Translation of financial statements originally issued in Spanish

Panama Canal Authority

Report and Financial Statements
September 30, 2004 and 2003

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Index to Financial Statements
September 30, 2004 and 2003

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

Translation of a report originally issued in Spanish
(See explanation in the notes to the financial statements)

To the Board of Directors of the
Panama Canal Authority

We have audited the accompanying balance sheets of the Panama Canal Authority as of September 30, 2004 and 2003, and the related statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit 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 the Panama Canal Authority as of September 30, 2004 and 2003, the results of its operations, and its cash flows for the years then ended, in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board.

PricewaterhouseCoopers (signed)

November 26, 2004
Panama, Republic of Panama

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Balance Sheets
September 30, 2004 and 2003
(In thousands of balboas)

	2004	2003
Assets		
Property, plant, and equipment, net of accumulated depreciation (Notes 2 and 15)	B/. 2,007,551	B/. 1,938,647
Account receivable (Note 3)	20,140	20,140
Current assets		
Cash (Note 4)	632,175	438,799
Investments (Note 5)	139,260	111,627
Accounts receivable (Note 6)	17,189	16,560
Inventories:		
Materials and supplies - net of allowances for obsolete and excess items of B/.5,300	25,129	25,746
Fuel	1,142	2,132
Other current assets	5,435	4,022
Total current assets	820,330	598,886
Total assets	B/. 2,848,021	B/. 2,557,673
Equity and Liabilities		
Equity		
Equity (Note 15)	B/. 1,904,568	B/. 1,908,682
Retained earnings:		
Appropriated retained earnings (Note 7)	579,241	382,616
Unappropriated retained earnings (Note 8)	183,708	106,754
Total equity	2,667,517	2,398,052
Severance pay (Note 9)	10,000	10,000
Current liabilities		
Accounts payable (Note 10)	69,344	61,803
Provision for marine accident claims (Note 11)	24,887	21,252
Accrued salaries and leave	73,392	62,099
Other liabilities	2,881	4,467
Total current liabilities	170,504	149,621
Total equity and liabilities	B/. 2,848,021	B/. 2,557,673

The accompanying notes are an integral part of these financial statements.

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Statements of Income
For the Years Ended September 30, 2004 and 2003
(In thousands of balboas)

	2004	2003
Revenues		
Toll revenues	B/. 757,685	B/. 665,967
Vessel-transit-related services	238,657	197,589
	996,342	863,556
Other revenues		
Electric power sales	34,898	26,541
Potable water sales	17,167	17,624
Interest income	9,077	8,678
Miscellaneous	6,003	4,408
Total other revenues	67,145	57,251
Total revenues	1,063,487	920,807
Expenses		
Fee per net ton (Note 10)	173,485	157,757
Salaries and wages	312,509	305,464
Employee benefits	40,494	39,917
Materials and supplies	34,968	33,173
Fuel	25,789	20,071
Transportation, meals, and lodging abroad	624	915
Allowances and local transportation	733	750
Services rendered by third parties	33,137	37,246
Tesoro Nacional (Panamanian Treasury) – public service fees	29,000	29,000
Insurance	6,299	5,545
Marine accidents, net	5,636	6,420
Obsolete and excess inventories, net	1,288	1,314
Other expenses	10,482	9,614
	674,444	647,186
Less capitalized labor and materials (Note 12)	52,087	39,334
	622,357	607,852
Income before depreciation	441,130	312,955
Depreciation	60,797	54,988
Net income (Note 13)	B/. 380,333	B/. 257,967

The accompanying notes are an integral part of these financial statements.

