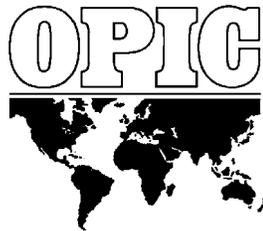


ANNUAL ENVIRONMENTAL REPORT
of the
OVERSEAS PRIVATE INVESTMENT CORPORATION

FISCAL YEAR 2004



March 2005

Introduction

This is the seventh Annual Environmental Report (AER) issued by the Overseas Private Investment Corporation (OPIC). OPIC is an agency of the U.S. Government with a mandate to facilitate and encourage U.S. private investment in developing countries and emerging markets, and to do so on a financially self-sustaining basis. Since 1985, OPIC has had a strong environmental mandate, incorporated into its authorizing statute and articulated most fully in Appendix A of OPIC's Environmental Handbook, which was issued in April 1999 and updated in February 2004.

The first part of this report describes the Corporation's ongoing efforts in FY 2004 to refocus on its core development mandate and the challenges this presented. The second part of the report describes the environmental implications of the projects to which OPIC committed its support during FY 2004.

1. OPIC in FY 2004: "Expanding Horizons"

The transactions supported by OPIC in 2004 reflect OPIC's continued efforts to refocus on its core developmental mission. In FY 2004, OPIC fulfilled that mission by reexamining, rethinking and retooling the mechanisms by which we deliver our financial products and services. As a result, we continued expanding horizons; bringing the benefits of economic development to more people, in more places, through more innovative loans, guaranties, and political risk insurance products, and with more business participants, than ever before.

To assure that we are fulfilling our mandate, every project is now objectively scored for its expected results on 26 developmental indicators within broad areas such as human capacity building, private sector development, and infrastructure improvements. On a scale on which reaching 100 defines a project as highly developmental, OPIC-supported projects scored in 2004 averaged 91.1. These development scores enable us to evaluate not only individual projects, but our own performance as well.

In its second year of operation, our Small Business Center again enabled more small businesses than before to bring their entrepreneurial skills and know-how to projects in the developing world. We are committed to finding ways to do more to help small businesses and are partnering with financial institutions throughout the United States that serve the small and medium-sized enterprise market. Small business projects accounted for over three-quarters of OPIC's commitments in 2004.

We expanded the availability of housing and the development of mortgage markets worldwide. Marketable household assets play a critical role in helping poor societies to accumulate capital. In funding, guaranteeing, or insuring housing-related projects, we not only help host countries meet a pressing social need, we also unleash local savings to

spur further economic development, as many families borrow against their homes to finance small enterprises. New projects in Mexico, Iraq, Ukraine, Russia and Latin America expanded OPIC's housing portfolio to over \$660 million of support for investments in 21 countries.

2. OPIC in FY 2004: Environmental Implications

In FY 2004, OPIC's insurance and finance products assisted 127 projects in 58 countries or regions, involving a wide range of industries. The geographic and industrial sector breakdown of these projects is presented in Figures 1 and 2, below. As shown in Figure 1, OPIC provided support to 35 new projects in Latin America, including two new investment funds, representing 27 percent of FY 2004 projects. In Eastern Europe, the New Independent States, and Russia, OPIC continued its support to the development of competitive markets and entrepreneurial enterprises with 33 new projects representing 26 percent of FY 2004 projects.

