BALBOA, REPUBLIC OF PANAMA

MARKET VALUE REPORT

AS OF

MARCH 31, 2005

OF SUMINISTRO DE AGUA POTABILIZADA

BALBOA, REPUBLIC OF PANAMA

Engagement Number: 50002143

Valuation Research® Corporation

330 E. Kilbourn Avenue
Milwaukee, WI 53202-3142
Fax 414 271-2294
414 271-8662

Austin
Boston
Chicago
Cincinnati
New York
Princeton
San Francisco
Tampa
International Affiliates

December 21, 2005

Autoridad del Canal de Panamá
Contracting Division
Building 710, Ground Floor
Balboa, Republic of Panamá

Ladies and Gentlemen:

In accordance with your request, Valuation Research Corporation ("VRC") has made an investigation and valuation of the business enterprise value ("BEV") of the Suministro de Agua Potabilizada ("SAP" or the "Unit 27"), as of March 31, 2005 (the "Valuation Date"). SAP is an operating unit of the Autoridad del Canal de Panamá ("ACP" or the "Company"), and produces potable water for the personnel of ACP and the people of Panamá. The ACP, an autonomous entity of the Republic of Panamá Government (the "Government"), has the exclusive charge of the operation, administration, management, preservation, maintenance, and modernization of the Panamá Canal (the "Canal"). VRC submits this letter and report relative to our findings and conclusions.

It is our understanding that our BEV of SAP, in accordance with the original requirements of Additive Number Two[1], will be used to address potential financial reporting requirements pursuant to the sixth edition of the International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Committee ("IASC"), and for obtaining appropriate credit rating at the U.S. Securities and Exchange Commission ("SEC"). This BEV reflects an update on our previous BEV analysis of SAP, valued as of September 30, 2004, to incorporate the latest financial results. No other use of our investigation and valuation is intended or should be inferred.

For purposes of this analysis, our valuation[2] is based on the application of methodologies that are commonly used and accepted within the financial community for business appraisals. Market and income approaches were considered and used in some fashion. The BEV, specifically, was derived using (i) a discounted cash flow ("DCF") analysis[3] (derivation of the income approach), which involves developing cash flow projections

[1] Defined in the Company's Request for Proposal Number SAA-220243 (Valuation Services for the ACP Business) and Amendment Number 1, both dated August 2004.

[2] In accordance with the sixth edition of the International Valuation Standards' Valuation Guidance Note Number 6.

[3] In accordance with the sixth edition of the International Valuation Standards' Valuation Guidance Note Number 9.

and determining their present value; and (ii) a market comparable analysis (derivation of the market approach), which involves analyzing market multiples of comparable, publicly traded companies. The income and market approach value indications were then subsequently weighted to determine an overall value conclusion. The weighting may deviate from an equal weighting where income streams of the company are significantly different in terms of annual profitability from those of the public comparable companies. Such instances rely more heavily upon the DCF analysis. All of the derived BEVs represent marketable, control values.

The term "**Market Value**" is defined[4] as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. This value definition assumes the company continues to operate as a going concern and excludes any synergy adjustments or control premiums that might be associated with an acquisition by another company.

This report provides an explanation of the methodology used in this engagement and outlines the basis upon which our conclusion of value has been developed. The analysis has been made in accordance with the (i) Uniform Standards of Professional Appraisal Practice ("USPAP") adopted by the Appraisal Standards Board of the Appraisal Foundation and the requirements of the Standards of Professional Practice; (ii) Principles of Appraisal Practice and Code of Ethics, published by the American Society of Appraisers; and (iii) sixth edition of the International Valuation Standards Number 1 ("IVS-1").

This report is intended to comply with the reporting requirements set forth under (i) International Valuation Standards Number 3 ("IVS-3"); and (ii) IFRS. Supporting documentation concerning the data, reasoning, and analyses utilized in the valuation is retained in our files. The information contained in this report is specific to the needs of the client and for the intended use stated herein. The report comprises of:

1. This letter which identifies the assets appraised, summarizes the methods employed to arrive at our value conclusion, and provides a statement of our findings.

2. A narrative report containing a description of Unit 27, a presentation of the valuation approaches used in this appraisal, and the conclusions developed from our analysis.

---

[4] Source: International Valuation Standards, published by International Valuation Standards Committee, sixth Edition 2003

3. Exhibits, (i) highlighting the consolidated financial statements of Unit 27, which were developed from internal operating unit financial statements for the nine months ending September 30, 2000 (income statement only), fiscal year ending ("FYE") September 30, 2001 through 2004, and six months ending March 31, 2005 and March 31, 2004 (income statements and balance sheets only); and (ii) summarizing the valuation of Unit 27.

In connection with our valuations, we have reviewed, among other things, the historical and budgeted financial results, and operational data of SAP.

VRC also (i) made site visits[5] on November 11 and 12, 2004; and (ii) held discussions with the management of ACP and SAP (collectively the "Management") regarding past and current business operations, market overview, financial condition, and future prospects for Unit 27. We have relied upon the accuracy and completeness of all information provided to us, without independent verification. This information has been accepted without investigation as a correct representation of the operations and conditions of SAP.

VRC does not conduct or provide environmental liability assessments of any kind in performing its valuations so that our opinion of values will not reflect any actual or contingent environmental liabilities except to the extent we are provided with a specific monetary assessment of such liabilities in writing. In any event, VRC will not verify such monetary assessment and will offer no warranty or representation as to its accuracy or completeness. For purposes of this engagement, our opinion of values excludes any actual or contingent environmental liabilities.

Based upon the investigation and analyses described above and detailed in the accompanying report, and subject to the limiting factors and assumptions presented therein, it is our opinion that the BEV of Unit 27, as of the Valuation Date, is:

ONE HUNDRED TWENTY-EIGHT MILLION
AND THREE HUNDRED THOUSAND DOLLARS
$128.3 million

[5] In accordance with 5.1.2.3 of the sixth edition of the International Valuation Standards Number 3

VRC has investigated neither the title to nor any liabilities against the property appraised. Neither VRC nor any of its personnel have any material financial interest in the equity appraised, and we certify that the compensation received for this study is not contingent upon the conclusions stated.

This letter and the accompanying report, is intended solely for your benefit and use for the specific purpose as noted herein. This letter and report may not be used by any person or for any purpose other than as specified herein or otherwise reproduced, disseminated, quoted or referred to at any time, in any manner or for any purpose, without our prior written consent.

Respectfully submitted,

VALUATION RESEARCH CORPORATION

Valuation Research Corporation.

Engagement Number: 50002143

TABLE OF CONTENTS

INTRODUCTION

PURPOSE OF VALUATIONS

The valuation expresses our opinion of the business enterprise value ("BEV") of the Suministro de Agua Potabilizada ("SAP" or the "Unit 27"), as of March 31, 2005 (the "Valuation Date").

It is our understanding that our BEV of SAP, in accordance with the original requirements of Additive Number Two[1], will be used to address potential financial reporting requirements pursuant to the sixth edition of the International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Committee ("IASC"), and for obtaining appropriate credit rating at the U.S. Securities and Exchange Commission ("SEC"). This BEV reflects an update on our previous BEV analysis of SAP, valued as of September 30, 2004, to incorporate the latest financial results. No other use of our investigation and valuation is intended or should be inferred.

DEFINITION OF MARKET VALUE

The term "**Market Value**" is defined[2] as the estimated amount for which a property should exchange on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. This value definition assumes the company continues to operate as a going concern and excludes any synergy adjustments or control premiums that might be associated with an acquisition by another company.

VALUATION PROCESS

The appraisal process is a systematic and analytical procedure utilized in the valuation. This process begins with the definition of the appraisal objective. Then, the planning of the valuation along with the staffing is done. Next, the data necessary to execute the valuation is gathered, analyzed, and correlated into a final estimate of value.

In connection with our valuations, we have reviewed, among other things, the historical and budgeted financial results, and operational data of Unit 27.

---

[1] Defined in the Company's Request for Proposal Number SAA-220243 (Valuation Services for the ACP Business) and Amendment Number 1, both dated August 2004.

[2] Source: International Valuation Standards, published by International Valuation Standards Committee, sixth Edition 2003.

The following summarizes the major information reviewed and analyzed:

1. ACP's Request for Proposal Number SAA-220243 (Valuation Services of the ACP Business) and associated Attachments, dated August 20, 2004;

2. Property Deed between the Republic of Panamá Government (the "Government") and ACP (which transferred all of the real and personal properties necessary for the operation of the Canal to ACP) dated December 30, 1999;

3. Internal financial statements:

    a. Operating unit financial statements (income statements and balance sheets) of SAP for six months ending March 31, 2004, one month ending October 31, 2004, and six months ending March 31, 2005;

    b. Operating unit income statements of SAP for nine months ending September 30, 2000 and FYE September 30, 2001 through 2004;

    c. Operating unit balance sheets of SAP for FYE September 30, 2001 through 2004;

    d. Unit 27 historical capital expenditures for FYE September 30, 2000 through 2004; and

    e. Selected FYE September 30, 2000 through 2004 and six months ending March 31, 2005 financial performance results (production, revenue breakdown, and consumption) for Unit 27.

4. Budgeted fiscal year ("FY") 2005 income statement and selected financial performance matrices for Unit 27; and

5. Various supporting documents and press releases.

VRC also (i) made site visits[3] on November 11 and 12, 2004; and (ii) held discussions with the management of ACP and SAP (collectively the "Management") regarding past and current business operations, market overview, financial condition, and future prospects for Unit 27. We have relied upon the accuracy and completeness of all

[3] In accordance with 5.1.2.3 of the sixth edition of the International Valuation Standards Number 3

information provided to us, without independent verification. This information has been accepted without investigation as a correct representation of the operations and conditions of SAP.

COMPLIANCE

This report provides an explanation of the methodology used in this engagement and outlines the basis upon which our conclusion of value has been developed. The analysis has been made in accordance with the (i) Uniform Standards of Professional Appraisal Practice ("USPAP") as adopted by the Appraisal Standards Board of the Appraisal Foundation and the requirements of the Standards of Professional Practice; (ii) Principles of Appraisal Practice and Code of Ethics, published by the American Society of Appraisers; and (iii) sixth edition of the International Valuation Standards Number 1 ("IVS-1").

This report is intended to comply with the reporting requirements set forth under (i) International Valuation Standards Number 3 ("IVS-3"); and (ii) IFRS. Supporting documentation concerning the data, reasoning, and analyses utilized in the valuation is retained in our files. The information contained in this report is specific to the needs of the client and for the intended use stated herein.

ECONOMIC REVIEW

Valuation of equity securities and businesses requires a general understanding of current and projected economic conditions that affect the asset analyzed. A strong economic outlook will tend to increase value while a weak economic outlook will typically depress value, and restrict marketability and liquidity. To better understand the future economic trends (which impacts Unit 27), it is appropriate to review the current global and Panamanian economic environment because the excess production of Unit 27 is, ultimately, consumed by the commercial and residential sectors of Panama. The growth and prosperity of the commercial and residential sectors are driven by the country's major industries and global trade.

The following discussion is based on *"Country Forecast - Global Outlook": February 2004 by The Economist Intelligence Unit in the United Kingdom, and Country Analyses conducted by the Energy Information Administration,* a statistical agency of the U.S. Department of Energy.

GLOBAL MARKET

OVERVIEW

The global economy is growing rapidly and the world gross domestic product ("GDP") is expected to grow (on a purchasing power parity basis) an average of 4.3% in 2004 before slowing to a still robust four percent in 2005. These figures compare favorably with the estimated 3.5% growth experienced in 2003. Measured using GDP at market exchange rates, world GDP growth will accelerate from 2.5% in 2003 to 3.3% in 2004, before slowing marginally to 3.1% in 2005.

Although growth has slowed from the heady pace seen in the third quarter of 2003, latest data in many of the world's largest economies suggest that the expansion is continuing at a reasonable pace. On a year-on-year basis, the Organization for Economic Co operation and Development ("OECD") countries[4] has now returned to a trend pace of expansion for the first time since 2000. But with many of the world's largest economies still nursing significant debt levels or other economic imbalances left over from the boom years of the late 1990s, the recovery carries with it some significant risks. Policy stimulus, particularly, in the US, has much to do with the recent upturn in growth and there are still concerns about how the economy will perform when tax cuts come to an end and interest rates rise. There is also a risk that foreign-exchange movements depress growth prospects in some key markets.

[4] Includes US, Japan, Germany, France, Italy, UK, Canada, Australia, Austria, Belgium, Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, South Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, and Turkey.

UNITED STATES

In the US, economic growth has accelerated markedly as tax cuts feed through into consumer demand. Growth in the third quarter of 2003 was particularly strong, but the pace of expansion in more recent months has remained impressive, buoying sentiment and financial markets. Business investment is rising and job creation, albeit sluggish, has at least resumed. Economic growth, which is already fairly robust, will be further boosted in the months ahead by another round of personal and corporate tax cuts and rebates. This will be reinforced by the continued gradual improvement in the underlying economy, as business investment gradually broadens and the effects of the stronger job market feed through into consumer confidence and spending. But the personal sector is dogged by high debt levels, and companies in many sectors are still laboring under substantial excess capacity. This suggests that the underlying strength of demand will be softer than the headline GDP figures for 2004 suggest, with tax cuts once again providing the extra fillip. In 2005, when there is little scope for further tax cuts, the economy is expected to weaken. Despite the strong growth expected for 2004, there is unlikely to be any significant upward pressure on inflation, given the amount of slack in the economy, and interest rates are thus expected to remain low.