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Statements of Changes in Equity
For the Years Ended September 30, 2004 and 2003
(In thousands of balboas)

		Retained Earnings		
	Equity	Appropriated	Unappropriated	Total
Balance as of September 30, 2002	B/. 1,908,940	B/. 231,403	B/. 88,755	B/. 2,229,098
Adjustment to assets transferred by the Government of Panama (Note 15)	(96)	-	-	(96)
Transfer to Panamanian Treasury (Note 8)	-	-	(88,755)	(88,755)
Net income	-	-	257,967	257,967
Contributions to the investment program (Note 7)	-	126,213	(126,213)	-
Reserve for catastrophic risks (Note 7)	-	15,000	(15,000)	-
Contingencies and working capital corporate reserve (Note 7)	-	10,000	(10,000)	-
Assets transferred to the Government of Panama (Note 15)	(162)	-	-	(162)
Balance as of September 30, 2003	1,908,682	382,616	106,754	2,398,052
Adjustment to assets transferred by the Government of Panama (Note 15)	(35)	-	-	(35)
Transfer to Panamanian Treasury (Note 8)	-	-	(106,754)	(106,754)
Net income	-	-	380,333	380,333
Contributions to the investment program (Note 7)	-	101,925	(101,925)	-
Reserve for catastrophic risks (Note 7)	-	10,000	(10,000)	-
Contingencies and working capital corporate reserve (Note 7)	-	51,700	(51,700)	-
Reserve for the social and environmental program of the Canal watershed (Note 7)	-	5,000	(5,000)	-
Other equity reserves (Note 7)	-	28,000	(28,000)	-
Assets transferred to the Government of Panama (Note 15)	(4,079)	-	-	(4,079)
Balance as of September 30, 2004	B/. 1,904,568	B/. 579,241	B/. 183,708	B/. 2,667,517

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows
For the Years Ended September 30, 2004 and 2003
(In thousands of balboas)

	2004	2003
Cash flows from operating activities		
Net income	B/. 380,333	B/. 257,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	60,797	54,988
Loss on retirement or disposal of property, plant, and equipment	2,866	681
Obsolete and excess inventories, net	1,288	1,314
Provision for marine accident claims	5,636	6,420
Net changes in operating assets and liabilities:		
Accounts receivable	(629)	(5,119)
Inventories	320	(1,449)
Other current assets	(1,413)	(1,408)
Current liabilities	15,247	21,467
Net cash provided by operating activities	464,445	334,861
Cash flows from investing activities		
Acquisition and installation of property, plant, and equipment, net	(136,682)	(112,603)
Net increase in investments	(27,633)	(14,970)
Net decrease (increase) in time deposits with original maturities over 90 days	32,344	(128,627)
Net cash used in investing activities	(131,971)	(256,200)
Cash flows from financing activities		
Transfer to Panamanian Treasury	(106,754)	(88,755)
Net increase (decrease) in cash and cash equivalents	225,720	(10,094)
Cash and cash equivalents at beginning of the year	143,849	153,943
Cash and cash equivalents at end of the year (Note 4)	B/. 369,569	B/. 143,849
Investing activities that did not represent cash outlays		
Adjustment to assets transferred by the Government of Panama (Note 15)	B/. (35)	B/. (96)
Assets transferred to the Government of Panama (Note 15)	(4,079)	(162)
	B/. (4,114)	B/. (258)

The accompanying notes are an integral part of these financial statements.

Explanation Added for Translation into English

The accompanying financial statements have been translated from Spanish into English for international use. These financial statements are presented in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Certain accounting practices applied by the Panama Canal Authority that conform with International Financial Reporting Standards may not conform with accounting principles generally accepted in the country of use.

1. Organization and Summary of Significant Accounting Policies

Organization

The Panama Canal Authority (PCA) is an autonomous agency of the Government of Panama, established in conformity with Article 310 of the Political Constitution of the Republic of Panama. PCA is responsible for the administration, operation, conservation, maintenance, modernization, and other related activities of the Panama Canal (the Canal), necessary to ensure the safe, uninterrupted, efficient and profitable operation of the Canal in accordance with the constitutional and legal regulations in effect. PCA has its own patrimony and the right to manage it. PCA was organized on June 11, 1997 under Law No.19 (Organic Law).

