# FORGING NEW PARTNERSHIPS

*Annual Report 2003*

overseas
private
investment
corporation

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PRESIDENT'S MESSAGE

# A STRONGER PARTNER FOR A CHANGING WORLD

**"No individual builds anything worthwhile by his efforts alone."** In these few words, 20th century American philanthropist and businessman Lloyd Noble captured the essential role of partnership in achieving truly significant goals.

It's a theme that resonates with us at OPIC. That's because our mission to mobilize the investment of private capital and skills in the world's developing nations is more than any one entity can do alone — whether it's a government agency, nongovernmental organization, financial institution or even the strongest nation on earth. Which is why for 32 years, OPIC has based its success on building strategic working partnerships with and among private sector investors, host governments, nongovernmental organizations and businesses of all sizes.

This was particularly true in 2003. Through new and innovative partnerships, we were able to fulfill our developmental mission at a time of heightened tensions and uncertainty. Building a more complementary relationship with the private sector, we increased our support of investments in the most challenging emerging markets. Working with other government agencies, we embarked on an historic expansion of OPIC's commitment to America's small businesses. And we further demonstrated the value and importance of partnerships by launching a new Partners Program with trade councils, business associations and foreign policy organizations nationwide to increase public awareness and understanding of OPIC's programs and activities. The Partners Program provided a fitting conclusion to a year in which OPIC worked to be a better, stronger, and more responsive partner to our counterparts and colleagues in the public and private sectors, at home and abroad. By working more effectively with organizations and businesses that share our goals, we achieved another year of record accomplishment in all aspects of our mission.

**We demonstrated our commitment to U.S. small businesses.** Officially launched in early 2003, our new Small Business Center (SBC) was created to realize fully OPIC's commitment to America's small businesses by making our services more accessible to companies with revenues under $35 million. It has succeeded beyond our most optimistic expectations. By year's end, over 40 enterprises had taken advantage of our streamlined approval process to apply for and obtain OPIC financing or political risk insurance.

This did not happen merely by opening the SBC's doors: it happened by working with partners all across the United States. In an unprecedented nationwide outreach effort, OPIC staff actively sought project applicants by going on the road to tell our story in as many ways as possible: through the media, in college and university sponsored programs, with the assistance of local government and Congressional offices, and in numerous meetings with the small business community. We believe that reaching out and making it easier for U.S. small businesses to expand into challenging overseas markets represents OPIC at its best. As you will read in this annual report, the projects they are involved in represent entrepreneurial America at its best.

**We continued to complement, not compete with, the private markets as a way to increase foreign direct investment.** We worked hard to be a better partner by working with the private sector and by looking to see where we could help to mobilize capital. We launched a new stand-alone terrorism insurance product that cost-effectively provides American businesses access to valuable protection previously available only under OPIC's broader political violence coverage. To ensure that U.S. businesses have easy access to OPIC programs, we forged a new partnership between OPIC and the U.S. Foreign Commercial Service of the Department of Commerce, which has offices throughout the world.

**We helped developing nations meet their populations' basic human needs, particularly housing, and channeled investment to strategically important regions.** I am especially proud that we looked for innovative partnerships to find and support projects that promise a better life to those with the greatest need. In one noteworthy example of this type of work, OPIC is supporting a truly groundbreaking project in which two nonprofit organizations will provide treatment for HIV-positive homeowners in South Africa and at the same time enable them to keep their homes by guaranteeing banks against the risk of defaulted mortgage payments. In Central America, we financed a project that will provide affordable daily nutrition for up to one million children. And OPIC support is allowing a unique joint venture of California and Russian companies to employ former Soviet nuclear scientists to develop medical prosthetics and state-of-the-art burn treatments under a U.S. Department of Energy program to reduce weapons proliferation.

**We demonstrated that projects supported by OPIC result in real and measurable developmental impact.** Last year, we developed specific criteria for evaluating the development contribution of any project. In 2003, we began applying this measurement tool. By scoring and rating projects on a weighted total of its development indicators, this new tool strengthens and simplifies our decision-making on projects brought to us for possible support. It allows us to judge empirically the value of our commitments, and, for the first time, evaluate our supported projects' results. It also makes us better partners because one important result of the measurement tool itself is that applicants — aware of our higher standards — are bringing us projects that deliver more significant development impacts. With higher-quality projects to consider, we are better able to achieve our targeted development objectives.

In fulfilling our agency's mandate, we found our mission — and our focus on partnership — more closely aligned than ever with U.S. development-based foreign policy. U.S. Secretary of State Powell told attendees at the World Summit on Sustainable Development that the United States is working "to create effective partnerships to unleash the talents and resources of developed and developing countries, civil society and the private sector." President Bush's Millennium Challenge Account further reaffirmed development as a strategic priority, and envisioned partnerships of governments, businesses and voluntary organizations working together to achieve measurable development results — for the simple reason that development plans supported by a broad range of stakeholders and that engender host-country ownership are the ones most likely to succeed.

The President has committed our nation to a global development effort focused in peace, security and prosperity. We know that our efforts going forward must include Iraq among the areas of priority. OPIC stands ready to do its part to assist in Iraq's reconstruction. I believe that OPIC's unique ability to mobilize private capital by mitigating risk makes this agency one of the nation's most effective tools in achieving genuine private-sector-led economic development.

Equally important — as demonstrated in each of the 73 new projects we supported in 2003 with total commitments of $2 billion in loans, guaranties or insurance — is our ability to forge the necessary partnerships to assure success. These partnerships are essential because nations, organizations and peoples working together toward a common goal can accomplish far more than any of us working on our own.

Peter S. Watson
president and ceo

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# INCREASING INTERNATIONAL OPPORTUNITIES FOR U.S. SMALL BUSINESS

U.S. small businesses have all the entrepreneurial vision, ingenuity and flexibility it takes to participate in developing markets. What they traditionally lack is access to private market financing or political risk insurance coverage for the opportunities they want to pursue. In 2003, OPIC launched or strengthened several programs, partnerships and initiatives to improve and increase the ability of small companies to compete overseas. The result was that almost 60 percent of this year's projects involved small businesses.

Through our new Small Business Center (SBC), qualified businesses below $35 million in annual revenue can obtain project financing or political risk insurance coverage not available elsewhere. This includes three- to 15-year loans ranging from $100,000 to $10 million and a reduced rate political risk insurance "wrap" on eligible equity investments. The SBC's streamlined approval process provides applicants with a timely decision and a quicker turnaround. Small- and medium-sized firms with greater annual revenues will be served by OPIC's new Small and Medium Enterprise Finance Department, also established in 2003.

New OPIC partnerships with other U.S. government agencies also helped us improve government services to U.S. small businesses. These efforts will increase access to capital, services, and foreign markets. A new partnership with the U.S. Foreign Commercial Service of the Department of Commerce strengthens institutional ties between our two organizations and expands cooperation to support U.S. overseas trade and investment — helping OPIC to reach the 97 percent of U.S. exporters that are small- and medium-sized companies.

The new OPIC Partners Program enlists private and public organizations throughout the nation in making small businesses aware of the support available to them through OPIC. The creation of this program followed a year long outreach effort that took OPIC staff across the country to speak directly with small businesses through chambers of commerce, local business groups and Congressional offices. In addition, OPIC partnered with WorldBusiness Capital, Inc., a Hartford, Connecticut based commercial finance company, to expand OPIC's support for small businesses investing overseas.

The steps we took to facilitate access by small businesses to OPIC services enabled us to achieve historic levels of small business activity. In just its first year of operation, the Small Business Center supported almost 50 small businesses by providing either financing, political risk insurance, or both. These projects reflect a broad sectoral diversity — including health care, housing, telecommunications, education, and transportation — and a diverse geographic focus. Equally important, all of these projects reflect the value we place on achieving developmental results through effective partnerships.

In Afghanistan, $35,000 in OPIC insurance made it possible for Vermeer Manufacturing of Iowa to ship its donated brick-making machine to Kabul, where Wisconsin-based Shelter for Life is building schools under the auspices of the U.S. Agency for International Development.

Domes International of Mississippi received $1.2 million in OPIC financing to manufacture dome houses in India. The energy-efficient, molded fiberglass structures will help India, Pakistan, Afghanistan, Bangladesh and Sri Lanka meet urgent housing and storage needs at relatively low cost.

Quality and volume of voice, data and Internet communication between Moldova and the rest of the world will be significantly improved with the installation of new transport and routing equipment being supplied by International Communications Systems, Inc. of Huntington Station, New York. The U.S. small business is using $380,000 in OPIC insurance to purchase the equipment for its subsidiary ICS Moldova.

Watson Receives Small Business Award

Citing Dr. Peter Watson's "path-breaking efforts at OPIC on behalf of small and mid-sized companies," the Small Business Exporters Association presented the OPIC President and CEO with its 2003 Special Achievement Award.

"The establishment of OPIC's new Small Business Center, as well as OPIC's historic initiative with the U.S. Small Business Administration have dramatically enhanced American support for U.S. small businesses and their efforts to expand in emerging markets," said SBEA President James Morrison. "Today's award is SBEA's expression of gratitude to Dr. Watson and OPIC for their hard work, and subsequent results, on behalf of American small businesses."

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## ENABLING COMPETITIVE PRIVATE INVESTMENT

## WITHOUT COMPETING AGAINST PRIVATE MARKETS

In an environment of worldwide economic uncertainty and perceived risk, OPIC complements the private markets with innovative financial products and services that encourage investment in countries and regions where the private sector would not otherwise participate.

Our mandate gives us great latitude to respond to the market's needs. We demonstrated that responsiveness in 2003 by offering a stand-alone terrorism insurance product that increases protection for American businesses abroad. Previously, this coverage was only available under OPIC's broader political violence insurance. The new coverage, with a tenor of up to ten years, is a cost-effective solution for companies who choose not to insure their projects against the full range of political violence.

While OPIC's innovative financial products can encourage overseas private investment, OPIC's partnerships with the private sector and foreign governments are even more powerful, serving as a "force multiplier" for investment in the neediest or riskiest markets.

For example, we signed a risk-sharing agreement with Citibank in 2003 finalizing a $75 million lending facility approved last year for loans on projects in Pakistan. Once we have cleared technical operating issues for doing business in Iraq, OPIC is prepared to use all of the tools at our disposal to support rebuilding efforts there. We foresee our agency providing liquidity for the financial sector and political risk insurance for businesses and contractors.

Long underserved by foreign business investment, Africa was the target of several important new partnerships OPIC established in 2003 to help U.S. businesses recognize and cultivate the region's tremendous potential.

**These included:**

- A memorandum of understanding with the African Trade Insurance Agency. This World Bank and pan-African state-supported organization makes its member countries more credible trading partners by providing trade credit and political risk insurance to exporters, importers and public buyers. The member countries partially assume financial liability for the political risks affecting trade within their own borders.

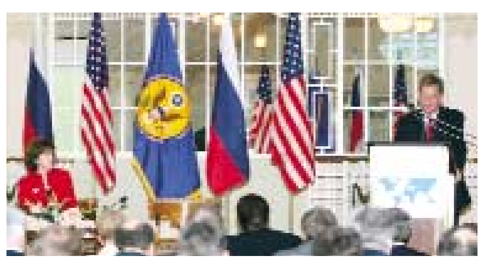
- A $125 million guaranty facility for Citibank. OPIC will help Citibank overcome the current mismatch between the opportunities for medium- to long-term lending and the availability of banking capital in sub-Saharan Africa. Citibank will provide U.S. dollar and local currency project and corporate loans throughout the region. OPIC will review and clear each project for its effect on the U.S. economy, human rights, the environment and workers' rights.