EUROPE

The euro zone also seems to be recovering – third quarter GDP data showed that the recession seen in some countries in the first half of 2003 had come to an end, while more recent monthly figures suggest a continued, albeit gradual, pick-up in economic growth. Business surveys suggest further improvements in the months ahead. But concerns of domestic demand weakness remain. The recent upturn seems to have been driven by exports (despite the strong euro), rather than stronger consumption or investment. The recovery is expected to broaden out into the domestic sector of the euro zone economy, but only slowly. Companies remain financially weak and burdened with spare capacity. This is damaging investment and employment prospects, and has resulted in a knock-on impact on consumer demand. Economic policy, while not an outright drag on demand, is not providing the scale of stimulus seen in the US. Growth is expected to accelerate more significantly from mid-2004 onwards, as capital expenditure starts to rise in the sectors that were least affected by the investment boom of the late 1990s, but performances will remain disappointing compared with the rates seen in late 1990s. The appreciation of the euro suggests that companies will be unable to take full advantage of the strength of demand in the US market, while cautious consumers, faced with rising pension and healthcare costs, will hold back domestically oriented sectors.

JAPAN

The Japanese economy remains far better than expected a year ago. GDP growth is expected to average 2.1% in 2003, but expect a slowdown to 1.3% in 2004 and one percent growth in 2005. Latest data suggest that growth was fuelled mainly by the export sector in the second half of 2003, but for the year as a whole private investment was

surprisingly robust, underpinned by strong profit growth. However, the pace of growth in Japan is expected to decelerate in 2004, as recent improvements in profitability are eroded in continued deflation. Japanese structural difficulties, particularly overcapacity in the private sector and the weakness of the banking sector, have not been addressed. This suggests that, although the outlook for 2004 is reasonable, the long term picture remains one of economic weakness.

EMERGING MARKETS

Emerging market economies are benefiting from the pick-up in OECD demand, and performance will further improve during the rest of 2004. But import growth in the OECD will not match the pace seen in the late 1990s. Consequently, domestic demand will need to play more of a role than in the past in driving emerging world growth, along with export sales into other emerging countries. Interest rate spreads between emerging world and OECD borrowers have narrowed, as OECD investors move cash out of low-yielding assets in the developed world and into higher-yielding securities in the developing world. This is helping fuel government and private sector investment in parts of the emerging world, thereby supporting GDP growth. This suggests that economic growth in the emerging world will be more evenly balanced between exports, public sector demand and private sector demand than in the boom years of the late 1990s.

East European economies will gradually strengthen in 2004. Import demand in the euro zone will improve and this, combined with continued foreign investment by west European companies and continued loose policy, should ensure that performance in many east-central European countries is reasonable in 2004 and 2005. However, weaker oil prices will damage prospects in many countries in the Commonwealth of Independent States ("CIS").

ASIA

Among the economies of emerging Asia, sales into the OECD are rising, but at a far slower pace than in the late 1990s. Many countries are relying instead on exports to China and efforts to boost domestic demand. Strong growth in China is providing a significant boost to growth in the rest of the region, although this of course also makes regional performance vulnerable to any Chinese slowdown. More importantly for the long term, China's competitive advantages mean that other Asian countries are having to undergo a significant economic restructuring in order to be able to benefit fully from their fast-growing neighbor. The region as a whole is also managing to attract slightly more foreign capital than in the last two years, which is helping to underpin domestic demand growth. But trade with China and stronger domestic demand are not sufficient to offset the fact that OECD demand, particularly for technology products, is more sluggish than during the boom years of the late 1990s.

China, the regional growth driver, has problems of its own – there is a risk of an investment bubble in some sectors, which could pose problems for policy makers over the next few years. In other parts of the region, particularly the south-east, security concerns are mounting and this is likely to take its toll on foreign direct investment flows over the forecast period. Growth in India has improved markedly and, like China, the country is making a substantial contribution to the regional growth rate. However, lack of economic integration means that, unlike China, strong Indian growth is not substantially enhancing the performance of other countries in the region.

CENTRAL AMERICA

Central America (including Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Republic of Panamá) is home to some of the world's poorest and most densely populated countries. Nicaragua and Honduras, for example, are considered two of the poorest countries in the Western Hemisphere, with large portions of their population living in poverty. Both of these countries are part of the World Bank and International Monetary Fund ("IMF") led Heavily Indebted Poor Countries ("HIPCs") initiative, which provides comprehensive debt relief to the world's poorest, mostly heavily indebted countries. The economic situation is not as dire in all Central American countries, such as in Costa Rica, where the population enjoys a relatively high standard of living, with the highest per capita income in the region and low unemployment.

Traditionally, Central American countries have been reliant on agricultural exports (coffee, sugar and bananas) to generate a large portion of their GDP. During the past decade, however, most Central American countries have been developing new growth sectors in order to diversify their economies, such as non-traditional exports and so-called maquila industries (assembly of products, mainly textiles and apparel, for re-export). This transition has been particularly evident in El Salvador, where, in 2003, only 3.4% of the country's export earnings came from coffee, compared to more than half in 1988. In place of traditional industries, Costa Rica has been able to attract private investment, including large companies like Intel Corporation and Proctor & Gamble. In addition, remittances from Central Americans working abroad have increasingly contributed to the region's economies. Although most Central American countries have made great strides to diversify, agriculture still plays an important role in their economies.

In 2003, all Central American economies expanded year-on-year, with El Salvador and Guatemala growing at the slowest rates. In the short term, Central America will likely benefit from a resurgent economy in the United States, the region's main trading partner, and from an upswing in world commodity prices. The Dominican Republic-Central American Free Trade Agreement ("DR_CAFTA") with the US, signed on August 5, 2004, will also likely boost the region's economic prospects once it is ratified by participating governments and implemented.

Over the past few years, significant progress has been made in Central American economic integration. In May 2000, after four years of negotiations, the three "northern triangle" countries (El Salvador, Guatemala, and Honduras) signed a free trade agreement with Mexico. Since March 2000, the "northern triangle" countries have been negotiating a trade agreement with the Andean Community (Bolivia, Colombia, Ecuador, Peru, and Venezuela).

REPUBLIC OF PANAMA

Despite its small population and area (3.2 million and 30,193 square miles, respectively), Republic of Panamá ("Panama") is an important center for international trade in the Western Hemisphere, as both a major shipping thoroughfare and a regional economic power. Since 1992, an average of 185 million long tons of cargo has passed annually through the Canal. Panama is also a financial and communications hub that sits at the crossroads of five international fiber-optic networks and hosts 110 international banks.

The Panamanian economy is one of Central America's most stable, with the Panamanian Balboa being pegged to the dollar since 1903. The economy has become largely service-based, with banking, tourism, and commerce all playing important roles. Only a quarter of the land is used for agriculture. ON the upland savannas, cattle are grazed and subsistence crops such as rice, sugarcane, cocoa, and coffee are grown. Bananas are grown on the Pacific coast. Bananas are the leading export, followed by shrimp and fish products, sugar, clothing, and coffee. Manufactured goods, raw materials, and foodstuffs are imported. Much of the trade is with the US. In recent years, the country has become a nexus for the shipment of illegal drugs from Colombia to the US, as well as a center for drug-related financial transactions. During the 1990s, Panama continued to struggle to stabilize and develop its economy.

Panama's Colon Free Trade Zone ("CFZ"), established in 1953, is the largest in the Western Hemisphere and contributes substantially to the country's economy. The CFZ, located at the Atlantic gateway to the Canal, allows all goods (mainly from Far East and Europe), except firearms and petroleum products, to be imported, stored, modified, repacked and re-exported without being subject to any customs regulations. Although the country has consistently maintained one of Central America's highest per capita GDPs, there is a high level of income inequality, with a significant portion of the population living below the poverty line.

Panama's reliance on the Canal, shipping and port services makes Panama's economy highly dependent on world trade and economic trends. The global downturn in 2001 and in 2002 slowed the growth rate of the country's economy considerably, which has enjoyed an annual average real GDP of 5.1% through the 1990s. In 2002, canal transits and tonnage, for example, declined 2.3% and 2.8% respectively, over 2001. Activity at the CFZ, including export tonnage of some major commodities such as bananas (-5.2%) and shrimp (-16.5%), also decreased. Overall, Panama's real GDP growth rate slowed

from 2.7% in 2000 to only 0.6% in 2001. In 2002, the economy began to recover slightly, with a growth rate of 2.2%. In 2003, a stronger global economy helped Panama post a growth rate of 4.1%, the highest since 1998. In the first half of 2004, Panama's economy has remained robust, boosted by increased canal traffic, tourism spending and investment, and CFZ activity.

INDUSTRY OVERVIEW

INTRODUCTION

Unit 27 is engaged in the production of potable water for the facilities of ACP and the region's communities including Panama, Colon, San Miguelito, Arraijan and La Chorrera. Therefore, the industry review will focus, mainly, on recent trends and developments in the water industry. The sources of our review are:

1. "Global Water Supply and Sanitation Assessment 2000 Report" prepared by World Health Organization ("WHO") and UNICEF Joint Monitoring Programme for Water Supply and Sanitation ("JMP");

2. "Meeting the MGD Drinking Water and Sanitation Target....": 2004 by WHO and JMP;

3. "Water Supply & Sanitation Coverage in UNEP Regional Seas": September 2002 by United Nations Environment Programme ("UNEP");

4. "Water Resources Management in Latin America and the Caribbean": November 2003 by UNEP;

5. Environmental & Waste Management: October 4, 2004 by Standard & Poor's Industry Surveys;

6. "Water-Quality Surveillance System ...": 2003 by Timothy Steele of TDS Consulting, Inc., J. Eugenio Barrios O. of International Water-Quality Consultant, and Euripides Amaya of Ente Regulador de los Servicios Publicos ("ERSP"); and

7. ERSP's website.

WATER SUPPLY

GLOBAL OVERVIEW

The percentage of people served with some form of improved water supply rose from 79.0% (4.1 billion) in 1990 to 83.0% (5.2 billion) in 2002 (the "Survey Period"). Considerable progress was made between 1990 and 2002, with about 1.1 billion people gaining access to improved water sources. The region that made the greatest progress was South Asia, which increased from 71 to 84 percent over the Survey Period. This jump was fuelled primarily by increased use of improved water sources in India, home to over

1 billion people. Progress in sub-Saharian Africa was also impressive, coverage increased from 49 to 58 percent during the Survey Period, representing a nine percent increase.

The good news is offset by the fact that 1.1 billion people were still using water from unimproved sources in 2002. In sub-Saharian Africa, 42 percent of the population is still unserved. The lowest drinking water coverage levels are found in sub-Saharian Africa and in Oceania. In contrast, several regions, including Northern Africa, Latin America and the Caribbean, and Western Asia, have achieved coverage levels of close to 90 percent or more.

Obstacles to accelerating the rate of progress in sub-Saharian Africa include conflict and political instability, high rates of population growth, and low priority given to water and sanitation. What's more, breakdown rates of water supply systems in rural Africa can be very high. Among the approaches shown to be effective in speeding up progress, despite these obstacles, are decentralizing responsibility and ownership and providing a choice of service levels to communities, based on their ability and willingness to pay.

One recent success in Africa has been steady progress in the eradication of Guinea worm disease. Through improved drinking water and other interventions, the number of people suffering from this disease has been reduced by 99 percent, from an estimated 3.5 million cases in 1986 to less than 35,000 reported cases in 2003.

Population growth is a significant factor in the ability of countries, particularly low-income countries, to increase the coverage of drinking water. For example, just to maintain its 1990 coverage level of 74 percent, Peru would have had to ensure drinking water services to more than 350,000 people a year, on average, over the Survey Period. In fact, it provided water to more than 480,000 people a year, raising coverage from 74 percent to 81 percent.

On a global level, the number of people using improved water sources has increased by more that 90 million people a year since 1990. But because of population growth, the absolute number of people without coverage has only decreased by about 10 million people a year.

Ninety-two percent of the urban population and 70 percent of the rural population in developing countries use improved drinking water sources. That means that for every person without improved drinking water in urban countries, there are six people unserved in rural areas. The disparities are greatest in sub-Saharian Africa, with a difference of 37 percent between rural and urban dwellers.

At the end of 2002, approximately one-sixth (1.1 billion people) of the world's population was without access to improved water supply and approximately two-fifths (2.6 billion people) lacked access to improve sanitation. The majority of these people lived in Asia and Africa, where fewer than one-half of all Asians have access to improved sanitation and two out of five Africans lack improved water supply. Moreover, rural services still lag far behind urban services.

Projected urban population growth, especially in Africa and Asia, suggests that urban services will face great challenges over the coming decades to meet fast-growing needs. At the same time, rural areas also face the daunting task of meeting the existing large service gap. To reach universal coverage by the year 2025, almost 3 billion people will need to be served with water supply.

LATIN AMERICA AND CARIBBEAN

Even though the Latin American and Caribbean region (the "LAC Region") is rich in renewable water resources, accounting for over 30% of the world's water resources, these resources are distributed in a highly irregular manner. A great part of these resources is found in Amazonia – Peru, Colombia and Brazil (Amazonia, however, has low population density). Conversely, there are arid and semi-arid regions (such as central and northern Mexico) where a great part of the population lives, the driving force of the country's economic activity. This population suffers a constant scarcity of water in terms of quality and quantity. The three water basins in the LAC Region (Gulf of Mexico, Southern Atlantic Basin, and the River Plate Basin), cover 25% of the territory and supply 40% of the population. However, the basins possess only 10% of the water resources in the LAC Region.

