Translation of financial statements originally issued in Spanish

Panama Canal Authority

Report and Financial Statements
September 30, 2005

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Index to Financial Statements
September 30, 2005

PRICEWATERHOUSECOOPERS

Ave. Samuel Lewis y
Calle 55 E
Apartado 0819-05710
El Dorado. Panamá R. P.
Teléfono: (507) 206-9200
Fax: (507) 264-5627

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 sheet of the Panama Canal Authority as of September 30, 2005, and the related statements of income, changes in equity, and cash flows for the year 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 audit 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 audit provides 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, 2005, the result of its operations, and its cash flows for the year then ended, in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board.

PricewaterhouseCoopers (signed)

November 25, 2005
Panama, Republic of Panama

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Balance Sheet
September 30, 2005
(In thousands of balboas)

	2005	2004
Assets		
Property, plant, and equipment, net of accumulated depreciation (Notes 2 and 15)	B/. 2,095,404	B/. 2,007,551
Account receivable (Note 3)	20,140	20,140
Current assets		
Cash (Note 4)	664,428	632,175
Investments (Note 5)	305,654	139,260
Accounts receivable (Note 6)	26,030	17,189
Inventories:		
Materials and supplies - net of allowances for obsolete and excess items of B/.5,236 in 2005 and B/.5,300 in 2004	26,534	25,129
Fuel	4,538	1,142
Other current assets	12,397	5,435
Total current assets	1,039,581	820,330
Total assets	B/. 3,155,125	B/. 2,848,021
Equity and Liabilities		
Equity		
Equity (Note 15)	B/. 1,904,547	B/. 1,904,568
Retained earnings:		
Appropriated retained earnings (Note 7)	794,325	579,241
Unappropriated retained earnings (Note 8)	268,850	183,708
Total equity	2,967,722	2,667,517
Severance pay (Note 9)	10,000	10,000
Current liabilities		
Accounts payable (Note 10)	62,464	69,344
Provision for marine accident claims (Note 11)	27,524	24,887
Accrued salaries and leave	84,495	73,392
Other liabilities	2,920	2,881
Total current liabilities	177,403	170,504
Total equity and liabilities	B/. 3,155,125	B/. 2,848,021

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

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Statement of Income
For the Year Ended September 30, 2005
(In thousands of balboas)

	2005	2004
Revenues		
Toll revenues	B/. 847,539	B/. 757,685
Vessel-transit-related services	269,235	238,657
	1,116,774	996,342
Other revenues		
Electric power sales	45,430	34,898
Potable water sales	17,499	17,167
Interest income	23,243	9,077
Miscellaneous	6,169	6,003
Total other revenues	92,341	67,145
Total revenues	1,209,115	1,063,487
Expenses		
Fee per net ton (Note 10)	190,960	173,485
Salaries and wages	317,221	312,509
Employee benefits	40,362	40,494
Materials and supplies	33,610	34,968
Fuel	39,467	25,789
Transportation, meals, and lodging abroad	750	624
Allowances and local transportation	624	733
Services rendered by third parties	33,620	33,137
Panamanian Treasury (Tesoro Nacional) – public service fees	29,000	29,000
Insurance	13,700	6,299
Marine accidents, net	4,123	5,636
Obsolete and excess inventories, net	899	1,288
Other expenses	8,206	10,482
	712,542	674,444
Less capitalized labor and materials (Note 12)	48,806	52,087
	663,736	622,357
Income before depreciation	545,379	441,130
Depreciation	61,445	60,797
Net income (Note 13)	B/. 483,934	B/. 380,333

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

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Statement of Changes in Equity
For the Year Ended September 30, 2005
(In thousands of balboas)

	Equity	Retained Earnings Appropriated	Retained Earnings Unappropriated	Total
Balance as of September 30, 2003	B/. 1,908,682	B/. 382,616	B/. 106,754	B/. 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)	-
Corporate reserve for contingencies and working capital (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	1,904,568	579,241	183,708	2,667,517
Transfer to Panamanian Treasury (Note 8)	-	-	(183,708)	(183,708)
Net income	-	-	483,934	483,934
Contributions to the investment program (Note 7)	-	147,784	(147,784)	-
Corporate reserve for contingencies and working capital (Note 7)	-	37,700	(37,700)	-
Other equity reserves (Note 7)	-	29,600	(29,600)	-
Assets transferred to the Government of Panama (Note 15)	(21)	-	-	(21)
Balance as of September 30, 2005	B/. 1,904,547	B/. 794,325	B/. 268,850	B/. 2,967,722

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

(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Statement of Cash Flows
For the Year Ended September 30, 2005
(In thousands of balboas)