- An agreement with the government of Kenya. OPIC has pledged support for programs to increase U.S. private sector investment in Kenya, and unequivocally recognized the government's commitment to improving the nation's economy and creating an enabling environment for private-sector investment.

As part of OPIC's continuing commitment to expand investment in Russia, OPIC launched a new $210 million investment fund for Russia. The fund will provide much-needed equity financing to support mid-sized companies that are new, expanding, or in the process of being privatized. It will focus on industries that provide basic goods and services to Russian consumers, including telecommunications and food processing. To encourage investment in Russia, OPIC conducted a one-day conference in St. Petersburg to strengthen U.S.-Russian business partnerships in the energy and technology sectors. Attendees met with potential business partners and received a comprehensive overview of government-backed financing, political risk insurance, and technical assistance available to them.

**Everything we do at OPIC — every product we create, every project we support, every partnership we forge — is grounded in the belief that trade driven by private investment is the engine of development and the source of the economic growth and stability that developing countries need.**

**We are always mindful that OPIC's support should be additional to what is available from the private sector. Every activity is reviewed to ensure that OPIC projects are consistent with President Bush's directive that we "focus more closely on companies and countries that cannot access private financing or insurance," so that our programs are complementary to, not competitive with, the private market.**



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## LEVERAGING INVESTMENT
## IN AREAS OF STRATEGIC IMPORTANCE

As the primary U.S. government agency focused on private investment in the developing world, OPIC supports U.S. foreign policy objectives by leveraging and steering private investment to countries committed to economic freedom, good governance and a healthy and educated citizenry — on projects that advance U.S. values and serve our interests.

Few nations currently have more strategic importance to the United States than Afghanistan, where OPIC committed more than $54 million in support of new projects in 2003.

The U.S. nongovernmental organization Shelter for Life International is actively participating in rebuilding the country's infrastructure with the help of $5 million in OPIC insurance on the equipment and vehicles that are being used to build housing, clinics and schools, repair roads, and develop water supply systems.

In the largest U.S. investment in Afghanistan since the country became a frontline state in the international war against terrorism, OPIC committed up to $40 million in financing and political risk insurance for construction of the 200-room five-star Hyatt Regency Kabul hotel. The project will engage four regional contractors, including Afghanistan Reconstruction Company, an Afghan-American company committed to rebuilding Afghanistan's infrastructure and reviving its business and commercial institutions. More important, it will result in the training and employment of about 300 Afghans and improve Afghanistan's climate for additional foreign direct investment.

Supporting our nation's ongoing commitment to the success of emerging free market economies in the former Soviet republics, OPIC financing is enabling the construction of a new oil products export terminal in Russia that will increase the country's energy export infrastructure. OPIC is providing a $130 million guaranty on a $225 million loan from U.S.-based HBK Fund LP to an indirect subsidiary of OAO LUKOIL, a leading Russian oil producer.

Elsewhere in the region, OPIC is helping to develop the primary mortgage market in Azerbaijan with a $2.5 million loan to Shorebank Advisory Services of Chicago so that its partner, Shorebank Mortgage Financing, Azerbaijan, can originate medium-term loans for the acquisition and improvement of homes.

Economic development depends on reliable transportation. In the Caucasus, commercial business travel will be improved by the two turbo-propeller airplanes purchased by U.S. sponsor Pacific International Holdings for Caucasus Airlines. A $4.6 million OPIC loan will enable the new airline to provide chartered and scheduled service between its hub in the Georgian capital of Tbilisi and commercial centers in Batumi, Georgia; Baku, Azerbaijan and Yerevan, Armenia. This project will help to establish an important foundation for the region's future growth by promoting safe travel, generating local jobs and providing an exchange of technology from a U.S. small business.

OPIC has also played an important role in implementing the objectives of the Partnership for Prosperity between the United States and Mexico. Launched by President Bush and Mexican President Fox, the goal of this initiative is to strengthen economic ties between the two countries. In 2003, OPIC sponsored a conference for small businesses interested in investing in Mexico.

Since its founding in 1971, OPIC has accomplished its developmental mission by supporting $150 billion worth of investments in more than 3,200 projects that have helped create over 690,000 host country jobs. Our own economy has benefited as well, as OPIC projects have generated more than $66 billion in U.S. exports and supported jobs for more than 257,000 Americans.

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## HELPING TO BUILD A BETTER WORLD, ONE HOME AT A TIME

President Bush has declared that including all of the world's poor in an expanding circle of development is both a moral imperative and a U.S. international policy priority. But only where people are adequately housed, fed and healthy can they even pursue the longer-term benefits of economic growth. By directing private capital to projects that build homes, grow food and fight disease, OPIC supports the Administration's goal of using developmental investment to unleash the productive potential of people everywhere.

**Throughout the world, OPIC's participation provides the crucial element to make a nation's housing dreams a reality.**

One of the most innovative humanitarian projects OPIC has ever participated in addresses both the AIDS pandemic and housing shortages for low-income people in South Africa. In order to encourage local mortgage lenders in South Africa to make low income home loans, Home Loan Guaranty Company (HLGC) of South Africa will provide insurance to these lenders to protect them against the risk of mortgage losses due to the incapacitation of the home owners from AIDS. In order to be able to provide this type of coverage, New York-based Shared Interest, Inc. and HLGC formed a new joint venture, Housing for HIV, Inc. OPIC provided $250 million in financing to Housing for HIV, which was matched with $50 million from private sources to form an investment pool of funds. The income from the fund investments will provide funds to support HIV treatment programs. With proper treatment, individuals will be able to reenter the workforce, avoid the loss of their homes, and continue to be a productive member of society.

Also on the African continent, an agreement signed with the government of Kenya pledges OPIC's support in helping the country provide 150,000 new residential units as a major step towards solving its acute housing shortage. And an OPIC loan will help an American-owned company complete 24 partially constructed houses of an anticipated 60 in the Ghanaian capital city of Accra.

American-owned Mid-American Group Europe will build as many as 18 apartment buildings, providing nearly 800 residential units, in war-torn Mostar and other parts of Bosnia. Supported by an OPIC loan, the project will generate up to 200 construction jobs during its six years. GHP Honduras, L.L.C./Global Housing Development of Florida, with the help of OPIC's political risk insurance and financing, is building 519 medium-priced, earthquake- and hurricane-resistant, homes in Honduras, and introducing an environmentally sound wastewater treatment technology that produces irrigation-quality water. With OPIC-supported U.S. private investment in the nation's housing sector, Afghanistan's reconstruction is beginning to materialize. AFCO-Kandahar Valley, a business majority-owned by Afghan-Americans, received a loan to build more than 2,500 homes near the southern city of Kandahar in a project that will eventually grow to more than 20,000 moderately-priced homes.

Bread should become more plentiful and affordable in Angola now that an affiliate of Seaboard Corporation of Shawnee Mission, Kansas, has more than tripled the capacity of its flour mill near Luanda. OPIC political risk insurance allowed the company to rehabilitate the mill and increase output to 200 metric tons per day, helping alleviate a scarcity of domestically produced food. For Estonia, FOODPRO International, Inc.'s state of the art flour milling and mixing facility, supported by OPIC financing, will provide high-quality flour and frozen bakery products. The California-based company hopes to tap into markets throughout the Baltic region.

A nutritious drink made from rice bran — usually discarded in the milling process — will help four Central American countries prevent malnutrition in one million children for about six cents each a day. RiceX, a California biotech company, is using an OPIC loan to establish a plant in Guatemala to manufacture the drink for distribution through preschool lunch programs in Nicaragua, Honduras, Guatemala and El Salvador.

Healthcare systems in Bulgaria, Croatia, Romania and Serbia will benefit from new research infrastructure after AbC.R.O., Inc. of Virginia opens or expands pharmaceutical research facilities with the help of a $300,000 OPIC loan. Already the leading contract research organization in southeastern Europe, AbC.R.O. will soon offer larger populations the ability to participate in Phase II to Phase IV clinical trials of state of the art medicines.

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## PROVING THAT WE MAKE A DIFFERENCE,

## WITH MEANINGFUL AND MEASURABLE RESULTS

In the end, what matters most is results. Which is why, in 2003, we improved our ability to forecast the developmental impact of OPIC supported projects and to measure and monitor the projects we approve. By evaluating up-front the development contribution of every proposed project, approving only those that meet our new, higher standards, and following up to verify performance, OPIC assures that on investments large and small we and our partners will continue to deliver results that make a difference.

OPIC financing will enable the reopening of a rutile mine that was Sierra Leone's largest private sector employer, one of the government's largest revenue sources and the world's largest producer of natural rutile for use in paint pigments. Years of civil war forced the shutdown of Sierra Rutile Limited. Now, with a $25 million OPIC investment guaranty, the company's new owners will restart the mining operation that previously employed hundreds and generated up to $10 million annually for the government.

As many as 200 jobs will be created at the new and modern meat processing plant opened by TLC Beatrice Foods Philippines with the support of a $2 million OPIC loan to the company's owner, a New York businesswoman. The project will establish three internationally accredited meat processing facilities supplying domestic chicken and pork products to businesses throughout the Philippines and helping to expand the nation's livestock industry.

Brazilian infrastructure will receive a tremendous boost through two OPIC projects. Working in partnership with the International Finance Corporation to expand investment capital in Brazil, OPIC approved a $200 million loan to U.S.-owned El Paso Rio Claro, Ltda./Macae to finance Brazil's largest gas-fired power plant near the city of Macae in the State of Rio de Janeiro. On a much smaller scale, a $7.5 million loan will enable Global Railroad Leasing, a Texas based company, to purchase and supply railroad wagons for lease to users of the Brazilian railroad system. The rail cars will increase the capacity of Brazil's railroad system, helping to solve a shortage of equipment that is limiting Brazil's ability to ship critical agriculture products and raw materials.

OPIC is required by statute to monitor the actual effects of the projects we support. To confirm project estimates, OPIC monitors the actual economic impact of every project from inception until conclusion. We use modern sampling theory to randomly select projects for on-site staff monitoring. OPIC also visits all projects considered to be economically or environmentally sensitive. All site-visited projects are evaluated for their effects on the host country economies and employment, their environmental impact, and conformance with internationally recognized worker rights standards. OPIC also operates a self monitoring system in which each investor conducts an annual assessment of the project's development impact.

Transportation infrastructure is an important first ingredient in economic development. A signed agreement between OPIC and a pan-African consortium paves the way for the Nacala Port and Railway Initiative to receive OPIC financing next year to rehabilitate the Nacala railway corridor between Mozambique and Malawi, and refurbish the Mozambique deep-water port at Nacala. The completed project will make it possible to transport essential food aid to famine-stricken countries on a more direct and less costly basis. In addition, it will allow the efficient import of essential items for the local economies, including fertilizer, fuel, and general consumer goods. The seamless transport corridor will also allow local businesses to export their products to international markets. In Ecuador, OPIC's $200 million loan to Houston Airport System's affiliate HAS Development Corporation will support the construction of a new international airport outside Quito, Ecuador.