Leaders of LAC Region have recognized the gravity of this situation, and water management has become the focal point of government programs in all countries throughout the region, in addition to historically being one of the budgetary items in greatest demand. In some countries, such as Mexico, water management has been catalogued as a matter of national security.

The LAC Region has undergone major transformations in water issues. During the first half of the twentieth century, the rule was that water supply was left in the hands of private operators. This trend changed to public control from the sixties until the nineties, at which time private operators once again took over, though to a lesser degree. There are now 60 million people in the region who are customers of private operators, while the public sector handles 320 million people. The desirable transformation is toward private operations, though under careful government regulations.

- The Caribbean islands have a low availability of water, and some of the populated areas are very limited in this resource. In places like the Dutch Antilles, the only water available is rainwater, for there are no rivers and the groundwater has high levels of saline intrusion.

- Mexico faces serious water supply problems. Of the country's 654 aquifiers, 97 are over-exploited supplying nearly 50% of the country's water demand. Additionally, another 17 groundwater aquifiers show evidence of saline intrusion in varying degree.

- Brazil, the largest country in the region, is so vast in expansion that there is a broad array of water related problems. In the north of the country, in the Amazonian region, water is abundant; however, this is the least populated region in the country. The northeast is the poorest region in the country, and in this region the dearth of water has reached dramatic proportions. In the great urban centers to the south, the problem that the population faces is related much more to water pollution than to scarcity.

- In Panama, the municipal water supply, fed by the Panama Canal Watershed (the "Watershed"), reaches approximately 90% of the country's population. The following table summarizes potable water service by the country's provinces, based on the Census of 2000.

	Potable Water Service		
Provinces / Reservations	**Total Houses**	**Houses Served**	**% Served**
Panama	350,345.0	343,338.0	98.0%
Colon	49,715.0	46,234.0	93.0%
Darien	9,088.0	5,362.0	59.0%
Chiriqui	87,509.0	72,633.0	83.0%
Coclé	44,496.0	40,936.0	92.0%
Herrera	27,202.0	25,570.0	94.0%
Los Santos	25,052.0	24,300.0	97.0%
Veraguas	49,102.0	41,246.0	84.0%
Bocas del Toro	16,999.0	12,919.0	76.0%
Kuna Yala	4,281.0	2,911.0	68.0%
Embera	1,498.0	165.0	11.0%
Ngobe Bugle	16,512.0	4,954.0	30.0%
Total	**681,799.0**	**620,568.0**	**91.0%**

WATER PRODUCTION

GLOBAL OVERVIEW

Overseas markets are becoming the focus for water treatment projects. According to United Nations projections reported by the New York Times in August 2002, two billion people suffered from an inadequate supply of water. But the figure is expected to rise to five billion people by 2025, or 63% of the world's projected population.

Demand for water services is outpacing the growth in supply, which should enhance the opportunities for private companies to improve efficiencies and develop new water supply sources. For instance, efforts to provide drinking water to desert regions have created a trend toward desalination projects in the Middle East and other regions of the world, including the United States. During 2002, two French water utilities, Suez SA (formerly Suez Lyonnaise des Eaux) and Veolia Environnement SA (formerly Vivendi Environnement SA), signed long-term deals to manage municipal water systems in China and South America. German utility RWE AG also continues to focus on expanding in China.

Multinational companies have stepped in with their expertise, and their commercial motives, to bring safe water to millions. The world's private water supply business is a $200 billion per year industry, according the New York Times. Still, the firms serve only about seven percent of the world's people and foresee a vast, untapped market.

At the same time, the water firms have created controversy through marketing and pricing decisions. Street fights have occurred over the basic question of who will have the water, and when, and at what price? Popular protest over water has made some corporate funders wary of any new investments in certain developing countries. How these conflicts over this vital resource are resolved will go far in deciding which nations are the winners and which the losers, in economic and social development in the coming decades.

Unicef notes that great progress has been made in recent years in bringing safe and reliable water supplies to billions. However, the increases have not kept pace with the need. Governments affected by global recession, wars and "structural adjustment" programs dictated by the IMF and the World Bank have proved unable to deliver good water to many of their citizens.

Recently, an almost Gold Rush atmosphere has seen western companies grab contracts worth billion of dollars around the world. Major water conglomerates now include US based Bechtel, Britain's RWE-Thames Water, and France's Vivendi and Suez-Lyonnaise.

PANAMA

Throughout Panama, approximately 130 municipal systems, principally operated by the Instituto de Acueductos y Alcantarillados Nacionales ("IDAAN"), provide potable-water supplies to water users, both commercial and residential. IDAAN is a state-owned utility. In addition to the municipalities, a growing number of private water producers (including Unit 27) supply bulk potable water to the municipalities, for sale to the public market. All water operators are regulated by the ERSP, which is an independent organization of Panama and has the responsibility of regulating and controlling the public service sector of potable sanitary sewer system, water supply, telecommunication, electricity, natural gas, radio and television. Under the ERSP's No. JD-100 Resolution 27 dated in August 1998 (the "Resolution"), the activities of the potable water operators are segregated into six categories:

- *Potable Water Production:* consists of (i) the superficial or underground water pick up; (ii) the purification or the treatment of crude water, including mud produced during the treatment; and (iii) crude or the main treated water conduction, including its pumping from the source to the limits of the consumption areas.

- *Potable Water Distribution:* consists of (i) the conduction of water within the consumption areas (before delivery to the customer's facility), including the pumping and the storage of the water within the city; and (ii) the commercialization of the water to the customers.

- *Served Water Harvesting:* consists of the effective routing of used residential, industrial, commercial, and hospitable water to sanitary sewage system or sewage system combined pluvio-toilet, including the pumping and the conduction of crude waters.

- *Treatment of Served Waters:* consists of plants of served water treatment, including muds and other by-products.

- *Final Disposition of Served Waters Treated:* consists of final disposition site.

- *Reuseability of Served Waters Treated:* consists of the use of treated served water.

Due to continued demands for potable water from projected population growth, foreign capital funding of additional potable water production has been on the rise in the past several years. In April 2003, the International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, has signed an agreement to invest up to $15 million

in Aguas de Panama, SA ("APSA") to support private sector participation in the water sector in Panama. The investment will help maintain a program to supply bulk potable water to IDAAN.

APSA has a 30 year concession to abstract water from Gatun Lake, treat it and deliver an agreed daily volume of potable water, varying between 15 and 20 million gallons per day, into the existing IDAAN water distribution system at Nuevo Chorrillo, located on the West Bank of the Canal. The system supplies approximately 270,000 residents in Arraijan and Colon. These areas have experienced very rapid population growth in recent years due to a substantial amount of migration from other areas of the country, creating a great demand for housing and the provision of basic services, such as water supply.

COMPANY OVERVIEW[5]

AUTORIDAD DEL CANAL DE PANAMA

OVERVIEW

ACP, successor to the Panama Canal Commission (the "Canal Commission") and pursuant to the Panama Canal Treaty (the "Treaty"), is responsible for the operation, administration, management, preservation, maintenance, improvement, and modernization of the Canal, and its related activities and services; pursuant to the legal and constitutional regulations currently in force (which are designed to ensure safe, uninterrupted, efficient, and profitable Canal operations). ACP is also responsible for the management, maintenance, use and conservation of the water resources of the Watershed including lakes and their tributary streams.

- On September 7, 1977, the Treaty was signed between the Panama and the US (i) guaranteeing the eventually transfer (the "Transfer") of the Canal to Panama, who will assume full responsibility for its administration, operation and maintenance; and (ii) establishing a regime of neutrality which stipulates that the Canal shall remain open, safe, neutral, and accessible to vessels of all nations. The Transfer occurred on the expiration of the Treaty, which was agreed upon at noon on December 31, 1999 (the "Transfer Date").

- In accordance with the terms of the Treaty, the Panama Canal Company (the "Canal Company") and the Canal Zone Government ("Canal Government") were dissolved on September 30, 1979.

- On October 1, 1979, Panama gained jurisdiction over the former Canal Government and the Canal Commission, an agency of the US Government and under the supervision of a bi-national Board of Directors (comprised of five US citizens and four Panamanian citizens), assumed responsibility for managing, operating, maintaining, and improving the Canal until the Transfer Date.

- On December 27, 1997, in preparation of the Transfer, ACP was organized and established in conformity with Article 310 of the Political Constitution (the "Constitution") of Panama and Organic Law Number 19 on June 11, 1997 (the "Organic Law"). The Organic Law furnished ACP with legislation for its organization and operation. Because of its importance and uniqueness, ACP became a financially

[5] Based on information from the Company's public filings, website and marketing literature, other public information, and press releases.

autonomous entity of the Government with its own patrimony, and has the right to administer it.

- Pursuant to the Treaty, at the Transfer Date, ACP became the administrator of all personal and real estate property identified in the Organic Law 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 by Article 33 of the Organic Law). As a result, the Canal became an inalienable patrimony of Panama (open to the peaceful and uninterrupted passage of all vessels) and will be subject to the requirements and conditions established by the Constitution, the Organic Law, and ACP management.

BOARD OF DIRECTORS

The ACP operates in compliance with the provisions of the Organic Law and the regulations approved by its Board of Directors (the "Board"), which consists of eleven appointed members (the "Members"). The criteria for the appointment of the Directors are:

- Nine Members are appointed by the President of Panama, with the consent of the Cabinet Council and ratified by the Legislative Assembly by absolute majority of its members.

- One Member is designated by the Legislative Branch, which may freely appoint and remove that Member.

- The last Member, who shall chair the Board and who shall have the rank of Minister of State for Canal Affairs (the "Minister"), is designated by the President of Panama. The Minister also has voice and voting rights in Cabinet Council meetings.

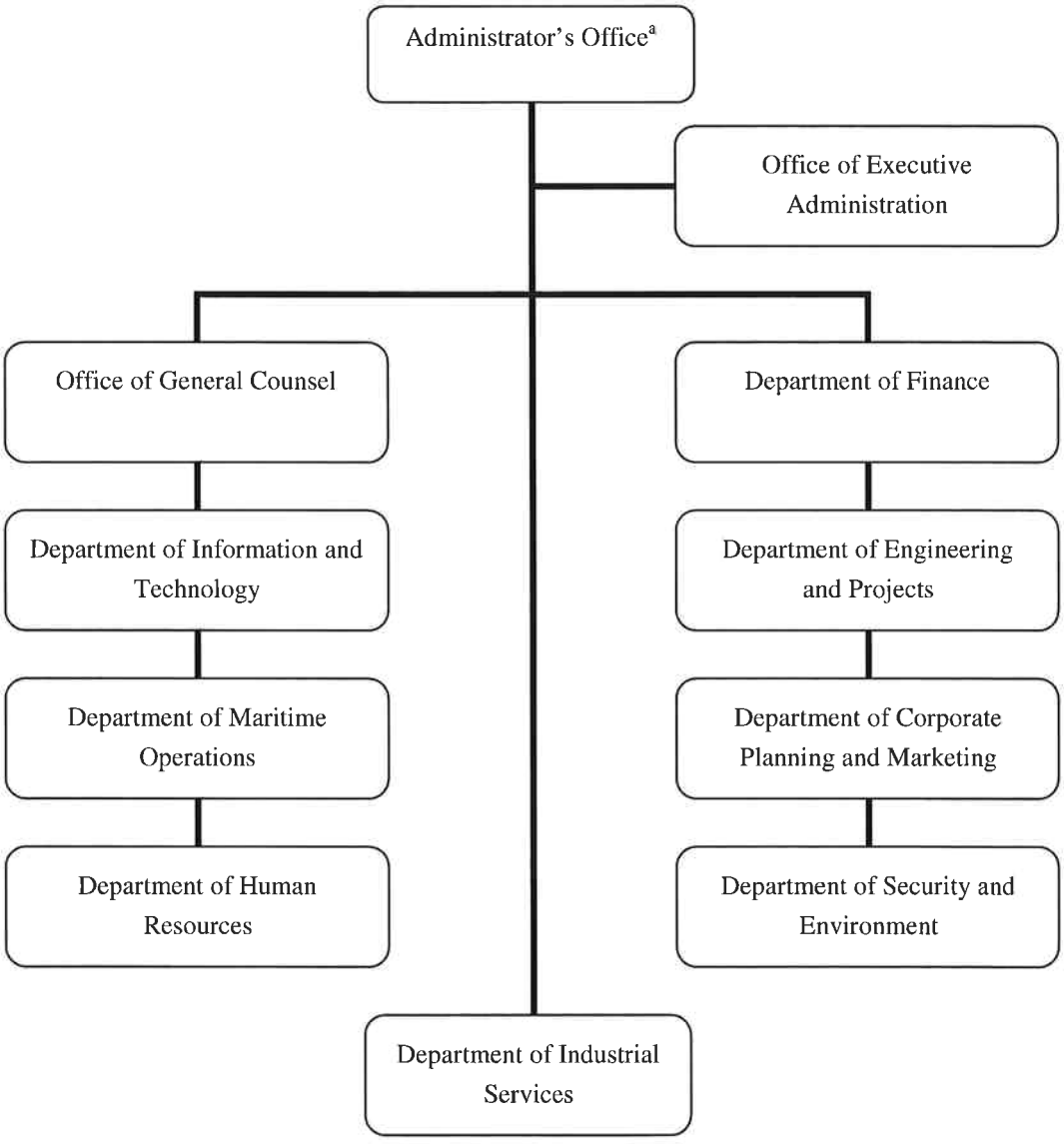
The first Members were appointed for staggered terms to ensure their independence from any given government administration.