PCA, in coordination with government entities designated by law, is also responsible for the management, maintenance, use and conservation of the water resources of the Canal watershed, including lakes and their tributary streams.

With the expiration of the 1977 Torrijos-Carter Treaty at noon on December 31, 1999, the Canal reverted to the Republic of Panama free of debts and liens, becoming an inalienable patrimony of the Republic of Panama, open to the peaceful and uninterrupted passage of vessels of all nations and whose use will be subject to the requirements and conditions established by the Political Constitution of Panama, the Organic Law of PCA, and its management.

Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of PCA are as follows:

General

The accompanying financial statements were prepared under the historical cost convention, in conformity with International Financial Reporting Standards issued by the International Accounting Standard Board that were in effect on the date the financial statements were issued. PCA's management approved these financial statements on November 23, 2004. As of September 30, 2004, PCA had a total of 8,965 employees, of which 8,226 were permanent and 739 were temporary. As of September 30, 2003, the total was 8,946, of which 8,220 were permanent and 726 were temporary.

Financial Instruments
Financial assets and liabilities on the balance sheets include cash, accounts receivables, investments, and accounts payables. Financial instruments are classified as assets or liabilities according to the substance of the contractual agreement from which they originated. The interests, gains and losses generated by a financial instrument, classified as asset or liability, are recorded as expenses or revenues or against the respective provision, if applicable.

Monetary Unit
PCA maintains its accounting records in balboas (B/.), the monetary unit of the Republic of Panama, which is at par with the US dollar. The Republic of Panama has not issued its own paper currency, and in lieu, the US dollar is used as legal tender.

Property, Plant, and Equipment
Property, plant, and equipment greater than or equal to five thousand balboas are recorded at cost. The cost of items that are noncapitalizable or under five thousand balboas is expensed as incurred.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the depreciable assets:

Buildings	25 - 75 years
Structures	5 - 100 years
Equipment	3 - 75 years

The useful life of assets is reviewed periodically to ensure that the depreciation period is consistent with the economic benefit expectations of the components of property, plant, and equipment.

The gain or loss resulting from the retirement or disposal of an asset is the difference between the net proceeds and the net book value of the asset. The gain or loss is reflected in the statement of income when incurred, except for buildings and properties that were received from the Government of Panama, which are charged against equity when they are demolished or returned back to the Government of Panama.

Maintenance and repairs are expensed as incurred, while major improvements are capitalized. Recurring costs of dredging the waterway are expensed. Non-recurring dredging costs for substantial improvements to the waterway are capitalized and depreciated over their estimated useful lives.

Construction in progress represents plant and property under construction and includes construction and other direct costs. Such items are not subject to depreciation until the assets are completed and placed in operation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, PCA's cash and cash equivalents consist of cash on hand, deposits in current and saving accounts, and time deposits with original maturity dates of less than 90 days.

Investments

Investments are acquired with the intention to be held to maturity and are recorded at amortized cost. Amortized cost is the initial cost of the investment, plus or minus the cumulative amortization of any discount or premium on acquisition. Amortization is recorded as interest income in the statement of income.

All purchases and sales of investments are recognized on the trade date, which is the date that PCA commits to purchase or sell the asset.

Inventories

Materials, supplies, and fuel are valued at average cost, which does not exceed net realizable value, after allowances for obsolete and excess items.

Revenue Recognition

PCA recognizes toll revenues once vessels complete their transits through the Canal. Other revenues are recognized when services are rendered and interest income on bank deposits and investments are recognized as accrued.

Severance Pay

Severance payments are charged to expense as incurred, except for the portion corresponding to the years of employment with the Panama Canal Commission, as explained in Note 9.

Retirement Benefits

Retirement benefits for PCA employees are provided for through a statutory contribution plan with the Panamanian Social Security (Caja de Seguro Social), the government entity responsible for the administration of retirement benefits. Contributions are made in accordance with parameters established by the Social Security Organic Law. The Panamanian Social Security is responsible for the payment of retirement benefits.

