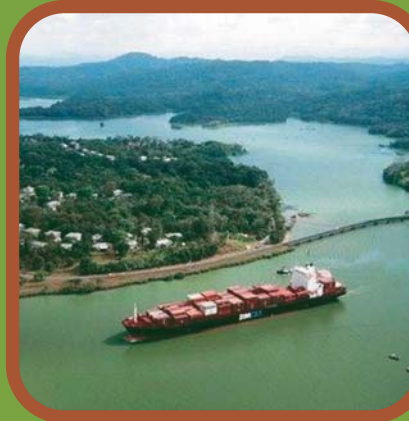




Social and environmental report 2004 • 2005



comunicación on progress

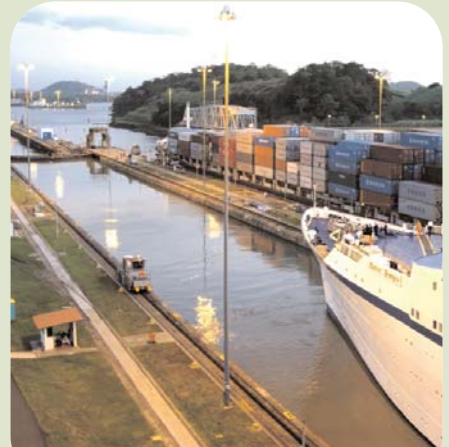


contents

Message from the Chairman of the Board of Directors	4
Message from the Administrator	6
Our inspiration to serve	9
Our commitment toward social responsibility	13
Human rights	14
Labor standards	17
Environment	23
Fight against corruption	28
Social participation and solidarity	31
Commitment to progress	37
External verification	40
Invitation	42



About this report



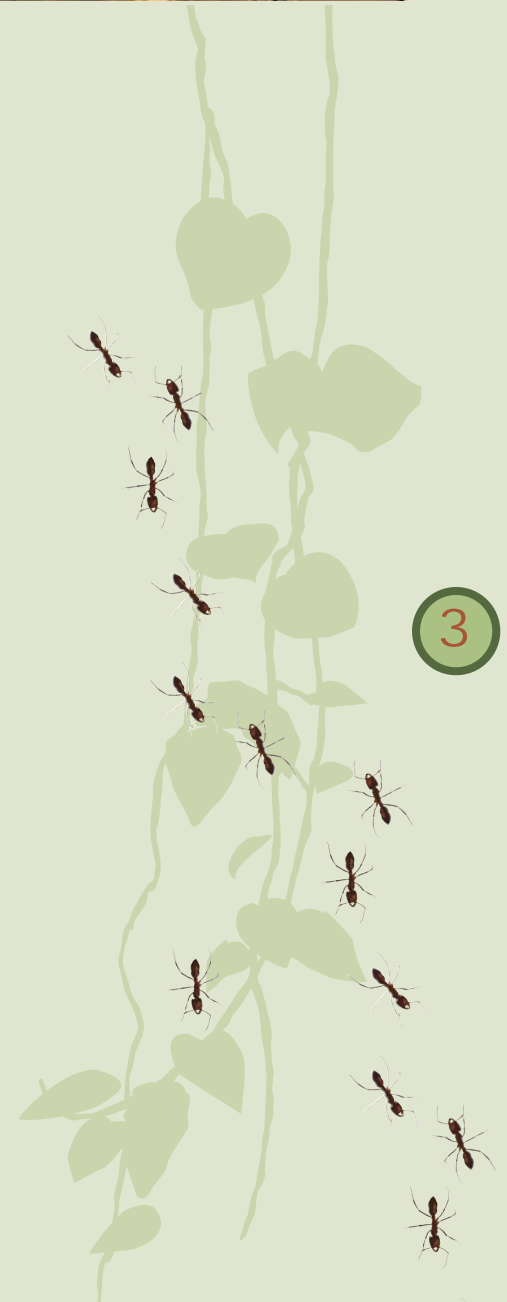
With this second report, we reiterate our choice for Corporate Social Responsibility (CSR) and present an integral view of the initiatives we have carried out through the 2004-2005 period. This report provides an examination of our performance regarding to the Global Compact principles.

Our previous report was designed based on the 2002 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI). This year, we have taken into consideration the Global Compact Guidelines for Communication on Progress.

One of the core strengths of the Global Compact is its voluntary nature and the recognition of progressive and continual improvement. Measuring improvements is a crucial issue and, therefore, as proposed in our first report, we have included indicators of some aspects of our performance. We continue working on the design of a detailed indicators scheme adjusted to the criteria recommended by GRI and the characteristics of our sector. Also, we provide information regarding audit and certification of certain components of our operations. In the coming years, we will incorporate external verification of our reports.

Everyday, we undertake substantial efforts to place our corporate model at the highest level possible by anticipating changes that may generate greater security, control, and transparency. The achievement of good financial results, along with our commitment to social and environmental wellbeing, confirms the validity of the standards that mold our decisions and directly influence the progress of our organization, our people, our country, and our planet.

In the following pages, we portray the initiatives we have undertaken and those we still need to improve in order to promote not only the Global Compact principles, but sustainable development as well.



message from the chairman of the board of directors



From the time of its construction at the beginning of the last century, the Panama Canal has held an important role in serving the maritime community and world commerce in an expeditious and safe manner at all times of the day and every day of the year. When Panamanians assumed the responsibility for administering the Canal, we did so with a clear sense of belonging, to integrate it to the country for improving the well being of all Panamanians. We also did it fully aware of the responsibility that long term sustainability represents for environmental protection and conservation. In other words, to the Canal business' own dimension, we added social and environmental responsibility as an inherent element of its management.

The constant growth of the global markets challenges our organization to maintain a world-class work force that is ready to adapt to changes and is motivated by corporate as well as professional, personal, and family success. We keep committed with our collaborators equal opportunities, fair remuneration, continuous training, the best occupational health and safety practices, and a permanent, harmonious, and productive labor dialogue. Yet they do not limit themselves to just being recipients. They are also committed to and participate enthusiastically in promoting the well-being of neighboring communities, offering their voluntary support to noble causes.

Environmental management is of incalculable importance in our business. Our operations require vast volumes of fresh water with a quality that is only found in rivers and streams of the Panama Canal Watershed. The prime objective of this area is to guarantee the water supply for more than half of the country's population, and for this reason, the law has assigned to us an active role in guaranteeing the sustainable use of the natural resources of the Panama Canal Watershed, especially its water resources. Such sustainability is only possible with the support of those who reside in the Watershed and its surrounding areas. We so understand it, and encourage their participation in the decision-making and implementation of actions that involve the promotion of human development and the improvement of their quality of life.

As for our operations, we are determined to maintain the highest environmental standards. For that reason, we were granted the ISO 9001 and ISO 14001 certificates; and we foster the protection of the environment in all our activities, products, and services.

The Panama Canal Authority (ACP) became part of the Global Compact because each of the four dimensions that comprise this initiative is aligned with our institution's own corporate values. In this context, the importance of our human resources, the environmental protection, the transparency in administration, and the respect for individual rights are and continue to be the foundation for ACP's daily operations, and serve as framework for the conduct and performance of all our collaborators.

This second report, which covers the fiscal periods 2004-2005, from October 1, 2003 to September 30, 2005, provides us a great opportunity to highlight the ACP's participation in the progress of our country and to share the pride of belonging to this successful enterprise.

Dr. Ricaurte Vásquez Morales
President of the Board of Directors
Panama Canal Authority



Ricaurte Vásquez Morales, Roberto Roy, Eloy Alfaro, Alfredo Ramírez Jr., Guillermo E. Quijano, Jr., Adolfo Ahumada, Mario J. Galindo H., Antonio Domínguez Álvarez, Eduardo A. Quirós B., Abel Rodríguez Cañizales, Norberto R. Delgado D.

message from the administrator



We are committed to the constant pursuit of excellence. We have a clear mission to accomplish: "To produce the maximum sustainable benefit from our geographic position." Our reason for being encompasses our business, our country, our clients and our people. Consequently, adhering to the Global Compact was a natural step in assuming publicly our commitment to contribute to humanize the global implementation of better business, labor, and environmental practices.