In accordance with the Constitution and the Organic Law, the primary responsibility of the Board is (i) establishing policies for the Canal operation, improvement, and modernization; and (ii) supervising ACP management.

MANAGEMENT

An Administrator and Deputy Administrator, under the supervision of the Board, are responsible for management of ACP and its approximately 9,000 employees. The Administrator, considered the Canal's Chief Executive Officer and legal representative, is responsible for implementing policies and decisions of the Board. The appointment of the Administrator is for a seven-year term, after which the person may be re-elected for an additional term.

The following depicts the organization structure of the ACP:



[a] *Includes the Administrator and Deputy Administrator*

THE PANAMA CANAL WATERSHED

The Watershed (having a surface area of approximately 552,761 hectares and consisting of 11 districts and 48 corregimientos, distributed among the provinces of Panama, Colon and Cocle) is indispensable to Canal operations and urban potable water supply. On average, 58 percent of available water is used for the operation of the Canal locks (every transit across the Canal requires 52 million gallons of gravity-fed, fresh water to operate the locks, which is then lost to the sea), 36 percent is used to produce electricity, and six percent is used for human consumption (approximately one and a half million people). The operation of the Canal uses as much fresh water daily as a city of 11 million people. The Watershed is home to some 70 species of amphibians, 112 species of reptiles, approximately 546 species of birds (including the toucan and harpy eagle), and more than a hundred thousand species of trees.

At present, only 40 percent of the Watershed (down from 80% in 1947 due to legal and illegal logging, mining operations, and the clearing of forest for cattle ranches and subsistence farming) is covered by large areas of forests. The forests act like a huge sponge that receives heavy precipitation in the rainy period, (i) protecting the soils from erosion; (ii) preventing excessive sedimentation in the lakes; and (iii) returning much of the retained water to the rivers. Aware of the importance of these jungles, several government entities and regulations has been established.

- Law 44 of August 1999 established the legal boundaries of the Watershed, including the Chagres River, and provincial areas of Cocle and Colon;
- Title XIV of the Constitution and the Organic Law assigned ACP with the responsibility of the Watershed; and
- The Interinstitutional Commission (the "IC"), established by ACP in March 2000 and comprised of governmental and nongovernmental organizations, coordinated the efforts of government agencies.

Today, the Watershed comprises what is known as the traditional watershed, which includes the Chagres, Ciri and Boqueron river systems, as well as a new western region with an enormous potential to meet future population and Canal freshwater needs. According to the most recent national census, the western watershed region has a population of 35 thousand.

UNIT 27

SAP, an operating unit of ACP, produces potable water (i) for consumption by the ACP's facilities and its personnel; and (ii) secondarily, all of the excess production is sold to IDAAN in bulk for distribution to residents within the communities of Panama, Colon, and Arraijan. The water produced at SAP's two plants (Mount Hope Water Filtration Plant and Miraflores Water Filtration Plant) exceeds the requirements of the United States Environmental Protection Agency ("EPA") and currently has an average total capacity of approximately 83 million gallons a day ("MGD").

- *Mount Hope Water Filtration Plant:* The Mount Hope Water Filtration Plant ("Atlantic Plant"), started in 1914, is located on the Atlantic side of the Canal and consists, primarily, of (i) one aeration basin; (ii) three sedimentation basins; (iii) ten dual-media filters; (iv) seven vertical turbine pumps (installed in 1993); and (v) one pump station. The produced potable water serves the City of Colon, Industrial Division of ACP, Arco Iris, Margarita, Gatun, Gatun Locks, J.D. Bazán (Fort Davis), Fort Sherman, Coco Solo, and Colon suburbs.

  Since its inauguration, the Atlantic Plant's production has increased to an average of 24.5 MGD due to expansions in the 1940s and various other improvements over the years. The latest expansion project, expected completion by early 2005, will increase the Atlantic Plant's capacity to approximately 35 MGD.

  First, the raw water flows by gravity from Gatun Lake into the Atlantic Plant's two cast iron pipelines, where the water is (i) filtered through anthracite coal, graded sand, and gravel; and (ii) treated with aluminum sulfate, activated carbon, chlorine gas, and fluoride. The resultant potable water is pumped to a total of four ACP reservoirs with a combined storage capacity of 3.0 million gallons ("MG"): two located in Mount Hope and two located in Gatun. An additional 2.5 MG of storage capacity is available in two GOP reservoirs in Espinar.

- *Miraflores Water Filtration Plant:* The Miraflores Water Filtration Plant ("Pacific Plant"), started in 1915, is located on the Pacific side of the Canal and consists, primarily of (i) one aeration basin; (ii) three sedimentation basins; (iii) twenty dual-media filters; (iv) vertical pumps; (v) two raw water pump stations; and (vi) four potable water pump stations.

Since its inauguration, the Pacific Plant's production has increased to an average of 47 MGD due to expansions in the 1940s and 1960s, and various other improvements over the years.

First, the raw water, from the Miraflores Lake, is pumped to the Pacific Plant for filtration and treatment through either the pipelines at the Paraiso Raw Water Pump Station ("Paraiso Station"), which is located 3.3 miles from the Pacific Plant, or the pipeline at the Gamboa Raw Water Pump Station ("Gamboa Station"), which is located 8.2 miles from the Paraiso Station. The Gamboa Station is, mainly, used as a back up to the Paraiso Station, delivering about half of the Pacific Plant's requirements. The resultant potable water is pumped (by five separate pump stations: Miraflores, Paraiso, Los Rios, Balboa, and Arraijan Pump Stations) to a total of twelve ACP reservoirs with a combined storage capacity of 12 MG. An additional 4.4 MG of storage capacity is available in six US Armed Forces reservoirs.

a. The Miraflores Pump Station feeds seven ACP reservoirs (three in Miraflores, one in Cocoli, one in Cardenas, and two in Engineers Hill) and six US Armed Forces reservoirs (two in San Juan, two in Howard, one in Clayton, and one in Albrook). The reservoirs serve the Pacific Plant, Miraflores locks and power plant facilities, and the communities of Cocoli, Rodman, Howard, Veracruz, Fort Clayton, Cardenas, Albrook, and Panama City.

b. The Paraiso Pump Station feeds two ACP reservoirs: Paraiso and Gamboa. The reservoirs serve the Paraiso and Gamboa communities.

c. The Los Rios Pump Station, as back up, feeds one ACP reservoir (Engineers Hill) and one US Armed Forces reservoir (Albrook).

d. The Balboa Pump Station feeds three ACP reservoir: one in Ancon Hill and two in Chorrillo. These reservoirs serve the communities of Balboa Heights, Quarry Heights, Ancon, Balboa Flats, Balboa Industrial Area, La Boca, Amador, Diablo, and Panama City.

e. The Arraijan Pump Station (built in 1991) serves the community of Arraijan.

FINANCIAL REVIEW

INTRODUCTION

The purpose of the financial review is to identify inconsistencies, trends, and comparabilities. This information is then used to project cash flows, to establish comparability, and to estimate relevant risk levels. The financial review consisted of an analysis of the balance sheets, income statements, and financial ratios for the operations of Unit 27. Exhibit 1 presents financial results for (i) the transition nine months ending September 30, 2000 (for income statement only); (ii) the four FYs ended September 30, 2001 through 2004 (for both balance sheet and income statement); and (iii) the six months ending March 31, 2005 (for both balance sheet and income statement). In the next two sections, we will discuss a general interpretation of financial statements and ratios, and specifically review the Company's financial statements. It should be noted that the Transfer on December 31, 1999 resulted in only a nine month financial period for 2000 and made financial income statement comparisons with subsequent years inconsistent. As a result, our Company financial review will focus on the results of FY 2001 through FY 2004 (the "Review Period").

BALANCE SHEETS

The balance sheet is used to evaluate a company's financial position on a particular day. Our analysis of the balance sheet begins with a review of current assets, which are expected cash inflows during a normal operational cycle. Sufficient current assets are required to retire liabilities and to sustain operations. The most efficient composite of current assets will vary among companies, but a company's current asset position should be relatively liquid because a high percentage of illiquid assets could cause a cash squeeze. For the FYE September 30, 2004, Unit 27's current assets were $54.8 million and represented 83.8% of total assets. Over the Review Period, current assets have ranged from 71.2% to 83.8% of total assets. The variation was primarily due to fluctuations in the relative proportion of cash & investments and account receivable. The relative mix of cash & investments and account receivable fluctuated with each other over the Review Period, mainly due to timing of collections between business units.

Long-term assets are held for more than a normal operating cycle and often consist primarily of property and equipment. A high percent of property and equipment is generally indicative of high fixed costs and correspondingly high operating risk. The Company's gross property and equipment account increased from $11.1 million in 2001 to $13.4 million in 2004 indicating continued fixed asset additions. Fixed assets were 20.9% depreciated in FY 2004, indicating relatively newer assets and reflecting the impact of opening the balance sheet afresh as of the Transfer Date. Net property and equipment represented about 16.2% of total assets for FY 2004 and primarily consisted of machinery and equipment, and major structures. Capital expenditures are expected to be

approximately $2.5 million in FY 2005. Other long-term assets did not exist during the Review Period.

Increasing assets are usually characteristic of a growing, profitable business; current assets increase with sales, and long-term assets increase with capacity expansion. Decreasing assets are often reflective of a declining business that is not replacing capital assets and is liquidating current assets through dividends and operating losses. SAP's total assets increased steadily from $34.6 million in FY 2001 to $65.4 million in FY 2004, representing a compound annual growth rate ("CAGR") of approximately 23.6%. The increase is driven by Unit 27's combined cash & investment and account receivable balances over the Review Period, as mentioned above.

Liabilities represent claims against assets. To avoid insolvency, a company should try to match asset and liability maturities. Current assets should be sourced with short-term liabilities while long-term assets should be sourced with long-term liabilities. Unit 27's current liabilities increased from $0.7 million (2.0% of total assets) in FY 2001 to $41.6 million (63.7% of total assets) in FY 2004. During the Review Period, current liabilities remained below current assets. Current liability variation was primarily due to changes in accounts payable between business units. Other current liabilities (including accrued liabilities) represented 1.2% of total assets in 2004.

Long-term liabilities and equity are the company's long-term capital sources. If the capital structure is heavily leveraged, the company's financial risk increases. If the capital structure is mostly equity, less financial risk exists. Most companies maintain a consistent balance between debt and equity. For fiscal 2004, Unit 27 did not have any long term debt obligations. Since the Transfer, Unit 27 has not relied on debt financing to fund any growth and capital investments.

Equity comes from two sources, investors and earnings. Common stock is the investor's contribution while retained earnings is the accumulation of earnings net of dividends. A profitable business is able to generate capital internally. Unit 27's total equity decreased from $34.0 million in 2001 to $23.8 million in 2004 due, mainly, to increases in accounts payable.

INCOME STATEMENTS

The income statement is used to evaluate a company's operating results for a particular time period. Analysis of income statements is a helpful tool for projections because trends and changes provide a basis for the prospective viewpoint.

Sales or revenue changes are composed of both price and quantity changes. Analysis of sales requires tacit consideration of price and quantity. Over the Review Period, Unit 27's revenues remained relatively flat at approximately $17.5 million. The consistent revenue stream reflects the stability of demand from IDAAN. Unit 27's cost of sales (including

fee per ton, material and supplies, fuel, and capitalized material and supplies) as a percent of revenues and excluding depreciation, ranged from 4.9% to 10.4% over the Review Period, which was relatively consistent as a percentage of revenues (except for 2002 where materials and supplies were abnormally low).

Relative expenses are an important indicator of expense behavior in the short run. For a company with no fixed expenses, the proportion of operating expenses to sales will be constant between periods; however, for a company with high fixed expenses, the proportion of operating expenses to sales will vary inversely with sales. Over the Review Period, SAP's operating expense (consisting of mainly personnel costs) have steadily increased from a 19.4% of total revenues in 2001 to 24.0% of total revenues in 2004, reflecting small economies of scale deficit due to higher contracted non-personal services and slightly decreasing revenue base.

Profit margins are used to identify changes in efficiency. Gross, operating, and pretax income margins represent profits at different levels; this format helps to identify the source of profitability changes. Unit 27's profit margins at all levels have been relatively stable over the Review Period reflecting fixed contractual bulk volume rate and expenses.

Our analysis included growth rate calculations for sales and profit levels between periods and during the entire comparative period. Growth-rate changes between periods help identify specific inconsistencies. Comparisons between sales and profit growth rates may give information about a company's ability to grow profitably. For example, if the sales growth rate exceeds the profit growth rates, the company may have limited economies of scale. Economical expansion may be limited by operational structure, distribution, plant size, technology, or resource availability. If the sales growth is less than the profit growth, the company may be experiencing economies of scale. Unit 27's costs (mainly from contracted non-personal services and inventories) increased at a greater rate than sales indicating economics of scale deficits.