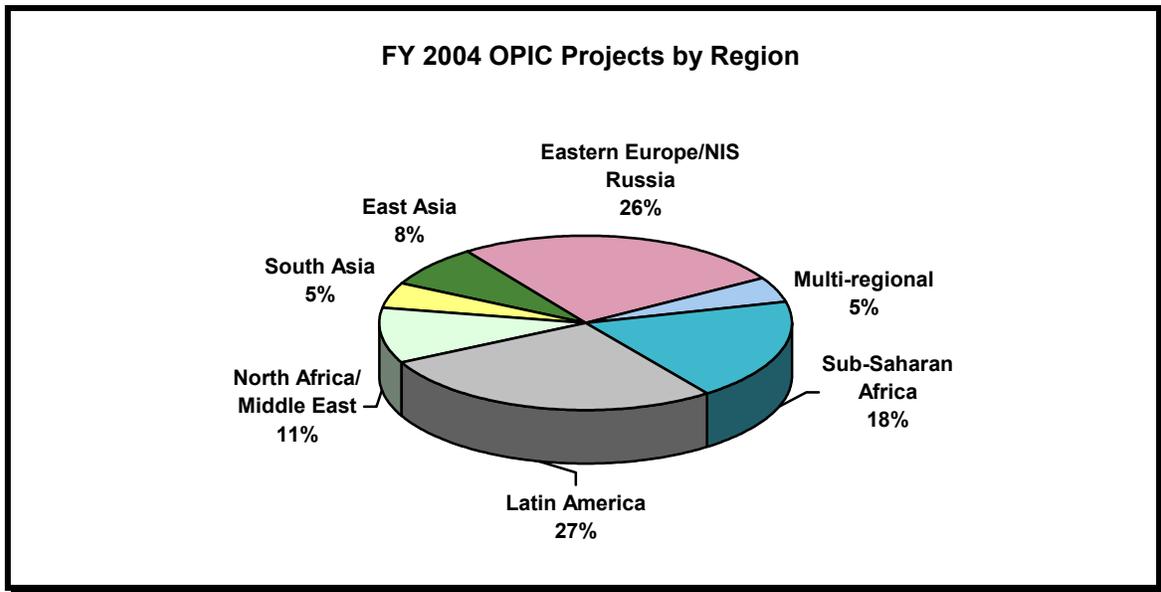


Figure 1

In Sub-Saharan Africa, OPIC continued to actively seek developmental projects, particularly those that will significantly improve the region's basic infrastructure, and assisted 23 new projects in FY 2004, representing 18 percent of the year's projects. In North Africa and the Middle East, OPIC assisted 14 new projects, representing 11 percent of the year's total projects, including 9 in Iraq. In East Asia, OPIC assisted 10 new projects, representing 8 percent of OPIC's projects in FY 2004. And finally, in South Asia, OPIC assisted 6 new projects representing 5 percent of the year's projects.

Figure 2 illustrates OPIC-sponsored investments broken down by sector. Projects in the services sector, comprised of communications, banking/finance, tourism, and other services, accounted for 56 percent of all new OPIC projects in 2004, followed by the minerals and energy sector with 15 percent. Fourteen percent of new OPIC projects were in the manufacturing sector, 6 percent were in agribusiness, 6 percent were in infrastructure, and 3 percent in housing construction.