This report represents our second opportunity to document how at the ACP we have understood and incorporated the principles of the Global Compact, how we are working toward achieving our goal and how much we have advanced and learned.

We continue to strengthen our cultural model, which is based on a philosophy of accountability and adherence to the corporate values that are guided by Constitution of the Republic of Panama, the Panama Canal Authority Organic Law, and our Ethics and Conduct Regulations. Our primary objective continues to be the achievement of benefits for all Panamanians while fulfilling the monumental responsibility of the Panama Canal, as promoter of global maritime commerce, by shortening the distance between markets of production and consumption.

During the period 2004 - 2005, we increased our profits and our contributions to the Republic of Panama. We were granted the ISO 9001:2000 certification for our Contracts and Safety Divisions, as well the certification of the International Ship and Port Facility Security (ISPS) Code. We are driven to improve our quality index, which is measured in terms of Canal waters time (CWT), and have made significant strides in this respect. In addition we have increased our list of clients and established a safety record: the lowest number of accidents in 81 years. These achievements raise the standard by which we measure ourselves and motivate us to continue to improve.

The effort of issuing land titles in the Panama Canal Watershed has made it possible to hand out 3312 new titles to their owners. Our occupational health and safety program continued its awareness raising campaign regarding the prevention of common illnesses, primarily those that affect our labor force. We have also established alliances with other government agencies to achieve mutual synergies for the benefit of our public interests.

In this second social and environmental report we are keeping the promise made in our first report by incorporating indicators that enable us to measure our achievements and report on them objectively, as we keep track of our progress. These indicators will allow us to identify and face new challenges with clear strategies.

The principal challenge the ACP faces continues to be the constant improvement of its operational efficiency and safety levels while simultaneously meeting the need to improve our human resources, foster the sustainable development of the Panama Canal Watershed and its inhabitants and contribute to the progress of Panama.

We are advancing in the right direction. We overcame the limitations of social responsibility traditional models, based only on philanthropy, to implement accounting practices that allow recording intangible assets and social investments. We still have much to learn but, by taking the first steps, we are committed with the entire journey.

Building and ethically strengthened environment within our organization was just the beginning. We are engaged in a business model that promotes the inclusion of all parties -users, clients, shareholders, suppliers, governments and states- in achieving sustainable development and the growth of the communities we serve.

We are pleased to present this report, which represents a balanced assessment of our social and environmental performance and that we hope you will read with great interest.

Alberto Alemán Zubieta
Administrator





our inspiration to serve

the path we follow

In order to ensure the sustained success for our organization, we need a clear horizon and a detailed map to get us to the point we aim to reach. With our country, our clients, and our people in mind, we work on the basis of strategic objectives established for each fiscal year, and make certain that they are specific, measurable, agreed upon, realistic, and with deadlines, focusing in:

10



2004

- Maximize the organization's sustained profitability.
- Expand our services with levels of quality and reliability that may increase the value of this route.
- Ensure the establishment of an adequate legal framework to guarantee the continuity of our business.
- Ensure the conservation of the water resources in the Panama Canal Watershed.
- Consolidate the cultural transformation process that will motivate our human resources to maintain excellence in their performance and wellbeing.

2005

- Increase the organization's sustained profitability.
- Expand our services and products offer to take advantage of the market opportunities.
- Implement business practices that strengthen the good corporate governance and the relations with the community.
- Efficiently manage the Panama Canal Watershed's water resources in quantity and quality.
- Increase the productivity through performance excellence and the wellbeing of our human resources.







our commitment toward social
responsibility

how we implement the global compact



We strongly believe that practicing what we preach and preaching what we practice are equally important. Even prior to adhering to the Global Compact, we had maintained an open-door policy in our communications; this is, therefore, a remarkable opportunity to inform our stakeholders - the people of Panama - and our clients, as well as the international community on how we strive to promote the prosperity of Panama and the world by practicing the principles of Corporate Social Responsibility.

This report contains a full and transparent account regarding our commitment to ensure conditions that may allow us to serve our stakeholders with increasing efficiency and competitiveness, and to maintain the Panamanian administration's tradition of excellence, already recognized internationally.

HUMAN RIGHTS

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.

Principle 2

Ensure that companies are not complicit in human rights abuses.

The promotion of human rights is not an abstract concept or a long-term objective of the Panama Canal Authority. We respect and defend the precepts of the Universal Declaration of Human Rights. Protecting lives; providing safety; and treating our collaborators, contractors, and clients' personnel and passengers in accordance with the highest standards of ethical behavior, are basic values and part of our organizational culture.

As established in our Ethics and Conduct Regulations, our behavior is based on honesty, integrity, impartiality, and good conduct, with due respect for the Constitution and laws of the Republic of Panama, as well as moral standards. Our respect for human rights is well reflected both in our internal working environment and in our sphere of influence.

Regarding our internal working environment, we recognize the importance of having a work force committed to the vision, mission, and objectives of the organization, and motivated to face the future opportunities and challenges of the international maritime industry. Since our collaborators are the key to our success, we strive to create for them a healthy and safe working environment in which they may achieve progress in their personal and professional lives; we recognize their freedom of association (principle 3); we have established practices against discrimination (principle 6), forced labor (principle 4), and child labor (principle 5).



Health and well-being

We carefully create the best working conditions for our collaborators, and, to that end, have established a series of occupational health and work safety programs. A multidisciplinary team of physicians is in charge of implementing our injury and illness prevention policy, establishing medical and physical standards for jobs, and providing free preventive health and fitness services for our collaborators.

The Employee Assistance Program provides counseling and treatment to overcome alcohol or drug abuse and family problems, as well as their effect on employee conduct and performance. This program includes courses and workshops on stress prevention, domestic and workplace violence, and financial problems.

To ensure employee productivity and safety, increase their physical work tolerance, and reduce absenteeism due to illness, we established a Strengthening for the Job Program, which also provides fitness-for-duty evaluations, ergonomics evaluations of individual workstations or work sites, and injury prevention courses.

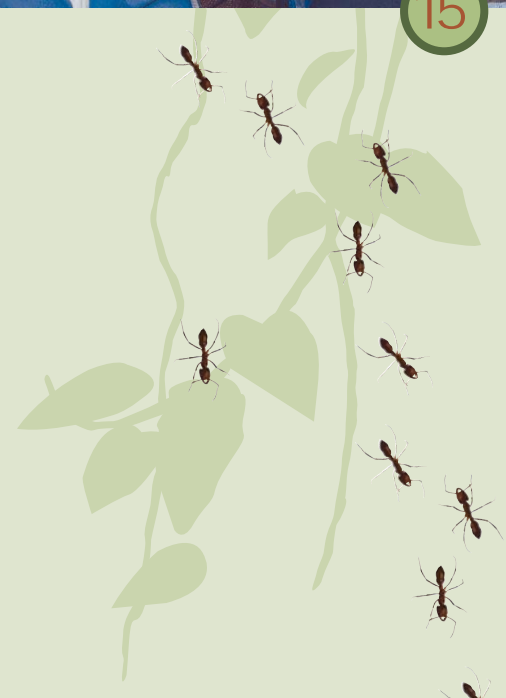
The Workforce Health Program provides the opportunity to improve or maintain the physical fitness of those who, due to the nature of their job, must maintain a given fitness level. It also promotes sports, recreational, and physical fitness activities also provided free of charge to our collaborators' dependants.