VALUATION THEORY

INTRODUCTION

The appraised Market Values as set forth in this report is supported with consideration and use of standard accepted appraisal practices and valuation procedures and is in accordance with IVS-1. Under USPAP, the appraiser is required to consider three basic approaches to value: (i) the cost approach, based on the cost to reproduce assets; (ii) the market approach, which considers market exchange for comparable assets; and (iii) the income approach, which relies on capitalization of potential future income. The approaches are briefly summarized below.

MARKET APPROACH

The market approach is a valuation technique in which the estimated value is based on market prices in actual transactions. When this approach is employed, data is collected regarding sales of comparable transactions in which comparable tangible or intangible assets have been sold or where one to two tangible or intangible assets represent most of the observed value in a transaction. After studying the market consensus, the appraiser makes value adjustments for comparability factors such as location, time of sale, physical characteristics, and conditions of sale. This process is essentially that of comparison and correlation.

INCOME APPROACH

The income approach is a valuation technique that capitalizes the anticipated income stream from the appraised asset. This approach is predicated on developing either cash flow or income projections which are then discounted for risk and time value. Additionally, the present value of a projected residual value is estimated and added to the present value of the income stream.

COST APPROACH

The cost approach or adjusted statement of condition is a valuation technique that uses the concept of replacement as a value indicator and is based on the principle of substitution. That is, a prudent investor would pay no more for an asset than the cost to reproduce or replace the assets with an identical or similar unit of equal utility. Reproduction/replacement cost new ("CRN") establishes the highest amount a prudent investor would pay for the assets. To the extent that the assets we are valuing will provide less utility than new assets, we adjust for losses in value due to physical deterioration, functional obsolescence and economic obsolescence.

In conjunction with the cost approach, it is appropriate to define the following terminology:

Replacement Cost New – The cost of replacing a property with a modern new unit of the nearest equivalent utility, using current rates for material and labor.

Reproduction Cost New – The cost of creating a new duplicate of the property from the same or highly similar materials, using current rates for material and labor.

Depreciation – Loss in value from all causes, including factors of physical deterioration, functional obsolescence and economic obsolescence.

Physical Deterioration – Reduction in utility resulting from impairment of physical condition brought about by such factors as age, wear and tear, structural defects, and exposure to damaging elements.

Functional Obsolescence – Impairment of functional capacity or efficiency caused by factors inherent in the property. This is brought about by such factors as overcapacity, inadequacy, excess operating costs, and changes in the art that affect the machine unit or its relation to other items comprising a larger property. The term also refers to an asset's inadequacies in performing the function for which it is currently employed.

Economic Obsolescence – Impairment of desirability or useful life arising from factors external to the property, such as economic forces or environmental changes that affect supply-demand relationships in the market. Among the causes of economic obsolescence are changes in optimum use, legislative enactments, and social trends.

Normal Life – The mean or average expected life of the equipment.

Effective Age – The number of years of apparent age based upon the observed condition and amount of wear and tear experience during its life.

Remaining Useful Life – The number of years into the future that the equipment is expected to be in use based upon the equipment's effective age.

Probable Useful Life – The number of years the equipment is expected to be in service from date of installation to the forecasted date of retirement based upon the survivor curves.

APPROACHES USED

The use of more than one approach is desirable because it provides a check on the other approaches of value. In some cases all three approaches are applicable, but normally one or two approaches are utilized. Weights given to each approach vary directly with the amount of information available.

For the valuation of Unit 27, we have specifically employed the income and market approaches. The cost approach was not formally presented because this approach involves an extensive appraisal of each asset class and because the aggregate value of assets is ultimately dependent on income potential.

BUSINESS ENTERPRISE VALUATION

OVERVIEW

The BEV is the total value of the company. This value is often shared by long-term debt holders and stockholders. By definition, the BEV is equal to either total capitalization (equity plus long-term debt) or net working capital plus tangible and intangible assets. This may be stated algebraically in the following way:

$$BEV = SE + LTD = NWC + FA + IA$$

Where:

BEV	=	Business Enterprise Value
SE	=	Shareholders' Equity Value
LTD	=	Long-Term Debt
NWC	=	Net Working Capital (Current Assets Less Current Liabilities)
FA	=	Fixed Assets Value
IA	=	Intangible Assets Value

METHODOLOGY

For purposes of this analysis, our valuation[6] is based on the application of methodologies that are commonly used and accepted within the financial community for business appraisals. Market and income approaches were considered and used in some fashion. The BEV, specifically, was derived using (i) a discounted cash flow ("DCF") analysis[7] (derivation of the income approach), which involves developing cash flow projections and determining their present value; and (ii) a market comparable analysis (derivation of the market approach), which involves analyzing market multiples of comparable, publicly traded companies. The income and market approach value indications were then subsequently weighted to determine an overall value conclusion. The weighting may deviate from an equal weighting where income streams of the company are significantly different in terms of annual profitability from those of the public comparable companies. Such instances rely more heavily upon the DCF analysis. All of the derived BEVs represent marketable, control values.

---

[6] In accordance with the sixth edition of the International Valuation Standards' Valuation Guidance Note Number 6.

[7] In accordance with the sixth edition of the International Valuation Standards' Valuation Guidance Note Number 9.

For purposes of this engagement, the above analyses were applied to an assumed business structure for Unit 27. Under the assumed structure[8], SAP would be subject to Panamanian corporate taxes, competitive market forces (for expenses and costs), and expenses that have been incurred by an affiliated operating entity. Currently, SAP, as an operating unit of ACP, is not required to pay taxes on its income.

EARNINGS ADJUSTMENT

To derive the true economic value of Unit 27, it is necessary to adjust assets, income, and expenses (i) to reasonable economic levels; (ii) for unusual items; and (iii) for inconsistencies.

Balance sheet adjustments consisted of removing cash and investments. As a result, the retained earnings account is recalculated to maintain balance sheet integrity.

The income statement was adjusted (i) to remove extraordinary income and expenses; and (ii) to reflect the assumed financial performance of a stand alone corporate structure.

- Other income and expenses (including transfers between company entities) were removed to reflect a normalized, ongoing operating income stream.

- Revenues were increased to include (i) estimated amounts that would have been charged to ACP under the assumed business structure; and (ii) the additional revenue stream[9] assuming a Market Value defined corporate structure. The estimated amounts were based actual volumes consumed by the ACP facilities and comparable market rates sold to IDAAN. While the additional revenue stream is based on the difference between (i) the revenues derived from actual volumes sold to IDAAN and comparable market rates; and (ii) actual historical revenues.

- Cost of sales expenses were increased to include estimated energy costs that have not been incurred by Unit 27 since electricity was internally produced by an affiliated operating unit.

---

[8] The structure is consistent with the Market Value definition and guidelines set forth by the sixth edition of the International Valuation Standards.

[9] As an operating unit of ACP, the bulk rate of $0.69 per kgals (on average) charged to IDAAN is lower than the current market rate of $0.894 per kgals because Unit 27 is not subject to taxes. However, under the assumed business structure, Unit 27 would be subject to taxes and the bulk rate charges to IDAAN would be the current market rate.

Exhibit 2 contains the adjusted balance sheet and income statement for Unit 27.

NONOPERATIONAL ADJUSTMENTS

When valuing a company's BEV, it is important to isolate assets that are not essential to the company's operations. Isolation of these non-operational assets avoids mixing low-risk, non-operational assets and high-risk operational assets. It would be erroneous to discount low-risk, nonoperational assets at the higher discount rate used for high-risk operational assets. We avoid this error by adding the value of nonoperational assets to the BEVs derived from the income and market approaches.

Our investigation revealed $39.9 million (consisting of cash & investments) in nonoperational assets as of the Valuation Date.

INCOME APPROACH - DISCOUNTED CASH FLOW ANALYSIS

OVERVIEW

The income approach valuation is based on the premise that value is equal to the present value of all future ownership benefits. With the income approach, the anticipated future benefits of the company are discounted at a rate commensurate with the particular risk characteristics.

The DCF method was used to derive the income approach value. This valuation method begins with a sales forecast and then develops pro forma cash flow statements. Revenues, cost, expense, depreciation, capital expenditure, and working capital projections are based on financial analysis, industry and market studies, and management opinion. For the purpose of this study, four and a half year cash flow forecasts ("Forecast Period") have been used because this projection period encompasses at least one business cycle.

The DCF value has two components. The first component equals the sum of the present value of cash flows over the Forecast Period. Mid-year discounting was used to reflect continuous cash flows. The second component, a residual or terminal value, equals the present value of net income in the last year of the Forecast Period capitalized into perpetuity with the appropriate discount rate. The residual reflects the company's ongoing potential after the last year of the Forecast Period.

The reliability of the DCF method rests directly with the accuracy of the sales forecasts, the income-expense relationships, the amount and timing of capital expenditures and depreciation, and the discount rate.

When using the income approach to value a company's BEV, we must consider the cash flows available to shareholders. Cash flows available to shareholders are generally equal to the sum of net income and depreciation minus capital expenditures and working capital increases.

Exhibit 3 is the DCF analysis presentation of SAP's BEV. In subsequent paragraphs, the assumptions used in this analysis are summarized.

GENERAL

Unit 27's BEV was estimated by applying the DCF analysis to an assumed business structure, that is consistent with criteria set forth by IVS-1. Under this structure, it is assumed that Unit 27 would operate as a business entity where (i) its income is subject to the Panamanian corporate tax of 30.0%; and (ii) internal consumptions and expenses would be charged and incurred, respectively. Refer to revenue and operating expense discussion for further details.

The financial forecasts utilized in the DCF analysis are based on 2005 budgeted financials, Management discussions, and industry trends.

REVENUES

Revenue expectations are based on historical performance, production capacity, Management discussions, and market demand. In general, market demand is expected to exceed the facility's maximum generating capacity and any fuel expense spikes could be passed onto the consumer. As a result, revenues for the facility are expected to be stable at its maximum level (less distribution and maintenance losses) throughout the Forecast Period.

- *Production:* Over the Forecast Period, potable water production, for each Atlantic and Pacific Plant, was projected at its maximum daily capacity of 35 million gallons (Atlantic Plant) and 47 million gallons (Pacific Plant). The daily capacities are annualized and summed to arrive at Unit 27's total annual production of 30,295 million gallons ("MG"). The total production is multiplied by Unit 27's historical five year average efficiency rate of 98.2% (including distribution losses and maintenance downtime) to arrive at the net annual production estimates for Unit 27. Note that the efficiency rate for FY 2005 is slightly less than the five year average reflecting the fact that the full daily capacity of 35 MG, for the Atlantic Plant, would not occur until the early part of calendar year 2005.

- *Rates:* Over the Forecast Period, the potable water rate of $0.894 per kilogallons (current bulk volume market rate paid by IDAAN to a corporate water producer, based on Management representations) is expected to increase at an annual inflationary rate of 1.5%.

The following table summarizes the revenue projections over the Forecast Period.

	6 Months 2005	2006	2007	2008	2009
Annual Capacity (MG)					
Atlantic Plant	17,520.0	17,520.0	17,520.0	17,520.0	17,520.0
Pacific Plant	12,775.0	12,775.0	12,775.0	12,775.0	12,775.0
Gross Capacity	30,295.0	30,295.0	30,295.0	30,295.0	30,295.0
Efficiency Rate	95.6%	98.2%	98.2%	98.2%	98.2%
Net Capacity (MG)	28,956.7	29,760.8	29,760.8	29,760.8	29,760.8
Rate per kgals	0.894	0.907	0.921	0.935	0.949
Subtotal	25,887.3	27,005.3	27,410.4	27,821.5	28,238.8
Less: Six months results [(a)]	11,233.5	NA	NA	NA	NA
Total Revenues ($000)	**$14,653.8**	**$27,005.3**	**$27,410.4**	**$27,821.5**	**$28,238.8**

(a) Reflects an upward adjustment to estimate representative revenue stream under the assumed business structure

TOTAL COST OF SALES

Total cost of sales for 2005, excluding depreciation, is projected at 32.0% of revenues, which is consistent with SAP's adjusted 2005 budgeted levels. Thereafter, for the remainder of the Forecast Period, cost of sales is expected to gradually decline to 29.0% of revenues (consistent with its adjusted historical four year weighted average and average levels). As mentioned above, adjusted cost of sales reflect the inclusion of energy costs. The estimated energy costs, as a percentage of revenues, are based on historical consumption (in megawatt hours) by Unit 27 and an average market rate of $126.50 per megawatt hour ("mWh"). Management represents that the current energy cost is between $118.00 and $135.00 per mWh. The adjusted, budgeted level was believed to be more reflective of future expenses since it incorporates the additional capacity at the Atlantic Plant.

OPERATING EXPENSES

Operating expense, over the Forecast Period, was projected at Unit 27's historical four year weighted average of 17.2% of revenues. Thereafter, operating expenses are expected to gradually increase to 18.5% of revenues, consistent with current 2004 levels.

TAXES

Since Unit 27 is assumed to operate as a business structure, that is consistent with IVS-1, a Panamanian corporate tax rate of 30.0% was used and is consistent with typical corporate operations.

DEPRECIATION AND CAPITAL EXPENDITURES

Depreciation and capital expenditures projections are consistent with historical levels, accumulated tax depreciation, Management expectations, and expected revenue levels. Capital expenditures, based on Management projections, were projected at $1.5[10] million for the remaining six months of 2005. Thereafter, capital expenditures are projected at constant percentage of revenues.

WORKING CAPITAL

Working capital requirements are projected at -38.7% of revenues, which is based primarily on four year average historical levels after cash and debt were removed.