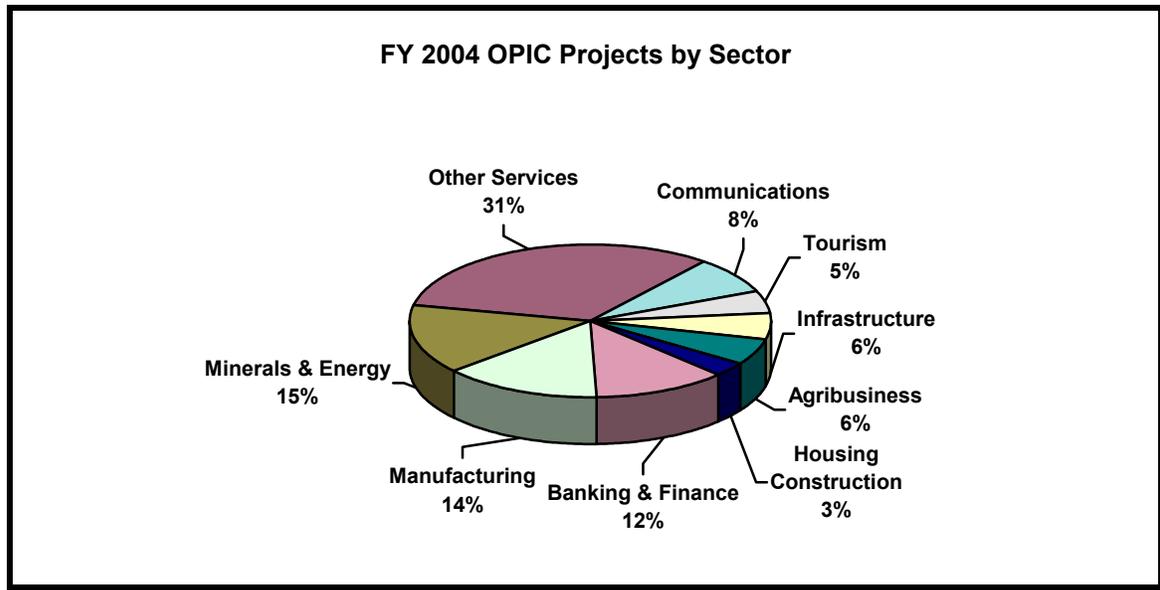


Figure 2

These results indicate that OPIC committed nearly 75% more projects in FY 2004 than it did the preceding year, 127 vs. 73 projects, with small business projects accounting for more than three-quarters of OPIC’s commitments. OPIC’s focus on smaller and more developmental projects continued to generate a diverse and environmentally challenging portfolio of “Category B” projects requiring OPIC to undertake more extensive due diligence than is typically the case for this category of investment activity. Examples of such projects include road reconstruction in Afghanistan, tea plantations in Rwanda, bottled water production in the Philippines and modular home manufacturing in India.

Environmental Screening

All applications for OPIC support are screened to determine whether OPIC support of the project would violate any categorical prohibitions as required by OPIC statute or policy. If a project is determined to be categorically ineligible, OPIC informs the applicant

immediately so as to avoid any unnecessary effort or expense. If the project is categorically eligible, OPIC continues to screen the application to determine the level of environmental sensitivity associated with the industry sector or site involved and to request the appropriate type of information from the applicant.

Projects Rejected on Environmental Grounds

One project was rejected on the basis of categorical ineligibility during FY 2004. This compares with seven rejections in FY 2003. The reduction in the number of rejected projects reflects OPIC's increased emphasis on support for U.S. small business investors and applicants' improved understanding of OPIC's statute and environmental policies. Small business investments tend to be located in less environmentally sensitive areas (such as urban environments or industrial estates) and these investments impact smaller land areas than large infrastructure or extractive industry projects.

In the interest of enhanced transparency, OPIC is disclosing information on the project it declined to support on environmental grounds in FY 2004. However, in order to protect business confidential information, OPIC does not disclose the names of sponsors, foreign enterprises or projects that were rejected. The project rejected on environmental grounds in FY 2004 involved geothermal power development in a protected area in Guatemala.

Environmental Screening Results

As noted previously, in FY 2004 OPIC assisted 127 projects in 58 countries or regions. With respect to environmental impacts, as shown in Figure 3, 14 of these projects (~11%) were screened into Category A, that is, projects having potentially significant, diverse and irreversible impacts, and therefore, requiring a full Environmental Impact Assessment (EIA) or Initial Environmental Audit (IEAU). Seventy-seven projects (~61%) were screened into Category B. Category B projects are defined as those with somewhat less significant adverse environmental impacts than Category A projects. The impacts are site-specific; few, if any, are potentially irreversible, and mitigative measures can be readily designed.

Twenty-four FY 2004 projects (~19%) were screened as Category C projects. Category C projects are those having no material adverse environmental impacts. Eleven projects (~9%) were screened as Category D projects. Category D projects involve OPIC support, usually through a loan guaranty mechanism, of an intermediary financing institution such as a private equity fund or on-lending facility. In the assessment of Category D projects, all of the individual subprojects into which such intermediaries invest or lend are subject to the full suite of OPIC environmental procedures, (as well as U.S. economic effects and worker rights), while the intermediary facilities themselves are regarded as environmentally neutral. And finally, one project (~1%) was screened as a Category E project. Category E projects involve small-scale, stand-alone business ventures that have demonstrable environmentally beneficial impacts.