Protection and safety

Regarding of safety, our highest priority is prevention. We rely on hazard control and industrial hygiene programs to protect the lives and health of our collaborators, as well as to avoid losses, injuries or damages to our clients, to the property of our organization, and to persons inside our installations. We demand that our work force, as well as third parties, comply with the regulations related to these matters.

When contracting for services, we inform our suppliers, as is the case with our clients, that their work must be performed according to Hazard Control and Occupational Health Regulations, as well as other health, industrial hygiene, and maritime safety rules.

Moreover, we provide training to maritime operations and industrial services workers, as well as to the personnel involved in hazardous work, instructing them on safer routines to help reduce the number of accidents, improve relations with clients, and meet the requirements of international conventions concerning the maritime industry.





The nature of our business involves the possibility of increasing exposure to health hazards due to the probable introduction and propagation of diseases to our national territory. For that reason, we comply with the norms and measures enforced by the Panama Ministry of Health and the World Health Organization, as well as the provisions derived from international conventions to which the Republic of Panama adheres. Additionally, we follow our own Regulations on Sanitation and Contagious Diseases Prevention.

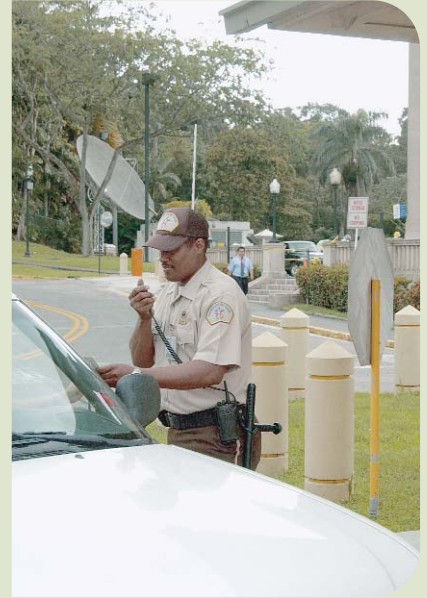
We conduct inspections of ships carrying hazardous goods, and ensure that the Panama Canal Authority floating equipment is certified. We also monitor the rates of injuries and occupational diseases incidence, and, on a monthly basis, publish the results in our Intranet.

Additional security measures for the transit of ships

In view of the rise in world violence and the need to increase protection against contingencies, the

International Maritime Organization has reformed the International Convention for the Safety of Life at Sea (SOLAS) with its International Ship and Port Facility Security Code (ISPS). Consistently with the Panama Canal leadership within its market, it was the first installation in the country and one of the first in Latin America to implement the ISPS Code.

In the event of an accident during a transit through the Panama Canal, our organization has a Board of Inspectors comprised of at least a Chairman, appointed by the Panama Canal Authority and who, in turn, appoints the other two members of the Board. The Board's function is to inspect and investigate impartially and transparently the circumstances regarding accidents that have resulted in damage to a vessel, its cargo, its crew, its passengers, or any collaborator or property of the Panama Canal. Upon completing its investigation, the Board submits a final report to the ACP Administrator, who then makes the appropriate decision.



- Accident and disease prevention information is disseminated on a routine basis.
- In 2005, about 8800 collaborators have benefited from the Employee Assistance Program.
- Ninety nine percent of the collaborators who participated in the Strengthening for the Job Program have been reinstated to their regular duties without any limitation.
- Between 2004 and 2005, in accordance with the Hazard Control and Occupational Health Regulations, 2485 inspections were conducted.
- The Panama Canal Authority implemented the ISPS Code on April 15, 2004, three months prior to its entry into force (certification is issued by the American Bureau of Shipping). Our entire work force received training on the contents of the Code between August 2003 and March 2004. The ACP also increased its permanent water patrols by 133 percent.
- The Board of Inspectors conducted 10 investigations in 2004 and 12 in 2005.

LABOR STANDARDS

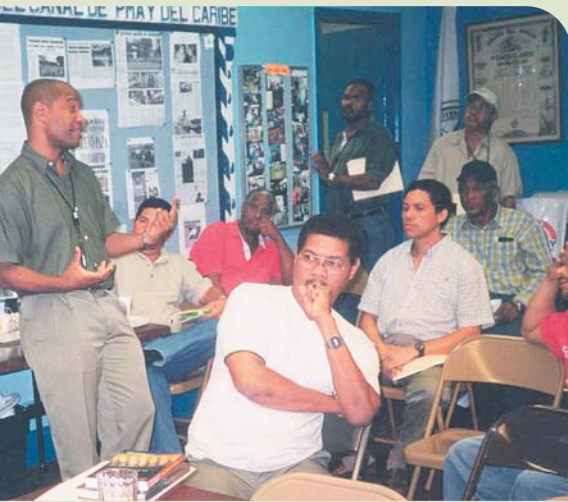
Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Our organization's achievements are the result of collective and individual success, and, in the process of achieving goals, the communication and constructive dialog, based in a mutual receptivity between management and collaborators, are an outstanding feature.

Freedom of association and dialogue

We have a special labor regime created to implement our corporate mission's principles. Under this regime, our collaborators enjoy full freedom to join a labor union, represent an union, and/or participate in collective bargaining through exclusive representatives. They, likewise, have the right to request the presence of an union representative or their exclusive representative at any investigation by the administration that could result in a disciplinary action against them.



Our work force is represented by five unions, according to each employee's role in the organization and his/her job specialty: Marine Engineers Benefit Association; International Firefighters Association, Local 13; Maritime/Metal Trades Council (AFL-CIO); the Panama Canal and Caribbean Union; and the Panama Canal Pilots Union. These groups conduct collective bargaining negotiations, file and process grievances at all levels, participate in formal meetings, and invoke arbitration. Each union conducts this representation by means of freely selected collaborators to whom the administration grants reasonable representation time with pay.

At the corporate level, we have a labor relations office that advises the administration, the unions, and employees in matters such as the prevention of conflicts and their resolution. In addition, the ACP has established a Labor-Management Council to develop a constructive and open debate and promote enhanced labor relations and the organization's effective operation. Representatives of each union and, on behalf of the ACP, the Deputy Administrator and Department Heads participate in this high-level forum.

In the event of an impasse during negotiations, a higher body can provide an expeditious resolution of the cases in question. This is the Board of Labor Relations, whose five members are selected by the President of the Republic of Panama.

- Our genuine willingness to maintain harmonious working relations is manifested through our workers' right to freedom of association and collective bargaining.
- We have five collective bargaining agreements; one with each labor union.

Principle 4

The elimination of all forms of forced and compulsory labor.

As the essence of any organization lies in its people, the main challenge is to maintain and improve their well-being and personal and professional development. The policies of the organization promote teamwork with individual responsibility, ensure equal opportunities for all, and create an atmosphere of trust, transparency, and communication.



We encourage and appreciate the efforts made by all. In compliance with national legislation and the applicable industry standards under which we operate, each collaborator is paid a salary based on her/his job profile and responsibilities. In general, the pay scale of the organization is higher than the national and regional average. Likewise, in order to recognize significant achievements, we have a program based on an objective evaluation of each worker's qualities, abilities, and performance. We also use other means to reward outstanding actions and motivate our collaborators: the Suggestions Program, Service Awards, On-the-Spot Awards for a special action or service, Distinguished Service Awards, and Safety Awards.

Since the Panama Canal provides uninterrupted service, it requires regular and special work schedules. In assigning personnel to these work schedules, both the Personnel Manual and the Personnel Regulations specify fair procedures based on the International Labor Organization (ILO) standards.