DISCOUNT RATE

The discount rate affects the enterprise value. This rate, an approximation of the cost of capital, is used to present value income and cash flow streams. A company's cost of capital is equal to the weighted average, after-tax cost of equity and debt. Each company's cost of capital varies with differences in financial and operating risk.

The cost of capital affects the valuation of a business enterprise. A company with a high cost of capital will compute lower present value cash flows for its business than a similar company with a lower cost of capital primarily due to higher risk. Since this is a market valuation, value relates not to a particular company, but rather, is a consensus of the entire market with consideration given to specific risk levels. In order to estimate a market's cost of capital, we need to approximate three components -- cost of debt, cost of equity and capital structure.

The cost of debt is approximated by the average rate for Panamanian Brady Bonds, based on the data compiled by *Bloomberg, LLC* ("Bloomberg"). This rate is a proxy for corporate risk in the Panama. Typically, economic decisions are based on an after-tax basis. The estimated cost of debt is adjusted for the assumed tax implications.

---

[10] Based on the difference between management's budgeted 2005 level of $2.5 million and actual expenditures for six months ending March 2005

The average bond rate is calculated through the following equation:

$$R_d = (r)(1 - t)$$

Where:

R_d = Cost of Debt
r = Average Panamanian Brady Bond rate as of the Valuation Date
t = Tax Rate @ the appropriate corporate rate

Like debt, the cost of equity is consistent with particular risk levels. To derive an approximation of risk level, we examined publicly traded water producers throughout the world. The selected comparable companies (the "Comparables") were segregated by their primary region of operations: Europe, Asia, North America, and South America (collectively the "Regions").

Beta values from the Comparables were used to quantify the respective equity risk. The beta is a measure of correlation between the particular security (given industry) and the total equity market (Standard & Poor's 500). For example, a security with a beta of 1.0 has a risk level equal to the market, a beta of 0.5 has a risk level less than the market, and a beta of 1.5 has a risk level greater than the market.

The beta value for each Comparable was derived from data compiled by Bloomberg. The derived beta values are unlevered based on each Comparables' capital structures. Within each Region, the unlevered betas are averaged to arrive at their respective average beta values. The derived average beta value, for each Region, is weighted[11] and relevered to arrive at the appropriate beta value, for Unit 27, in aggregate.

Using the resultant beta value, the expected world market return[12], and the risk-free rate[13], a risk premium for Unit 27 was computed. The premiums represent the increment of risk that exceeds the risk-free rate for the respective industry, in aggregate.

[11] Weights are based on each Region's relevance to the Panamanian economy and region (20% for Europe, 20% for Asia, 20% for North America, and 40% for South America).
[12] Based on data presented in Ibbotson Associates International Cost of Capital Perspective Report 2004
[13] Based on the current yield on the U.S. 20 year treasury bond as of the Valuation Date

The resultant risk premiums are applied in the following equation to calculate the cost of equity.

$$R_e = R_f + (ERP)\ Beta$$

Where:

R_e = Equity Return
ERP = Expected World Equity Risk Premium
R_f = Risk-Free Return *
(ERP) Beta = Risk Premium

*on the Valuation Date

According to portfolio diversification theory, a stock's aggregate risk level is comprised of two major components, systematic or market risk and unsystematic or company-specific risk. Beta adjustments reflect the systematic risk portion. Specific risk factors such as country risk premium[14], stability of demand ("Other"), and size premium were considered to derive the appropriate level of unsystematic risk. The size premium adjustment represents the return on small company stocks in excess of that predicted by the traditional application of the capital asset pricing model. It is the additional return that cannot be explained by the betas of small companies. The annual returns and the corresponding size premium from the entire universe of New York Stock Exchange / American Stock Exchange / Nasdaq National Market listed securities[15] over the 1926 to 2003 timeframe are compiled and segregated into ten equally populated groups or deciles by Ibbotson Associates. Since the implied market capitalization of Unit 27 falls within the top tier of the tenth decile, the appropriate size premium for Unit 27 is 4.5%.

The capital structure is the basis for weighing the combination of equity and debt costs. The average capital structure of debt and equity, for each Region, was based on data from Bloomberg and, similar to the beta value, weighted accordingly. We used the concluded capital structure to approximate the appropriate market capital structure for Unit 27.

[14] Represents an estimate of the premium return required to compensate for the extra perceived risk taken by investing in a particular country.

[15] Excludes closed end mutual funds, preferred stocks, real estate investment trusts, foreign stocks, American Depository Receipts, unit investment trusts, and American Trusts.

All components necessary to compute the cost of capital are available. Given below is the equation and computation of the weighted average cost of capital ("WACC").

$$R_c = W_e R_e + W_d R_d$$

Where:

R_c = Weighted Average Cost of Capital
W_e = Weight of Equity in Capital Structure
W_d = Weight of Debt in Capital Structure

The following table summarizes all the components utilized to compute the cost of capital and the resultant WACC:

	WACC
Average Brady Bond	6.52%
Taxes	1.95%
Cost of Debt	4.56%
US Risk Free Rate	4.88%
Weighted Beta Value	0.53
World Equity Risk Premium	7.78%
Subtotal	9.01%
Country Risk Premium[a]	1.28%
Size Premium[b]	4.50%
Other[c]	-2.00%
Total Cost of Equity	12.79%
Debt/Capital Structure	30.71%
Equity/Capital Structure	69.29%
WACC (rounded)	**10.00%**

Notes:

a) *Based on a study conducted by Professor Aswath Damodaran from the New York University Stern School of Business, the estimated country risk premium, for an equity investment in Panama, is 1.28%*

b) *Based on data presented in Ibbotson Associates Stocks, Bonds, Bills and Inflations 2004 Yearbook*

c) *Reflects stability in potable water demand from ACP and IDAAN, and independence from Panama's economic and country risk*

RESIDUAL VALUE CALCULATION

The residual value calculation, in the DCF approach, is based on the present value of the net cash flows, beyond the specific Forecast Period, into perpetuity. The first step is to calculate the residual cash flow by applying the long-term annual growth rate ("g") to the expected net cash flows in last year of the Forecast Period. The resultant residual cash flow is divided by the residual divisor to arrive at the residual value of the company at the end of the Forecast Period. To arrive at the residual value, the calculated residual value is present valued to the current value equivalent. The residual divisor is based on the

application of the Gorden Growth Model (i.e., residual divisor = k-g. where k is the risk adjusted discount rate and g is the long-term annual growth rate).

A long-term growth rate of 1.5% was assumed and reflects (i) the expected long-term growth rate after the specific Forecast Period; and (ii) maximum capacity of Unit 27.

SUMMARY OF VALUE

Based on the DCF analysis presented in Exhibit 3, a value of $127.0 million was concluded for the BEV of Unit 27, as of the Valuation Date.

MARKET COMPARABLE APPROACH

OVERVIEW

The market comparable approach uses the price relationships of publicly traded stocks to derive value. The accuracy of this approach depends on the similarity between the public companies and the subject company.

The first step of the market comparable approach is to develop a group of publicly traded companies that (i) participate in the same general field of endeavor; and (ii) are influenced by similar trends and economic conditions as the subject company.

After selection of the comparables groups, multiples of current sales, EBITDA, and earnings before interest and taxes ("EBIT") were derived from the respective comparable's price and financial information, as presented in the Bloomberg database. Also, historical four year average EBIT and EBITDA were derived. Refer to Exhibit 4 for details.

To determine the appropriate multiples to apply to the subject company's current and average performance matrices, a comparison of the comparable companies' historical growth, profit margins, assets returns, size and market risk with the subject company's historical performance and characteristics was conducted. The comparison results in the magnitude of adjustments required for the comparable market multiples.

The resultant adjusted market multiples are applied to the subject company's current and average financial performance to derive the value indication for the subject company. The derived value indication is adjusted for non-operating assets, specifically, cash and investments, to arrive at the BEV of the subject company.

VALUATION ANALYSIS

Based on our research and analysis, the Comparables consist of publicly traded companies who are solely involved in the production of potable water and its product is mainly sold, in bulk, to water distribution companies. The Comparables were divided into their respective Regions.

The following lists the Comparables.

Europe	Asia	North America	South America
Acquedotto Nicolay Spa	PBA Holdings	California Water Service	Aguas Andinas
Acque Potabili Spa	Taliworks Corporation	Pennichuck Corp	Empreso Obras Sanitar
Sociedad General de Aquas	Ranhill Utilities	Southwest Water Co	Consolidated Water Co
Dee Valley Group	Eastern Wtr Resources	The York Water Co	Companhia de Saneamento
Severomoravske Vodovody			

To improve the accuracy of this analysis, each Region's derived market multiples are weighed[10] and then adjusted for differences between the Comparables and Unit 27. The following chart, in thousand of dollars, summarizes the market approach value indicators, resulting from the application of the adjusted and weighted market multiples (based on a comparison between Unit 27's and the Comparables' performance and operational matrices) to Unit 27's adjusted financial performance results.

	Performance Matrix	Selected Multiple	Non-Operational Assets	BEV[(1)]
Adjusted EBIT				
TTM	$11,226.4	11.7	$39.9	$131,388.8
Four Year Average	11,867.5	12.8	39.9	151,943.9
Adjusted EBITDA				
TTM	11,863.4	8.1	39.9	96,133.4
Four Year Average	12,469.7	9.4	39.9	117,255.1
Adjusted Sales	22,597.2	7.3	39.9	164,999.5

[(1)] *Concluded value indications do not necessary equal to mathematically calculated values due to rounding of individual parameters for presentation purposes.*

The resultant BEV indicators varied from $96.1 million to $165.0 million. Based upon this range, a value of $132.3 million was concluded for the BEV of Unit 27 utilizing the market comparable approach.

CONCLUSION – BUSINESS ENTERPRISE VALUE

The application of the DCF and market comparable analyses resulted in BEV indications for Unit 27, as of the Valuation Date, at $127.0 million and $132.3 million, respectively. After carefully considering the strengths and weakness inherent in each approach, and the specific assumptions utilized, we weighed the DCF (75%) greater than the market comparable analysis (25%) due to the lack of truly comparable companies relative to Unit 27.

Based on the DCF and market comparable analyses, the concluded weighting, and subject to the limiting conditions and assumptions presented herein, it is our opinion that the BEV of Unit 27, as of the Valuation Date, is:

ONE HUNDRED TWENTY-EIGHT MILLION
AND THREE HUNDRED THOUSAND DOLLARS
$128.3 Million

VRC does not conduct or provide environmental liability assessments of any kind in performing its valuations so that our opinion of values will not reflect any actual or contingent environmental liabilities except to the extent we are provided with a specific monetary assessment of such liabilities in writing. In any event, VRC will not verify such monetary assessment and will offer no warranty or representation as to its accuracy or completeness. For purposes of this engagement, our opinion of values excludes any actual or contingent environmental liabilities.

VRC has investigated neither the title to nor any liabilities against the property appraised. Neither VRC nor any of its personnel have any material financial interest in the equity appraised, and we certify that the compensation received for this study is not contingent upon the conclusions stated.

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following assumptions and limiting conditions.

1. This report and the conclusions arrived at can only be relied upon by the parties to whom the transmittal letter is addressed for the sole and specific purposes as noted and as of the appraisal date specified. Furthermore, the report and conclusions are not intended by the author, and should not be construed by the reader, to be investment advice in any manner whatsoever. The conclusions reached represent the considered opinion of VRC, based upon information furnished to them by the Company and other sources.

2. In accordance with recognized professional standards as generally practiced in the valuation industry, the fee for these services is not contingent upon the conclusions of value contained in the report. VRC has determined to the best of its knowledge and in good faith that neither it nor any of its agents or employees has a material financial interest in the Company.

3. VRC assumes that all laws, statutes, ordinances, zoning and use regulations, other regulations, or regulations of any governmental authority relevant to and in connection with this engagement are complied with unless express written noncompliance is brought to the attention of VRC by those relied on by VRC, including the Company and its management, and stated and defined in the appraisal report.

4. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

5. VRC has relied on certain public information and statistical information furnished by others, including, but not limited to, the Company, without verification. VRC believes such information to be reliable as to accuracy and completeness but offers no warranty or representation to that effect; however, nothing has come to our attention in the course of this engagement that would cause us to believe that any furnished information is inaccurate in any material respect or that it is unreasonable to utilize and rely upon such information.

6. In the event this report is used for a sale price, financing, or tax purposes, no responsibility is assumed for the inability to negotiate favorably on the basis of the values expressed herein.

7. VRC has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to or in compliance with the Americans with Disability Act of 1990 (ADA) and this report does not consider the impact, if any, of non-compliance in estimating the value of the property.

8. Material changes in the industry or in market conditions that might affect the Company's business from and after the appraisal date, which are not reasonably foreseeable, are not taken into account.

9. The issuance of this report by VRC does not represent an assurance, guarantee, or warranty that the Company will not default on any debt obligations, if any, associated with the values stated in the report, nor does VRC make any assurance, guarantee, or warranty that the covenants for any financing will not be broken in the future.

10. Future services regarding the subject matter of this report, including, but not limited to, testimony or attendance in court, shall not be required of VRC, unless previous arrangements have been made in writing.

11. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of any appraiser or appraisers, or the company with which such appraisers are connected, or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other public means of communication, without the prior written consent and approval of VRC.

12. No representation is made as to the legal sufficiency for any purpose of the definitions contained in the body of the report; such definitions are used solely for setting forth the scope of this report and VRC believes such definitions to be reasonable for the purposes of rendering this report.