Competitive businesses everywhere in the world depend on information. In 2003, OPIC supported several projects designed to help developing countries make information more accessible and secure.

NuevaTel, the Bolivian subsidiary of Bellevue, Washington-based Western Wireless Corporation and its affiliate Western Wireless International, will use a $50 million OPIC loan guaranty to improve services through an expansion of its GSM network. Bolivia has one of the lowest penetrations of landline telecommunications in Latin America. Access to affordable wireless services is already having a profound impact on the average Bolivian, including the many independently employed, who can enhance their productivity with a wireless phone.

The quality of internet security in Latin America has lagged behind the rest of the world, making it especially difficult for small- and medium-sized companies to realize the full potential of the internet. A $2.25 million OPIC loan to Etek International Corporation of Miami, Florida, will enable the U.S. small business to expand its Latin American network and information security operations, and provide increased security to users in Argentina, Brazil, Chile and Colombia.

By partnering with the private sector, OPIC helps to leverage the value and the impact of overseas investment. In 2003, the total investment value of OPIC's $2 billion in support is over $5.5 billion. The total investment value of the year's small business project is over $600 million. The measurable benefits this will bring to a host country include local jobs and greater tax revenues for local governments.

# 2003 INVESTMENT PROJECTS

## AFRICA AND THE MIDDLE EAST

### ANGOLA

| | | | |
|---|---|---|---|
| Seaboard Overseas Ltd. (KWABA - Sociedade Industrial e Comercial, S.A.R.L.) | Flour mill and commodity trading operations | $5,990,962 | Insurance |

### GHANA

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|---|---|---|---|
| Amoah, George K. & Chicken George Farms LLC (Farmer George Limited) | Poultry production and distribution | $16,977,600 | Insurance |
| Dara Salam Estate Developers (Dara Salam Real Estate Developers) | Completion of 24 partially constructed houses | $1,200,000 | Finance |

### KENYA

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|---|---|---|---|
| JNP Properties, Inc. (Jopa Villas Kenya Ltd.) | Housing construction | $4,860,000 | Insurance |

### MOZAMBIQUE

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|---|---|---|---|
| Herbert, David F. (Mercury Investments, Limitada - c/o H. Gamito, Couto) | Resort | $3,668,850 | Insurance |

### NIGERIA

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|---|---|---|---|
| AES Nigeria Holdings, Ltd. (AES Nigeria Barge Limited) | Emergency power barges | $200,000,000 | Insurance |
| NIS Corporation (NIS Technology Solutions Limited) | Telecommunications | $2,000,000 | Insurance |

### SIERRA LEONE

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|---|---|---|---|
| U.S. Titanium, Inc. (Sierra Rutile Limited) | Development and expansion of rutile mine | $25,000,000 | Finance |

### SOUTH AFRICA

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|---|---|---|---|
| Shared Interest, Inc. (Housing For HIV, Inc.) | Financial services | $250,000,000 | Finance |
| Young, John R. (Granton Safaris CC) | Game park and guest lodge resort | $742,500 | Insurance |

### AFRICA REGIONAL

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|---|---|---|---|
| Citibank Framework Guaranty Facility Agreement | On-lending facility | $125,000,000 | Finance |

## ASIA AND THE PACIFIC

### AFGHANISTAN

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|---|---|---|---|
| AFCO International, LLC/5 Individual US Citizens (AFCO-Kandahar Valley, LLC) | Construction of a housing development of single-family homes and associated public infrastructure (roads, water/sewer, school) | $3,000,000<br>$90,000 | Finance<br>Insurance |
| ARC Hotels LLC/National Union Fire Insurance Company of Pittsburgh, Pennsylvania (TAYL Investors Group Limited) (Hyatt Regency Kabul) | International business hotel | $24,536,000<br>$13,917,600 | Finance<br>Insurance |
| American Wool-Cashmere, Inc. (American Wool-Cashmere, Inc.) | Afghanistan cashmere wool brokerage business | $3,000,000 | Finance |
| Shelter for Life International, Inc. (Shelter for Life International, Inc.) | Heavy equipment | $4,500,000 | Insurance |
| Tarsian & Blinkley, LLC (Tarsian & Blinkley, LLC) | Manufacture and sale of traditional Afghani women's wear | $150,000 | Finance |
| TBG Holdings LLC (Delaware) c/o The Berkeley Group (TBG Holdings, LLC) (Delaware) | Scheduled air service from Washington, DC to Kabul, Afghanistan | $2,085,000 | Finance |
| Vermeer Manufacturing Company (Shelter for Life International, Inc.) | Brick machine | $35,000 | Insurance |

### PHILIPPINES

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|---|---|---|---|
| TLC Beatrice, LLC (TLC Beatrice, LLC/TLC Beatrice Foods Philipp) | Construction/operation of meat processing facilities | $2,000,000 | Finance |
| U.S. Bank National Association (National Power Corporation) ("NAPOCOR") | Privatization of power company | $250,000,000 | Insurance |

### THAILAND

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|---|---|---|---|
| Deep Sea Adventure Tours, Inc. (Phuket Submarine, Ltd.) | Underwater submarine reef tours | $2,430,000 | Insurance |
| GMI Capital Corporation (GMI Asia) | Invest in small cap technology companies | $25,000,000 | Finance |

### VIETNAM

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|---|---|---|---|
| GE Energy Rentals Inc. (Kidwell International Power Vietnam Company Limited) | Power generation | $12,314,398 | Insurance |

### ASIA REGIONAL

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|---|---|---|---|
| Domes International, Inc. (Domes International, Inc.) | Modular home manufacturing | $1,200,000 | Finance |

## EUROPE AND THE NEW INDEPENDENT STATES

### AZERBAIJAN

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|---|---|---|---|
| Shore Overseas Corporation (Shore Overseas Azerbaijan) | Medium-term mortgage, home improvement loans in local market | $2,500,000 | Finance |

### BOSNIA & HERZEGOVINA

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|---|---|---|---|
| Masserant, Laurence/Mid-American Gunite, Inc. (Mid-American Group Europe ) | Construction/sale of multifamily, condominium-style residential buildings in Mostar | $5,400,000<br>$2,500,000 | Insurance<br>Finance |

### CROATIA

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|---|---|---|---|
| Adriatic Investment Management, LLC (Expandia Fund d.d. Closed-End Investment Fund, Inc.) | Investment fund management company | $4,500,000 | Insurance |

### ESTONIA

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|---|---|---|---|
| FOODPRO International, Inc. (Golden Sierra Partners, LLC) | Flour milling and prepared dough products operation | $9,385,000 | Finance |

### GEORGIA

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|---|---|---|---|
| Pacific Island Aviation, Inc. (PIA) (Pacific International Holdings, Inc.) | Regional airline in the Caucasus region | $4,600,000 | Finance |

### HUNGARY

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|---|---|---|---|
| Barna, Jim (Barna and Company) | Log home manufacturing facility | $1,050,000 | Finance |

### KAZAKHSTAN

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|---|---|---|---|
| Pride International, Inc. (Pride Forasol, S.A.S.) | Oil and gas wells | $150,000,000 | Insurance |

### KYRGYZ REPUBLIC

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|---|---|---|---|
| Hyatt International Corporation (Joint Venture Italkyr CJSC) | Hotel | $9,700,000 | Insurance |

### MOLDOVA

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|---|---|---|---|
| International Communications Systems, Inc. ("International Communication Systems Inc.," S.R.L.) | Telecommunications | $680,000 | Insurance |

### POLAND

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|---|---|---|---|
| Emerging Europe Fund for Sustainable Development, L.P. (Synergia SP. Z.O.O.) | Large-scale urban renewal project | $10,000,000 | Finance |

### RUSSIA

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|---|---|---|---|
| Baring Vostok Private Equity Fund (ZAO DeltaLeasing) | Expansion of leases to small/medium businesses in Russia | $30,000,000 | Finance |
| HBK Investments L.P. (RPK-Vysotsk "Lukoil-II") | Construction and operation of a crude oil and petroleum products export terminal on the Gulf of Finland north of St. Petersburg | $130,000,000 | Finance |
| Numotech, Inc. (Numotech, Inc.) | Medical components manufacturing facility | $25,000,000 | Insurance |
| | | $10,000,000 | Finance |
| Nypro Inc. (ZAO Nypro) | Injection molding facility | $2,700,000 | Finance |

### TURKEY

| | | | |
|---|---|---|---|
| Carter, James E. (Sports International Bilkent Fitness Ve Spor Merkezi A.S.) | Health and fitness club | $750,000 | Finance |

### YUGOSLAVIA

| | | | |
|---|---|---|---|
| St. Michael Enterprises, d.o.o. (Privatization Agency of the Republic of Serbia) | Aerated concrete factory | $90,000 | Insurance |
| St. Michael Enterprises (Privatization Agency of the Republic of Serbia) | Lime and stone quarry | $135,000 | Insurance |
| Motorola Communications Israel, Ltd. (Ministry of Interior, Republic of Serbia) | Information technology | $14,000,000 | Insurance |

### EUROPE REGIONAL

| | | | |
|---|---|---|---|
| AbC.R.O., Inc. (AbC.R.O., Inc.) | Clinical research studies | $300,000 | Finance |

### NIS REGIONAL

| | | | |
|---|---|---|---|
| Siguler Guff & Company, L.L.C. (Russia Partners II "O" Series, L.P.) | Investing in Russia Federation and NIS | $70,000,000 | Funds |

## THE AMERICAS

### BOLIVIA

| | | | |
|---|---|---|---|
| Fondo Capital Activo Bolivia LLC (FCAB) (Grupo Landivar, S.A.) | Paper and plastic packaging materials manufacturing facility | $1,400,000 | Finance |
| Western Wireless International Corporation (Nuevatel) | Wireless communications | $50,000,000 | Finance |

## BRAZIL

| | | | |
|---|---|---|---|
| BankBoston NA<br>(BankBoston Leasing S.A. - Arrendamento Mercantil) | Branch banking | $44,100,000 | Insurance |
| Brazilian Emeralds, Inc.<br>(Brazilian Emeralds, Inc.) | Commercial development of a gemstone reserve | $3,300,000 | Finance |
| El Paso Corporation<br>(El Paso Rio Claro Ltda.) | 895 MW natural gas-fired power plant | $200,000,000 | Finance |
| GE Energy Rentals, Inc.<br>(Termoelectrica Potiguar, S.A.) | Power generation | $12,103,321 | Insurance |
| Global Railroad Leasing, LLC<br>(Global Railroad Leasing, LLC) | Railroad car rental | $7,475,000 | Finance |

## COSTA RICA

| | | | |
|---|---|---|---|
| Central American Bank for Economic Integration (CABEI)<br>(Central American Bank for Economic Integration (CABEI)) | Mortgage lending | $10,000,000 | Insurance |
| Zamora, Roberto<br>(Banco Lafise S.A.) | Origination of residential mortgage loans | $10,000,000 | Finance |

## ECUADOR

| | | | |
|---|---|---|---|
| HAS Development Corporation<br>(Corporacion Quiport, S.A.) | Develop, construction, and operation of new international airport | $200,000,000 | Finance |