(In thousands of balboas)

Use of Estimates

Preparing the financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. The most significant estimates for these financial statements are the provision for marine accident claims and the allowances for obsolete and excess inventories.

Reclassifications

Some figures on the financial statements for the year ended September 30, 2003, have been reclassified to conform them to the year 2004 presentation.

2. Property, Plant, and Equipment

Property, plant, and equipment, as of September 30, 2004 and 2003, are as follows:

	September 30, 2003 Beginning Balance	Additions	Retirements and Adjustments	September 30, 2004 Ending Balance
Assets				
Land	B/. 1,025,330	B/. -	B/. (3,108)	B/. 1,022,222
Buildings	72,515	8,268	(608)	80,175
Structures	409,601	36,742	(640)	445,703
Equipment	521,136	72,029	(4,346)	588,819
Constructions in progress	109,249	136,682	(117,039)	128,892
	2,137,831	253,721	(125,741)	2,265,811
Accumulated Depreciation				
Buildings	13,836	3,184	(149)	16,871
Structures	53,082	15,816	(143)	68,755
Equipment	132,266	41,797	(1,429)	172,634
	199,184	60,797	(1,721)	258,260
Net value	B/. 1,938,647	B/. 192,924	B/. (124,020)	B/. 2,007,551

(In thousands of balboas)

	September 30, 2002 Beginning Balance	Additions	Retirements and Adjustments	September 30, 2003 Ending Balance
Assets				
Land	B/. 1,025,032	B/. 428	B/. (130)	B/. 1,025,330
Buildings	67,518	5,078	(81)	72,515
Structures	367,911	41,694	(4)	409,601
Equipment	456,103	66,676	(1,643)	521,136
Constructions in progress	110,523	112,604	(113,878)	109,249
	2,027,087	226,480	(115,736)	2,137,831
Accumulated Depreciation				
Buildings	10,286	3,550	-	13,836
Structures	38,200	14,884	(2)	53,082
Equipment	96,631	36,554	(919)	132,266
	145,117	54,988	(921)	199,184
Net value	B/. 1,881,970	B/. 171,492	B/. (114,815)	B/. 1,938,647

For the years ended September 30, 2004 and 2003, PCA recorded losses on disposal of fixed assets for B/.2,866 and B/.681, respectively. During 2004, the main assets disposed of included locomotives, tow tracks, haul trucks, forklift trucks, communication and radar systems. In 2003, retirements included floating marine equipment, portable equipment, radio and communications network systems.

As of September 30, 2004, retirements include buildings with a net book value of B/.35 which were located on an area identified for future widening projects of the Canal. Those buildings were demolished or are in the process of being demolished. (See Note 15)

During 2004, PCA transferred assets to the Government of Panama, which included land for B/.3,108, buildings for B/.419, structures for B/.316, and equipment for B/.236. These assets were transferred to the Government of Panama because they were not useful for the operation of the Canal. (See Note 15)

As of September 30, 2003, retirements include buildings with a net book value of B/.96 which were located on an area identified for future widening projects of the Canal. Those buildings were demolished or are in the process of being demolished. (See Note 15)

During 2003, PCA transferred some assets to the Government of Panama, which included land for B/.130 and equipment for B/.32. These assets were transferred to the Government of Panama because they were not useful for the operation of the Canal. (See Note 15)

(In thousands of balboas)

3. Account Receivable

The account receivable from the Office of Transition Administration (OTA) represents the portion of the Canal's investment program that was not transferred by the Panama Canal Commission (the Commission) to PCA on December 31, 1999. From this fund, which has no due date, OTA owes PCA the interests generated from May 2004 through September 30, 2004. OTA was terminated on October 1, 2004, and its responsibility to pay this fund to PCA was transferred to the General Services Administration (GSA).