13. Neither VRC, nor its agents or employees assume any responsibility for matters legal in nature, nor do they render any opinion as to any title to, or legal status of, property, which may be involved, both real and personal, tangible and intangible. Title is assumed to be good and marketable.

14. The Company agrees to reimburse VRC for any expenses that VRC may incur, as a party, witness or participant in connection with any litigation or dispute involving this engagement. This includes, unless it resulted from VRC's gross negligence or willful misconduct, all reasonable out-of-pocket costs such as travel expenses, attorney fees and, if necessary, costs of enforcing this agreement.

15. Where there may be real property involved, and unless specifically stated, VRC has not made a land survey of the property and has assumed that the Company has clear title to the property. VRC assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such unapparent conditions or for arranging for engineering studies that may be required to discover such unapparent conditions or any such unapparent conditions, which may exist.

16. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless otherwise specified within the report. The property is appraised and conclusions of value are based upon the assumption that responsible ownership and competent management will continue.

17. Our opinion is necessarily based on economic, market, financial and other conditions as they exist on the date of this report. While various judgments and estimates which we consider reasonable and appropriate under the circumstances were made by us in the determination of value, no assurance can be given by us that the sale price which might ultimately be realized in any actual transaction, if and when effected, will be at the Market Value indicated.

18. Material changes in the industry or in market conditions that might affect the Company's business from and after the appraisal date, which are not reasonably foreseeable, are not taken into account.

19. The conclusions of value are based upon the assumption that the current level of management expertise and effectiveness would continue to be maintained and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners participation would not be materially or significantly changed.

20. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocation of value for land and improvements must not be used in conjunction with any other appraisal and is invalid if so used.

21. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless non compliance is stated, defined, and considered in the appraisal report. It is further assumed that any mechanical and electrical equipment, which is considered part of the real estate, is in proper operating condition except when noted herein. These include, but are not limited to, such items as the heating, air conditioning, plumbing, sprinkler, and electrical systems.

22. Detailed architectural and engineering drawings were not always available to the appraisers. Construction details are based on the property inspections, available drawings, tax records, and interviews with the plant managers. However, some construction details in this report may differ from the actual construction.

23. No survey of the property has been made by the appraiser and no responsibility is assumed in connection with such matters. Sketches in this report are included only to assist the reader in visualizing the property.

24. In this report, the existence of potentially hazardous material used in the construction or maintenance of any structures, such as the presence of urea-formaldehyde foam insulation, and/or the existence of toxic waste, which may or may not be present on the property, was not observed by VRC, its employees or contractors, nor do they have any knowledge of the existence of such materials on or in the property except as noted. The appraisers, however, are not qualified to detect such substances. The existence of such substances may have an effect on the value of the property or properties appraised. VRC urges the client to retain an expert in this field if so desired.

25. It is assumed that the utilization of any land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted within the report.

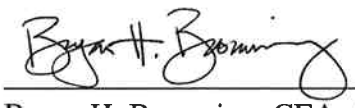
26. VRC is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report wishing to know whether such liabilities exist, or their scope, and the effect on the value of the property is encouraged to obtain a professional environmental assessment. VRC does not conduct or provide environmental assessments and has not performed one for this report.

27. VRC has not determined independently whether the Company is subject to any present or future liability relating to environmental matters, including but not limited to CERCLA/ Superfund liability. VRC's report takes no such liabilities into account. To the extent such information has been reported to us, VRC has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

CERTIFICATION

The undersigned certifies that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- My compensation is not contingent upon the report of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation and with the Codes of Ethics of the Appraisal Institute and the American Society of Appraisers.
- I have made a personal inspection of certain properties that are the subject of this report.



Bryan H. Browning, CFA, ASA

12-21-05
Date

EXHIBITS

PANAMA CANAL AUTHORITY - WATER DIVISION

BALANCE SHEET SUMMARY
AS OF SEPTEMBER 30 (4)
($MILLION)

	Mar 31 (4) 2005	%	2004	%	2003	%	2002	%	2001	%
CURRENT ASSETS:										
Cash & Investments	$39.9	56.6%	$34.8	53.2%	$28.6	45.6%	$30.2	62.8%	$20.1	57.9%
Accounts Receivable (1)	19.9	28.3%	19.7	30.1%	23.5	37.4%	8.3	17.3%	4.6	13.2%
Inventories	0.4	0.5%	0.3	0.5%	0.4	0.7%	0.4	0.8%	0.0	0.0%
Deferred Tax Benefit	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	60.2	85.4%	54.8	83.8%	52.5	83.7%	38.8	80.9%	24.6	71.2%
LONG-TERM ASSETS:										
Gross Property and Equipment	13.3	18.9%	13.4	20.5%	12.4	19.8%	10.8	22.5%	11.1	32.1%
Accumulated Depreciation	(3.0)	-4.3%	(2.8)	-4.3%	(2.2)	-3.5%	(1.6)	-3.4%	(1.1)	-3.2%
Net Property and Equipment	10.3	14.6%	10.6	16.2%	10.3	16.3%	9.2	19.1%	10.0	28.8%
Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	10.3	14.6%	10.6	16.2%	10.3	16.3%	9.2	19.1%	10.0	28.8%
TOTAL ASSETS	$70.5	100.0%	$65.4	100.0%	$62.7	100.0%	$48.0	100.0%	$34.6	100.0%
CURRENT LIABILITIES										
Accounts Payable (2)	$44.2	62.7%	$40.8	62.4%	$42.6	67.9%	$8.8	18.3%	$0.3	1.0%
Provision for Marine Accident Claims	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Accrued Liabilities	0.8	1.2%	0.8	1.2%	0.7	1.1%	0.6	1.2%	0.3	1.0%
Other (3)	0.1	0.1%	0.0	0.0%	0.1	0.1%	0.0	0.0%	0.0	0.0%
Total	45.1	63.9%	41.6	63.7%	43.3	69.0%	9.3	19.4%	0.7	2.0%
LONG TERM LIABILITIES:										
Deferred Taxes	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Long-Term Debt	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
EQUITY:										
Common Stock	11.1	15.8%	11.4	17.5%	10.8	17.1%	11.4	23.7%	11.3	32.5%
Retained Earnings	14.3	20.3%	12.3	18.9%	8.7	13.8%	26.2	54.6%	21.6	62.3%
Preferred Stock	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Additional Paid-in Capital	0.0	0.0%	0.0	0.0%	0.0	0.0%	1.1	2.3%	1.1	3.2%
Total	25.4	36.1%	23.8	36.3%	19.4	31.0%	38.7	80.6%	34.0	98.0%
TOTAL LIABILITIES & EQUITY	$70.5	100.0%	$65.4	100.0%	$62.7	100.0%	$48.0	100.0%	$34.6	100.0%

Notes

(1) Includes account receivable from the Office of Transition Administration and between business units

(2) Includes account payable between business units

(3) Includes reserves for marine accidents and occasional loss

(4) Except 2005, which reflects latest interim period

PANAMA CANAL AUTHORITY - WATER DIVISION

INCOME STATEMENT SUMMARY
AS OF SEPTEMBER 30 (8)
($MILLION)

	Mar 31 (8) 2005	%	2004	%	2003	%	2002	%	2001	%	9 Months 2000	%
Net Revenues (1)	$8.6	100.0%	$17.2	100.0%	$17.6	100.0%	$18.0	100.0%	$17.5	100.0%	$12.7	100.0%
Cost of Sales (2)	0.5	6.3%	1.5	8.9%	1.4	7.7%	0.9	4.9%	1.8	10.4%	1.1	8.5%
Gross Profit	8.1	93.7%	15.6	91.1%	16.3	92.3%	17.1	95.1%	15.7	89.6%	11.7	91.5%
Operating Expenses (3):												
Sales & Marketing	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Administration	1.8	20.5%	4.1	24.0%	3.6	20.3%	3.9	21.5%	3.4	19.4%	5.8	45.9%
Other	0.1	0.8%	0.1	0.9%	0.1	0.8%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	1.8	21.3%	4.3	24.9%	3.7	21.1%	3.9	21.5%	3.4	19.4%	5.8	45.9%
EBITDA (4)	6.3	72.4%	11.4	66.2%	12.5	71.2%	13.2	73.6%	12.3	70.1%	5.8	45.7%
Depreciation	0.3	3.6%	0.6	3.6%	0.6	3.2%	0.6	3.3%	0.6	3.6%	0.5	3.6%
EBIT (5)	5.9	68.8%	10.8	62.7%	12.0	68.0%	12.6	70.3%	11.6	66.6%	5.4	42.1%
Interest Expense	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Loss (Gain) on Sale of Assets	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other Expense (Income)	4.0	46.0%	7.9	46.2%	8.0	45.1%	8.0	44.6%	6.4	36.4%	(0.0)	0.0%
Pretax Profit	2.0	22.8%	2.8	16.4%	4.0	22.8%	4.6	25.7%	5.3	30.2%	5.4	42.1%
Taxes	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Net Income	$2.0	22.8%	$2.8	16.4%	$4.0	22.8%	$4.6	25.7%	$5.3	30.2%	$5.4	42.1%
Capital Expenditures	$1.0		$4.2		$2.8		$3.6		$0.9		$0.6	

Notes:

(1) Excludes Interest and Misc Income, included in "Other Expense (Income)" category
(2) Includes fee per ton, material and supplies, fuel, and capitalized material and supplies
(3) Excludes Depreciation
(4) Earnings Before Interest, Taxes, Depreciation, and Amortization
(5) Earnings Before Interest and Taxes
(6) "NM" = No Meaningful Figure
(7) Reflects growth between annualized 2005 and annualized 2000 results
(8) Except 2005 which is based on latest interim results

GROWTH RATE ANALYSIS

	Annualized 2005	2004	2003	2002	2001	(7) Compound Annualized Growth Rate
Revenues	0.6%	-2.6%	-2.0%	2.9%	2.9%	0.3%
Gross Profit	3.4%	-3.9%	-4.9%	9.3%	0.7%	0.8%
EBITDA	10.0%	-9.4%	-5.2%	8.0%	58.1%	10.0%
EBIT	10.4%	-10.2%	-5.2%	8.6%	62.8%	10.7%
Net Income	39.4%	-29.8%	-12.9%	-12.6%	-26.1%	-11.3%
Capital Expenditures	-51.9%	46.4%	-21.1%	284.9%	12.7%	19.2%

PANAMA CANAL AUTHORITY - WATER DIVISION

RATIO ANALYSIS
AS OF SEPTEMBER 30

	TTM 2005	2004	2003	2002	2001	Annualized 2000	Four-Year Average (1)
LIQUIDITY RATIOS:							
Current	1.3	1.3	1.2	4.2	36.3	NA	10.8
Quick	1.3	1.3	1.2	4.1	36.3	NA	10.7
Working Capital / Revenues	88.4%	76.7%	52.0%	164.0%	137.1%	NA	107.4%
ASSET MANAGEMENT RATIOS:							
Inventory Turnover (COGS)	4.0	5.0	3.1	2.3	1825.0	NA	458.8
Average Collection Period	425	419	486	168	96	NA	292.2
Net Fixed Asset Turnover	1.7	1.6	1.7	2.0	1.8	NA	1.8
Total Asset Turnover	0.2	0.3	0.3	0.4	0.5	NA	0.4
DEBT MANAGEMENT RATIOS:							
Liabilities / Total Assets	63.9%	63.7%	69.0%	19.4%	2.0%	NA	38.5%
Long-Term Debt / Equity	0.0%	0.0%	0.0%	0.0%	0.0%	NA	0.0%
Times Interest Earned	NA	NA	NA	NA	NA	NA	NA
PROFITABILITY RATIOS:							
Return on Total Assets	3.9%	4.3%	6.4%	9.6%	15.3%	NA	8.9%
Pretax Profit / Total Assets	3.9%	4.3%	6.4%	9.6%	15.3%	NA	8.9%
Return on Equity	10.8%	11.9%	20.7%	11.9%	15.6%	NA	15.0%
Pretax Profit / Equity	10.8%	11.9%	20.7%	11.9%	15.6%	NA	15.0%

Notes

(1) Excludes TTM 2005 results

PANAMA CANAL AUTHORITY - WATER DIVISION

ADJUSTED OPERATING BALANCE SHEET
AS OF SEPTEMBER 30 (4)
($MILLION)