	2005	2004
Cash flows from operating activities		
Net income	B/. 483,934	B/. 380,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61,445	60,797
Loss on retirement or disposal of property, plant, and equipment	478	2,866
Obsolete and excess inventories, net	899	1,288
Provision for marine accident claims	4,123	5,636
Net changes in operating assets and liabilities:		
Accounts receivable	(8,841)	(629)
Inventories	(5,700)	320
Other current assets	(6,962)	(1,413)
Current liabilities	2,776	15,247
Net cash provided by operating activities	532,152	464,445
Cash flows from investing activities		
Acquisition and installation of property, plant, and equipment, net	(149,797)	(136,682)
Net increase in investments	(166,394)	(27,633)
Net (increase) decrease in time deposits with original maturities over 90 days	(172,629)	32,344
Net cash used in investing activities	(488,820)	(131,971)
Cash flows from financing activities		
Transfer to Panamanian Treasury	(183,708)	(106,754)
Net (decrease) increase in cash and cash equivalents	(140,376)	225,720
Cash and cash equivalents at beginning of the year	369,569	143,849
Cash and cash equivalents at end of the year (Note 4)	B/. 229,193	B/. 369,569
Investing activities that did not represent cash outlays		
Adjustment to assets transferred by the Government of Panama (Note 15)	B/. -	B/. (35)
Assets transferred to the Government of Panama (Note 15)	(21)	(4,079)
	B/. (21)	B/. (4,114)

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. The PCA is responsible for the administration, operation, conservation, maintenance, modernization, and other related activities of the Panama Canal (the Canal), that are necessary to ensure the safe, uninterrupted, efficient and profitable operation of the Canal in accordance with the constitutional and legal regulations in effect. The PCA has its own patrimony and the right to manage it. The PCA was organized on June 11, 1997 under Law No.19 (Organic Law).

The 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.

As of September 30, 2005, the PCA had a total of 9,106 employees, of which 8,173 were permanent and 933 were temporary. As of September 30, 2004, the total was 8,965 employees, of which 8,226 were permanent and 739 were temporary.

Summary of Significant Accounting Policies

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

Basis of Preparation
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 at the date of the financial statements. PCA's management approved these financial statements on November 22, 2005.

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, depreciation of property, plant, and equipment, and the allowances for obsolete and excess inventories.

Monetary Unit
The 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
Items of property, plant, and equipment with a value of five thousand balboas or more are recorded at cost. The cost of items that are not capitalized 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. Dredging costs incurred for recurrent maintenance of the waterway, as a result of landslides and erosion, are expensed. 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.

Impairment of Assets

Assets that are subject to amortization are reviewed annually to identify any impairment losses, whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's net selling price and its value in use.

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

Purchases of investments are recognized on the settlement date, the date on which PCA pays and receives the asset.

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, adjusted by the cumulative amortization of any discount or premium on acquisition. The amortization of the discount or premium is recorded as an increase or decrease of interest income in the statement of income.

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 labor 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.

Financial Instruments
Financial assets and liabilities on the balance sheets include cash, accounts receivable, investments, and accounts payable. 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.

(In thousands of balboas)

2. Property, Plant, and Equipment

Property, plant, and equipment, as of September 30, 2005 and 2004, are as follows:

	September 30, 2004 Beginning Balance	Additions	Retirements and Adjustments	September 30, 2005 Ending Balance
Assets				
Land	B/. 1,022,222	B/. -	B/. -	B/. 1,022,222
Buildings	80,175	2,941	(192)	82,924
Structures	445,703	51,055	9	496,767
Equipment	588,819	77,986	(3,455)	663,350
Constructions in progress	128,892	149,797	(131,982)	146,707
	2,265,811	281,779	(135,620)	2,411,970
Accumulated Depreciation				
Buildings	16,871	3,407	(149)	20,129
Structures	68,755	18,177	1	86,933
Equipment	172,634	39,861	(2,991)	209,504
	258,260	61,445	(3,139)	316,566
Net value	B/. 2,007,551	B/. 220,334	B/. (132,481)	B/. 2,095,404

	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)

For the years ended September 30, 2005 and 2004, PCA recorded losses on disposal of fixed assets for B/.478 and B/.2,866, respectively. During 2005, the main assets disposed of included a mobile crane, portable transformers, a satellite communication system, vehicles, a portable air compressor, and forklift trucks. In 2004, retirements included locomotives, tow tracks, haul trucks, forklift trucks, communication and radar systems.

As of September 30, 2005, PCA did not record retirements due to demolished buildings. As of September 30, 2004, retirements included demolished buildings with a net book value of B/.35 which were located on an area identified for future widening projects of the Canal. (See Note 15)

During 2005, PCA transferred equipment to the Government of Panama for B/.21. 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)

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. Since May 2004, these funds, which have no due date, were transferred to the Treasury of the United States of America and do not generate interest. The OTA was terminated on October 1, 2004, and its responsibility to pay these funds to the PCA was transferred to the General Services Administration (GSA), a U.S. government agency.

4. Cash

As of September 30, 2005 and 2004, cash is composed as follows:

	2005	2004
Cash on hand	B/. 25	B/. 26
Deposits in current accounts	8,832	56,531
Deposits in saving accounts	59,895	59,959
Time deposits with original maturities under 90 days	160,441	253,053
Total cash and cash equivalents	229,193	369,569
Time deposits with original maturities over 90 days not exceeding 360 days	435,235	262,606
	B/. 664,428	B/. 632,175

(In thousands of balboas)

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.

