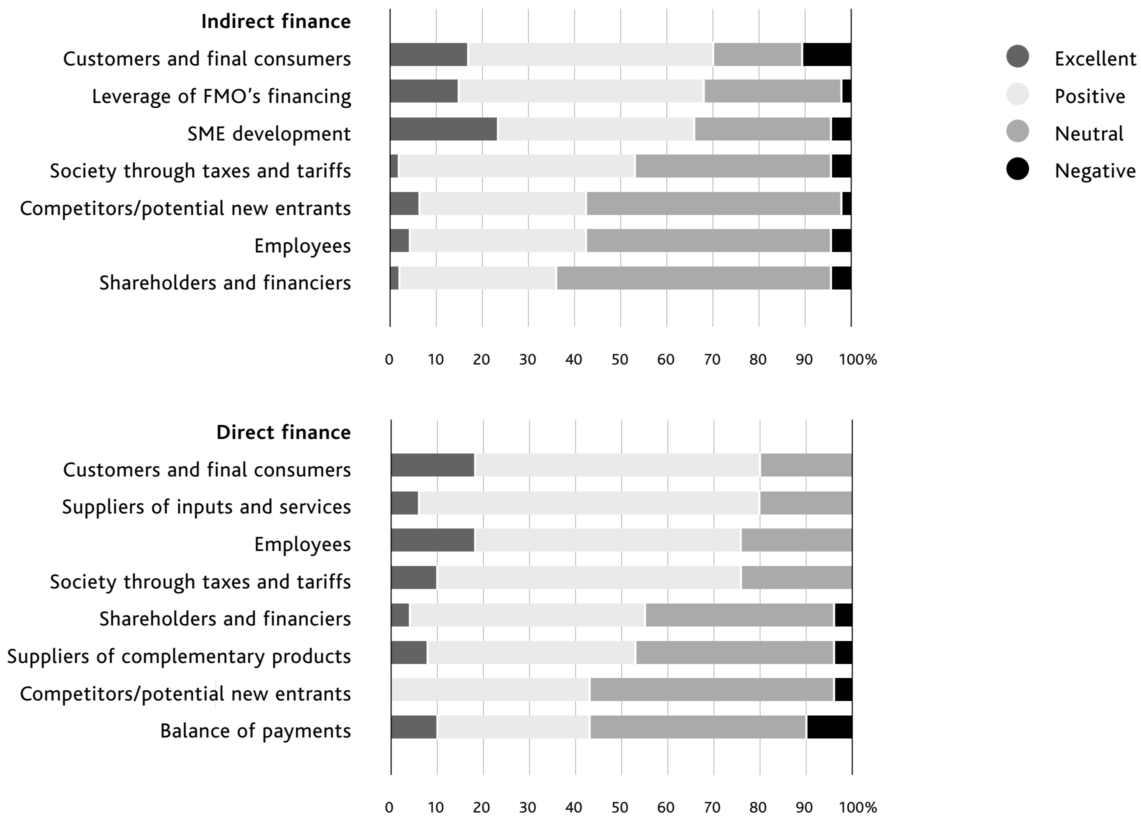
FMO's scorecard was thoroughly revised in 2004. The second part of the scorecard is now dedicated to assessing the client's development impact. After implementing the revised scorecard, we are in the process of taking further steps to ensure that a project's expected development impact becomes a guiding principle in our approval process.

Like risk assessment, development impact is considered from economic, environmental and social points of view. We use a stakeholder analysis approach, differentiated for direct and indirect financing, as different stakeholders are likely to benefit from financing these two types of clients.

Given the variety of projects we finance, each is scored on different development aspects. It is not essential that each project scores positive on all aspects, nor does a negative score on one aspect precludes financing. The deciding factor is whether a project has a positive impact, on balance.