4. Cash

As of September 30, 2004 and 2003, cash is composed as follows:

	2004	2003
Cash on hand	B/. 26	B/. 27
Deposits in current accounts	56,531	34,321
Deposits in saving accounts	59,959	49,501
Time deposits with original maturities under 90 days	253,053	60,000
Total cash and cash equivalents	369,569	143,849
Time deposits with original maturities over 90 days not exceeding 360 days	262,606	294,950
	B/. 632,175	B/. 438,799

Article 44 of the Organic Law states that PCA's funds may be placed in short-term investment grade instruments and may not be used to buy other types of financial investment instruments issued by Panamanian or foreign public or private entities, or to grant loans to such entities or to the Panamanian Government. All investments in time deposits are placed in investment grade banks.

(In thousands of balboas)

5. Investments

Investments as of September 30, 2004 and 2003, are as follows:

	2004	2003
Fair value	B/. 139,032	B/. 111,683
Unrealized loss (gain)	228	(56)
Amortized cost	B/. 139,260	B/. 111,627

Investments were acquired with the intention to be held to maturity, and are mainly composed of bonds. All the investments are short term and have been placed in investment grade instruments.

Changes in investments held to maturity, during the years ended September 30, 2004 and 2003, are stated as follows:

	2004	2003
Beginning balance	B/. 111,627	B/. 96,657
Additions	251,594	355,050
Redemptions	(223,961)	(340,080)
Ending balance	B/. 139,260	B/. 111,627

6. Accounts Receivable

As of September 30, 2004 and 2003, the accounts receivable are stated as follows:

	2004	2003
Transit-related services	B/. 3,540	B/. 2,979
Electric power sales	7,857	7,603
Other services	891	747
Government entities	4,901	5,231
	B/. 17,189	B/. 16,560

Accounts receivable from government entities include B/.4,202 and B/.4,530 in 2004 and 2003, respectively, due from the National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales [IDAAN]) for water treatment services provided by PCA.

(In thousands of balboas)

7. Appropriated Retained Earnings

Changes in appropriated retained earnings are stated as follows:

	Beginning Balance	Appropriations	Ending Balance
2004			
Investment program	B/. 341,616	B/. 101,925	B/. 443,541
Reserve for catastrophic risks	26,000	10,000	36,000
Social and environmental program of the Canal watershed	5,000	5,000	10,000
Contingencies and working capital corporate reserve	10,000	51,700	61,700
Other equity reserves	-	28,000	28,000
	B/. 382,616	B/. 196,625	B/. 579,241
2003			
Investment program	B/. 215,403	B/. 126,213	B/. 341,616
Reserve for catastrophic risks	11,000	15,000	26,000
Social and environmental program of the Canal watershed	5,000	-	5,000
Contingencies and working capital corporate reserve	-	10,000	10,000
	B/. 231,403	B/. 151,213	B/. 382,616

Article 41 of the Organic Law allows PCA to set aside funds from net income of the year to cover the costs of the investment program and the modernization and expansion of the Canal, as well as for other equity reserves that may be needed.

The funds for the investment program are determined based on investments expected to be realized during the year.

The equity reserves established up to date are as follows:

Reserve for Catastrophic Risks
The Board of Directors approved a reserve for catastrophic risks to cover the deductibles on the catastrophic insurance policy. During fiscal year 2003, PCA recorded the amount of B/.15,000. In fiscal year 2004, the Board of Directors approved the increase of this reserve by B/.10,000 to complete the maximum of B/.36,000, as of September 30, 2004.

Reserve for the Social and Environmental Program of the Canal Watershed
The Board of Directors approved the establishment of a reserve to finance the social and environmental program of the Canal watershed. The purpose of this program is to preserve the natural resources and to promote the development and integral management of the watershed. During fiscal year 2003, PCA did not make appropriations to this reserve. In fiscal year 2004, the Board of Directors approved the increase of this reserve by B/.5,000 for a total of B/.10,000, as of September 30, 2004.