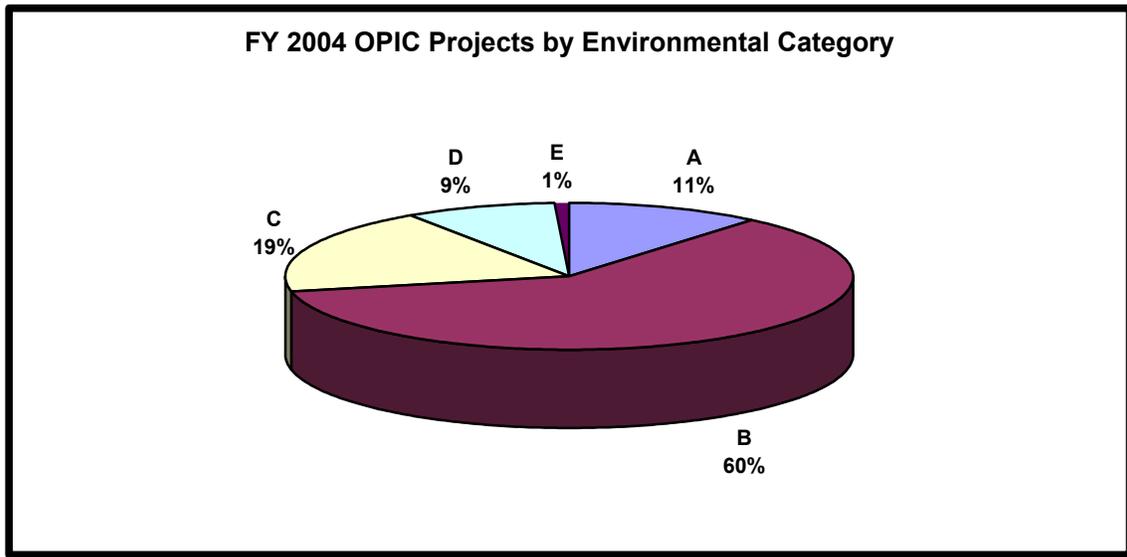


Figure 3

However, a more complete picture of OPIC’s environmental activities can be illustrated by the 213 prospective insurance, finance and investment fund projects and subprojects reviewed during FY 2004. Many of these projects were continuing to be reviewed on credit, underwriting, or other policy grounds at the end of the fiscal year; therefore OPIC did not make commitments to all of the projects and subprojects reviewed. Some of these projects received preliminary OPIC commitments in the previous fiscal year subject to further environmental review.

As illustrated in Figure 4, of the 213 projects reviewed by OPIC during FY 2004, ten projects (~5%) were screened by OPIC as Category A activities. These projects included three oil & gas projects, two gold mines, a rutile mine, three toll roads, and an oil pipeline. The 118 projects (~55%) screened as Category B involved activities such as hotels, telecommunications, automotive leasing, humanitarian relief activities, housing, tourism, water supply, breweries, beverage manufacturing, oil services, franchises, small-scale power plants, schools, and agriculture projects. The 62 Category C projects (~29%) reviewed in FY 2004 included wireless telecommunications, data management, mortgage finance, equipment leasing, software development, and banking activities.

In addition to the above projects, OPIC reviewed 21 projects (~10%) involving the creation of new OPIC On-lending Facilities or Investment Funds. In accordance with the OPIC Environmental Handbook, these projects were screened as Category D projects. And finally, 2 projects (~1%) were screened as a Category E project because they involve ecotourism lodges with a portion of the revenue going to protect local biodiversity.

