ANNUAL ENVIRONMENTAL REPORT

of the

OVERSEAS PRIVATE INVESTMENT CORPORATION

FISCAL YEAR 2005

June 2006

Introduction

This is the eighth 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. Further updates to the Environmental Handbook are planned for FY 2006.

The first part of this report describes the Corporation's ongoing efforts in FY 2005 to refocus on its core development mandate and the challenges this has presented. The second part of the report describes the environmental implications of the projects abroad where OPIC has committed to provide financial services or insurance to a U.S. lender, investor or contractor during FY 2005.

1. OPIC in FY 2005: "Expanding Horizons"

The projects that involved the provision of financial services or insurance by OPIC to a U.S. lender, investor or contractor in 2005 reflect OPIC's continued efforts to refocus on its core developmental mission. 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, projects where OPIC provided financial services or insurance to a U.S. lender, investor or contractor in FY 2005 scored an average of 93, a slight increase from the FY 2004 average of 91. These development scores enable us to evaluate not only individual projects, but our own performance as well.

In its third year of operation, our Small Business Center continues to enable 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. In 2005, small business projects accounted for over three-quarters of OPIC's financial or insurance transactions with U.S. investors, lenders or contractors.

We helped to expand 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 U.S. investors, lenders, or contractors involved in 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 Zambia, Guatemala, Afghanistan and Honduras expanded OPIC's housing portfolio to over $825 million of financial services or insurance for private U.S. investments in over 20 countries.

2. OPIC in FY 2005: Environmental Implications

In Fiscal Year 2005, there were 102 new projects[1] located in 52 countries or regions around the world where OPIC provided financial services or insurance to a U.S. investor, lender or contractor. The geographic and industrial sector breakdown of these projects is presented in Figures 1 and 2, below. As shown in Figure 1, there were 31 new projects in Latin America, representing 31 percent of FY 2004 projects. In Eastern Europe, the New Independent States, and Russia, OPIC transactions continue to support private U.S. investment in the development of competitive markets and entrepreneurial enterprises with 25 new projects representing 25 percent of FY 2005 projects.

[1] The total project count includes 99 new projects and 3 framework agreements. The Report on Host Country Development and U.S. Economic Effects of OPIC-Assisted Projects includes the 99 new projects plus these three framework agreements, and, thus, for reporting purposes, the three framework agreements are included in the Annual Environmental Report project count. Other OPIC reports, including OPIC's Annual Report, do not include the framework agreements in the project count, since no subsidy is reserved until the individual downstream investments from these framework agreements are identified and approved.

