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The EBRD's Annual Report 2005 comprises two separate companion volumes: the Annual Review and the Financial Report, which includes the financial statements and the financial results commentary. Both volumes are published in English, French, German and Russian. Copies are available free of charge from the EBRD's Publications Desk (see back cover).

The CD-ROM accompanying this publication contains the complete Annual Review (in a fully searchable format), the Financial Report and a complete list of all projects signed by the Bank since 1991.

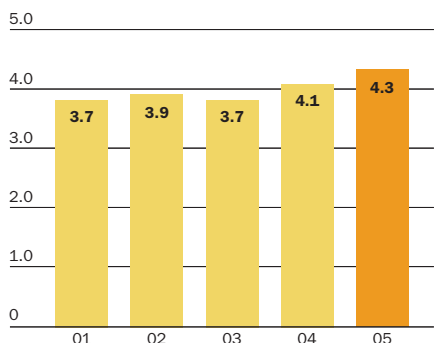
2005 in numbers

€4.3 billion

invested in 151 projects, the EBRD's highest level of investment

EBRD investments 2001-05*

€ billion



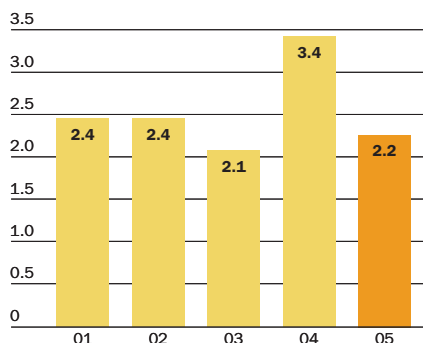
* "Investments" signify EBRD financing committed under signed agreements.

€2.2 billion

disbursed in 2005

Gross annual disbursements 2001-05*

€ billion



* Disbursement levels for 2005 are explained on page 13.

€2.46 billion

invested in early and intermediate transition countries¹

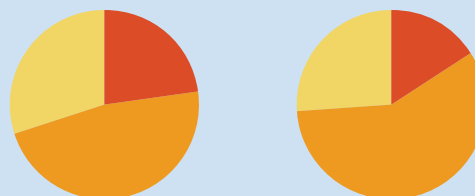
€1.11 billion

in Russia

€0.70 billion

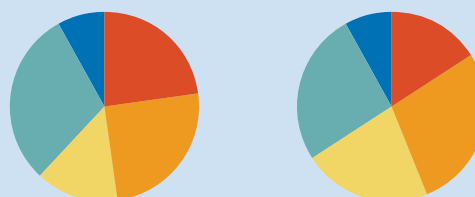
in advanced transition countries²

EBRD investments by stage of transition



	2004	2005
Advanced countries	23%	16%
Early/intermediate countries	47%	58%
Russia	30%	26%

EBRD investments by region



	2004	2005
Central Europe and the Baltic states	23%	16%
South-eastern Europe	25%	28%
Western CIS and the Caucasus	14%	22%
Russia	30%	26%
Central Asia	8%	8%