5. Investments

Investments as of September 30, 2005 and 2004, are as follows:

	2005	2004
Fair value	B/. 305,060	B/. 139,032
Unrealized loss	594	228
Amortized cost	B/. 305,654	B/. 139,260

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, 2005 and 2004, are stated as follows:

	2005	2004
Beginning balance	B/. 139,260	B/. 111,627
Additions	553,292	251,594
Redemptions	(386,898)	(223,961)
Ending balance	B/. 305,654	B/. 139,260

(In thousands of balboas)

6. Accounts Receivable

As of September 30, 2005 and 2004, the accounts receivable are stated as follows:

	2005		2004	
Transit-related services	B/.	4,043	B/.	3,540
Electric power sales		14,706		7,857
Other services		764		891
Government entities		6,517		4,901
	B/.	26,030	B/.	17,189

Accounts receivable from government entities include B/.4,499 and B/.4,202 in 2005 and 2004, respectively, due from the National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales [IDAAN]) for water treatment services provided by PCA.

7. Appropriated Retained Earnings

Changes in appropriated retained earnings are stated as follows:

	Beginning Balance		Appropriations		Ending Balance	
2005						
Investment program	B/.	443,541	B/.	147,784	B/.	591,325
Reserve for catastrophic risks		36,000		-		36,000
Reserve for the social and environmental program of the Canal watershed		10,000		-		10,000
Corporate reserve for contingencies and working capital		61,700		37,700		99,400
Other equity reserves		28,000		29,600		57,600
	B/.	579,241	B/.	215,084	B/.	794,325
2004						
Investment program	B/.	341,616	B/.	101,925	B/.	443,541
Reserve for catastrophic risks		26,000		10,000		36,000
Reserve for the social and environmental program of the Canal watershed		5,000		5,000		10,000
Corporate reserve for contingencies and working capital		10,000		51,700		61,700
Other equity reserves		-		28,000		28,000
	B/.	382,616	B/.	196,625	B/.	579,241

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 2004, PCA recorded the amount of B/.10,000 to complete the maximum of B/.36,000, as of September 30, 2004. In fiscal year 2005, PCA did not make appropriations to this reserve.

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 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. In fiscal year 2005, PCA did not make appropriations to this reserve.

Corporate Reserve for Contingencies and Working Capital
The Board of Directors approved a reserve for contingencies and working capital. The amount of this reserve will be defined based on the average of 30 days of Canal revenues or billing, and will be funded in stages, periodically, as agreed by the Board of Directors. During fiscal year 2004, PCA recorded the amount of B/.51,700 for a total of B/.61,700, as of September 30, 2004. In fiscal year 2005, the Board of Directors approved the increase of this reserve by B/.37,700 for a total of B/.99,400.

Other Equity Reserves
In addition, the Board of Directors approved the establishment of other equity reserves in fiscal years 2005 and 2004 for B/.29,600 and B/.28,000, respectively. These reserves, for both years, contemplated programs to support the operation and administration of the Canal. For fiscal year 2004, these reserves also included additional studies of the PCA Master Plan.

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.

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.

(In thousands of balboas)

10. Accounts Payable

The accounts payable as of September 30, 2005 and 2004, are as follows:

	2005	2004
Panamanian Treasury	B/. 17,546	B/. 15,479
Suppliers and others	44,918	53,865
	B/. 62,464	B/. 69,344

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 years ended September 30, 2005 and 2004, the total of such fees amounted to B/.190,960 and B/.173,485, respectively.

The balance payable to the Panamanian Treasury represents the fee per net ton payment that is outstanding at September 30, 2005 and 2004.

11. Provision for Marine Accident Claims

The provision for marine accident claims for B/.27,524 and B/.24,887 as of September 30, 2005 and 2004, 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.

(In thousands of balboas)

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

	2005	2004
Beginning balance	B/. 24,887	B/. 21,252
Plus: Current year adjustments and new claims	4,809	6,028
Minus: Prescribed claims	686	392
	4,123	5,636
	29,010	26,888
Minus: Payments	1,486	2,001
Ending balance	B/. 27,524	B/. 24,887

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, 2005 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, deepening of the entrances of the Canal, acquisition and installation of hydraulic operators, improvements to the locks' lighting system, replacement of the locks' approach wall fenders from wood to rubber. During the year ended September 30, 2004, the following projects were accomplished: 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.

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 mainly related to marine accidents. As of September 30, 2005, the PCA's contingent liabilities amounted approximately to B/.2,595 corresponding to marine accident claims. 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, 2005 and 2004, commitments under uncompleted construction contracts and undelivered purchase orders amounted approximately to B/.177,000 and B/.168,000, 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. 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. 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, PCA recorded adjustments to its equity for B/.35. 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 because they were located in areas that PCA designated for other uses.

During the year ended September 30, 2005, PCA transferred to the Government of Panama equipment with a value of B/.21. 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, 2004, the 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.