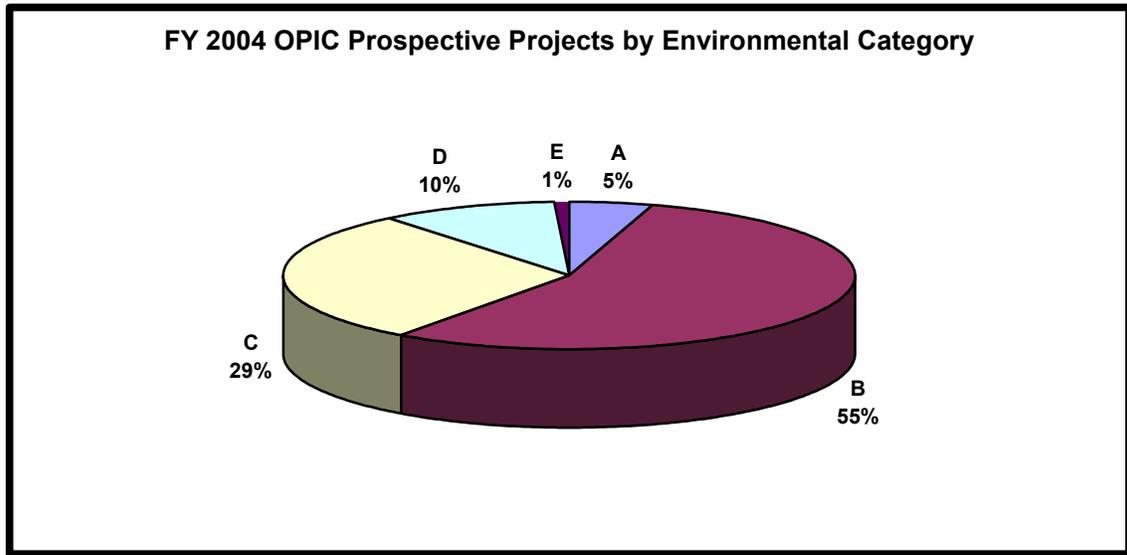


Figure 4

Public Disclosure and Comment

OPIC requires that applicants for Category A projects submit environmental impact assessments and/or environmental audits in a form that can be made public without compromising business confidential information. With the consent of the applicant, the country and industry sector involved in Category A projects are then posted on OPIC's web site, and the EIA and/or IEAU is made publicly available on request for a designated comment period of 60 days. For each project that is posted on the web site, a list server automatically emails a notification to more than 800 interested parties informing them of the new project posting and inviting their inquiries. In addition, if a Category A project is large enough to require Board approval, the OPIC Board cannot approve the project until after the 60-day period has expired.

Eleven of the Category A projects supported by OPIC in FY 2004 were posted on OPIC's website for 60 days and announced via the OPIC list server, giving the public and nongovernmental organizations full opportunity to request copies of the EIAs or IEAUs, and to comment on the projects' environmental and social impacts. All of the projects requiring approval by OPIC's Board were publicly disclosed for at least 60 days prior to the Board vote on the projects. A total of 49 requests were received for copies of the EIAs or IEAUs in connection with these projects and nine comments were received. OPIC management responded to these comments and, if the project required Board approval, the comments were conveyed to the Board for consideration prior to project approval.

Environmental Conditionality

As noted in OPIC's Environmental Handbook, determinations of project eligibility may rely on critical representations and undertakings by the applicant or sponsor. OPIC includes explicit environmental and/or occupational health and safety conditions in insurance contracts, finance agreements and commitment letters issued for Category A and B projects.

For Category A projects, these conditions require project sponsors and/or investors to:

- Maintain ongoing compliance with:
 - sector-specific guidelines such as those issued by the World Bank Group or other international organizations; or/and,
 - other guidance (e.g., monitoring guidelines, occupational health and safety guidelines, etc) or operational policies of the World Bank Group or other international organizations; or/and,
 - host country laws and regulations, including ongoing compliance with permitting requirements.
- Develop and implement environmental management and monitoring plans (if they haven't already).
- Develop and implement occupational health and safety plans (if they haven't already).
- Submit annual environmental health and safety compliance reports.
- Notify OPIC within 48 hours in the event of an accident which results in a loss of human life or which has a material adverse impact on the environment.
- Undertake at least one third-party independent audit that evaluates the projects' compliance with all OPIC environmental and social conditionality.