Reserve for Contingencies and Working Capital
The Board of Directors approved a reserve for contingencies and working capital. The fund of this reserve is defined as the average of 30 days of Canal revenues or invoicing and its funding will be made according to the periodicity agreed by the Board of Directors. During fiscal year 2003, B/.10,000 was reserved. In fiscal year 2004, the Board of Directors approved the increase of this reserve by B/.51,700 for a total of B/.61,700, as of September 30, 2004.

Other Equity Reserves
In addition, the Board of Directors approved the establishment of other equity reserves for fiscal year 2004. These reserves, for a total of B/. 28,000, cover additional studies of the PCA Master Plan, as well as, programs to support the operation and administration of the Canal.

8. Unappropriated Retained Earnings

Article 41 of the Organic Law also establishes that after covering the costs for the investment program and the reserves detailed in Note 7, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period.

(In thousands of balboas)

9. Severance Pay

In May 1999, the Commission's Board of Directors approved the transfer of B/.10,000 to PCA for severance payments to involuntarily terminated employees. This amount takes into account the employees' years of service with the Commission.

PCA's Personnel Administration Regulation establishes that severance will be paid only to employees who are terminated due to a reduction in force according to the dispositions described in section two of this regulation. All employees with at least 12 continuous months of permanent services will be entitled to severance pay. For severance payment purposes, the years of service that shall be credited are as follows:

1. For employees hired as permanent by the Commission prior to December 18, 1997, the years of service with both, PCA and the Commission, even though the severance pay will be calculated separately.

2. For permanent employees hired after December 18, 1997, only the years of service with PCA starting on December 31, 1999.

Employees that are receiving a retirement pension from the United States of America Federal Government or from the Panamanian Social Security or, according to a resolution by the Panamanian Social Security, any person who will receive a pension within thirty days following severance, are not entitled to severance pay.

All severance payments for the time worked in PCA will be recorded in the statement of income as they are incurred.

10. Accounts Payable

The accounts payable as of September 30, 2004 and 2003, are as follows:

	2004	2003
Panamanian Treasury	B/. 15,479	B/. 14,098
Suppliers and others	53,865	47,705
	B/. 69,344	B/. 61,803

(In thousands of balboas)

Article 39 of the Organic Law establishes that PCA shall pay annually to the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for the use of the Canal. This fee shall be set by PCA. For the year ended September 30, 2004 and 2003, the total of such fees amounted to B/.173,485 and B/.157,757, respectively.

The balance payable to the Panamanian Treasury represents the fee per net ton payment that is outstanding at September 30, 2004 and 2003.

11. Provision for Marine Accident Claims

The provision for marine accident claims for B/.24,887 and B/.21,252 as of September 30, 2004 and 2003, respectively, represents the estimated value of filed or anticipated claims for accidents occurred in Canal waters for which PCA expects to be liable.

PCA carries out investigations to determine the cause of each marine accident. When the cause of the accident is determined, PCA records, if applicable, a provision based on an estimate of the vessel's permanent and temporary repair costs. The amount of the provision is reviewed at the date of the balance sheet, and if necessary, it is adjusted to reflect the best estimate at that moment.

Changes in the provision for marine accident claims are stated, as follows:

	2004	2003
Beginning balance	B/. 21,252	B/. 15,922
Plus: Current year adjustments and new claims	6,028	6,651
Minus: Prescribed claims	392	231
	5,636	6,420
	26,888	22,342
Minus: Payments	2,001	1,090
Ending balance	B/. 24,887	B/. 21,252

Provisions are included in the marine accident claims expense in the statements of income.

12. Capitalized Labor and Materials

To execute its investment program, PCA contracts the services of suppliers and also utilizes its own resources and equipment.

Labor, supplies and materials, equipment (fuel, maintenance and depreciation), and other expenses related to these investments are originally recorded as operating expenses when incurred. These costs are credited in the Statements of Income under the specific line item and charged to the investment program.