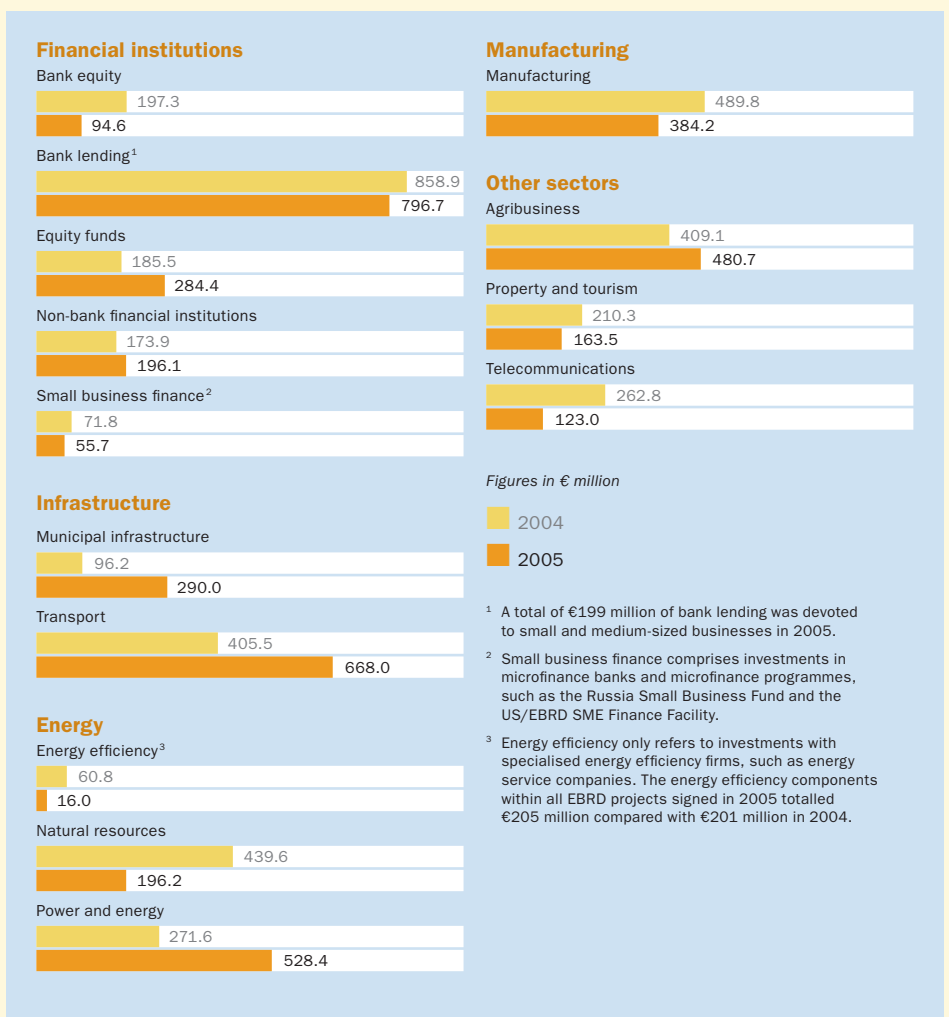
¹ Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Romania, Serbia and Montenegro, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

² Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.

Over one-third
of investment
devoted to financial
institutions to support
local enterprises

One-fifth
of investment
supported infrastructure
developments, including
municipal and transport
projects

€205 million
devoted to financing
energy efficiency upgrades
across all sectors



Annual investments 2001-05

	2005	2004	2003	2002	2001	Cumulative 1991-2005
Number of projects	151	129	119	102	102	1,301
EBRD financing (€ million)	4,277	4,133	3,721	3,899	3,656	30,313
Resources mobilised (€ million)	6,221	8,799	5,307	4,862	6,212	64,095
Total project value (€ million)	10,499	12,932	9,028	8,761	9,868	94,408

Financial results 2001-05

(€ million)	2005	2004 ¹	2003 ¹	2002 ¹	2001 ¹
Operating income ¹	1,543.9	658.6	538.1	330.7	379.5
Expenses and depreciation ¹	(218.9)	(189.8)	(198.6)	(218.5)	(206.7)
Operating profit before provisions	1,325.0	468.8	339.5	112.2	172.8
Provisions for impairment of loans and guarantees	200.6	(67.2)	(11.3)	(45.5)	(15.6)
Net profit for the year	1,525.6	401.6	328.2	66.7	157.2
Reserves and retained earnings	4,656.1	1,686.0	911.7	619.7	488.7
Provisions for impairment of loans and guarantees (cumulative)	351.6	539.5	505.4	570.3	617.5
Total reserves and provisions	5,007.7	2,225.5	1,417.1	1,190.0	1,106.2

¹ Amendments to and interpretations of the International Financial Reporting Standards in 2005 have resulted in a number of changes to the Bank's accounting policies as explained in the "accounting policies" section of the financial statements. The figures from previous years have been restated to conform to the new accounting policies.

President's message



Progress in a region that was once in the grip of central planning has put the EBRD at a historic juncture as it promotes transition to democracy and market economies.

After 15 years of transition, the model of investing to encourage robust private sector development in a context of democratic practice works well. Now the challenge for the EBRD is to be innovative in constantly adapting the model to new realities in each of the 27 countries where we operate.

In some countries – in south-eastern Europe, the Caucasus and Central Asia – the approaches that were first tested in 1991 are still having an important impact on transition.

These basic tools of loans and equity investments in infrastructure, banking and businesses have been combined with specialised tools (for example, instruments to promote trade) and new approaches, such as streamlining

smaller transactions and promoting investments in the poorest countries. The result is that the Bank's sharpest growth in activity in 2005 was in these countries.

In Russia, where the EBRD invested more than one-quarter of its business volume in 2005, the challenge is to meet the needs of a country rich in natural resources that is aiming to achieve widespread, sustainable development of the economy beyond the petroleum sector in the country's major cities as well as in remote regions. Foreign investment is needed to build a solid private sector, and private enterprise will be key to providing essential services, such as reliable heating, water and public transport. Reform accompanied by fair and predictable rules will help attract investors.