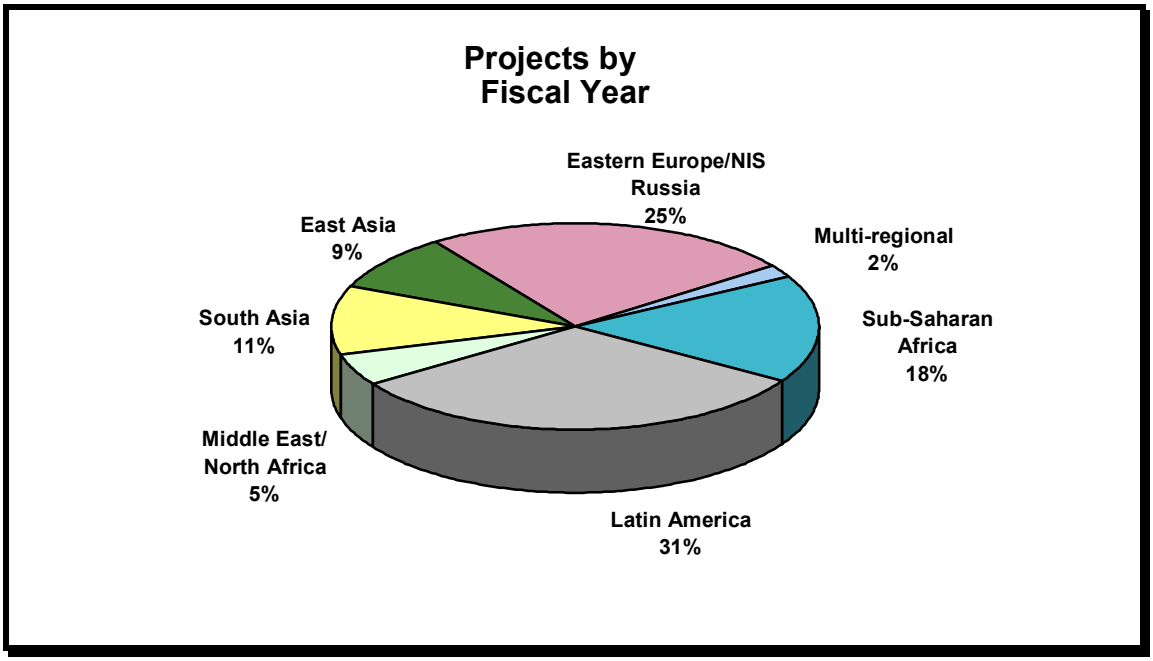

Figure 1

In Sub-Saharan Africa, projects involving the provision of financial services or insurance by OPIC to a U.S. investor, lender or contractor will contribute to the significant improvement of the region's basic infrastructure and housing sectors. There were 18 new projects in the region in FY 2005, representing 18 percent of the year's total projects. In South Asia, there were 11 new projects, representing 11 percent of the year's projects, and in East Asia there were 9 new projects, representing 9 percent of the year's projects. And finally, in North Africa and the Middle East there were 5 new projects, representing 5 percent of the year's total projects.

Figure 2 illustrates the types of projects, broken down by sector, where OPIC provided financial services or insurance to a U.S. investor, lender or contractor. Projects in the "other services" sector accounted for 30 percent of all new projects in 2005, followed by banking/finance (25 percent), agribusiness (12 percent), minerals/energy (10 percent), manufacturing (7 percent), infrastructure (6 percent), housing construction (4 percent), tourism (4 percent), and communications (3 percent). The entire services sector, comprised of infrastructure, communications, banking/finance, tourism, housing construction, and other services, accounted for 72 percent of all new projects in 2005.