Among the most significant investment projects carried out during the year ended September 30, 2004 are the following: deepening of Gatun Lake and Culebra (Gaillard) Cut, rehabilitation of the tow tracks, straightening of the Culebra (Gaillard) Cut, acquisition and assembly of drilling and blasting barge, replacement of the locks' approach wall fenders from wood to rubber, improvement to the automated data collection system (SOLAS requirement) and relocation of installations to Corozal West. During the year ended September 30, 2003, the following projects were accomplished: rehabilitation of the tow tracks, the deepening of Gatun Lake and Culebra (Gaillard) Cut, relocation of installations to Corozal West, replacement of locks' gate machinery, the control system from the locks' gate machinery and the dock station at Culebra (Gaillard) Cut.

13. Income Taxes

The PCA is not subject to income taxes, as states in Article 43 of the Organic Law which exempts it from the payment of all national or municipal taxes, except for social security payment and other payroll taxes, fees for public services, and the fees per net ton collected from vessels transiting the Canal that are subject to the payment of tolls.

14. Contingent Liabilities and Commitments

Contingent liabilities
PCA has received claims and is a defendant in various legal proceedings related to labor disputes, personal injuries and other business-related issues. It is management's opinion that the outcome of these matters is not likely to have a material adverse effect on the PCA's financial position.

Commitments
As of September 30, 2004 and 2003, commitments under uncompleted construction contracts and undelivered purchase orders amounted to approximately B/.168,000 and B/.194,000, respectively.

15. Equity

Article 310 of the Political Constitution of the Republic of Panama states that PCA has its own patrimony and the right to manage it.

Upon the transfer of the Canal to the Republic of Panama at noon on December 31, 1999, PCA became the administrator of all personal and real estate property identified in the Organic Law of PCA as the patrimony necessary to operate and maintain the Canal.

This patrimony is divided into two groups: the inalienable patrimony, comprised of land, lakes, rivers, dams, locks and anchorages, as established in Article 2 of the Organic Law, and the economic patrimony, comprised of installations, buildings, structures and equipment that support the operation of the Canal, as established in Article 33 of the same Law.

Abiding by the above provisions, the Government of Panama transferred the related land and buildings to PCA. To reflect their fair value in PCA's accounting records, a number of considerations is required due to the extent of these assets and their impact on the financial position of the organization. This task will require a considerable time for completion, due to the diversity of the assets, their locations along the Canal watershed, and the time required to determine a market value for each of the transferred assets. The market value will be jointly determined by the Department of Public Registry of the Ministry of Economy and Finance, the Department of Patrimonial Goods of the Office of the Comptroller General of the Republic of Panama, and PCA.

In order to record the assets transferred by the Government of Panama as part of PCA's patrimony, a conservative method was used to reflect an estimated market value for each asset subsequently registered in the Public Registry.

Preliminary appraisal reports of land and buildings were provided by the Department of Patrimonial Goods of the Office of the Comptroller General of the Republic of Panama and the Department of Public Registry of the Ministry of Economy and Finance in January 2002 and August 2002, respectively. Nevertheless, during fiscal periods 2004 and 2003, the information presented for both entities has been subject to a detailed review and checking. In the opinion of PCA's Administration, the adjustments to determine those values will not have an adverse effect on the financial position.

As of September 30, 2004 and 2003, PCA recorded adjustments to its equity for B/.35 and B/.96, respectively. These adjustments were recorded to account for the retirement of certain buildings and structures located on land transferred by the Government of Panama. These buildings were demolished or have been identified to be demolished, because they are located in areas that PCA has designated for other uses.

During the year ended September 30, 2004, PCA transferred to the Government of Panama land with a value of B/.3,108, buildings with a value of B/.419, structures with a value of B/.316 and equipment with a value of B/.236. These assets were transferred to the Government of Panama because they were not useful for the operation of the Canal.

During the year ended September 30, 2003, the PCA transferred to the Government of Panama land with a value of B/.130 and equipment with a value of B/.32. These assets were transferred to the Government of Panama because they were not useful for the operation of the Canal.