5 Economic development impact

Projects approved in 2004

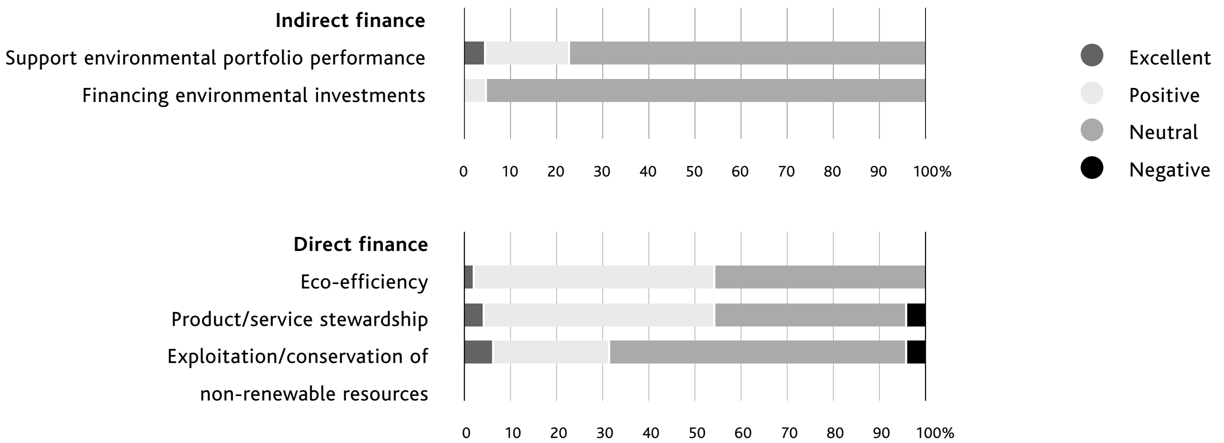


Because financial institutions can leverage FMO financing, our indirect financing is expected to generate positive economic effects primarily for their clients, such as small and medium enterprises.

The majority of projects and companies financed in 2004 are expected to make positive to excellent contributions to national economic development through their impact on shareholders and financiers, consumers and suppliers, employment and/or government revenues. The impact on competitors and on the balance of payments is more frequently neutral and can sometimes even be negative.

6 Ecological development impact

Projects approved in 2004



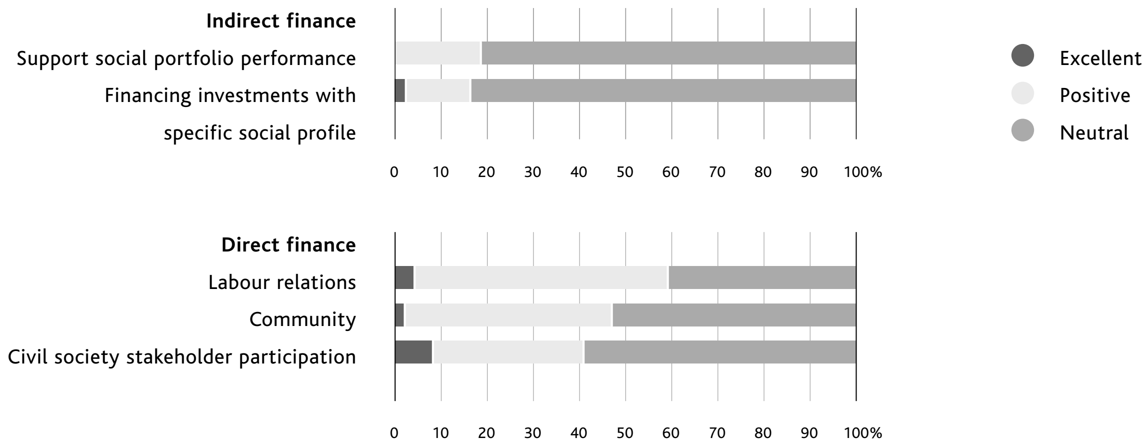
Ecological development impact of financed activities is largely determined by the client's environmental policies and management systems. We further assess their impact on exploitation or conservation of natural resources, their upstream and downstream effects and their eco-efficiency.

Financial institutions can make a positive impact on ecological development by setting up sound environmental policies and management systems. In addition, they can make an impact by actively supporting the ecological performance of their own clients, and by financing investments that benefit the environment. So far, only a minority of our financial sector clients generates a positive environmental impact by doing the latter.

The majority of the direct financing projects we approved in 2004 had a positive impact through chain effects and in terms of eco-efficiency, whereas most clients had a neutral impact on the use of non-renewable resources. A negative impact through use of non-renewable resources, for instance, can be acceptable if it is sufficiently outweighed by other positive development effects.

7 Social development impact

Projects approved in 2004



In our scoring process, a client's social development impact is largely determined by the quality of its social policies and management system.