A different approach will be needed in central Europe. In these countries, transition got under way early and was accelerated both by the lure of membership of the European Union and an entrepreneurial culture that pre-dated the era of central planning. The needs for EBRD investment have become more closely linked to particular parts of the economy, such as helping middle-sized businesses to expand by using equity investments and diversifying the products that the banking sector can offer.

Just how to address the quite different needs of each country has been the subject of deep reflection by the Bank's management and its Board of Directors as we have worked together for much of the past year to prepare the medium-

term strategy – contained in the Capital Resources Review – that will guide the EBRD's work over the next five years.

The consensus is that the Bank will look rather different five years from now than it has over the past 15 years. The market test will certainly mean that some countries will be sufficiently attractive to capital markets to need no further EBRD investment. Graduation of some countries from EBRD operations will mark the success of transition. Even as we envisage a day when some countries will stop needing EBRD financing, Mongolia is due to become a country of operations in 2006.

Beyond geographical changes, the EBRD has constantly developed new approaches and innovated to meet particular needs.

The Early Transition Countries Initiative is a good example of how the Bank adapted to the especially onerous task of attracting investment to the poorest countries of the region. In 2005 we doubled the projects under the initiative – a programme that aims to spur investment in difficult investment environments. This is achieved by taking more risk on the Bank's books, devoting extra resources to smaller and riskier transactions, and using donor funding to help prepare projects or make investment more feasible – for example, by supporting legal reform.

A similar donor fund has now been launched for the Western Balkans to restore war-ravaged energy infrastructure and to build up the financial industries that, in turn, support the real economy. The EBRD-donor partnership has proven a valuable accelerator for development of the market economy in some of the neediest EBRD countries.

New priorities evolve as the region and the world evolve. Certainly one emerging priority, recognised by the G8 at its 2005 summit, is addressing the legacy of energy waste. Rising oil prices, questions about security of supply and the threat of climate change are powerful reasons

for every country in the region – resource-rich and energy-importing countries alike – to address the terrible loss of energy through inefficiency.

As energy efficiency becomes ever more important to the economic competitiveness of the region, the EBRD is launching an initiative to scale up its investments to address inefficiency and to limit climate change. Building on its experience in energy audits, energy efficiency upgrades in factories and utilities and credit lines to improve energy efficiency in smaller businesses and housing, the EBRD is taking a lead in helping its countries of operations to save energy both for economic reasons and to limit global warming.

In many other ways the EBRD has adapted to changing opportunities and needs.

The Bank launched its first rouble bond in 2005, setting a benchmark in the Russian capital markets and making it possible for the EBRD to make loans in local currency so that municipalities, electricity utilities and small businesses do not have to bear exchange risk. Local currency lending will follow for other countries.

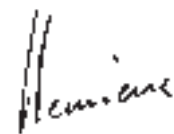
The EBRD will not only shift to include new products and perhaps new sectors, it will continue to build on its reputation for consultation and dialogue with affected people and non-governmental organisations on the Bank's policies and to offer viewpoints and expertise on complex projects, especially those that may affect the environment. That dialogue was, in part, responsible last year for the EBRD supporting implementation of the Extractive Industries Transparency Initiative to promote accountable revenue management in resource-rich countries.

The structure of the Bank has changed too, to reflect greater need for staff based close to its clients. The trend of reallocating positions from London headquarters to countries of operations will continue, with more staff outside the capitals of Russia and Ukraine, more sector specialists in Resident Offices and closure of some offices in the most

advanced countries. We will build on the quality and volume of operations in 2005, and the high profits of 2005 will allow the Bank to take on more risk in pioneering projects in difficult environments over the coming years.

There will be other new approaches to banking, new priorities and a focus that will certainly continue to shift from the basic structures of establishing a market economy to ensuring that the economy provides people with prosperity and sustainable development. As we end a decade and a half of working for transition, we will continue to monitor what progress entrepreneurs see in the tackling of corruption, the fair application of regulations and laws, and the ability to do good business freely and transparently. We will now also start to monitor how well transition has improved the lives of people in the region and if they perceive gaps where transition has not lived up to expectations.

Through monitoring, dialogue and especially through operations with clients and investors, the EBRD will keep a constant watch on the particular approach to transition in each country and the most relevant ways for the Bank to support progress.



Jean Lemierre
President