For the 11 Category A projects posted and committed in FY 2004, the above requirements were included in all cases. In addition, six of the eleven projects included other special conditionality as described in the following table.

PROJECT	SPECIAL CONDITIONALITY
Onshore and offshore oil and gas concessions (OPIC provided political risk insurance coverage on a \$300 million investment by a US company)	Environmental monitoring plan
	Waste management plan
	Special prohibitions on assets eligible for OPIC insurance and the discharge of drill cuttings
Expansion of gold mines (OPIC provided political risk coverage on a \$6.5 million investment by a US company)	Environmental management and monitoring plan
	Mine reclamation and closure plans
	Mitigation and monitoring plan for endangered and vulnerable species
	Archaeological contingent management plan
	Emergency response plan
	Waste management plan
	Emergency management plan
	Field survey plan
	Archaeological site survey plan
Cultural property mitigation plan	
Offshore and onshore gas processing (OPIC provided a \$325 million investment guaranty to support a \$1.12 billion investment by a US company)	Major hazards assessment
	Spill prevention, control and countermeasures plan
	Emergency response plan
	Social development plan
	Wildlife risk management plan
	OPIC maintained right to review certain documents submitted to host government
Open pit silver mine (OPIC provided \$55 million in political risk insurance on an investment of \$155 million by a US company)	Hazardous materials management plan
	Erosion and sediment control plan
	Mine safety plan
	Resettlement action plan
	Emergency response plan
	Mine reclamation plan
	Independent review of design and construction of tailings impoundments
Crude oil pipeline system (OPIC provided \$125 million in political risk insurance on a U.S. Bank loan to a pipeline consortium)	Oil spill response plans
Underground copper and gold mine OPIC provided a \$2.8 million investment guaranty to support a \$4 million investment by a U.S. company)	Mine Safety Plan
	Emergency Response Plan
	Reclamation Fund

Project Examples

The following examples illustrate the diversity and novelty of some of the projects assessed by OPIC during FY 2004.

Forestrade

In FY 2004 OPIC provided a \$5.46 million direct loan to a product development and trading company that imports organic coffee, spices and essential oils. The loan was used to support coffee and vanilla production in Aceh Province, Indonesia; coffee, organic spices and essential oils production in Petan Province, Guatemala; and organic spice and essential oil production in Northern Sumatra Province, Indonesia. All production takes place immediately outside national park boundaries, and producers are provided incentives to protect the natural resources. Growers are also provided training in soil conservation and non-chemical management of pests.

Kalahari Gas

OPIC provided an \$8.5 million investment guaranty to support an investment by a U.S. small business in the pilot-scale drilling of coal bed methane resources located approximately 500 meters underground in eastern Botswana. If successful, the Sponsor will develop the coal bed methane resources. Botswana relies heavily on coal for its primary fuel needs and, unlike coal, the combustion of coal bed methane does not result in air emissions of particulate matter or sulfur dioxide. In addition, a byproduct of coal bed methane production is water, which can be used for irrigation or industrial process water needs, thereby replacing potable water that is currently used for this purpose. The development of coal bed methane will likely offset coal consumption and lower greenhouse gas emissions in Botswana.

Sweetwater

OPIC provided \$1.1 million in political risk insurance in support of the sale of proprietary equipment to treat alkaline soils and increase agricultural productivity. The proprietary equipment provides a cost-effective tool for leaching away built-up salts from soils. The equipment produces sulfurous acid that can be used to neutralize alkalinity in irrigation water and reduce the amount of sodium from irrigation water that will build up in the soil, thus making it possible to irrigate with saline and/or alkaline water. Treatment and reclamation of saline and/or alkaline waters and soils, which comprise a significant percentage of the world's irrigated farmland, can increase agricultural yield by as much as 30 percent.