In addition to screening their clients, financial institutions can contribute to social development by actively supporting the social performance of their own clients, or by financing investments with a strong focus on social sectors such as health and education. Most of our 2004 financial sector clients have a neutral impact in terms of these indicators.

In direct financing, we focus on a client's contribution to social development through positive impact on labor relations and community development and by engaging in civil society stakeholder participation. Of the investments approved in 2004, most are expected to have a positive impact through labor relations development, while scoring neutral to positive in other regards. Few projects are expected to have negative social development impacts.

Energy needs can not be met by renewables alone

The energy sector is one of FMO's focus areas. We believe that the availability of energy is one of the preconditions for development. Unfortunately, renewable energy alone is currently not capable of meeting the developing world's energy needs. We have an internal 'knowledge community' on energy in order to increase our expertise and share knowledge throughout our organization. This knowledge community helps raise awareness among our investment officers.

In addition to direct investments, FMO also approaches this sector through participation in dedicated investment funds. We consider energy projects on the same basis as other projects. This means that we assess energy projects' risks and development impact with our sustainability scorecard. Energy projects typically have a significant impact on ecological impact.

Nevertheless, we actively work to enlarge the share of clean energy in our client countries. FMO approved participation in the Cleantech Private Equity Fund Latin America, which aims to invest in a number of renewable energy projects. Currently USD 23 million is available, with the intention to dedicate USD 35 million to seven to eight greenfield projects of USD 3 million each.

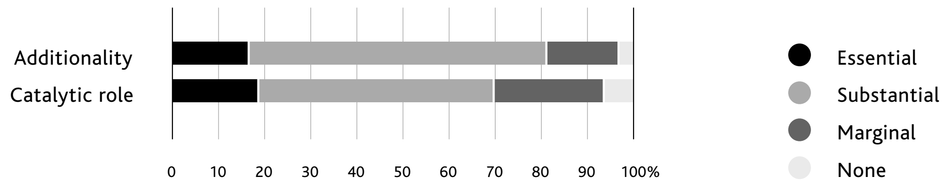
Scorecard section III

FMO's role and contribution

Our scorecard also helps us assess whether FMO properly carries out its role as a development finance institution. In addition we register and monitor the extent to which we make special contributions to mitigate risks or enhance the development impact of the activities we finance. Making contributions is not a goal in itself.

8 FMO's role

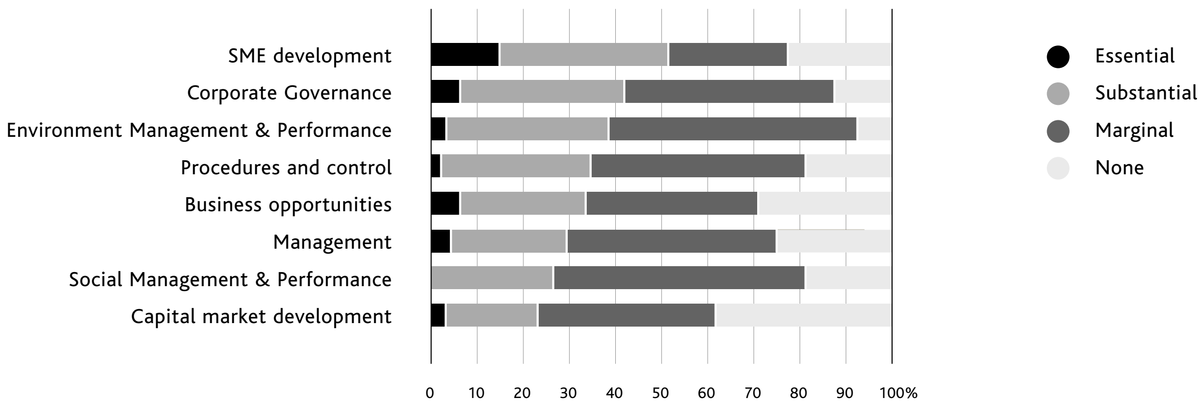
Approved projects in 2004



We assess our additionality and catalytic role. In the projects approved in 2004, FMO's additionality and catalytic role were mostly judged to be substantial.

9 FMO's special contribution

Approved projects in 2004



Contributions can range from imposing conditions on a client's corporate governance to providing substantial technical assistance for strengthening a client's financial, technical, environmental or social management. In projects approved in 2004, FMO most frequently contributed to clients' environmental management and performance, to their corporate governance, and/or to their focus on small and medium enterprise development.