## EL SALVADOR

| | | | |
|---|---|---|---|
| Central American Bank for Economic Integration (CABEI)<br>(Central American Bank for Economic Integration (CABEI)) | Mortgage lending | $5,000,000 | Insurance |
| Dicasa, SA on behalf of eligible lenders<br>(Dicasa, S.A.) | Loan for real estate receivables | $24,600,000 | Insurance |
| Mercury Mortgage Finance, Ltd.<br>(TBD) | Home mortgage loans | $10,000,000 | Insurance |

## GUATEMALA

| | | | |
|---|---|---|---|
| Central American Bank for Economic Integration (CABEI)<br>(Central American Bank for Economic Integration (CABEI) | Mortgage lending | $3,000,000 | Insurance |
| Casas Encantadas Holding, S.A.<br>(Casas Encantadas Holding, S.A.) | Refurbishment and expansion of hotel | $375,000 | Finance |
| RiceX Company<br>(RiceX Central America) | Manufacture rice-based nutritional drink | $6,000,000 | Finance |

## HONDURAS

| | | | |
|---|---|---|---|
| Central American Bank for Economic Integration (CABEI) (Central American Bank for Economic Integration (CABEI) | Mortgage lending | $2,500,000 | Insurance |
| GHP (Honduras) LLC (Global Housing Development, S.A.) | Construction and sale of 45 houses | $11,717,484 | Insurance |
| | Construction of 521-unit residential housing | $1,500,000 | Finance |

## JAMAICA

| | | | |
|---|---|---|---|
| Citibank Jamaica Framework Agreement (facility loan) (Mossel (Jamaica) Limited) | Telecommunications expansion | $10,000,000 | Finance |

## MEXICO

| | | | |
|---|---|---|---|
| Seeberger, Rick and Sue (BFCI Learning Systems, Ltd.) | Learning center-personal development and management courses | $670,000 | Finance |

## NICARAGUA

| | | | |
|---|---|---|---|
| Central American Bank for Economic Integration (CABEI) (Central American Bank for Economic Integration (CABEI) | Mortgage lending | $2,500,000 | Insurance |
| CRISF Inc. (Mangos, S.A.) | Mango plantation | $5,250,000 | Insurance |
| Sail Brand Imports LLC (Camanica, S.A.) | Shrimp processing | $3,000,000 | Insurance |

## PERU

| | | | |
|---|---|---|---|
| Alliance Holding Group, Inc. (North American Float Plane Services, SAC) | Small regional air carrier and charter aviation business | $1,900,000 | Finance |

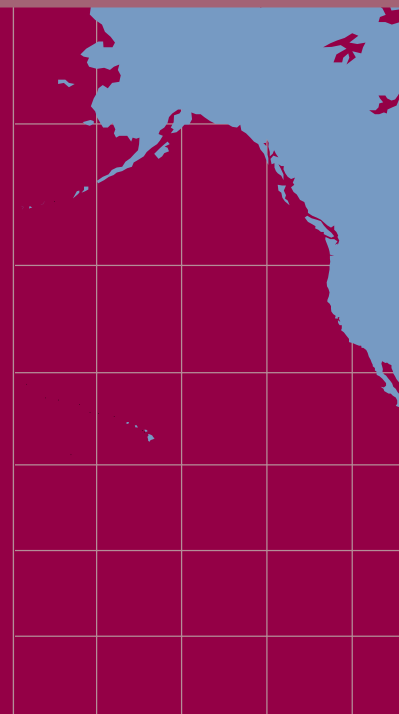
## LATIN AMERICA REGIONAL

| | | | |
|---|---|---|---|
| Citibank Eastern Caribbean Framework Agreement (facility loan) (Digicel Eastern Caribbean Limited) | Telecommunications | $6,500,000 | Finance |
| Citibank Framework Guaranty Facility Agreement | On-lending facility | $200,000,000 | Finance |
| Terry H. Moffatt (Etek International Corporation) | Expansion of a computer network security operation | $2,250,000 | Finance |

# ALL OPIC COUNTRIES

| | | | |
|---|---|---|---|
| Conservation International Foundation (Conservation International Foundation) | Investments in SME's supporting biodiversity conservation | $2,500,000 | Finance |
| Riggs Bank N.A. Global Framework Agreement | On-lending facility | $30,000,000 | Finance |
| National City Bank Global Framework Agreement | On-lending facility | $35,000,000 | Finance |

# OPIC COUNTRIES AND AREAS



OPIC programs encourage U.S. private investment in some 150 countries and areas around the world, contributing to economic growth at home and abroad.

OPIC programs are generally available in the approximately 150 countries and areas listed below. From time to time, statutory and policy constraints may limit the availability of OPIC programs in certain countries, or countries where programs were previously unavailable may become eligible. Investors are urged to contact OPIC directly for up-to-date information on the availability of OPIC services in specific countries, as well as information on program availability in countries not listed.

## AFRICA AND THE MIDDLE EAST

AFGHANISTAN
ALGERIA
ANGOLA
BAHRAIN
BENIN
BOTSWANA
BURKINA FASO
CAMEROON
CAPE VERDE
CENTRAL AFRICAN REPUBLIC
CHAD
CONGO
CONGO, DEMOCRATIC REPUBLIC OF
DJIBOUTI
EGYPT
EQUATORIAL GUINEA
ERITREA
ETHIOPIA
GABON
GAMBIA
GHANA
GUINEA
GUINEA-BISSAU
IRAQ
ISRAEL
JORDAN
KENYA
KUWAIT
LEBANON
LESOTHO
MADAGASCAR
MALAWI
MALI
MAURITANIA
MAURITIUS
MOROCCO
MOZAMBIQUE
NAMIBIA
NIGER
NIGERIA
OMAN
RWANDA
SÃO TOMÉ & PRÍNCIPE
SENEGAL
SIERRA LEONE
SOMALIA
SOUTH AFRICA
SWAZILAND
TANZANIA
TOGO
TUNISIA
UGANDA
WEST BANK & GAZA
YEMEN
ZAMBIA
ZIMBABWE

## ASIA AND THE PACIFIC

BANGLADESH
CAMBODIA
COOK ISLANDS
EAST TIMOR
FIJI
INDIA
INDONESIA
KIRIBATI
KOREA
LAOS
MALAYSIA
MARSHALL ISLANDS
MICRONESIA, FEDERATED STATES OF
MONGOLIA
NEPAL
PAKISTAN
PALAU
PAPUA NEW GUINEA
PHILIPPINES
SINGAPORE
SRI LANKA
TAIWAN
THAILAND
TONGA
VIETNAM
WESTERN SAMOA

EUROPE AND THE NEW INDEPENDENT STATES

ALBANIA
ARMENIA
AZERBAIJAN
BOSNIA & HERZEGOVINA
BULGARIA
CROATIA
CYPRUS
CZECH REPUBLIC
ESTONIA
GEORGIA
GREECE
HUNGARY
IRELAND
KAZAKHSTAN
KOSOVO
KYRGYZ REPUBLIC
LATVIA
LITHUANIA
MACEDONIA, FORMER
YUGOSLAV
REPUBLIC OF
MALTA
MOLDOVA
MONTENEGRO
NORTHERN IRELAND
POLAND
PORTUGAL
ROMANIA
RUSSIA
SERBIA & MONTENEGRO
SLOVAKIA
SLOVENIA
TAJIKISTAN
TURKEY
TURKMENISTAN
UKRAINE
UZBEKISTAN

THE AMERICAS

ANGUILLA
ANTIGUA & BARBUDA
ARGENTINA
ARUBA
BAHAMAS
BARBADOS
BELIZE
BOLIVIA
BRAZIL
CHILE
COLOMBIA
COSTA RICA
DOMINICA
DOMINICAN REPUBLIC
ECUADOR
EL SALVADOR
FRENCH GUIANA
GRENADA
GUATEMALA
GUYANA
HAITI
HONDURAS
JAMAICA
MEXICO*
NETHERLANDS ANTILLES
NICARAGUA
PANAMA
PARAGUAY
PERU
ST. KITTS & NEVIS
ST. LUCIA
ST. VINCENT & THE GRENADINES
SURINAME
TRINIDAD & TOBAGO
TURKS & CAICOS
URUGUAY
VENEZUELA

*In Mexico, OPIC's programs are limited to direct loans to projects that significantly involve U.S. small businesses or cooperatives.*

# 2003 INVESTMENT FUNDS' PROJECTS

OPIC-supported privately managed private equity investment funds provide long-term growth capital, management expertise, and new technologies, while supporting adoption of international standards of reporting and transparency and environmental and worker rights sensitivity; all to promote private sector enhancement fundamental to the development of emerging market economies. OPIC's funds operate in every region of the world. Current OPIC funds include:

AFRICA GROWTH FUND
AFRICA MILLENNIUM FUND
AGRIBUSINESS PARTNERS INTERNATIONAL
AIG BRUNSWICK MILLENNIUM FUND
ALLIED SMALL BUSINESS FUND
AQUA INTERNATIONAL PARTNERS
ASIA DEVELOPMENT PARTNERS
ASIA PACIFIC GROWTH FUND
BANCROFT EASTERN EUROPE FUND
DRAPER INTERNATIONAL
EMERGING EUROPE FUND
GAZA/ WEST BANK/JORDAN
GLOBAL ENVIRONMENT EMERGING MARKETS FUND
GLOBAL ENVIRONMENT EMERGING MARKETS FUND, II
GREAT CIRCLE FUND
INDIA PRIVATE EQUITY FUND
INTERARAB INVESTMENT FUND
ISRAEL GROWTH FUND
MODERN AFRICA GROWTH AND INVESTMENT FUND
NEWBRIDGE ANDEAN PARTNERS
NEW CENTURY CAPITAL PARTNERS
POLAND PARTNERS
RUSSIA PARTNERS A
RUSSIA PARTNERS B
RUSSIA PARTNERS II
SOUTH AMERICA PRIVATE EQUITY GROWTH FUND
SOROS INVESTMENT CAPITAL LTD.
ZM AFRICA INVESTMENT FUND

In 2003, OPIC-supported funds invested $97.0 million in 14 projects around the world, with an average investment of $6.9 million per project. Highlights from these projects are:[1]:

| REGION | PORTFOLIO COMPANY | COUNTRY | DESCRIPTION |
|---|---|---|---|
| AFRICA AND THE MIDDLE EAST | Unikom | Turkey | Edible oil manufacturing |
| ASIA AND THE PACIFIC | Verdaine | Indonesia | Palm oil plantation |
| | Jain Irrigation Systems | India | Water Irrigation Systems |
| THE AMERICAS AND CARIBBEAN | Emerald Bay Water Company | Bahamas | Desalination |
| | Grupo Rotoplas | Mexico | Water products & equipment |
| NEW INDEPENDENT STATES AND EUROPE | Naftrans | Georgia | Oil terminal |
| | Digital City Media | Croatia | Cable TV |
| | KDS | Serbia | Cable TV |
| | Efes | Regional | Beverage |
| | TBC Bank | Georgia | Commercial bank |

[1] These projects are a sampling of projects in which OPIC-supported investment funds invested during fiscal year 2003.

# INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

KPMG

2001 M Street NW
Washington, DC 20036

To the Board of Directors
Overseas Private Investment Corporation:

We have audited the accompanying balance sheets of the Overseas Private Investment Corporation (OPIC) as of September 30, 2003 and 2002, and the related statements of income, capital and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of OPIC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OPIC at September 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 of the financial statements, OPIC changed its amortization method of discounts and premiums for Treasury securities.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 19, 2003 on our consideration of OPIC's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 19, 2003

# Balance Sheets

OVERSEAS PRIVATE INVESTMENT CORPORATION { SEPTEMBER 30, 2003 AND 2002 }

*($ in thousands)*

| ASSETS | 2003 | 2002 |
|---|---|---|
| Fund Balance with U.S. Treasury (notes 2 and 4) | $ 909,934 | $ 661,696 |
| U.S. Treasury securities, at amortized cost plus related receivables (notes 2 and 7) | 3,801,695 | 3,629,543 |
| Direct loans outstanding of $190,265 and $138,601 less allowance for uncollectible loans of $34,766 and $19,373 in FY2003 and FY2002 (notes 2 and 10) | 155,499 | 119,228 |
| Accounts receivable resulting from investment guaranties of $122,719 and $115,371 less allowance for doubtful recoveries of $44,675 and $45,261 in FY2003 and FY2002 (notes 2 and 11) | 78,044 | 70,110 |
| Assets acquired in insurance claims settlements of $240,565 and $220,843 less allowance for doubtful recoveries of $62,477 and $89,808 in FY2003 and FY2002 (notes 2 and 11) | 178,088 | 131,035 |
| Guaranty Receivable (Notes 2 and 19) | 70,000 | 0 |
| Accrued interest and fees and other | 23,532 | 18,888 |
| Furniture, equipment and leasehold improvements at cost less accumulated depreciation and amortization of $11,925 in FY2003 and $11,000 in FY2002 (notes 2, 14, and 20) | 1,390 | 3,409 |
| Total Assets | $ 5,218,182 | $ 4,633,909 |

| LIABILITIES, CAPITAL, AND RETAINED EARNINGS | 2003 | 2002 |
|---|---|---|
| Liabilities: | | |
| Reserve for political risk insurance (note 9) | $ 260,000 | $ 275,000 |
| Reserve for investment guaranties (notes 10 and 11) | 630,000 | 570,000 |
| Accounts payable and accrued expenses | 5,443 | 8,304 |
| Guaranty liability (Notes 2 and 19) | 70,000 | 0 |
| Customer deposits and deferred income | 35,280 | 32,918 |
| Borrowings from U.S. Treasury (notes 6 and 13) | 196,453 | 131,529 |
| Unearned premiums | 13,897 | 13,071 |
| Deferred rent & rent incentives from lessor of $19,796 and $20,418 net of accumulated amortization of $12,327 and $10,921 in FY2003 and FY2002 (note 14) | 7,632 | 9,497 |
| | 1,218,705 | 1,040,319 |
| Contingent liabilities (notes 9, 10, 17 and 18) | | |
| Capital and retained earnings: | | |
| Contributed capital | 50,000 | 50,000 |
| Credit funding (note 5) | 166,082 | 148,427 |
| Interagency transfers | 814 | 1,072 |
| Retained earnings and statutory reserves: | | |
| Insurance (notes 9 and 12) | 1,965,841 | 1,801,177 |
| Guaranty (notes 10 and 12) | 1,816,740 | 1,418,115 |
| Retained earnings | 0 | 174,799 |
| | 3,999,477 | 3,593,590 |
| Total liabilities, capital, and retained earnings | $ 5,218,182 | $ 4,633,909 |

*See accompanying notes to financial statements.*

# Statements of Income

OVERSEAS PRIVATE INVESTMENT CORPORATION { SEPTEMBER 30, 2003 AND 2002 }

*($ in thousands)*

| REVENUES | 2003 | 2002 |
|---|---|---|
| Political risk insurance premiums and fees (note 9) | $ 46,739 | $ 57,651 |
| Investment financing interest and fees | 88,510 | 91,706 |
| Interest on finance program deposits | 37,706 | 32,345 |
| Other operating income | 1,336 | 1 |
| Interest on U.S. Treasury securities | 185,108 | 223,186 |
| | 359,399 | 404,889 |

| EXPENSES | | |
|---|---|---|
| Provisions for reserves: | | |
| Political risk insurance (notes 2 and 9) | (41,817) | 11,710 |
| Investment financing (notes 2 and 10) | 72,163 | 162,162 |
| Salaries and benefits (notes 15 and 16) | 22,421 | 21,098 |
| Rent, communications and utilities (note 14) | 5,380 | 5,406 |
| Contractual services | 11,033 | 15,291 |
| Travel | 2,836 | 1,632 |
| Interest on borrowings from U.S. Treasury (note 6) | 10,724 | 5,245 |
| Depreciation and amortization (note 2) | 925 | 1,001 |
| Write-down of internally developed software (note 20) | 1,488 | 4,358 |
| Other general and administrative expenses | 2,442 | 2,187 |
| | 87,595 | 230,090 |
| Net Income before cumulative effect of change in amortization method of discounts and premiums | 271, 804 | 174,799 |
| Cumulative effect on prior year of changing to different amortization method of discounts and premiums (note 2) | 23,932 | — |
| Net income | $ 295,736 | $ 174,799 |

*See accompanying notes to financial statements.*

# Statements of Capital and Retained Earnings

OVERSEAS PRIVATE INVESTMENT CORPORATION { SEPTEMBER 30, 2003 AND 2002 }

*($ in thousands)*

| | CONTRIBUTED CAPITAL | CREDIT FUNDING | INTERAGENCY TRANSFERS | STATUTORY RESERVES INSURANCE (NOTES 9 AND 12) | STATUTORY RESERVES GUARANTY (NOTES 10 AND 12) | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|---|---|---|
| Balance, September 30, 2001 | $ 50,000 | $ 79,896 | $ 1,147 | $ 1,846,826 | $ 1,558,609 | $ — | $ 3,536,478 |
| Net income | — | — | — | — | — | 174,799 | 174,799 |
| Return credit funding | | | | | | | |
| to U.S. Treasury | — | — | — | — | (135,420) | — | (135,420) |
| Credit funding received from: | | | | | | | |
| Accumulated earnings | — | 69,862 | — | (46,697) | — | (23,165) | 0 |
| Credit appropriations | — | 127,806 | — | — | — | — | 127,806 |
| Credit funding used | — | (128,664) | — | — | 105,499 | 23,165 | 0 |
| Dividend to U.S.Treasury | — | — | — | — | (110,573) | — | (110,573) |
| Interagency transfers | — | (473) | (75) | 1,048 | — | — | 500 |
| Balance, September 30, 2002 | $ 50,000 | $ 148,427 | $ 1,072 | $ 1,801,177 | $ 1,418,115 | $ 174,799 | $ 3,593,590 |
| Net income | — | — | — | 100,151 | 195,585 | — | 295,736 |
| Allocate retained earnings | | | | | | | |
| to statutory reserves | — | — | — | 87,399 | 87,400 | (174,799) | 0 |
| Return credit funding | | | | | | | |
| to U.S. Treasury | — | — | — | — | (58,421) | — | (58,421) |
| Credit funding received from: | | | | | | | |
| Accumulated earnings | — | 47,775 | — | (23,844) | — | (23,931) | 0 |
| Credit appropriations | — | 168,322 | — | — | — | — | 168,322 |
| Credit funding used | — | (197,992) | — | — | 174,061 | 23,931 | 0 |
| Interagency transfers | — | (450) | (258) | 958 | — | — | 250 |
| Balance, September 30, 2003 | $ 50,000 | $ 166,082 | $ 814 | $ 1,965,841 | $ 1,816,740 | $ 0 | $ 3,999,477 |

*See accompanying notes to financial statements.*

# Statements of Cash Flows

OVERSEAS PRIVATE INVESTMENT CORPORATION { SEPTEMBER 30, 2003 AND 2002 }

*($ in thousands)*

| CASH FLOWS FROM OPERATING ACTIVITIES: | 2003 | 2002 |
|---|---|---|
| Net income | $ 295,736 | $ 174,799 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provisions for: | | |
| Political risk insurance | (41,817) | 11,710 |
| Investment financing | 72,163 | 162,162 |
| Insurance claim recoveries | 0 | 61 |
| Amortization of premiums on U.S. securities | 28,760 | 22,646 |
| Accretion of discounts on U.S. securities | (2,618) | (4,599) |
| Amortization of deferred rent and rental incentives | (1,865) | (1,371) |
| Depreciation and amortization of furniture, equipment and leasehold improvements | 925 | 1,001 |
| Write-down of internally developed software | 1,488 | 4,358 |
| (Increase) decrease in assets: | | |
| Accrued interest and fees | (1,892) | 2,534 |
| Accounts receivable | (9) | 17 |
| Assets acquired in insurance claims settlements | (32,512) | 0 |
| Recoveries on assets acquired in insurance claims settlements | 12,790 | 16,712 |
| Assets acquired in finance claims settlements | (32,794) | (174,077) |
| Recoveries on assets aquired in finance claims settlements | 26,001 | 9,519 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (2,861) | (172) |
| Customer deposits and deferred income | 2,362 | (2,799) |
| Unearned premiums | 826 | (5,494) |
| Capitalized interest | 500 | 0 |
| Insurance claim payments | (514) | (2,431) |
| Cash provided by operating activities | 324,669 | 214,576 |

| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
|---|---|---|
| Sale and maturity of U.S. Treasury securities | 638,186 | 1,124,009 |
| Purchase of U.S. Treasury securities | (839,231) | (1,249,632) |
| Repayment of direct loans | 7,489 | 8,595 |
| Disbursement of direct loans | (57,564) | (70,006) |
| Acquisition of furniture and equipment | (394) | (495) |
| Cash used in investing activities | (251,514) | (187,529) |

| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
|---|---|---|
| Dividend to U.S. Treasury | 0 | (110,573) |
| Return credit funding to U.S. Treasury | (58,421) | (135,420) |
| Interagency transfers | 258 | 500 |
| Credit appropriations | 168,322 | 127,806 |
| Credit reform borrowings from U.S. Treasury | 64,924 | 73,766 |
| Cash provided by (used in) financing activities | 175,083 | (43,921) |
| Net increase (decrease) in cash | 248,238 | (16,874) |
| Fund banance with U.S. Treasury at beginning of year | 661,696 | 678,570 |
| Fund balance with U.S. Treasury at end of year | $ 909,934 | $ 661,696 |

*See accompanying notes to financial statements.*

## {1} STATEMENT OF CORPORATE PURPOSE

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U.S. Government corporation created under the Foreign Assistance Act of 1961 (FAA), as amended, to facilitate U.S. private investment in developing countries and emerging market economies, primarily by offering political risk insurance, investment guaranties, and direct loans. As a government corporation, OPIC is not subject to income tax.

## {2} SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation:* These financial statements have been prepared to report the financial position, results of operations, and cash flows of OPIC. OPIC's accounting policies conform to accounting principles generally accepted in the United States of America. OPIC's financial statements are presented on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

*Fund Balance with U.S. Treasury:* Substantially all of OPIC's receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains OPIC's bank accounts. For purposes of the Statement of Cash Flows, fund balance with U.S. Treasury is considered cash.