We disseminate information about our policies and procedures to prevent and punish physical and psychological abuse, humiliation, forced labor, sexual harassment, and other forms of

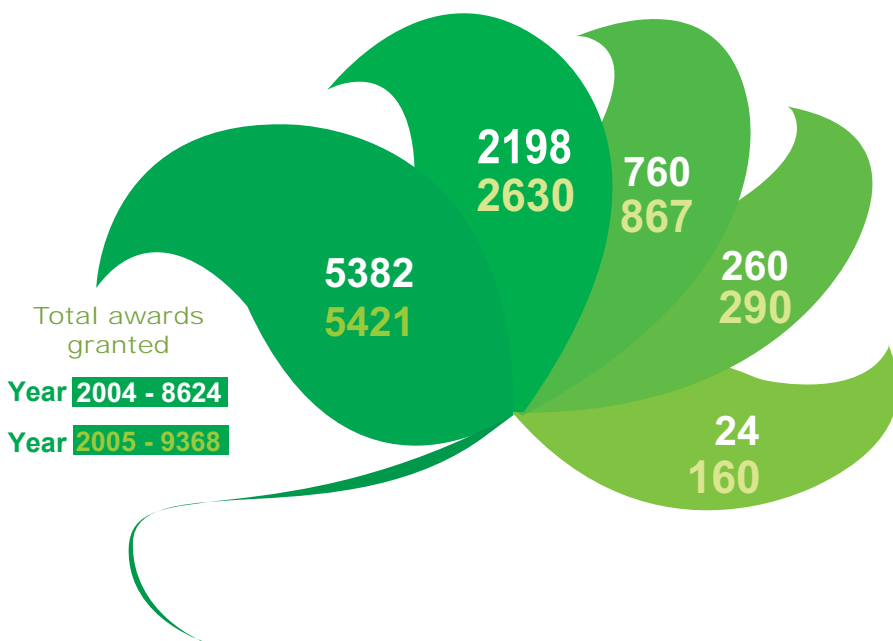
- Our timekeeping system ensures that each collaborator receives pay for the work she/he has performed. There have been no claims filed for inconsistencies between pay and the time worked.
- There has not been any court decision against our organization due to legal actions by employees for abuse, punishment, or forced labor.

abuse. In addition, through an orientation program for new collaborators, we provide guidance and clarification of ACP regulations on these matters.

Principle 5

The effective abolition of child labor.

We comply with national and international provisions for the effective abolishment of child labor. Our recruitment and placement system imposes minimum age requirements: we do not hire minors less than 16 years old. In addition, applicants less than 18 years old can not be hired to perform duties that involve exposure to hazards, harsh physical conditions, or difficult environmental conditions. We extend the enforcement of this policy to our contractors.



We reward outstanding actions 2004-2005

- Performance Awards
- On-the-Spot Awards
- Security Awards
- Special Act Awards
- Other awards



Principle 6

The elimination of discrimination in respect of employment and occupation.

The ACP work force is composed of approximately 9000 collaborators. As we reiterate in our corporate mission statement, our people are the most important resource to achieve excellence in our organization. Therefore, we recruit and promote the best; we value diversity, encourage teamwork, and continuously train our people.

Diversity

The ACP special labor regime is based on the principles of merit and equal opportunities that establish the parameters for an open and competitive recruitment. Likewise, our regime forbids sexual harassment or reprisal by reason of sex, race, age, religion, marital status, political ideology, or physical or mental handicap. Encouragement and compliance with these norms

are ensured by means of an Equal Opportunity Program for employees and applicants to positions in the ACP. We also have an independent mechanism to solve discrimination and sexual harassment cases.

Opportunities

We create opportunities for everyone to contribute, learn, grow, and advance on the basis of her/his merits, and to be justly compensated for their contributions.

All the organization's training and development programs have been established with the belief that continued, comprehensive, and modern education offers the work force the opportunity to acquire knowledge and form attitudes that allow a high level of productivity and competitiveness. Our training scheme has been designed to facilitate the integration of individual goals and aspirations with the ACP strategic goals and vision. Our training modes include training provided by the ACP, tuition assistance, distance learning, and training abroad.

Within our organization's strategic plan, we have designed a core program called "Steering Toward Excellence," which offers our collaborators new analytical skills for a highly competitive and changing corporate environment.

In the year 2001, our organization introduced an "Executive Master's Degree in Business Administration" to offer employees with a proven record of achievements and results, academic tools in managerial disciplines. The program has now been in place for four years in partnership with the Central American Institute of Business Administration (INCAE, by its acronym in Spanish) and the World Maritime University.

As regards to the hiring and placement of personnel, we have established programs for handicapped applicants, special and priority placement to ensure the recruitment, of persons who qualify for ACP positions in accordance with their skills and abilities.

Moreover, we conduct professional assistance and practice programs for university students to give them the opportunity to practice in their field and acquire experience for their professional development.

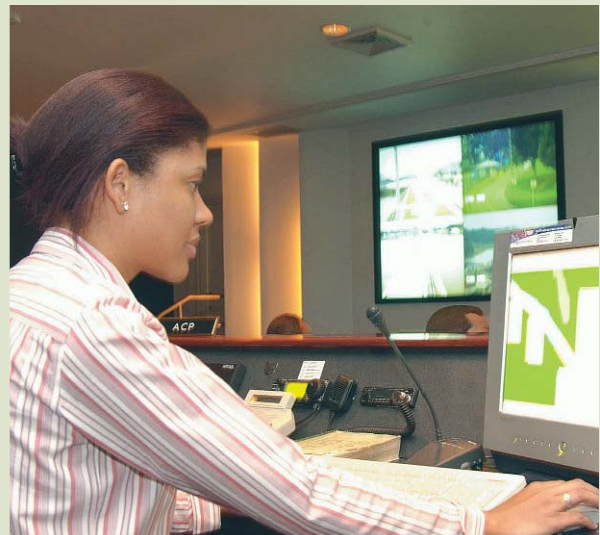
Students work during their vacation periods, generally on a full-time basis, or do so throughout their school

year, provided such work does not interfere with their full-time course schedules.

Under the Student Assistant Program, outstanding students from local universities are hired in close coordination with their academic centers. This contributes to the formation of those who could possibly become members of the future work force of the Canal.

The Professional Practice Program offers high school seniors and graduates from technical and vocational schools, undergraduate and graduate students, the opportunity to complete the honorary professional practice, required to meet their graduation requisites, while they gain professional work experience, and develop skills and abilities to increase their possibility to enter the labor market.

During fiscal years 2004 - 2005, the ACP hired 804 student assistants to work in different operating areas of the Canal. From this group of students, 65 were outstanding students from the University of Panama and the Technological University, and 59 were Panama Nautical School cadets. Likewise, the ACP provided professional practice opportunities to 288 university students, 420 high school students, and 60 vocational school students.





- Our work force remains for years with the organization. Between 2004 and 2005, the rotation rate was about two percent. Nearly 45 percent of the collaborators fall in the range of 45 years old or more, while four percent have been temporarily or permanently promoted.
- From the total work force, 12 percent are women; they take up 16 percent of the managerial positions in the organization.
- Between 2004 and 2005, approximately 85 percent of the collaborators got an average of 33 hours of training.
- The organization makes important efforts to prevent sexual harassment by providing advice and fostering dialog through workshops, seminars, and information to identify, prevent, and handle sexual harassment at work.

22



THE ENVIRONMENT

Principle 7

Businesses should support a precautionary approach to environmental challenges.

We respect and maintain high environmental standards

The establishment of preventive measures to avoid environmental degradation is a priority for ACP. For this reason, in the year 2000 our Environmental Management Division, at the Department of Safety, Security and Environment implemented criteria based on current legislation. We are committed to protecting the environment in all of our activities, products and services, and we comply with the laws, regulations, and norms applicable to the organization's operations.

At the Panama Canal, we have in place an Environmental Inspections Program to ensure compliance with environmental policies and regulations for the improvement of our industrial operations.