"FMO has helped us strive towards the goal of having these development projects completed, on schedule and on par with international standards"

Long term sustainable growth

The Titan Group is a fast growing downstream oil services group, focussing on transportation, procurement & supply, storage and distribution of oil. Ancillary services include a ship repair, conversion and building yard and a maritime training institute. FMO and its German counterpart DEG provided Titan with long-term loans to help finance its growth.

"To obtain financing, FMO required us to set up a corporate action plan. Thanks to this, we were able to take major steps on corporate governance issues to increase our transparency and accountability. For example, we added independent directors to strengthen governance; we added an audit committee and we set up the process of engaging an international auditor.

As our three large land-based oil storage projects, the shipyard, and the Maritime Training Institute are under construction in China, the environmental and safety levels which conform to the benchmark of international standards are observed very closely with the help of FMO.
We have specifically appointed personnel to be in charge of this area of great importance.
FMO has helped us strive towards the goal of having these development projects completed, on schedule and on par with international standards."

Patrick Wong,
Chief Executive Officer,
Titan Oil, China

Focus on the base of the pyramid: Microcredit

In October 2004, the United Nations proclaimed 2005 the Year of Microcredit. FMO has been active in this field for years, and supports microfinance organizations that are institutionalizing themselves as financial institutions, not as NGOs. Financing microfinancing organizations indirectly reaches many people in need of finance. With a microcredit portfolio of EUR 35 million – almost five percent of our financial sector portfolio – FMO is the second-largest Dutch player.
FMO is also a partner in the Netherlands Microcredit Platform, through which some 15 organizations cooperate. Together, these institutions had nearly EUR 207 million in outstanding loans to microfinance institutions in 2004.

FMO does not focus exclusively on microcredit. Microfinancing is part of our financial sector policy, which aims to promote broad financial sector development, including at the bottom end of the market. In total, FMO has outstanding loans of EUR 163 million with 123 financial institutions and investment funds specializing in financial services to micro-entrepreneurs and small and medium-sized enterprises, nearly half of which are in Africa.

Pages 24 and 25 of our development report present more information on our strategy to meet the financial needs of the base of the pyramid.

ORET

With ORET, the Dutch government provides grants for the export of capital goods, services or work to developing countries as a contribution to the economic and social infrastructure. FMO executes this program on behalf of the government. ORET grants assist developing countries to decrease the cost of capital goods, services and work. All ORET applications are screened on environmental and social risks, like our other finance activities. Each project is reviewed one year after completion. In our 2006 report, we intend to provide more information on our ORET program and the assessments for risk and the impact on development.

In 2004, FMO received 27 ORET applications. A total of EUR 75.3 million was contracted. In 2004, ORET disbursed approximately EUR 83 million, 9 percent more than in 2003.

Hospital equipment

An important product group for which ORET is regularly used is equipment for public hospitals. For example, FMO provided an ORET grant for sophisticated medical equipment. With the grant, equipment for 25 small hospitals (supplied by a Dutch company) could be purchased. The delivery also included training, maintenance and the set-up of a healthcare information system, as well as an introduction to a referral system. Thanks to project, the level of medical care will increase significantly. Modern medical equipment requires high-standard stewardship programs to assure responsible waste management and prevention of occupational injuries. The IFC guidelines for Health Care Facilities are used as reference.

Water supply in Africa

The World Bank provided a grant for the reorganization of an African water supply company. In addition, a Dutch contractor submitted an application for an ORET grant to build a new water supply system. A good water supply is essential for the economic development of the country.

The company is dealing with some shortcomings. The infrastructure is outdated; a lot of water is lost due to leakages. Furthermore, the company has a high debt level and low operational revenues (50 percent of the revenues are not collected due to an inadequate administrative system). Also, internal management was insufficient, while demand for water increased.

The goal of the grant is to build a new water supply system and make 4,619 new public water connections. And water loss must decrease by 20 percent by 2018. In addition to the ORET grant, technical assistance will increase the long-term success of the investment of the project. A Dutch external expert is asked to provide assistance to train company managers on hydraulic management, cost control, finance, logistics, etc.

The total value of the transaction is EUR 20.9 million.

Capacity building

Businesses in developing countries need not only financing; there is a real need for technical assistance and training to increase knowledge and skills. With the IPTA program FMO undertakes a range of activities that aim to fulfill these needs.