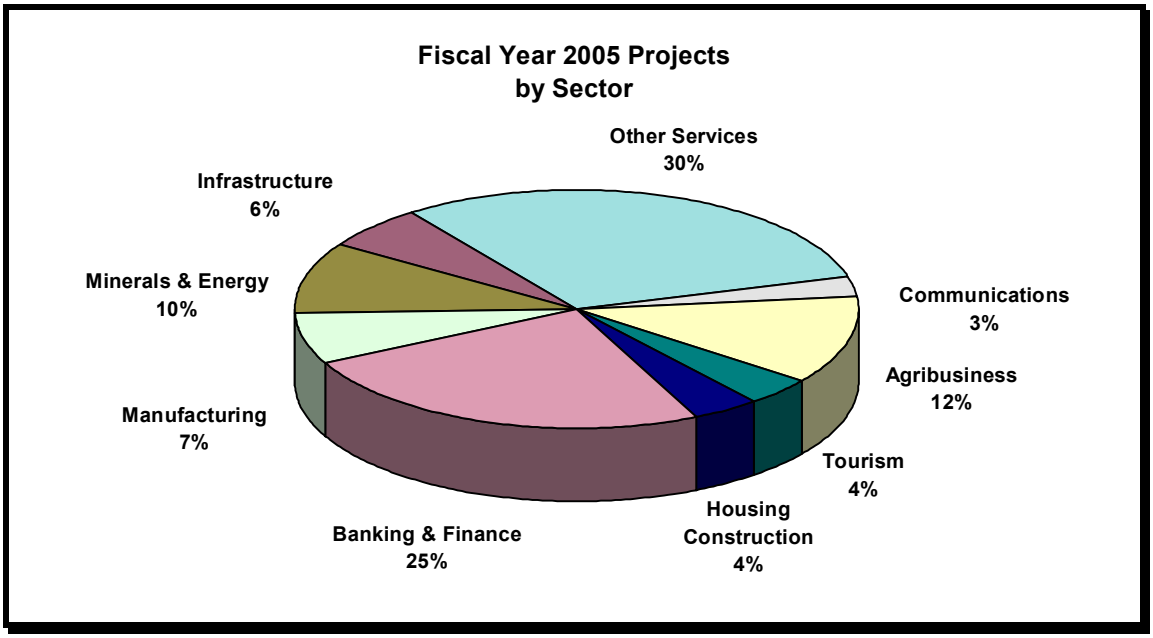

Figure 2

Environmental Screening

All applications for OPIC financial services or insurance are screened to determine whether the provision of such services or insurance by OPIC 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.

Transactions Rejected on Environmental Grounds

OPIC rejected applications for financial services or insurance in connection with four projects in FY 2005 on the basis of categorical ineligibity or inability to meet internationally accepted standards for environmental performance. This is an increase from the one rejected application in FY 2004.

In the interest of enhanced transparency, OPIC is disclosing information on the applications for financial services or insurance that it rejected in FY 2005 on environmental grounds. For reasons of business confidentiality, OPIC does not disclose the name of sponsors, foreign enterprises or projects at issue. The applications for financial services or insurance rejected in FY 2005 related to the following overseas projects:

- A gas export project in Peru that involved sourcing gas from a critical forest area.
- A refinery in Morocco that was unable to meet internationally accepted emission standards.
- A tourism project located within the established boundaries of a national park in Ecuador.
- A mining project in Ghana that involved the resettlement of more than 5000 people.

Environmental Screening Results

As noted previously, in FY 2005 there were 102 projects in 52 countries or regions where OPIC provided financial services or insurance to a U.S. investor, lender or contractor. With respect to environmental impacts, as shown in Figure 3, five of these projects (~5%) were screened into Category A; that is, projects having potentially significant, adverse and irreversible impacts, and therefore, requiring a full Environmental Impact Assessment (EIA) or Initial Environmental Audit (IEAU). Sixty-two projects (~60%) 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 designed readily.

Twenty FY 2005 projects (~20%) were screened as Category C projects. Category C projects are those having no material adverse environmental impacts. Fifteen projects (~15%) were screened as Category D projects. Category D projects involve the provision of financial services or insurance by OPIC, 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 OPIC procedures accounting for U.S. economic effects and worker rights), while the intermediary facilities themselves are regarded as environmentally neutral. In FY 2005, no projects were screened as a Category E project. Category E projects involve small-scale, stand-alone business ventures that have demonstrable environmentally beneficial impacts.