Under our Environmental Assessments Program, we analyze the environmental and social aspects of projects, works, or activities to be carried out in areas under our responsibility and administration, in order to prevent and mitigate any negative impact. In the year 2004, operating procedures and instructions for nine activities were evaluated: generation of waste water, common litter, wastes requiring special handling, noise, vibrations, oily waters, spills, and air and soil pollution.

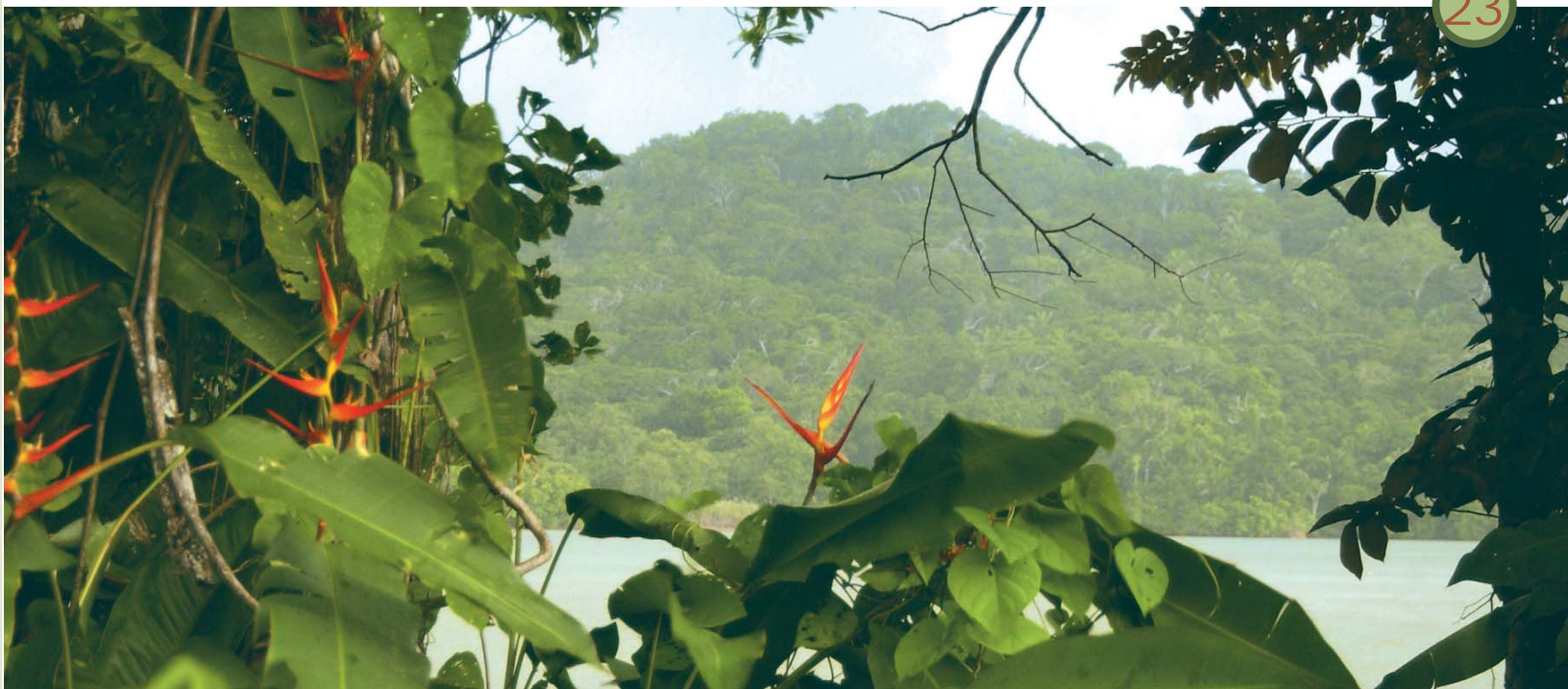
Water management for sustainable development

By constitutional mandate, "...We manage and conserve the water resources of the Canal, and participate actively in the protection of the environment and in the sustainable development of our Canal Watershed."

During this period, under the leadership of our Department of Safety, Security and Environment, we developed a Plan for the Sustainable Development and Integrated Water Resources Management of the Panama Canal Watershed. This plan has been designed for a 20-years span, and it takes into account coordination with other intergovernmental agencies for a concerted management of the Panama Canal Watershed to safeguard its environmental conditions.

It is worth mentioning that the development, conservation and sustainability of the Canal Watershed depend on the short and long term participation and commitment of all stakeholders in this geographic area (local residents; governmental, private, sectoral, national, and international agencies).

In order to coordinate and facilitate efforts, initiatives, and resources for the conservation, management and sustainable development of the watershed, the ACP chairs the Interinstitutional Commission for the Panama Canal Watershed (CICH, its Spanish acronym). The members of this Commission include the Ministers of Housing, Agricultural Development, and Government and Justice; the Administrators of the Interoceanic Region Authority and the National Environmental Authority; and two representatives from non-governmental organizations: Caritas Arquidiocesana and Fundación NATURA.





Principle 8

Undertake initiatives to promote greater environmental responsibility.

Our daily efforts show the diligence with which we promote greater responsibility by adopting the highest environmental management standards. The Environmental Management Division has in place an Environmental Management System (SGA, its Spanish acronym) to comply policies and regulations.

Energy savings program

An Executive-Technical Steering Committee was established in 2004, comprised by members from the departments of Safety, Security and Environment; Maritime Operations; Finance; Industrial Services; and Engineering and Projects, who were entrusted to design and launch an energy savings program with plans and activities to ensure the protection, management, and conservation of natural resources. A pilot program was initiated at the Environmental Management Division to optimize energy consumption.

Cadastre and land titling program

We have contributed to the implementation of a cadastre and land-titling program conducted by the Ministry of Agricultural Development in the Western Region of the Panama Canal Watershed (ROCC, its Spanish acronym). This program offers the opportunity to obtain a formal title deed to more than 15000 residents, in a region of approximately 213112 hectares.

During this period, cadastral records and property deeds for agricultural, livestock and forest farms at the ROCC were completed. Moreover, 3312 title deeds were handed out for rural towns; municipal lands; and agricultural, livestock and forest farms.

24

- Between 2004 and 2005, 15 preliminary environmental diagnostics and 22 environmental impact studies were conducted for projects to be developed in ACP facilities.
- Fifty five (55) environmental impact studies, environmental improvement and management plans were evaluated for projects in areas under our responsibility.
- We trained 1143 collaborators and student assistants, in environmental topics. Moreover, through the environmental education program for elementary schools in the Canal Watershed, more than 900 teachers were trained, thus benefiting over 46000 students.

Pollution control program

The ACP has specific plans to carry out pollution control actions: management of used oil and oily waters generated by the Canal operations; and the response to oil spills. As they are basic programs of our Environmental Management System, we manage and sell used oil for recycling.

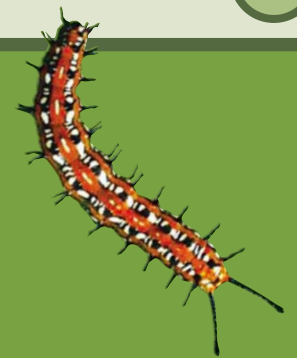
In 2004 we developed the Panama Canal Shipboard Oil Pollution Emergency Plan (PCSOPEP), for reducing the number of emergencies and mitigating the consequences of oil spills that may affect individuals as well as to the environment, and ensuring the continuous operation of the waterway. The PCSOPEP requires the ships to describe, 96 hours prior to their arrival in Canal waters, the specific measures they will take in the event of a spill; their crew training program; their exercises for strengthening compliance with their plan; and the identity of the authorized person to deposit funds to the satisfaction of the ACP.

In 2005, on the other hand, we advanced in reinforcing other pollution control initiatives; in particular, we established the Materials Recycling Program, the List for Controlled Use Products, and the Materials and Wastes Management Manual, all of which serve as a guide to comply with our corporate environmental policy and legislation.