FMO finances technical assistance (TA) when it comes to knowledge and expertise transfer in the operational phase of private companies and/or financial institutions in developing markets. The program aims to improve the organization's performance. Also, the investment promotion (IP) support activities such as feasibility studies in the investment phase.

In 2004, we provided approximately EUR 8.5 million for technical assistance and investment promotion activities to some 80 companies and financial institutions. The companies cover a wide range of sectors from textiles to food, energy, flower cultivation and banking. Technical assistance may be agreed for several years to get the desired results.

Housing Construction in South Africa

FMO supports a non-profit partnership in South Africa that provides construction finance primarily for the low-cost subsidized housing sector. The financing is managed and administered partly through local financial intermediaries on a risk participation structure. With FMO's support, the partnership will be able to develop a larger number of financial intermediaries in order to enlarge its impact in this very underserved sector of emerging Black Economic Empowerment (BEE) companies in the housing construction industry. FMO's commitment of EUR 250,000 in technical assistance for training and development of the financial intermediaries will enable them to roll out the partnership's business model to provide construction bridging finance to a larger number of emerging smaller, predominantly BEE contractors who otherwise could not access finance. South African commercial banks are still not touching smaller, emerging (BEE) contractors because of the high risk perception. At the same time the FMO TA facility guarantees the implementation of prudent risk assessment and monitoring skills to ensure a professional, hands-on management.

The project adds substantial value to the improvement of the living standard among the poor population, especially in housing developments.

Financial Institutions Program

Since 1998, we have organized the 'Financing sustainable development' training program to help financial institutions identify environmental and social risks and opportunities. The multiplier effect of training the financial sector is considerable.

Not only do we share sustainable development know-how, but we aim to lay a foundation for a tailor-made environmental and social management program for participating financial institutions. To that end, we facilitate training with intensive interaction and case study exercises. Among the outputs is a management presentation prepared by each participant that can be used to put sustainable management on the agenda at his or her institution. The presentations describe the plan for implementing an environmental and social management system.

After many years of organizing these courses exclusively in The Hague, we have started giving the courses in our clients' regions. In 2004, we hosted a course in Bangladesh with 19 participants from 12 financial institutions from Bangladesh, Cambodia, India, Sri Lanka and Vietnam. In early 2005, we organized a similar event in Costa Rica.

Over the years, we have reached more than 90 financial institutions with this program. We have found that these training sessions adequately address a client's need. To provide more integral support for implementing the Environmental and Social Management System (ESMS), we will start with dedicated follow-up sessions at client premises. For 2005, we plan to have at least seven of these sessions with clients in Bangladesh, Costa Rica, Kazakhstan and Nigeria.

"Overall, the training program was informative and provided me with a practical way to set up an environmentaland social management system."

Participant of the Bangladesh financial institution program, October 2004

Our strength lies in our worldwide network. The power to share knowledge and expertise, to learn from each other and to leverage best practices determines the impact of our work.

Building bridges, connecting worlds

As a financial institution operating in many countries, we interact with a wide range of stakeholders. Maintaining good relationships, being open to dialogue and listening to other parties is the foundation for the trust we build our business on.

Stakeholders and business partners

To realize our business objectives, we have several dedicated partnerships with local business partners. Examples include financial institutions in which we hold shares, multi-lateral institutions, and – on a project basis – local governments. Our cooperation with them serves a mutual interest and contributes to our objective of creating development value. We believe that focusing on our core partners is an effective way to serve the interests of the people benefitting from or affected by our projects.

We are considering organizing a broader stakeholder dialogue. The responsibilities we have as a financial institution and our business objectives will serve as a reference guide for this plan. We would like to avoid situations where we talk about subjects, or with parties not relevant for our business agenda or those that are part of domains beyond our responsibility. This first sustainability report is intended as a starting point for further dialogue.

A business partner with whom we cooperate frequently is our German peer DEG (Deutsche Investitions- und Entwicklungsgeschelschaft). Because we have similar missions and focuses, we aim to create synergies by sharing expertise and know-how to increase our joint financing activities. Our organizations appreciate each others’ expertise and knowledge. Our relationship is one of mutual trust. This means that an assessment made by one of our organizations can be used by the other party for its own decision-making. In 2004, more than 30 percent of our financing projects were carried out in cooperation with DEG.