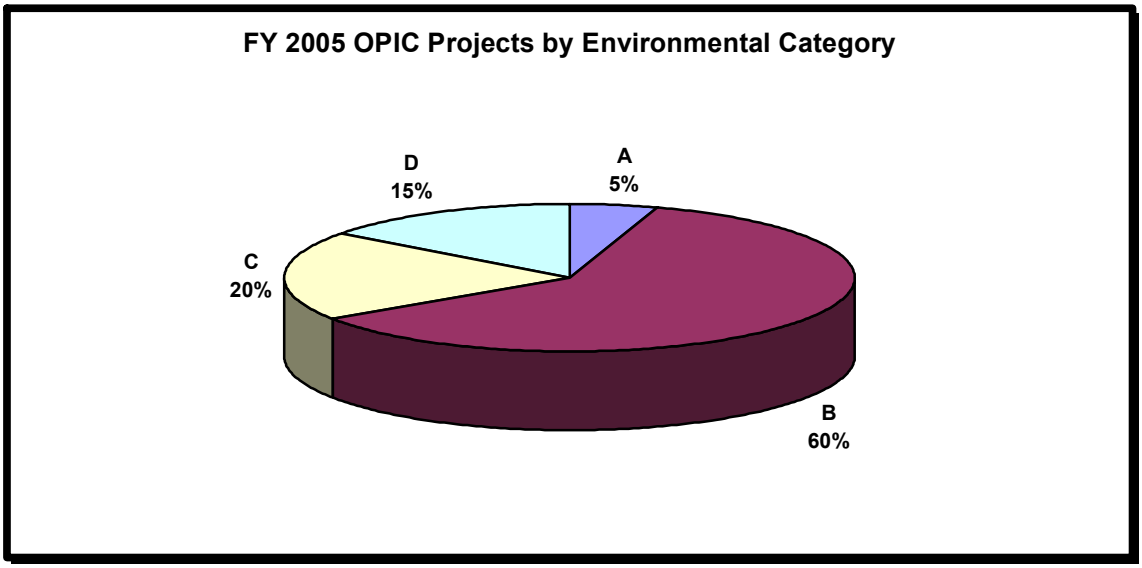

Figure 3

A more complete picture of OPIC's environmental activities can be illustrated by the 193 prospective insurance, finance, framework and investment fund projects and subprojects reviewed during FY 2005. Many of these projects continue to be reviewed on credit, underwriting, or other policy grounds at the end of the fiscal year; therefore OPIC did not make commitments to provide financial services or insurance to a U.S. investor, lender or contractor in all of the projects and subprojects reviewed. Some of these projects received preliminary OPIC commitments to a U.S. investor, lender or contractor in the previous fiscal year.

As illustrated in Figure 4, of the 193 projects reviewed by OPIC during FY 2005, eleven projects (~6%) were screened by OPIC as Category A activities. These projects included two gas pipelines, two hydroelectric facilities, two cement plants, a tin and silver mine, a copper mine, a petrochemical facility, an agribusiness and construction of a new international airport. The 111 projects (~58%) screened as Category B involved hotels, flour and rice mills, road construction, housing, tourism, water bottling, port security systems, small agribusinesses, storage facilities, franchises, small-scale power plants and schools. The 53 Category C projects (~27%) reviewed in FY 2005 included wireless telecommunications, data management, mortgage finance, software development and banking activities.

In addition to the above projects, OPIC reviewed 18 projects (~9%) 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. No projects were screened as Category E in FY 2005.

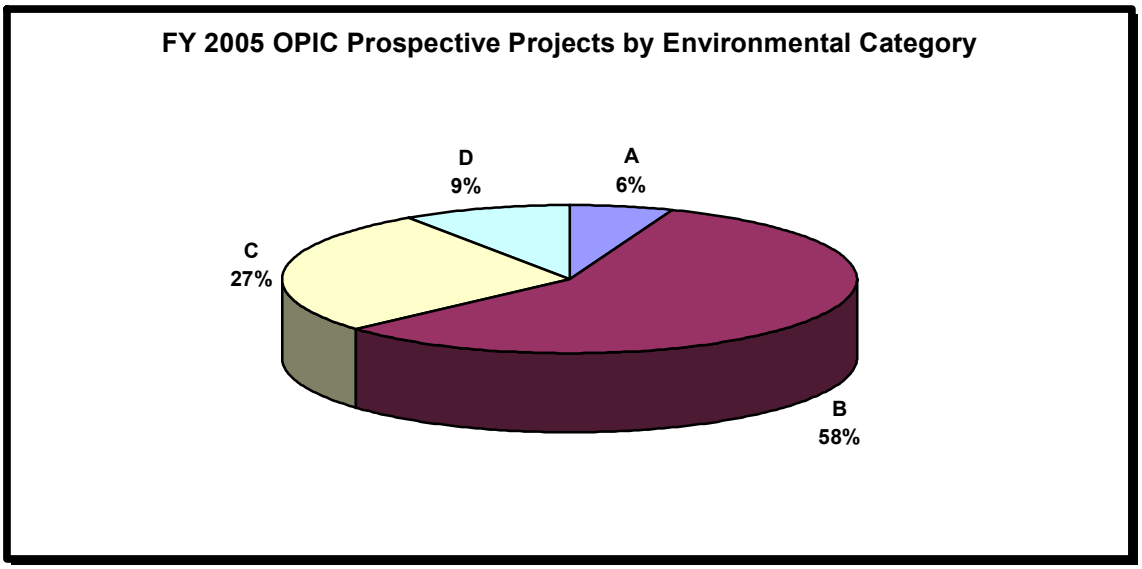

Figure 4

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 inquires. 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 involving an application by a U.S. investor, lender or contractor for OPIC financial services or insurance in FY 2005 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 transactions requiring approval by OPIC's Board were publicly disclosed for at least 60 days prior to the Board vote on the transactions. A total of 18 requests were received for copies of the EIAs or IEAUs in connection with these transactions and two comments were received. The comments were conveyed to the Board for consideration prior to transaction approval.