25

- An environmental inspections program was established in 11 divisions of our organization.
- Within the coordination framework offered by the CICH, our organization and the United States Agency for International Development (USAID) established a five million dollars "Recovery and Conservation of the Canal Watershed Fund", to finance pilot projects on watershed management at the Los Hules, Tinajones, Caño Quebrado and Gatuncillo rivers. More than 10000 inhabitants of these areas benefited from this initiative.





Vectors and vegetation control program

The vectors control has been an ongoing program in the Canal since it was built in 1903. This is an essential activity without which the opening of this interoceanic waterway would not have been possible. At the present time, the program involves the monitoring, surveillance, and control of biting insects in Canal operating areas, including *Anopheles spp.* and *Aedes aegypti* mosquitoes, which are malaria and dengue vectors, respectively. The number of vectors, therefore, is kept at levels that will not create epidemic risks.

We regularly conduct inspections of our installations to control pests. We also maintain green areas and

aquatic vegetation in order to ensure the uninterrupted transit of ships through the Canal.

Water resources and forest cover monitoring

Our water resources monitoring program has a network of 66 hydrometeorologic stations and 62 water quality sampling sites in the Panama Canal Watershed. The information collected through this network allows us to publish the Hydrology and the Suspended Solids yearbooks, Water Quality Index reports for water intake sites at Gatun lake, and biological indicators, to manage the water quantity and quality.

Principle 9

Encourage the development and diffusion of environmentally friendly technologies.

In order to contribute to recover forest cover in the Canal Watershed, ACP has implemented a native species reforestation program. From 2004 to 2005, we reforested 65 hectares in the communities of Toabre, Indio, and Gatuncillo river subwatersheds, and maintained an additional 138 hectares reforested with native species at Culebra Cut and the communities of Capira, Toabre and Gatuncillo. Under this community reforestation scheme, we hire local residents and train them on how to manage and maintain the reforested areas by substituting traditional slash and burn patterns with practices more respectful of nature. We use agroforestry systems,

including the cultivation of shade coffee, annatto (achiote), beans, cassava (yuca), plantains, and corn, which protect the environment while provide food options for the participants.

Additionally, we encourage the study of the growth and behavior of species, by collaborating with academic and research organizations. For example, in conjunction with the Smithsonian Tropical Research Institute (STRI) and the University of Yale, through the Native Species Reforestation Program [PRORENA, its Spanish acronym], we monitor 35 reforested hectares in Canal operating areas to identify those species that better adapt to local environmental conditions.

- The innovative approach of our reforestation program is based on the utilization of native species.
- The native species that have proved better growth are *Ochroma pyramidale* (balsa), *Schizolobium parahybum* (tower tree), *Muntingia calabura* (strawberry tree), *Inga punctata* (guava), and *Gliricidia sepium* (gliricidia). Those species that have showed better growth at the community projects are *Calophyllum longifolium* (cedro), *Cordia sp.* (laurel), *Anacardium excelsum* (espavel), *Bombacopsis quinata* or *Paquiria quinata* (red ceiba), *Tabebuia rosea* (roble), *Tabebuia guayacan* (pink trumpet tree), *Vatairea sp.* (faveira) and *Swietenia macrophylla* (honduras mahogany).
- More than 3000 people among 45 communities participated in reforestation activities.



FIGHT AGAINST CORRUPTION

Principle 10

Businesses should work against all forms of corruption, including extortion and bribery.

Conduct model

We have been guided by high standards of ethics and conduct regulations to protect the organization, its work force, and the environment against corruption and illegal practices that could undermine our trust and credibility. We support national and international initiatives against corruption, and through various means, we disseminate information (to collaborators, clients, suppliers, and other concerned groups) regarding the penalties imposed for violations of laws and our ethics policy.

The Department of Human Resources supervises the enforcement of ethics regulations and the application of the appropriate disciplinary actions. The Office of the Inspector General, who reports directly to the ACP Board of Directors, ensures compliance with the Code of Ethics.

Our procurement regulations allow external controls to guarantee compliance with the principles of transparency, fair costs, responsibility, and equity that govern the actions of procurement personnel in the performance of their functions.

We publish an annual corporate report (available at www.pancanal.com), to inform about our operations. We also conduct client opinion surveys regarding our organization's performance and services; this helps us maintain and improve mutually beneficial relations.

- During 2004 and 2005, 85 complaints were admitted from which 35% were solved in favor of the complainer and the corresponding corrective measures were implemented.
- The number of grievances against contracting process performance is 25 per each 1000, based on 18964 contracts awarded in 2004 and 16495 awarded in 2005.



Corporate government

As the Panama Canal constitutes an inalienable patrimony of the Panamanian Nation, it shall not be sold, ceded, mortgaged, or otherwise taxed or transferred. The ACP is responsible for operating the Canal in a safe, continuous, efficient and profitable manner; and its legal framework has the fundamental objective of preserving the conditions that make it an enterprise at the peaceful and uninterrupted service of the maritime community, international commerce, and the Republic of Panama. Therefore, the implementation of business practices that may strengthen the good administration of the Canal is one of our strategic objectives.

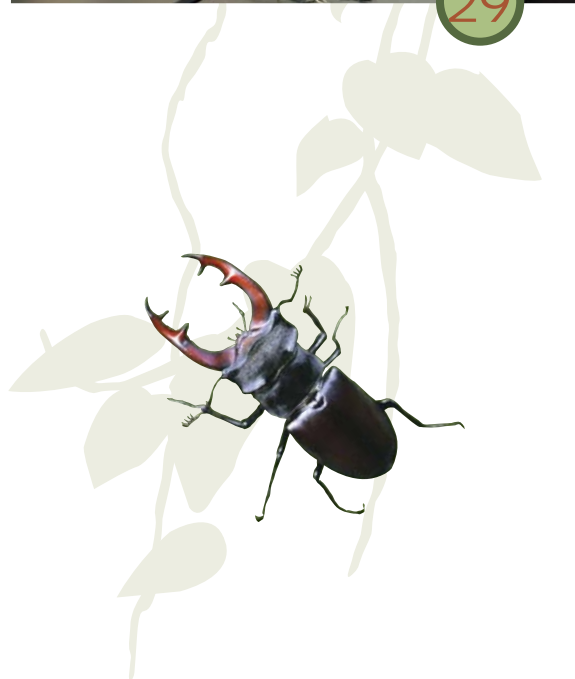
Due to the nature of our business, our organization has its own financial autonomy, patrimony, and the right to administer it. It is under the direction of an Administrator and a Deputy Administrator, supervised by an eleven-member Board of Directors. Ten of these members are appointed by the President of the Republic of Panama (nine with the consent of the Cabinet Council and ratified by the Legislative Assembly, and one, who chairs the Board, by direct appointment), and one is designated by the Legislative Branch.

The ACP also has an Advisory Board that provides guidance and recommendations to the Board of Directors and the Canal Administration. In view of the service rendered by the Panama Canal, the persons appointed as members of the Advisory Board are distinguished international professionals who possess ample experience in business, banking, telecommunications, civil works, academia, transportation, and world trade and who are particularly knowledgeable about the Panama Canal.

Control mechanisms to ensure compliance:

- Bylaws of the Board of Directors.
- Advisory Board Regulations.
- Board of Inspectors Regulations.
- Financial Management Regulations.
- Purchasing and Contracts Regulations.
- Personnel Administration Regulations.
- Labor Relations Regulations.
- Safety and Occupational Health Regulations.
- Ethics and Conduct Regulations.
- Protection and Security Regulations.
- Environment, Watershed, and Interinstitutional Commission for the Panama Canal Watershed Regulations.