Our external stakeholders	What binds us
Our clients	The focus of our work; with and through them we aim to create economic, environmental and social development value.
Our shareholders: 51% Dutch State 42% Dutch banks 7% employer organizations, trade unions and some 100 companies and private investors	We share a common objective; we want to create development value, while realizing an adequate return on capital. This is supported by shareholder capital and additional funds from the state.
Investment partners such as financial institutions, private investors and development finance institutions	These partnerships reinforce FMO's additionality and catalytic roles. This cooperation ensures a flow of capital many times greater than we can provide on our own.
National and local governments of developing countries	They offer the economic, legal and physical infrastructure for our clients, and they occasionally are partners in projects.
Local communities	Partners for dialogue in our ex-ante and ex-post assessments: how can and will they share in the development value?
Experts, both specialists in certain areas as well as the academic world	Creating leverage and sharing know-how.
Non-Governmental Organizations (NGOs)	Providers of knowledge and information, or representatives of certain interests.

Specific partnerships with local partners

In 2004, we explored a strategic partnership to develop a public water infrastructure and services in Luanda, Angola. This pilot project was considered an opportunity to strengthen the primary business model of the water company. We had a dialogue with the government and NGOs. The site visit resulted in identification of potential partners and their resources, competencies, underlying interests and development objectives. We also identified some issues that needed further attention before considering further steps. The project is currently on hold. However, the lessons learned can be used in similar strategic partnerships we are currently exploring. Specific partnerships with local partners may become a more dominant approach for the future.

We set high standards for our clients, and that goes for their social and environmental performance as well. Likewise, we aim to manage our own direct sustainability impact. Not just because we believe it is the right thing to do, but because we want to maintain our credibility with our clients.

Practicing what we preach

This section consists of two parts: our employees and our in-house environmental management. We aim to comply with all legal obligations, which we manage adequately. We have some focus areas for additional standards and objectives, for example staff development and compensation of our CO_2 emissions. We want to improve over time in these areas and manage our business in a more structured way.

Our employees

After a period of strong growth and implementation of several strategic choices, we reached a more stable phase in 2004. We improved internal processes and made some changes necessary to increase efficiency. In 2004, our total number of employees decreased by 3.8 percent to 204 (193 FTEs). Professionalism, commitment, integrity and individual initiative are the most important characteristics of our corporate culture. Encouraging and further developing these characteristics are the pillars of our human resources policy, which was set up to create a healthy and inspiring work climate where professionalism, development, efficiency and entrepreneurship are central. In 2005, our human resources team will focus on further developing employee knowledge and skills, increasing workforce diversity, devising a (more) adequate variable bonus system, and developing management and talent.

Our code of conduct

Dealing with risk, operating around the globe and searching for opportunities in a range of sectors is sometimes difficult and demanding. We want to guide and help our employees to make the right decisions to strengthen our market position and maintain our strong reputation. Integrity and trust are of key importance. Our code of conduct is the standard all our employees must live up to. It covers issues such as how to deal with gifts, bribery, conflicts of interest, confidentiality, respect for privacy, anti-discrimination and harassment, as well as safety issues.

Managers are responsible for discussing and promoting the code of conduct. Beginning in 2004, all our managers must sign a statement asserting that there were no unreported issues regarding the code of conduct within their scope of the organization. To get a better understanding of working along these lines, we will conduct a survey among our managers and directors in 2005.

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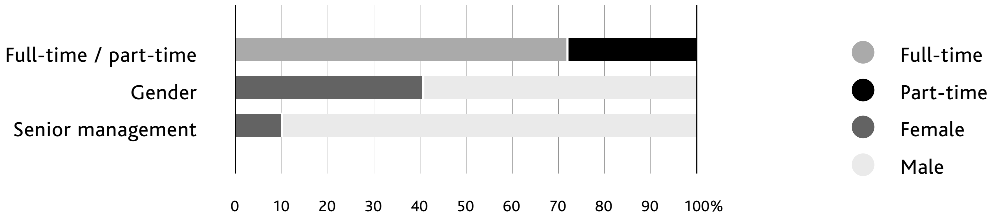
10 Breakdown of workforce in 2004



Diversity and employee satisfaction

We value diversity. We want our workforce to reflect society. We aim to increase the percentage of female managers to at least 15 percent by 2007. We will achieve this target through both internal promotions and recruiting from the external market. In addition, we are developing a set of targets to increase the number of nationalities represented in our workforce.