Natural Gas Liquids II

OPIC provided a \$325 million investment guaranty to support a \$1.12 billion investment by a U.S. company in a natural gas liquids processing project in Nigeria that will contribute to the reduction of gas flaring and associated carbon dioxide emissions in the country. The project, along with an adjacent facility to which it will be connected, will collect and process gas from nearby production and processing facilities that is currently flared, and will thereby eliminate routine flaring at these facilities two years ahead of Nigeria's national objective to eliminate flaring by 2008.

International Rescue Committee

OPIC provided \$3 million in political risk insurance to a leading humanitarian nonprofit organization to cover property and equipment used to carry out humanitarian, disaster relief, medical assistance, refugee resettlement and retraining programs. In assessing the environmental implications of this project, OPIC relied on the 2003 Sphere Project's Guidelines for Rapid Environmental Impact Assessment in Disasters and their Guidelines for Humanitarian Charter and Minimum Standards in Disaster Response. In addition, OPIC relied on the World Health Organization's Good Manufacturing Practices and their Essential Drug List, which includes 325 individual drugs that are considered safe and effective treatments for infections and chronic disease.

Americo Vespuccio Norte Toll Road

OPIC provided a \$200 million investment guaranty in support of eligible U.S. investors in a bond offering that partially financed the construction of an urban toll road in Santiago, Chile. The toll road is expected to result in a reduction in air emissions from mobile sources as a result of higher travel speeds (and associated improvement in vehicle combustion efficiencies). The project will also result in a slight improvement in overall air quality in the Santiago area (< 1 percent reduction in CO, VOC, NO_x and Particulate emissions). The toll road is an integral part of the city's urban transportation plan, which attempts to internalize congestion and emission costs through tolls. The toll road alignment follows existing urban rights-of-way and no involuntary resettlement was required to construct the project.

Tracking and Reporting Greenhouse Gas Emissions

In 1998, following a stakeholder dialogue, OPIC began tracking and reporting the climate change implications of the power sector projects it supports using a methodology consistent with guidance available from the Intergovernmental Panel on Climate Change (IPCC), the World Bank and others at that time. Using this methodology, OPIC undertook annual estimates of the CO₂ emissions from the power sector projects it supported during the preceding year and published the results in its Annual

Environmental Reports. In addition, OPIC published a cumulative greenhouse gas (GHG) report for the years 1990–1999, and issued an update to cumulative report in the FY 2003 Annual Environment Report.

Since 1998, however, a number of new methodologies have been published that are better suited for the needs of corporations such as OPIC, which do not own or control the plants responsible for the emissions. These include the World Business Council for Sustainable development (WBCSD) and World Resources Institute’s Greenhouse Gas Protocol. The Greenhouse Gas Protocol is designed to set the standard for accurate, complete, consistent, relevant and transparent accounting and reporting of GHG emissions by companies and organizations.

Under the Greenhouse Gas Protocol, corporations choose to report emissions based on either an equity share or a financial or operational control basis. In other words, a corporation chooses to report either a share of a facility’s emissions consistent with its equity ownership or it chooses to report all emissions from a facility (regardless of share ownership) based on its having operational or financial control of the facility. The corporation then assesses two types of emissions (Scope 1 and Scope 2) and may assess a third type of emissions (Scope 3). Scope 1 emissions are direct emissions; Scope 2 emissions are indirect emissions associated with purchased electricity; and Scope 3 emissions are other indirect emissions, which can involve any indirect emissions associated with the lifecycle of products or services associated with the company’s activities (other than those associated with purchased electricity, i.e., Scope 2 emissions). Reporting of Scope 1 and Scope 2 emissions is mandatory while reporting of Scope 3 emissions is voluntary.