The above and additional information regarding our corporate government is available at our website www.pan canal.com.







social participation and solidarity

fostering progress

The organization and our collaborators take our country's progress and the promotion of the wellbeing of our communities very seriously.

With a spirit of solidarity and social commitment, we accomplished the following actions in 2004 and 2005:

- Support to charitable institutions and schools
- Support to children and other vulnerable groups
- Promotion of ethical, moral, and environmental values
- Generation of social synergy.

Support to charitable institutions and schools

- Support to the Dr. Eno Abused Girls Home

A group of collaborators from the Atlantic side (Sanitation Section) undertook the cleanup, grounds maintenance, and removal of debris at the Home area while the organization provided the equipment. In addition, our employees also built a shed, which the Home will use to raise chickens for their own consumption and for sale, to generate revenues to maintain the center. This activity also received financial support from the Education Committee of the EDIOACC, R. L. Savings and Credit Union (the members of which are ACP employees).

- Support to the Santa Luisa Seniors Home

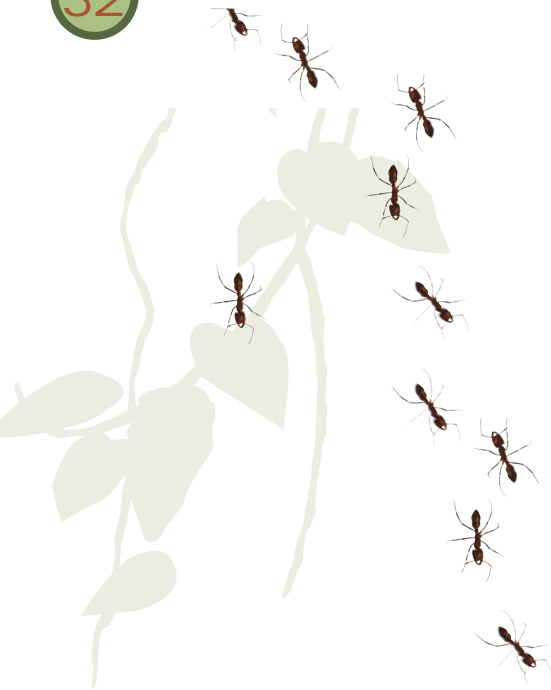
In June 2004, heavy rains and strong winds struck the Atlantic side of the country, and several fallen trees were endangering the infrastructure and the safety of the residents of the Santa Luisa Seniors Home. Canal Protection Division and Sanitation Section employees volunteered to remove the debris and fallen trees from the Home with power saws, trimmers, and machetes provided by the ACP.

- Donations to various institutions

Our Finance Department delivered donations from more than 230 collaborators to the Bolivar Seniors Home. This generous contribution included food and personal hygiene items, as well as craft materials. In the same spirit, another group from our Department of Information Management and Technology donated equipment and materials such as wheelchairs, walkers, canes, oxygen regulators, oxygen tank carts, etc.



32



The Human Resources Operations Division raised funds to support the Friends of Children with Leukemia and Cancer, Foundation, Pro-Children of Darien Foundation, and Nutre Hogar, which are committed, respectively, to provide health care, promote integral development, and nutrition to the children in our country.

- **Chiguirí Abajo School repairs**

During August and September 2004, on the occasion of the 90th anniversary of the Panama Canal, collaborators from the Department of Human Resources conducted several volunteer activities to equip the dining room and establish a children's library at the public school of Chiguirí Abajo, a community with a high poverty rate. This elementary school in the province of Coclé has a student population of 139 children. The donations included kitchenware and food supplies for the entire year; furniture, paint and schoolbooks; first aid kits; personal hygiene items; and shoes and socks for students.

- **Technical training for school centers**

This program, established in 2002 as a pilot plan for the Melchor Lasso de la Vega Arts and Crafts School, has been expanded to serve the educational community on a continuous basis. Between 2004 and 2005, a group of 81 ACP volunteers under the leadership of the Department of Information Management and Technology, provided training on industrial safety, electronics, telecommunications, welding, electricity, and related themes to more than 2300 students, professors, and parents from five high schools throughout the country.



Support to children and other vulnerable groups

- **Christmas parties at Panama Canal Watershed Communities**

The organization of Christmas parties for the children of the Panama Canal Watershed rural communities and schools has become a happy tradition for ACP employees. In 2004, parties were organized for 13 communities, providing fun, food, candy, and gifts to more than 1200 children. Also as part of their year-end holiday volunteer work, another group of collaborators visited the communities of Isla Colon, Islas Valle Escondido, San Cristobal, Isla Bastimento, and Isla Bocas, all of them in the coastal province of Bocas del Toro. They took clothing and toys to approximately 250 children between the ages of 1 and 12. All of these activities were carried out on weekends, by more than 70 employees from different departments of the organization.

In addition, in 2005, collaborators from four divisions (Industrial Services, Locks, Electricity and Aqueducts, and Environmental Management) organized parties for more than 800 children in different areas of the country, providing clothing, shoes, toys, food, and snacks in occasion of Christmas and The Three Wise Men Day.





- Visit by children from the Canal Watershed

As part of a corporate public relations program, the organization and its collaborators give children from the Canal Watershed the opportunity to visit the Canal and certain points of interest in the city of Panama. In 2004 and 2005 this three-day activity was held with the participation of 41 schools, 366 students, and 82 teachers and parents. During their visit, the children were housed by sponsoring Canal employee families, who got the experience to share some time with these little neighbors from such an important area of our country.

In addition, we trained teachers from schools at the Canal Watershed and neighboring areas, and distributed didactic materials to 209 schools, thus benefiting 44515 students and 2013 teachers. Moreover, participation of youngsters in specific actions was encouraged, as the one implemented by 2270 students who became "Watershed's Guardians". This group analyzed the water quality in several watercourses near their communities and implemented solid wastes management projects. More than 2000 students from 36 schools participated in 60 training courses.

Finally, to raise awareness on the importance of using and managing water resources appropriately, we organized fairs, lectures, and environment-related celebrations for more than 1300 people from the provinces of Panama, Colon and Cocolé. To complement this, for the third consecutive year, we continued with the program "Everyone's Canal," which promotes the dissemination among the youth of Panama and the public in general, of information regarding the latest realities of the Panama Canal. To this end, we have entered into an agreement with the Ministry of Education to include the subject of the Panama Canal in public school programs.

The promotion of ethical, moral, and environmental values

- Environmental education

To raise environmental awareness among collaborators, residents of the Panama Canal Watershed and the Panamanian community in general, we carried out several education initiatives through three programs focused at promoting management and conservation of hydrological resources. The corporate program offered orientation to 443 new collaborators and student assistants on environmental culture for water resources conservation.

Generation of social synergy

- Medical Tours to rural communities

In following their strategy for community work, the Occupational Health Division and Maritime Operations personnel conducted a medical mission to Las Pavas de La Chorrera in August 2004. The Office of the First Lady of the Republic donated medications and other supplies for this activity. Physicians, nurses, and administrative personnel from our organization and the Ministry of Health participated.

In addition, through the Corporate Psychology Program, in 2005 we developed several community-oriented activities

such as conferences on use and abuse of alcohol and drugs at the National Oncology Hospital; cross training and internship agreements with the National Institute for Mental Health and the University of Panama.

- Summer cultural program

To promote the various aspects of our national culture, we carried out our second and third ACP Summer Cultural Program. These featured our country's musical history, with emphasis on the ethnical groups that contributed to the construction of the Panama Canal, and an overview of the songs and rhythms of America.







commitment to progress

How we advance to a better future



OBJECTIVES FOR FISCAL YEAR 2006

Our strategic objectives for Fiscal Year 2006 are:

- To increase the organization's profitability in a sustainable manner for the benefit of our country.
- To expand our services and products and take advantage of market opportunities.
- To implement business practices that strengthen good corporate governance.
- To efficiently administer, in quantity and quality, the water resources of the Panama Canal Watershed.
- To increase productivity through excellence performance and the wellbeing of our human resources.