In 2004, more than 25 percent of our employees worked part-time. We have observed that an increasing percentage of men now appreciate the opportunity to work part-time. The percentage of male part-time employees increased slightly in 2004 to 26.3 percent (23.7 percent in 2003).

Every three years, we conduct an employee satisfaction survey. In 2005, we will conduct the survey for the second time. In addition to this overall review, we have specific feedback mechanisms for urgent matters. For example, employees can present complaints regarding harassment and intimidation anonymously. We have appointed three counselors who can be consulted for support and advice in case of perceived harassment.

Staff development

Developing our employees knowledge and skills is crucial to reaching our ambitions. An introductory training for new employees helps them become acquainted with our objectives and policies as well as the structure of our financing processes. Furthermore, every employee has the opportunity to formulate a personal career development plan. Employee development covers not only training, but is also a reflection of practical experience and knowledge-sharing.

Since 2000, we have provided in-house courses and seminars on environmental, social and corporate governance issues for our investment officers and other relevant staff members. These seminars are part of a training curriculum to improve the quality and consistency of the financing process on social and environmental issues. In 2004, we facilitated a social training course for our new investment officers to learn about social assessment of our financing process.

In 2004, our out-of-pocket spending on training amounted to EUR 414,000 (EUR 2,030 per employee). Given the challenging objectives we have set as an organization, we have decided to increase our training budget by 25 percent in 2005. The 2005 training curriculum also includes a new anti-corruption/money laundering training for our investment officers.

Corporate governance seminar
One of our focus areas during the financing process is the corporate governance of our clients. Given the importance of the subject we set up a dedicated seminar in 2004. Beside the basics of corporate governance, the seminar provided detailed information about our policy and the instruments that can be used to improve the corporate governance of our clients. The seminar was mandatory for investment officers and managers. Some 86 employees attended the seminar.

Health and safety

General health and safety subjects are covered in our code of conduct. No incidents were reported in 2004. Our absentee rate increased slightly to 3.9 percent (3.6 percent in 2003).
A specific issue we deal with as an organization is the fact that many of our employees travel to a wide range of countries, sometimes when conditions are less stable. To mitigate the risk of traveling, we follow the traveling advice of the Dutch Ministry of Foreign Affairs. In addition, we have guidelines for our investment officers on how to behave in unstable countries.

Additionally, we have a collective travel insurance for our employees. And we conduct a bi-annual health check of our investment officers and other frequent travelers. And all our employees over 40 years of age are also invited to attend a health check every three years.

Employees' interests as part of FMO's agenda
"FMO is an organization with few management layers. This fact, combined with the size of the organization and management's open approach, makes the Managing Board easily accessible.
As members of the workers council, we appreciate the structural involvement in decision-making of our management. In our view, corporate sustainable development entails a healthy, satisfying and just working environment and should be based on a professional and committed group of employees.
This way, the expertise and interests of the employees are integrated into FMO's decision-making for now and for the future."

Steven Duyverman,
President of the FMO Works Council

"Corporate sustainable development entails a healthy, satisfying and just working environment"

Environment	2004
Electricity	788 MWh
Energy (district heating)	347 MWh
Business travel air	6.99 million km
	34,000 km/employee
Business travel lease cars	148,000 liter gasoline and diesel
	2,000 liter per car
CO_2 Emission[1]	
Plane	800 metric tons
Car	350 metric tons
Energy	400 metric tons
Water use	1,700 m^3
Average paper use per day	1,100 pages

[1] Calculated according the ghg protocol of the World Research Institute (www.ghgprotocol.org). We calculated our business travel according the short, medium and long flight. For the calculation of our district heating CO_2 emissions, our energy supplier advised us to take 35 percent of the gas emission factor.

Energy and CO_2

The primary focus of our in-house environmental management is our CO_2 emissions; we believe this is where our direct environmental impact is most significant. Climate change is an issue we take seriously. In 2003, our Management Board decided that FMO would become carbon neutral by compensating for our emissions by buying CO_2 certificates. We want to compensate via the projects we finance in developing countries as far as possible. The assessment of these projects for this purpose is still in progress.