Environmental Conditionality

As noted in OPIC's Environmental Handbook, determinations of eligibility for the provision of OPIC financial services or insurance to a U.S. investor, lender or contractor

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 project's compliance with all OPIC environmental and social conditionality.

For the five Category A projects posted in FY 2005 that involved an OPIC commitment to a U.S. investor, lender or contractor, the above requirements were included in all cases. In addition, six of the eleven Category A projects reviewed by OPIC resulted in additional special conditions as described in the following table:

PROJECT	SPECIAL CONDITIONS
Reconstruction and expansion of a 32MW dam and power plant (OPIC committed to a $29.75 million direct loan)	Environmental Management and Monitoring plan
	Occupational Health and Safety Plan
	Emergency Notification and Response Plan
	Community Relations Plan
	Requirement of notification in the event of structural modification or significant repair event
Modernization and repair of one thermal power and five existing hydroelectric facilities (OPIC provided political risk coverage on a $212 million investment by a U.S. company)	Development and implementation of Environmental Management and Monitoring Plan
	Inclusion of additional analyses to discharge sampling
	Professional dam safety assessment of existing facilities
	Requirement of notification in the event of structural modification or significant repair event
Natural gas pipeline (OPIC provided a $55 million investment guaranty to support a $500 million investment by a U.S. company)	Environmental Management and Monitoring Plan
	Resettlement Action Plan
	Community Development Plan
Natural gas pipeline (OPIC provided political risk coverage on a $250 million investment by a U.S. company)	Environmental Management and Monitoring Plan
	Major Hazard Assessment
	Compensation Plan
	Major Hazard Assessment
	Emergency response plan
	Mine reclamation plan
	Independent review of design and construction of tailings impoundments
Large dairy farm (OPIC committed to a $3 million direct loan and $7 million in political risk insurance for a $14 million investment by a U.S. company)	Refrain from use of agrochemicals included in the 2004 PIC Treaty

Project Examples

The following examples illustrate the diversity and novelty of some of the projects assessed by OPIC during FY 2005.

Lemna de Mexico

OPIC provided a $3.3 million direct loan to a U.S. investor to finance the construction and operation of a wastewater treatment plant and sewer main serving a municipality in the State of Chihuahua, Mexico. The technology employed by the project will enable the small city of Cuauhtemoc to meet a new national mandate for municipal wastewater treatment without incurring high capital and operating costs. The project also will enable the reuse of scarce water resources for irrigation in an area of the country that has been

suffering from a 12-year drought. The project will meet all international and Mexican standards for effluent quality.

Leawood Investments

OPIC provided a $20 million direct loan to a U.S. investor to expand production at cut flower farms in Colombia and Ecuador. The cut flower operations will obtain and maintain third party certification that the operations are meeting environmental and social objectives. Key objectives include efficient use of water, implementation of integrated pest management to reduce reliance on chemical controls and controlled use of fertilizers to reduce contaminated run-off. Social objectives include providing extensive training of workers in handling pesticides and emergency response procedures.

Houses for Africa

OPIC provided a $46.3 million direct loan to a U.S. investor to support mortgage issuance to low- and middle-income home buyers in Zambia. The project is expected to incubate the development of a high-density housing sector in the country by providing long-term, affordable mortgages for 5,000 new housing units. The project also will provide significant indirect benefits to the local government, such as increased tax revenues from project implementation and the development of a land registration facility. The project includes the design and construction of a three-stage wastewater treatment facility, including a 20-acre constructed wetland, which will use natural grasses and sedges to accelerate sewage biodegradation. The resultant treated effluent may safely be used to irrigate arable land in the vicinity of the housing development.