Updated Reporting Methodology

Given the availability of these new corporate reporting methodologies, OPIC will modify its reporting to be in accordance with the methodology described above. As illustrated in Table 1, under this updated methodology OPIC will report no direct (Scope 1) emissions associated with its activities because it has no such emissions. OPIC will report indirect (Scope 2) emissions totaling 1,377 metric tonnes of CO₂ associated with its purchase of electricity. These are the estimated emissions that result from the generation of the electricity that OPIC purchased and consumed during the year. In addition, in order to maintain its commitment to tracking and reporting climate implications, OPIC will voluntarily report the direct emissions associated with the power sector projects it supports during each fiscal year as indirect (Scope 3) emissions.

In reporting Scope 3 emissions for FY 2004, OPIC made commitments to six power projects in four countries with a total capacity of 616 megawatts (MW). Measured in terms of MW capacity, these projects are approximately 60% hydro, 30% diesel-fired and 11% gas-fired. One project involved OPIC insurance for U.S. investors in a 355 MW hydropower project. Three projects involved OPIC insurance for U.S. investors in oil-fired facilities: two totaling 43 MW in short-term emergency power generation facilities

and one in a new 140 MW power plant. One project involved OPIC insurance for U.S. Investors in a gas-fired 65 MW expansion of a pre-existing power generation plant. And finally, one project involved \$100,000 in OPIC finance for refurbishing a 13 MW hydropower facility. As illustrated in Table 1, assuming full capacity operations, these six projects could emit approximately 1,000,000 metric tons of carbon dioxide (CO₂) per year.

TABLE 1. OPIC FY 2004 CO₂ Emissions (tonnes)

	SCOPE 1 EMISSIONS	SCOPE 2 EMISSIONS	SCOPE 3 EMISSIONS*
OPIC	0 tonnes	1,377 tonnes	1,000,000 tonnes

* Includes emissions from FY 2004 OPIC-supported power sector projects for which owner/operator would typically report direct (Scope 1) emissions.

Reporting emissions in this manner is consistent with emerging guidelines and protocols for corporations such as OPIC. In addition, it better reflects emissions for which OPIC has some management or control. In reporting power sector emissions, OPIC is reporting emissions for facilities in which it holds no equity stake and for which it has no management or operational control. Emissions from these facilities are appropriately reported as direct (Scope 1) emissions by the owners or operators of such facilities, and as indirect (Scope 2) emissions by offtakers or ultimate consumers of their electricity.

OPIC Emissions Methodology

OPIC used the Greenhouse Gas Protocol's methodology for reporting FY 2004 CO₂ emissions, including the calculation tool for accounting for indirect emissions from purchased electricity. In addition, OPIC used EPA's power profiler website (<http://www.epa.gov/cleanenergy/powerprofiler.htm>) to generate a supplier-specific conversion factor of 1.098 lbs CO₂/kWh.

In addition, as in past years, OPIC used a mass balance methodology, similar to that used by the IPCC, the World Bank, the U.S. Department of Energy and the U.S. Environmental Protection Agency, to quantify CO₂ emissions from OPIC-supported thermal power projects. (OPIC assumed no significant carbon dioxide emissions from pre-existing hydroelectric projects.)

As estimates, these calculations may overstate CO₂ emissions for several reasons. Some of the power projects committed by OPIC during FY 2004 (and preceding years) have not yet been converted into insurance contracts or loan agreements and therefore OPIC's support for some of these projects is not yet finalized. Reduced demand for power, due to the economic situation that has prevailed in some developing countries over the last several years, may delay such projects or result in their cancellation. The calculations assume essentially full capacity (base load) operations, so any departure from this results in over estimation of CO₂ emissions. In addition, the calculations do not take into account CO₂ emissions reductions resulting from the displacement of more carbon-

intensive fuels, such as coal and oil, by natural gas or more efficient sources of generation. And finally, in some circumstances, the availability of electric power may reduce reliance on fuel wood, thus reducing deforestation, which is a major greenhouse gas sink.