In 2003, we moved to our new head office, which was designed and built according the sustainability principles, with a focus on energy reduction. We worked closely with the constructor to look for sustainable energy solutions. This resulted in a higher initial investment, but we expect our operational costs to be lower in the long run. For example, we have a sensor system that switches on the office lights automatically after one has entered the room. The expected return on investment is five years. We also have a sophisticated climate control system, with a low energy level usage. Notwithstanding these sustainability measures, we stayed 10 percent under budget. In 2004, we participated in a benchmark review, which included a number of Dutch financial institutions of similar size. FMO scored below market average on energy costs per square meter.

Sustainable building

The FMO office was built according to four principles:

Flexibility	Most employees no longer have their own desks, but can choose a suitable work place each morning with their trolleys.
Identity	We have both a commercial and a human face. This careful balance is represented in all materials used.
Sustainability	We want and must bring into practice the requirements that we impose on our clients in the areas of environment, social aspects and corporate governance.
Good business sense	Good business sense played an important role throughout the process, through which a sound price-performance relationship was achieved.

Business travel

Although based in the Netherlands, FMO has operations that cover the globe. In contrast to some of our peers, we have chosen not to open local branches. However, our work does require frequent contact with our clients. Some of this interaction can be realized through telephone or video conferencing, but face-to-face meetings are of crucial importance and therefore our employees often have to travel by plane. In 2004, total air travel accumulated to 6.99 million kilometers; this accounts for a CO_2 emission of 800 metric tons.

Some 74 employees have a company lease car. These cars are provided primarily as a secondary employment benefit to be competitive with local labor market standards. Employees seldom use their lease car for client visits. A total of 131,000 liters of gasoline and 17,000 liters of diesel were used, which equates to a CO_2 emission of 350 metric tons.

Procurement

We expect our suppliers to comply with the rules and regulations on social and environmental subjects. We do not have a general supplier policy which covers environmental and social criteria. Our procurement policy focuses primarily on a good balance between price and quality. We are developing environmental and social criteria to insert into our procurement policy. So far, we have formulated environmental and social criteria on a case-by-case basis. Given the limited number of significant tenders per year, our approach has allowed us to live up to our standards.

Waste management

For several years we have separated our waste (paper, organic waste), but we had no insight in the total amount of waste produced by our operations. However, we implemented a new fully automatic waste system at the end of 2004. The system compresses waste, which is collected only when the container is full. Now we can calculate our total waste, and we have also lowered transport costs and decreased the environmental impact since the container is now emptied on average once a month, rather than every week.

Our waste paper is collected separately; on average we use 1,100 pages of paper a day. We actively monitor and try to decrease the amount of paper we use, most importantly by double sided printing.

GRI matrix

F	Financial Report
DR	Development Report
W	www.fmo.nl
NA	Not applicable
NI	Not included

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Reporting principles

FMO is committed to sustainable development. This is our first sustainability report, which we truly regard as a learning experience. We decided not to wait with our first report but to learn by doing; we want to experience the difficulties of reporting. We want to improve our reporting skills over time. Next year we aim to publish our second sustainability report simultaneously with our financial report. For feedback or more information on the report, please contact us at sustainability@fmo.nl.

Scope and structure

This report covers our global activities and performance. In this report we focus our attention on our core business processes. We have also included a section on our own direct social and environmental performance. Next to our sustainability report, we published a development report, an annual report and a social report over 2004. These reports provide additional information and are available on our website at www.fmo.nl.

Selection of topics

FMO has a wide range of stakeholders including clients, shareholders, employees, non-governmental organizations, governments and other interested parties. Although all those stakeholders may be interested in this report, we have written it in particular for our clients, civil society organizations and opinion leaders.

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 2002 GRI guidelines and the social and environmental sector supplements for financial services. Please refer to the GRI matrix on page 33.

The report covers cases based on interviews with some of our environmental and social specialists. We have tried to present cases that give 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 which included representatives from risk management, corporate affairs, human resources, facility management and investment and mission review. This team met on several occasions to discuss objectives, key messages and progress. We also conducted interviews with some managers to obtain stories and data.

As we regard this first sustainability report as a pilot, we decided not to have it audited. However, KPMG Sustainability was invited to give comments during the process, which will help organize our reporting process and make a jump-start for our second sustainability report.

Third-party quotes

This first sustainability report illustrates the story of FMO. We have included a limited number of third-party quotes. We used the statements as they were provided. We appreciate the contributions of these stakeholders, but obviously we can not take responsibility for these statements.

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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.

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