*Investment in U.S. Treasury Securities:* By statute, OPIC is authorized to invest funds derived from fees and other revenues related to its insurance and preinvestment programs in U.S. Treasury securities. Investments are carried at face value, net of unamortized discount or premium, and are held to maturity. OPIC has the ability and intent to hold its investments until maturity or until the carrying cost can be otherwise recovered.

*Assets Acquired in Insurance and Investment Guaranty Claims Settlements:* Assets acquired in claims settlements are valued at the lower of management's estimate of the net realizable value of recovery or the cost of acquisition.

OPIC acquires foreign currency in settlement of inconvertibility claims when an insured foreign enterprise is unable to convert foreign currency into U.S. dollars as well as in some direct loan and investment guaranty collection efforts. The initial U.S. dollar equivalent is recorded and revalued annually until the foreign currency is utilized by OPIC or other agencies of the United States Government or until it is exchanged for U.S. dollars by the foreign government.

*Allowances:* The allowances are based on management's periodic evaluations of the underlying assets. In its evaluation, management considers numerous factors, including, but not limited to, general economic conditions, asset composition, prior loss experience, the estimated fair value of any collateral, and the present value of expected future cash flows.

*Depreciation and Amortization:* OPIC capitalizes property and equipment at historical cost for acquisitions exceeding $5,000. Depreciation and amortization of fixed assets, leasehold improvements, and lease incentives are computed using the straight-line method over the estimated useful life of the asset or lease term, whichever is shorter, with periods ranging from 5 to 15 years.

*Reserves for Political Risk Insurance and Investment Guaranties:* The reserves for political risk insurance and investment guaranties provide for losses inherent in those operations using the straight-line method. These reserves are general reserves, available to absorb losses related to the total insurance and guaranties outstanding, which are off-balance-sheet commitments. The reserves are increased by provisions charged to expense and decreased for claims settlements. The provisions for political risk insurance and investment guaranties are based on management's evaluation of the adequacy of the related reserves. This evaluation encompasses consideration of past loss experience, changes in the composition and volume of the insurance and guaranties outstanding, worldwide economic and political conditions, and project-specific risk factors. Also, in the political risk insurance reserve evaluation, OPIC takes into consideration losses incurred but not yet reported.

*New accounting pronouncements:* In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guaranties, Including Indirect Guaranties of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of a guaranty, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under that guaranty. The initial recognition and measurement requirement of FIN 45 applies only to guaranties issued or modified after December 31, 2002.

*Contingent Liabilities Related to Investment Guaranties:* The fair value of investment guaranties entered into after December 31, 2002 is recognized as a liability with a corresponding amount recorded as an asset to reflect the fact that OPIC is compensated for the assumption of the liability. *See also note 19.*

*Revenue Recognition:* Facility fees are received in advance and recognized as deferred income, then amortized over the applicable loan period using the straight line method. Interest on loans and guaranty fees on investment guaranties are accrued based on the principal amount outstanding. Revenue from both loan interest payments and guaranty fees that is more than 90 days past due is recognized only when cash is received. Revenue from political risk insurance premiums is recognized over the contract coverage period. In fiscal year of 2003, OPIC changed its amortization method of discounts and premiums for securities from the straight-line method to effective-interest rate method. This change in accounting principle is reflected in the statement of income.

*Use of Estimates:* The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

## {3} INTRAGOVERNMENTAL FINANCIAL ACTIVITIES

OPIC, as a U.S. Government corporation, is subject to financial decisions and management controls of the Office of Management and Budget. As a result of this relationship, OPIC's operations may not be conducted, nor its financial position reported, as they would be if OPIC were not a government corporation. Furthermore, in accordance with international agreements relating to its programs, as well as internal U.S. Government operating procedures, foreign currency acquired by OPIC can be used for U.S. Government expenses. This facility constitutes an additional means, which would otherwise be unavailable, by which OPIC can recover U.S. dollars with respect to its insurance and investment financing programs.

## {4} FUND BALANCE WITH U.S. TREASURY

OPIC is restricted in its uses of certain cash balances, as described below. The fund balance with U.S. Treasury as of September 30, 2003 and 2002 consists of the following (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| RESTRICTED: | | |
| PRECREDIT REFORM | $ 5,525 | 3,655 |
| CREDIT REFORM | 897,751 | 652,741 |
| INTERAGENCY FUND TRANSFERS | 1 | 1 |
| UNRESTRICTED | 6,657 | 5,299 |
| TOTAL | $ 909,934 | 661,696 |

The Federal Credit Reform Act of 1990 established separate accounts for cash flows associated with investment financing activity approved prior to implementation of the Act and investment financing activity subject to the Act. With the advent of Credit Reform, OPIC is not permitted to invest its pre-Credit Reform cash balances. These balances grow over time, and when they are determined to be no longer needed for the liquidation of the remaining pre-Credit Reform direct loans and investment guaranties, they are transferred to OPIC's unrestricted noncredit insurance account. In 2003, OPIC transferred $ 2.8 million to the noncredit insurance account. No funds were transferred in 2002. Credit Reform balances are also maintained in the form of uninvested funds. The U.S. Treasury pays OPIC interest on those cash balances except for undisbursed credit funding. Those balances are also expected to grow as the volume of Credit Reform financings grows over time.

## {5} CREDIT FUNDING

OPIC's finance activities are subject to the Federal Credit Reform Act of 1990, which was implemented as of October 1, 1991. Credit Reform requires agencies to estimate the long-term cost to the government of each fiscal year's new credit transactions and to obtain funding through the appropriations process equal to the net present value of such costs at the beginning of the year. OPIC's credit funding is available for two years. In addition, the Act requires the administrative costs related to its credit program to be displayed.

In fiscal year 2003, OPIC's appropriations legislation authorized the corporation to use $24 million of its accumulated earnings to cover the future costs of credit transactions committed in fiscal years 2003 and 2004. In fiscal year 2002, OPIC received no credit funding authority for new loan commitments; however, approximately $19 million in carryover 2001 credit authority was available for use in fiscal year 2002. In addition to the credit funding allocated directly to OPIC through the appropriations process, OPIC has received a total of $67 million in net transfers from other agencies to be used exclusively to finance projects in the New Independent States (NIS).

The following table shows the status of funding for credit activities (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| BALANCE CARRIED FORWARD | $ 148,427 | 79,896 |
| UPWARD REESTIMATES | 168,322 | 127,806 |
| TRANSFERRED FROM EARNINGS | 47,775 | 69,862 |
| INTERAGENCY TRANSFERS (NET) | (450) | (473) |
| CREDIT FUNDING USED | (197,992) | (128,664) |
| CREDIT FUNDING REMAINING | $ 166,082 | 148,427 |

Changes in financial and economic factors over time can affect the subsidy estimates made at the time of loan commitments. Therefore, in accordance with OMB guidelines, OPIC reestimates subsidy costs for each group of loans obligated in a given fiscal year to account for those changing factors. Reestimates that result in increases to subsidy costs are funded with additional appropriated funds that are made automatically available while decreases to subsidy costs result in excess funds that are transferred to the U.S. Treasury. OPIC incurred increased subsidy costs of $168.3 million and $127.8 million and decreases in subsidy costs of $58.3 million and $135.4 million in fiscal years 2003 and 2002, respectively.

The way in which OPIC calculates the subsidy cost of its loans for credit reform purposes differs from the way it calculates its loss reserves and net finance income in accordance with generally accepted accounting arinciples (GAAP) for financial statement purposes. While both the subsidy calculations and the GAAP loss allowances factor into the risk of individual credits, the GAAP loss allowances do not recognize the present value of future interest and fees, as to do so would effectively record revenue prior to realization.

## {6} BORROWINGS FROM THE U.S. TREASURY

In accordance with the Federal Credit Reform Act of 1990, the portion of investment financing activities not funded through the appropriations process must be funded by borrowings from the U.S. Treasury. Borrowings for Credit Reform financings totaled $64.9 million in 2003 and $73.8 million in 2002, all of which have been disbursed. OPIC paid a total of $ 10.7 million and $5.2 million in interest to the U.S. Treasury during fiscal years 2003 and 2002, respectively. No repayments were made in 2003 or 2002. Future payments, excluding interest, for borrowings outstanding at September 30, 2003 are as follows (dollars in thousands):

| | PRINCIPAL AMOUNT DUE |
|---|---|
| PAYMENT DUE IN: | |
| FISCAL YEAR 2004 | $ — |
| FISCAL YEAR 2005 | 1,823 |
| FISCAL YEAR 2006 | 16,010 |
| FISCAL YEAR 2007 | 31,240 |
| FISCAL YEAR 2008 | 30,850 |
| THEREAFTER | 116,483 |
| TOTAL | $ 196,406 |

## {7} INVESTMENT IN U.S. TREASURY SECURITIES

The composition of investments and related receivables at September 30, 2003 and 2002 is as follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| INVESTMENTS, AMORTIZED COST | $ 3,745,490 | 3,570,586 |
| INTEREST RECEIVABLE | 56,205 | 58,957 |
| TOTAL | $ 3,801,695 | 3,629,543 |

The amortized cost and estimated fair value of investments in U.S. Treasury securities are as follows (dollars in thousands):

| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | OTHER ADJUSTMENTS | ESTIMATED FAIR VALUE |
|---|---|---|---|---|---|
| AT SEPT. 30, 2003 | $ 3,745,490 | 434,077 | (62,204) | 6,408 | 4,123,771 |
| AT SEPT. 30, 2002 | $ 3,570,586 | 452,661 | (411) | 0 | 4,022,836 |

At September 30, 2003, the securities held at year end had an interest range of 0% to 13.875% and a maturity period from one month to almost 25 years.

OPIC holds its securities to maturity. The amortized cost and estimated fair value of U.S. Treasury securities at September 30, 2003, by contractual maturity, are shown below (dollars in thousands):

| | AMORTIZED COST | ESTIMATED FAIR VALUE |
|---|---|---|
| DUE IN ONE YEAR OR LESS | $ 624,725 | 705,213 |
| DUE AFTER ONE YEAR THROUGH FIVE YEARS | 1,337,564 | 1,539,941 |
| DUE AFTER FIVE YEARS THROUGH 10 YEARS | 1,113,198 | 1,207,978 |
| DUE AFTER 10 YEARS | 676,411 | 670,639 |
| TOTAL | $ 3,751,898 | 4,123,771 |

## {8} STATUTORY LIMITATIONS ON THE ISSUANCE OF INSURANCE AND FINANCE

OPIC issues insurance and financing under a single limit for both programs fixed by statute in the FAA. At September 30, 2003, this combined limit was $29 billion, of which combined insurance and finance utilization was $13.3 billion.

## {9} POLITICAL RISK INSURANCE

Insurance revenues include the following components for the years ended September 30 (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| POLITICAL RISK INSURANCE PREMIUMS | $ 46,602 | 55,080 |
| MISCELLANEOUS INSURANCE INCOME | 137 | 2,571 |
| TOTAL INSURANCE REVENUE | $ 46,739 | 57,651 |

OPIC's capital, retained earnings, and reserves available for insurance at both September 30, 2003 and 2002 totaled $2.3 billion. Charges against retained earnings could arise from (A) outstanding political risk insurance contracts, (B) pending claims under insurance contracts, and (C) guaranties issued in settlement of claims arising under insurance contracts.