To achieve these objectives, our work shall be based on the following goals:

HUMAN RIGHTS

- Increase dissemination of information on the prevention of accidents and illness.
- Encourage more participation of collaborators in the employee Health Program and/or Physical Fitness Program.
- Maintain efforts to reintegrate collaborators into their jobs after participating in the Strengthening for the Job Program.
- Maintain awareness of the ISPS Code among the work force. Review and adjust the number of water patrols required under this norm.

LABOR STANDARDS

- Develop and implement an action plan to increase the level of job satisfaction and commitment among the work force.
- Keep the rate of accidents on the job at 2.5 or below.
- Automate the objective evaluation system for individual performance.
- Keep the five labor unions collective bargaining agreements in force.
- Keep at zero the number of court decisions on employee abuse, punishment, or forced labor cases.



- Maintain training programs that motivate excellence in job performance.

- Complete the Cadastre and Land Titling Program for the Western Region of the Panama Canal Watershed.
- Review the processes to optimize the recovery of oily waters and used oil.

THE ENVIRONMENT

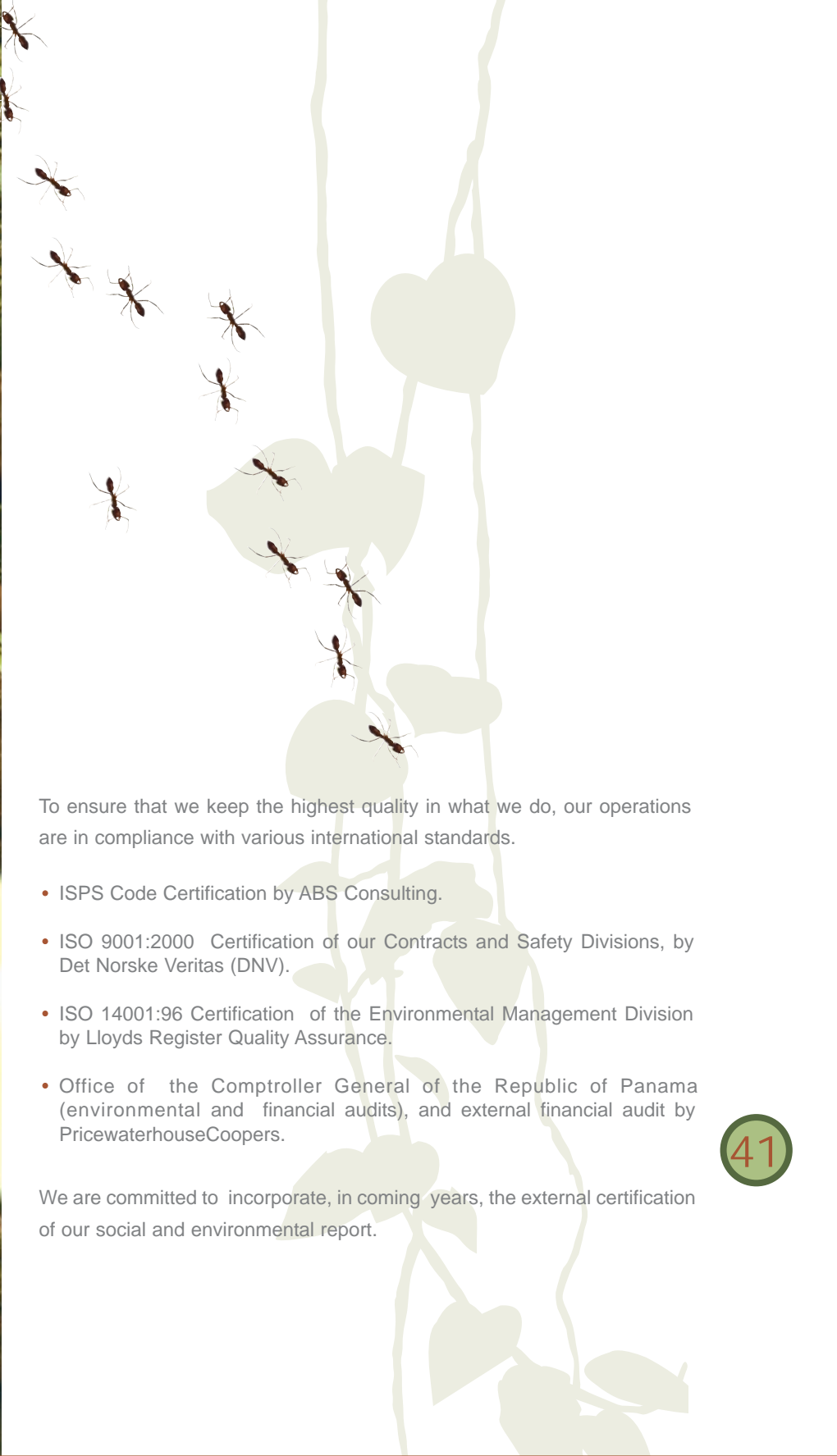
- Develop indicators to measure the progress of sustainable development and integrated water resources management programs.
- Design a strategy for the collection and treatment of sewage water.
- Increase environmental training to our workforce.
- Increase the number of teachers and students in the environmental education program.
- Maintain the ISO 14001 certification.

FIGHT AGAINST CORRUPTION

- Maintain and ensure the mechanisms for transparency, and corruptions prevention and punishment.
- Increase efforts to raise awareness among the work force and our stakeholders (suppliers, contractors, clients, and users) on the importance of complying with the Code of Ethics and Conduct.



external verification



To ensure that we keep the highest quality in what we do, our operations are in compliance with various international standards.

- ISPS Code Certification by ABS Consulting.
- ISO 9001:2000 Certification of our Contracts and Safety Divisions, by Det Norske Veritas (DNV).
- ISO 14001:96 Certification of the Environmental Management Division by Lloyds Register Quality Assurance.
- Office of the Comptroller General of the Republic of Panama (environmental and financial audits), and external financial audit by PricewaterhouseCoopers.

We are committed to incorporate, in coming years, the external certification of our social and environmental report.



invitation



We are interested in knowing your opinion. It will assist us in evaluating our performance and meeting our commitments, as well as in guiding us toward a continued improvement of our future reports.

• You read the report: in its entirety _____ almost in its entirety _____ some parts _____ nothing _____

• You consider that we included accurate and sound information on the following matters:

_____ human rights

_____ labor standards

_____ environment

_____ fight against corruption

_____ social participation and solidarity

_____ commitment to progress

_____ external verification

_____ none of the above

• You found the report to be: excellent _____ very good _____ good _____ bad _____

• You believe that to improve this report next year we should: _____

• Personal information (optional): Name _____

Address _____

City and country _____

Title/occupation _____

Telephone / e-mail _____

Thank you for sending your comments to the following address:

Panama Canal Authority
Safety, Security and Environment Department
Phone (507) 272-4061. Fax (507) 272-3965
www.pancanal.com



FOR MORE INFORMATION

Regarding the ACP and its actions, visit www.pancanal.com

Regarding corporate social responsibility, visit www.unglobalcompact.org ; www.wbcsd.org

Regarding the Global Reporting Initiative, visit www.globalreporting.org

Regarding environmental matters, visit www.unep.org ; www.wri.org

Regarding human rights matters, visit www.fidh.org ; www.ilo.org

In the event of any discrepancy between the English and Spanish versions of this document, the Spanish version shall prevail.

Panama Canal Authority
Department of Safety, Security and Environment
Phone (507) 272-4061. Fax (507) 272-3965

www.pancanal.com

PRODUCTION AND DIRECTION

Department of Safety, Security and Environment of the Panama Canal Authority

DESIGN
Signos Visuales

PUBLISHER