Siberian Frontier Farms

OPIC provided a $3 million direct loan and $4.5 million of political risk insurance to a U.S. investor for the construction of a 3,200-cow state-of-the-art dairy facility in Russia. The facility will introduce international best practices in dairy farming to rural Siberia and allow the development of value added products such as yogurt, kefir and cheese. Currently, almost all milk produced in the area is of low quality and not usable in the manufacturing of these products. The project will implement a modern automated manure collection system that uses naturally occurring bacteria to digest safely and hygienically all cow waste. The treated manure then will be used to fertilize adjacent agricultural land in a safe manner. The project also will introduce modern crop rotation and soil conditioning practices to the region, which are not currently implemented.

Israel Electric Corporation

OPIC provided $320 million of political risk insurance to a U.S. investor for the construction of a natural gas pipeline to transport natural gas produced offshore of Israel to downstream existing power projects within the country. The availability of an alternative fuel supply will allow these power stations to switch to cleaner burning natural gas. The 30-inch pipeline has been designed to supply about 6 billion cubic

meters of gas per year. The project will reduce Israel's reliance on coal and reduce greenhouse gas emissions by approximately 15 million tons annually. Horizontal directional drilling (HDD) technology will be used at beach approaches to minimize the environmental impacts in these sensitive environments.

Medycyna Rodzinna, Poland

OPIC provided a $5.5 million direct loan to a U.S. small business to finance expansion of private health care clinics in Poland. The OPIC loan will be used to construct new facilities, to improve existing ones, to purchase medical equipment, to acquire and improve smaller clinics in outer regions of Poland and to develop a first-class hub clinic in Warsaw that will conduct specialist and diagnostic testing as well as provide more complicated treatments. The company serves patients within public national health insurance as well as those with additional private health plans - a growing market in Poland.

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 where OPIC provides financial services or insurance to a U.S. investor, lender or contractor, 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 CO_2 emissions from these projects 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 the 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 emissions associated with purchased electricity; and Scope 3 emissions are other 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 has modified 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 1,419 metric tonnes of CO_2 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 voluntarily will also report direct emissions associated with the power sector projects where OPIC provides financial services or insurance to a U.S. investor, lender or contractor during each fiscal year as Scope 3 emissions.

In reporting Scope 3 emissions for FY 2005, OPIC made commitments to provide financial services or insurance to a U.S. investor, lender or contractor in connection with two power projects in two countries with a total capacity of 1,848 megawatts (MW). Measured in terms of MW capacity, these projects are approximately 84% hydro and 16% gas-fired. One project accounted for almost all of the MW capacity and involved OPIC insurance to a U.S. investor in connection with the refurbishment and modernization of equipment at pre-existing hydroelectric plants with 1,436 MW of production capacity. This same project also included 80 MW of new hydroelectric production and upgrades and refurbishment of a 300MW natural-gas fired combined cycle power plant. The second project involved a $30 million loan guaranty to a U.S. investor for construction of a new 32 MW hydropower facility. As illustrated in Table 1, assuming full capacity operations, the two total projects could emit approximately 923,850 metric tons of carbon dioxide (CO_2) per year.

TABLE 1. OPIC FY 2005 CO_2 Emissions (in metric tonnes)

	SCOPE 1 EMISSIONS	SCOPE 2 EMISSIONS	SCOPE 3 EMISSIONS*
OPIC	0	1,419	923,850

* Includes emissions from FY 2005 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 2005 CO_2 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 CO_2/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 CO_2 emissions from overseas thermal power projects where OPIC provided financial services or insurance to a U.S. investor, lender or contractor (OPIC assumed no significant carbon dioxide emissions from pre-existing or new hydroelectric projects).

As estimates, these calculations may overstate CO_2 emissions for the following reasons:

- The calculations assume essentially full capacity (base load) operations, so any departure from this results in over estimation of CO_2 emissions;
- Calculations do not take into account CO_2 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;
- In some circumstances, the availability of electric power may reduce reliance on fuel wood, thus reducing deforestation, which is a major greenhouse gas sink.