*(a) Political Risk Insurance*

OPIC insures investments for up to 20 years against three different risks: inconvertibility of currency, expropriation, and political violence. Insurance coverage against inconvertibility protects the investor from increased restrictions on the investor's ability to convert local currency into U.S. dollars. Inconvertibility insurance does not protect against devaluation of a country's currency.

Expropriation coverage provides compensation for losses due to confiscation, nationalization, or other governmental actions that deprive investors of their fundamental rights in the investment.

Insurance against political violence insures investors against losses caused by politically motivated acts of violence (war, revolution, insurrection, or civil strife, including terrorism and sabotage).

Under most OPIC insurance contracts, investors may obtain all three coverages, but claim payments may not exceed the single highest coverage amount. Claim payments are limited by the value of the investment and the amount of current coverage in force at the time of the loss and may be reduced by the insured's recoveries from other sources. In addition, in certain contracts, OPIC's requirement to pay up to the single highest coverage amount is further reduced by stop-loss and risk-sharing agreements. Finally, losses on insurance claims may be reduced by recoveries by OPIC as subrogee of the insured's claim against the host government. Payments made under insurance contracts that result in recoverable assets are reported as assets acquired in insurance settlements.

OPIC's Maximum Contingent Liability at September 30, 2003 and 2002 was $ 6.9 billion and $6.8 billion. This amount is OPIC's estimate of maximum exposure to insurance claims, which includes standby coverage for which OPIC is committed but not currently at risk. A more realistic measure of OPIC's actual exposure to insurance claims is the sum of each single highest "current" coverage for all contracts in force, or Current Exposure to Claims (CEC). OPIC's CEC at September 30, 2003 and 2002 was $ 4.9 billion and $4.8 billion, respectively.

*(b) Pending Claims*

At September 30, 2003 and 2002, the total amount of compensation formally requested in insurance claims for which no determination of specific liability had yet been made was approximately $291.2 million and $349.6 million, respectively. In addition to requiring formal applications for claimed compensation, OPIC's contracts generally require investors to notify OPIC promptly of host government action that the investor has reason to believe is or may become a claim. Compliance with this notice provision sometimes results in the filing of notice of events that do not mature into claims.

The highly speculative nature of such notice, both as to the likelihood that the event referred to will ripen into a claim and the amount, if any, of compensation that may become due, leads OPIC to follow a policy of not recording a specific liability related to such notices in its financial statements. Any claims that might arise from these situations are factored into the reserves for political risk insurance.

*(c) Claims Settlement Guaranties and Indemnities*

OPIC also has off-balance-sheet risk in connection with one claim settlement. OPIC settled a claim in 1991 through a guaranty of $30 million of host government obligations. Payments by the host government have reduced OPIC's exposure to $8 million and $10.2 million at September 30, 2003 and 2002, respectively. Any claims that might arise from these situations are factored into the nonspecific reserve for political risk insurance. In 2003, OPIC benefited both from large installment payments of claims and improvements in the risk ratings of the host country government, thus allowing for a reduction in the allowance held against these insurance claims receivable and a reduction in the associated provisions for political risk insurance.

Changes in the reserve for political risk insurance during fiscal years 2003 and 2002 were as follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| BEGINNING BALANCE | $ 275,000 | 260,000 |
| CHARGE OFFS | (514) | (2,431) |
| RECOVERIES | — | 61 |
| INCREASE (DECREASE) IN PROVISIONS | (41,817) | 11,710 |
| TRANSFERS FROM OTHER RESERVES | 27,331 | 5,660 |
| ENDING BALANCE | $ 260,000 | 275,000 |

## {10} INVESTMENT FINANCING

OPIC is authorized to provide investment financing to projects through direct loans and investment guaranties. Project financing provides medium- to long-term funding through direct loans and investment guaranties to ventures involving significant equity and/or management participation by U.S. businesses. Project financing looks for repayment from the cash flows generated by projects, and as such, sponsors need not pledge their own general credit beyond the required project completion period.

Investment funds use direct loans and investment guaranties to support the creation and capitalization of investment funds that make direct equity and equity-related investments in new, expanding, or privatizing companies in emerging market economies. The fund managers, selected by OPIC, are experienced, private investment professionals. OPIC's participation in a fund takes the form of long-term, secured loans and loan guaranties that supplement the fund's privately raised equity. OPIC's guaranty may be applied only to the debt portion of the fund's capital and, for certain funds, to accrued interest on that debt. OPIC does not guaranty any of the fund's equity, and all equity investments in OPIC-backed funds are fully at risk.

OPIC's authorization to make direct loans and investment guaranties can be found in sections 234(c) and 234 (b) of the Foreign Assistance Act (FAA), respectively. Direct loans and investment guaranties are committed in accordance with the Federal Credit Reform Act of 1990, pursuant to which loan disbursements and any claim payments for these commitments have been funded through appropriations actions, borrowings from the U.S. Treasury, and the accumulation of earnings or collection of fees. In fiscal year 2003, $24 million was made available for credit funding costs. In fiscal year 2002, OPIC received no credit funding authority for new loan commitments; however, approximately $19 million in carryover 2001 credit authority was available for use in fiscal year 2002. OPIC is in compliance with all relevant limitations and credit funding appropriations guidance. OPIC's capital, retained earnings, and reserves available for claims on its investment financing at September 30, 2003 and 2002 totaled $2.6 billion and $2.1 billion, respectively.

*Direct Loans:* Direct loans are made for projects in developing and other eligible countries involving U.S. small business or cooperatives, on terms and conditions established by OPIC. Direct loan exposure at September 30, 2003 totaled $716 million, of which $190 million was outstanding.

Interest income is not accrued on direct loans that have payments that are more than 90 days past due. Loans with payments more than 90 days past due totaled $23.8 million at September 30, 2003 and $21.7 million at September 30, 2002. If interest income had been accrued on those loans, it would have approximated $600,000 during fiscal year 2003 and $800,000 during fiscal year 2002. Interest collected on delinquent loans and recorded as income when received amounted to $1.2 million and $1.1 million for fiscal years 2003 and 2002, respectively.

Changes in the allowance for uncollectible loans during fiscal years 2003 and 2002 were as follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| BEGINNING BALANCE | $ 19,373 | 10,079 |
| CHARGE OFFS | (313) | (920) |
| RECOVERIES | 1,815 | 2,536 |
| INCREASE IN PROVISIONS | 13,303 | 7,482 |
| PROVISION FOR CAPITALIZED INTEREST | 588 | 196 |
| ENDING BALANCE | $ 34,766 | 19,373 |

Investment Guaranties: OPIC's investment guaranty covers the risk of default for any reason. In the event of a claim on OPIC's guaranty, OPIC makes payments of principal and interest to the lender. These payments are recorded as accounts receivable resulting from investment guaranties. The loans that are guaranteed can bear either fixed or floating rates of interest and are payable in U.S. dollars. OPIC's losses on payment of a guaranty are reduced by the amount of any recovery from the borrower, the host government, or through disposition of assets acquired upon payment of a claim. Guaranties extend from 5 to 17 years for project finance and from 10 to 12 years for investment funds.

Credit risk represents the maximum potential loss due to possible nonperformance by borrowers under terms of the contracts. OPIC's exposure to credit risk under investment guaranties, including claim-related assets, was $5.7 billion at September 30, 2003, of which $3.1 billion was outstanding. Of the $3.1 billion, $1.9 billion related to project finance and $1.2 billion related to investment fund guaranties. Included in the $1.2 billion of investment fund exposure is $682 million of estimated interest that could accrue to the guaranty lender. This interest generally accrues over a 10-year period, payable upon maturity. Upon complete nonperformance by the borrower, OPIC would be liable for principal outstanding and interest accrued on disbursed investment funds. At September 30, 2003, $274 million of the $682 million had actually accrued to the guaranteed lender on disbursed investment funds; the remainder represents an estimate of interest that could accrue to the guaranteed lender over the remaining investment fund term.

Changes in the reserve for investment guaranties during fiscal years 2003 and 2002 were as follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| BEGINNING BALANCE | $ 570,000 | 550,000 |
| CHARGE OFFS | — | (119,485) |
| RECOVERIES | 79 | — |
| INCREASE IN PROVISIONS | 59,921 | 139,485 |
| ENDING BALANCE | $ 630,000 | 570,000 |

## {11} CLAIM-RELATED ASSETS

Claim related assets may result from payments on claims under either the insurance program or the investment financing program. Under the investment financing program, when OPIC pays a guaranteed party, a receivable is created. Under the insurance program, similar receivables reflect the value of assets, generally shares of stock, local currency, or host country notes, that may be acquired as a result of a claim settlement. These receivables are generally collected over a period of 5 to 15 years.

Changes in the allowance for doubtful recoveries for assets resulting from investment guaranties during fiscal years 2003 and 2002 were as follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| BEGINNING BALANCE | $ 45,261 | 29,576 |
| INCREASE (DECREASE) IN PROVISIONS | (1,061) | 15,195 |
| RECOVERIES | 475 | 490 |
| ENDING BALANCE | $ 44,675 | 45,261 |

Changes in the allowance for doubtful recoveries for assets acquired in insurance claims settlements during fiscal years 2003 and 2002 were as follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| BEGINNING BALANCE | $ 89,808 | 97,690 |
| RECOVERIES OF CAPITALIZED INTEREST | — | (2,222) |
| TRANSFERS TO OTHER RESERVES | (27,331) | (5,660) |
| ENDING BALANCE | $ 62,477 | 89,808 |

## {12} STATUTORY RESERVES AND FULL FAITH AND CREDIT

Section 235(c) of the FAA established a fund with separate accounts known as the Insurance Reserve and the Guaranty Reserve for the respective discharge of potential future liabilities arising from insurance or from guaranties issued under Section 234(b) of the FAA. These amounts may be increased by transfers from retained earnings or by appropriations. In FY2003, OPIC's Board of Directors authorized the allocation of all retained earnings to these statutory reserves, thereby reflecting OPIC's increased ability to absorb potential losses without having to seek appropriated funds. The allocation of retained earnings to the Insurance Reserve and the Guaranty Reserve is based on the amount of maximum exposure outstanding for insurance and guaranties, respectively. In FY2002, no allocation of retained earnings was made. The allocation of retained earnings to the Insurance Reserve and the Guaranty Reserve was based on the amount of maximum exposure outstanding for insurance and guaranties, respectively.

All valid claims arising from insurance and guaranties issued by OPIC constitute obligations on which the full faith and credit of the United States of America is pledged for full payment. At September 30, 2003 and 2002, the statutory Insurance Reserve totaled $2 billion and $1.8 billion, respectively, and the statutory Guaranty Reserve totaled $1.8 billion and $1.4 billion, respectively. Should funds in OPIC's reserves not be sufficient to discharge obligations arising under insurance, and if OPIC exceeds its $100 million borrowing authority authorized by statute for its insurance program, funds would have to be appropriated to fulfill the pledge of full faith and credit to which such obligations are entitled. Standing authority for such appropriations is contained in Section 235(f) of the FAA. The Federal Credit Reform Act of 1990 authorizes permanent, indefinite appropriations and borrowings from the U.S. Treasury, as appropriate, to carry out all obligations resulting from the investment financing program.

## {13} DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated values of each class of financial instrument for which it is practicable to estimate a fair value at September 30, 2003 are as follows (dollars in thousands):

| | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|
| FINANCIAL ASSETS: | | |
| CASH | $ 909,934 | 909,934 |
| U.S. TREASURY SECURITIES | 3,745,490 | 4,123,771 |
| INTEREST RECEIVABLE ON SECURITIES | 56,205 | 56,205 |
| DIRECT LOANS | 155,499 | 155,499 |
| ACCOUNTS RECEIVABLE FROM INVESTMENT GUARANTIES | 78,044 | 78,044 |
| ASSETS ACQUIRED IN INSURANCE CLAIMS SETTLEMENTS | 178,088 | 178,088 |
| FINANCIAL LIABILITIES: | | |
| BORROWINGS FROM THE U.S. TREASURY AND RELATED INTEREST PAYABLE | $ 196,453 | 202,173 |

The methods and assumptions used to estimate the fair value of each class of financial instrument are described below:

*Cash:* The carrying amount approximates fair value because of the liquid nature of the cash, including restricted cash.

*U.S. Treasury Securities:* The fair values of the U.S. Treasury securities are estimated based on quoted prices for Treasury securities of the same maturity available to the public. (OPIC is not authorized, however, to sell its securities to the public, but is instead restricted to direct transactions with the U.S. Treasury.) Interest receivable on the securities is due within 6 months and is considered to be stated at its fair value.

*Direct Loans, Accounts Receivable Resulting from Investment Guaranties, and Assets Acquired in Insurance Claims Settlements:* These assets are stated on the balance sheet at the present value of the amount expected to be realized. This value is based on management's quarterly review of the portfolio and considers specific factors related to each individual receivable and its collateral. The stated value on the balance sheet is also management's best estimate of fair value for these instruments.

*Borrowings from the U.S. Treasury:* The fair value of borrowings from the U.S. Treasury is estimated based on the face value of borrowings discounted over their term at year-end rates. These borrowings were required by the Federal Credit Reform Act, and repayment terms are fixed by the U.S. Treasury in accordance with that Act.

*Investment Guaranties Committed and Outstanding:* OPIC's investment guaranties are intended to provide a means of mobilizing private capital in markets where private lenders would be unwilling to lend without the full faith and credit of the U.S. Government. Given the absence of a market for comparable instruments, it is not meaningful to calculate their fair value.

## {14} OPERATING LEASE

Minimum future rental payments under the 15-year lease at 1100 New York Avenue, N.W. will be approximately $5 million annually, with additional adjustments tied to the consumer price index. Lease incentives related to OPIC's 1992 move to this location totaled $16.7 million. The value of these incentives is deferred in the balance sheets and is being amortized to reduce rent expense on a straight-line basis over the 15-year life of the lease. Rental expense for 2003 and 2002 was approximately $5.1 million and $5.0 million, respectively.

## {15} PENSIONS

OPIC's permanent employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). For CSRS, OPIC withheld 7.0% of employees' gross 2003 earnings. In 2002 through January 11, 2003, OPIC contributed 7.5% of employees' gross earnings, and on and after January 12, 2003, 7.0%. The sums were transferred to the Civil Service Retirement Fund from which this employee group will receive retirement benefits. For FERS, OPIC withheld 0.80% of employees' gross earnings. In 2003 and 2002, OPIC contributed 10.7% of employees' gross earnings. This sum is transferred to the FERS fund from which the employee group will receive retirement benefits. An additional 6.2% of the FERS employees' gross earnings is withheld, and that, plus matching contributions by OPIC, are sent to the Social Security System from which the FERS employee group will receive social security benefits. OPIC occasionally hires employees on temporary appointments, and those employees are covered by the social security system under which 6.2% of earnings is withheld and matched by OPIC.

FERS (after an initial eligibility period) and CSRS employees may elect to participate in the Thrift Savings Plan (TSP). Based on employee elections, 0% to 8% of gross CSRS earnings is withheld and 0% to 13% of gross FERS earnings is withheld subject to the IRS elective deferral limit for the tax year. FERS employees receive an automatic 1% contribution from OPIC. Amounts withheld for FERS employees are matched by OPIC, up to an additional 4%, for a total of 5%.

Although OPIC funds a portion of employee pension benefits under the CSRS, the FERS, and the TSP, and makes necessary payroll withholdings, it has no liability for future payments to employees under these programs. Furthermore, separate information related to OPIC's participation in these plans is not available for disclosure in the financial statements. Paying retirement benefits and reporting plan assets and actuarial information is the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board, which administer these plans. Data regarding the CSRS and FERS actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

## {16} POSTRETIREMENT BENEFITS

Until January 25, 2003, OPIC sponsored three defined benefit postretirement plans that covered qualifying employees. On that date, OPIC's plans providing major medical coverage and dental and vision coverage were discontinued. The plan providing life insurance remains in effect. The medical and the dental and vision plans were both contributory plans. The life insurance plan includes options that are contributory and noncontributory.

Shown below is disclosure information for the year ended September 30, 2002 (dollars in thousands):

| | 2002 |
|---|---|
| RECONCILIATION OF ACCRUED BENEFIT COST: | |
| BENEFIT LIABILITY AT END OF YEAR | $ (3,332) |
| FAIR VALUE OF PLAN ASSETS AT END OF YEAR | — |
| FUNDED STATUS AT YEAR-END | (3,332) |
| UNRECOGNIZED NET ACTUARIAL GAIN | (907) |
| ACCRUED BENEFIT COST | $ (4,239) |
| COMPONENTS OF NET PERIODIC BENEFIT COST: | |
| SERVICE COST | $100 |
| INTEREST COST | 206 |
| EXPECTED RETURN ON PLAN ASSETS | — |
| RECOGNIZED NET ACTUARIAL LOSS | (96) |
| NET PERIODIC BENEFIT COST | $ 210 |

Of the $4.2 million accrued benefit cost, approximately $4 million relates to the major medical plan and the vision and dental plans with the remainder relating to the OPIC-sponsored life insurance program.

To ensure that OPIC employees and retirees would not lose eligibility for health care benefits in retirement, OPIC paid the Office of Personnel Management (OPM) the actuarial cost of transferring those employees into the Federal Employees Health Benefit Program (FEHBP). The $2.7 million cost of the transfer was charged against the $4 million accrued benefit cost for the medical and vision and dental plans. The remaining accrued benefit cost of $1.3 million represents a gain on the closeout of the plans and is recorded in net income for FY 2003.

Change in benefit liability:

| | 2,003 | 2002 |
|---|---|---|
| BENEFIT LIABILITY AT BEGINNING OF YEAR | $ (3,332) | (3,324) |
| SERVICE COST | — | (100) |
| INTEREST COST | — | (206) |
| ACTUARIAL GAIN/LOSS | 3,332 | 191 |
| BENEFITS PAID | — | 107 |
| BENEFIT LIABILITY AT END OF YEAR | $ 0 | (3,332) |

## {17} CONCENTRATION OF RISK

OPIC is subject to certain risks associated with financial instruments not reflected in its balance sheet. These financial instruments include political risk insurance, loan guaranties, and committed-but-undisbursed direct loans.

With respect to political risk insurance, OPIC insures against currency inconvertibility, expropriation of assets, and political violence. Additionally, OPIC provides investment financing through direct loans and investment guaranties.

OPIC's credit policy is to take a senior security position in the assets of the projects or transactions it guaranties. The nature and recoverable value of the collateral pledged to OPIC varies from transaction to transaction and may include tangible assets, cash collateral or equivalents, and/or a pledge of shares in the project company as well as personal and corporate guaranties. OPIC takes all necessary steps to protect its position in such collateral and retains the ability to enforce its rights as a secured lender if such action becomes necessary.

The following is a summary of OPIC's off-balance-sheet risk at September 30, 2003 and 2002 (dollars in thousands):

| | TOTAL | 2003 OUTSTANDING | UNUSED COMMITMENTS |
|---|---|---|---|
| GUARANTIES | $ 5,530,542 | 2,990,630 | 2,539,912 |
| UNDISBURSED DIRECT LOANS | 525,870 | — | 525,870 |
| INSURANCE | 6,890,413 | 4,919,103 | 1,971,310 |

| | TOTAL | 2003 OUTSTANDING | UNUSED COMMITMENTS |
|---|---|---|---|
| GUARANTIES | $ 5,717,443 | 3,027,938 | 2,689,505 |
| UNDISBURSED DIRECT LOANS | 222,943 | — | 222,943 |
| INSURANCE | 6,810,941 | 4,829,428 | 1,981,513 |

OPIC's off-balance-sheet finance and insurance exposure involves coverage outside of the United States. The following is a breakdown of such total commitments at September 30, 2003 by major geographical area (dollars in thousands):

| | LOAN GUARANTIES | UNDISBURSED PORTION ON DIRECT LOANS | INSURANCE |
|---|---|---|---|
| AFRICA | $ 379,724 | 272,930 | 522,593 |
| ASIA | 981,303 | 92,271 | 1,441,529 |
| EUROPE | 705,371 | 22,530 | 690,465 |
| LATIN AMERICA | 1,694,317 | 71,739 | 3,587,590 |
| MIDDLE EAST | 149,943 | — | 305,150 |
| NIS (NEW INDEPENDENT STATES) | 943,928 | 63,900 | 343,086 |
| WORLDWIDE | 675,956 | 2,500 | |
| | $ 5,530,542 | 525,870 | 6,890,413 |

At September 30, 2003, OPIC's largest finance and insurance exposure was in the following countries and sectors (dollars in thousands):

| COUNTRY | | SECTOR | |
|---|---|---|---|
| BRAZIL | $ 1,203,576 | POWER GENERATION | $ 4,182,879 |
| TURKEY | 1,042,415 | FINANCIAL SERVICES | 3,650,048 |
| VENEZUELA | 999,999 | OIL AND GAS SERVICES | 2,160,388 |
| INDONESIA | 794,019 | MANUFACTURING | 1,044,497 |
| ARGENTINA | 783,341 | COMMUNICATIONS | 588,012 |

## {18} OTHER CONTINGENCIES

OPIC is currently involved in certain legal claims and has received notifications of potential claims in the normal course of business. Management believes that the resolution of these matters will not have a material adverse impact on OPIC.

## {19} ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTIES

In FY 2003, OPIC recognized a guaranty liability and a guaranty fee receivable of $70 million. OPIC received $270,000 of guaranty fee and other income on the investment guaranties issued since December 31, 2002, all of which represents guaranty fee income.

## {20} WRITE-DOWN OF INTERNALLY DEVELOPED SOFTWARE

In fiscal years 2003 and 2002, management analyzed previously capitalized costs associated with internally developed software and determined that portions of those costs would no longer be of future benefit and should be written down by $1.5 million and $4.4 million, respectively. The write-down was calculated as the difference between the carrying amount less costs identified by management as having future economic benefit, in accordance with FAS 144, "Accounting for Impairment or Disposal of Long-lived Assets."

## {21} STATUTORY COVENANTS

OPIC's enabling statute stipulates both operating and financial requirements with which OPIC must comply. In management's opinion, OPIC is in compliance with all such requirements.

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PRINTING: FONTANA LITHOGRAPH, INC.

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