	As of Mar 31 (3) 2005	%	2004	%	2003	%	2002	%	2001	%
CURRENT ASSETS:										
Cash & Investments (1)	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Accounts Receivable	19.9	65.2%	19.7	64.4%	23.5	68.7%	8.3	46.4%	4.6	31.5%
Inventories	0.4	1.1%	0.3	1.0%	0.4	1.3%	0.4	2.1%	0.0	0.0%
Deferred Tax Benefit	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	20.3	66.4%	20.0	65.4%	23.9	70.0%	8.7	48.5%	4.6	31.5%
LONG-TERM ASSETS:										
Gross Property and Equipment	13.3	43.5%	13.4	43.8%	12.4	36.4%	10.8	60.5%	11.1	76.2%
Accumulated Depreciation	(3.0)	-9.9%	(2.8)	-9.1%	(2.2)	-6.4%	(1.6)	-9.1%	(1.1)	-7.7%
Net Property and Equipment	10.3	33.6%	10.6	34.6%	10.3	30.0%	9.2	51.5%	10.0	68.5%
Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	10.3	33.6%	10.6	34.6%	10.3	30.0%	9.2	51.5%	10.0	68.5%
TOTAL ASSETS	$30.6	100.0%	$30.6	100.0%	$34.1	100.0%	$17.8	100.0%	$14.6	100.0%
CURRENT LIABILITIES										
Account Payable	$44.2	144.5%	$40.8	133.3%	$42.6	124.7%	$8.8	49.2%	$0.3	2.3%
Provision for Marine Accident Claims	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Accrued Liabilities	0.8	2.8%	0.8	2.6%	0.7	2.0%	0.6	3.1%	0.3	2.3%
Other	0.1	0.2%	0.0	0.0%	0.1	0.2%	0.0	0.0%	0.0	0.0%
Total	45.1	147.4%	41.6	136.0%	43.3	126.9%	9.3	52.3%	0.7	4.7%
LONG TERM LIABILITIES:										
Deferred Taxes	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Long-Term Debt	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
EQUITY:										
Common Stock	11.1	36.3%	11.4	37.3%	10.8	31.5%	11.4	63.7%	11.3	77.2%
Retained Earnings (2)	(25.6)	-83.7%	(22.4)	-73.3%	(19.9)	-58.4%	(4.0)	-22.2%	1.5	10.5%
Preferred Stock	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Additional Paid-in Capital	0.0	0.0%	0.0	0.0%	0.0	0.0%	1.1	6.2%	1.1	7.6%
Total	(14.5)	-47.4%	(11.0)	-36.0%	(9.2)	-26.9%	8.5	47.7%	13.9	95.3%
TOTAL LIABILITIES & EQUITY	$30.6	100.0%	$30.6	100.0%	$34.1	100.0%	$17.8	100.0%	$14.6	100.0%

Notes:

(1) Adjusted for Nonoperational Assets - Cash

(2) Adjusted Retained Earnings for Nonoperational Asset Adjustments in Order to Balance Accounts

(3) Latest Interim Period

SUMMARY OF NONOPERATIONAL ASSETS

	2005	2004	2003	2002	2001
Cash & Investments	$39.9	$34.8	$28.6	$30.2	$20.1
Notes Receivables	0.0	0.0	0.0	0.0	0.0
Cash Value of Life Insurance	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Nonoperational Assets	$39.9	$34.8	$28.6	$30.2	$20.1

PANAMA CANAL AUTHORITY - WATER DIVISION

ADJUSTED INCOME STATEMENT SUMMARY
AS OF SEPTEMBER 30
($MILLION)

	Annualized 2005 (6)	%	TTM 2005	%	2004	%	2003	%	2002	%
Net Revenues	$17.3	100.0%	$17.1	100.0%	$17.2	100.0%	$17.6	100.0%	$18.0	100.0%
Adjustment (1)	5.2	23.1%	5.5	24.3%	5.5	24.2%	5.6	24.2%	5.1	22.0%
Adjusted Net Revenues	22.5	100.0%	22.6	100.0%	22.6	100.0%	23.2	100.0%	23.1	100.0%
Cost of Sales (2)	1.1	4.9%	1.4	6.2%	1.5	6.7%	1.4	5.8%	0.9	3.8%
Adjustment (3)	5.2	23.1%	5.2	23.1%	5.2	23.1%	5.4	23.1%	5.3	23.1%
Adjusted Cost of Sales	6.3	28.0%	6.6	29.4%	6.8	29.9%	6.7	29.0%	6.2	26.9%
Gross Profit	16.2	72.0%	16.0	70.6%	15.9	70.1%	16.5	71.0%	16.9	73.1%
Operating Expenses										
Sales & Marketing	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Adjustment	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Adjusted Sales & Marketing	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Administration	3.5	15.7%	4.0	17.5%	4.1	18.2%	3.6	15.4%	3.9	16.8%
Adjustment	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Adjusted Administration	3.5	15.7%	4.0	17.5%	4.1	18.2%	3.6	15.4%	3.9	16.8%
Other	0.1	0.6%	0.1	0.6%	0.1	0.6%	0.1	0.6%	0.0	0.0%
Adjustment One	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Adjustment Two	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Adjusted Other	0.1	0.6%	0.1	0.6%	0.1	0.6%	0.1	0.6%	0.0	0.0%
Adjusted Total	3.7	16.4%	4.1	18.1%	4.3	18.9%	3.7	16.0%	3.9	16.8%
EBITDA (4)	12.5	55.6%	11.9	52.5%	11.6	51.3%	12.8	55.0%	13.0	56.3%
Depreciation & Amortization	0.6	2.8%	0.6	2.8%	0.6	2.7%	0.6	2.4%	0.6	2.6%
EBIT (5)	11.9	52.9%	11.2	49.7%	11.0	48.6%	12.2	52.6%	12.4	53.7%
Other Expense (Income)	7.9	35.3%	8.2	36.4%	7.9	35.0%	8.0	34.2%	8.0	34.8%
Adjustment	(7.9)	-35.3%	(8.2)	-36.4%	(7.9)	-35.0%	(8.0)	-34.2%	(8.0)	-34.8%
Adjusted Other	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Pretax Earnings	$11.9	52.9%	$11.2	49.7%	$11.0	48.6%	$12.2	52.6%	$12.4	53.7%
Adjusted Four-Year Average EBITDA (7)			$12.5							
Adjusted Four-Year Average EBIT (7)			$11.9							

Notes:

(1) Reflects adjusting both IDAAN sales and internal ACP consumption to comparable market rates sold to IDAAN

(2) Excludes depreciation

(3) Inclusion of fuel cost at estimated market rates per kWh

(4) Earnings Before Interest, Taxes, Depreciation and Amortization

(5) Earnings Before Interest and Taxes

(6) Annualized for Interim Period

(7) Excludes TTM 2005 results

PANAMA CANAL AUTHORITY - WATER DIVISION

ADJUSTED OPERATING RATIOS
AS OF SEPTEMBER 30 (3)

	Annualized 2005	TTM 2005	2004	2003	2002	2001	Four-Year Average (2)	Weighted Average (2)
COST AND EXPENSE ANALYSIS:								
COGS / Revenues	6.3%	8.2%	8.9%	7.7%	4.9%	10.4%	8.0%	7.9%
Sales & Marketing Expenses / Revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Administrative Expenses / Revenues	20.5%	23.1%	24.0%	20.3%	21.5%	19.4%	21.3%	22.0%
Other Expenses / Revenues	0.8%	0.8%	0.9%	0.8%	0.0%	0.0%	0.4%	0.6%
Total Operating Expenses / Revenues	21.3%	23.9%	24.9%	21.1%	21.5%	19.4%	21.7%	22.5%
Other Expenses / Revenues	46.0%	48.1%	46.2%	45.1%	44.6%	36.4%	43.1%	44.6%
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ADJUSTED COST AND EXPENSE ANALYSIS:								
COGS / Revenues	**28.0%**	**29.4%**	**29.9%**	**29.0%**	**26.9%**	**30.9%**	29.2%	29.1%
Sales & Marketing Expenses / Revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Administration Expenses / Revenues	15.7%	17.5%	18.2%	15.4%	16.8%	14.5%	16.2%	16.7%
Other Expenses / Revenues	0.6%	0.6%	0.6%	0.6%	0.0%	0.0%	0.3%	0.4%
Operating Expenses / Revenues	**16.4%**	**18.1%**	**18.9%**	**16.0%**	**16.8%**	**14.5%**	16.5%	17.2%
CAPITAL REPLACEMENT ANALYSIS:								
Capital Expenditures / Revenues	8.9%	14.0%	18.4%	12.2%	15.6%	4.0%	12.6%	14.5%
WORKING CAPITAL ANALYSIS (1):								
Accounts Receivable / Revenues	88.7%	88.2%	87.0%	100.9%	35.9%	19.6%	60.9%	74.2%
Inventory / Revenues	1.6%	1.6%	1.4%	1.9%	1.6%	0.0%	1.2%	1.4%
Other Current Assets / Revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts Payable / Revenues	196.6%	195.5%	180.3%	183.2%	38.0%	1.5%	100.7%	134.8%
Other Current Liabilities / Revenues	0.2%	0.2%	0.0%	0.2%	0.0%	0.0%	0.1%	0.1%
Net Working Capital / Revenues	-106.6%	-106.0%	-91.9%	-80.6%	-0.5%	18.2%	-38.7%	-59.2%
MARGIN ANALYSIS:								
EBITDA / Revenues	72.4%	67.8%	66.2%	71.2%	73.6%	70.1%	70.3%	69.6%
EBIT / Revenues	68.8%	64.1%	62.7%	68.0%	70.3%	66.6%	66.9%	66.2%
Net Income / Revenues	22.8%	16.0%	16.4%	22.8%	25.7%	30.2%	23.8%	21.6%
EBITDA / Assets	17.7%	16.5%	17.4%	20.0%	27.6%	35.4%	25.1%	22.0%
EBIT / Assets	16.8%	15.6%	16.4%	19.1%	26.3%	33.6%	23.9%	20.9%
Net Income / Assets	5.6%	3.9%	4.3%	6.4%	9.6%	15.3%	8.9%	7.1%
ADJUSTED MARGIN ANALYSIS:								
EBITDA / Revenues	55.6%	52.5%	51.3%	55.0%	56.3%	54.5%	54.3%	53.7%
EBIT / Revenues	52.9%	49.7%	48.6%	52.6%	53.7%	51.9%	51.7%	51.1%
EBITDA / Assets	40.9%	38.8%	37.9%	37.4%	72.7%	87.4%	58.9%	49.7%
EBIT / Assets	38.8%	36.7%	35.9%	35.8%	69.4%	83.1%	56.0%	47.3%

Notes:

(1) Excludes Cash and Short-Term Debt

(2) Excludes 2005 results

(3) Except 2005

PANAMA CANAL AUTHORITY - WATER DIVISION

DISCOUNTED CASH FLOW FORECAST ANALYSIS
AS OF MARCH 31, 2005
($THOUSANDS)

	6 Months 2005	2006	2007	2008	2009
Revenues	$14,653.8	$27,005.3	$27,410.4	$27,821.5	$28,238.8
Cost of Sales	4,691.7	8,371.6	8,223.1	8,068.2	8,189.3
Gross Profit	9,962.1	18,633.6	19,187.3	19,753.3	20,049.6
Operating Expenses	2,514.7	4,725.9	4,933.9	5,147.0	5,224.2
EBITDA (1)	7,447.4	13,907.7	14,253.4	14,606.3	14,825.4
Depreciation	1,170.4	2,335.9	2,667.8	2,916.2	3,105.7
EBIT (2)	6,277.1	11,571.8	11,585.6	11,690.1	11,719.7
Income Taxes 30.0%	1,883.1	3,471.5	3,475.7	3,507.0	3,515.9
Net Income	4,394.0	8,100.3	8,109.9	8,183.1	8,203.8
Depreciation	1,170.4	2,335.9	2,667.8	2,916.2	3,105.7
Capital Expenditures	(1,545.0)	(2,654.9)	(2,694.7)	(2,735.2)	(2,776.2)
Working Capital Changes	(14,764.6)	432.7	156.8	159.1	161.5
Net Cash Flows	(10,745.3)	8,213.9	8,239.7	8,523.2	8,694.8
PV Factor at 10.0%	0.9765	0.9091	0.8264	0.7513	0.6830
PV of Net Cash Flows	(10,492.3)	7,467.2	6,809.7	6,403.6	5,938.7

Sum of PV of Net Cash Flows	16,126.9
PV of Residual Value	70,914.8
Operating BEV (3)	87,041.7
Nonoperational Asset	39,913.0
Total Enterprise Value	**$126,954.7**

Residual Calculation	
Net Cash Flow @ 2009	8,694.8
1 + Long Term Growth	1.015
Residual Cash Flow	8,825.2
Residual Divisor	8.5%
Residual Value	103,826.3
PV Factor	0.6830
PV of Residual Value	70,914.8

Assumption Highlights	2005 (5)	2006	2007	2008	2009
Total Production	30,295.0	30,295.0	30,295.0	30,295.0	30,295.0
Consumption (4)	95.6%	98.2%	98.2%	98.2%	98.2%
Water rate per kgals	$0.894	$0.907	$0.921	$0.935	$0.949
Fuel Cost / mWh	$126.50	$126.50	$126.50	$126.50	$126.50
Gross Margin	68.0%	69.0%	70.0%	71.0%	71.0%
Operating Expense - % of Sales	17.2%	17.5%	18.0%	18.5%	18.5%
EBITDA Margin	50.8%	51.5%	52.0%	52.5%	52.5%
Working Capital - % of Sales	-38.7%	-38.7%	-38.7%	-38.7%	-38.7%

Notes

(1) Earnings Before Interest, Taxes, Depreciation, and Amortization
(2) Earnings Before Interest and Taxes
(3) Operating Business Enterprise Value
(4) Lower consumption assumption in 2005 due to the completion of additional capacity is not expected until a couple months after the valuation date
(5) Reflects full year assumptions, which are adjusted for first half results to arrive at second half estimates

PANAMA CANAL AUTHORITY - WATER DIVISION

EUROPEAN GUIDELINE COMPARABLE COMPANY RATIOS

AS OF MARCH 31, 2005

	Sociedad General	Acque Potabili	Acquedotto Nicolay	Dee Valley	Severomoravske Vodovody	COMPARABLES (1) Average / Median		ACP Water
INVESTED CAPITAL RATIOS:								
EBIT:								
Current	**17.0**	**NMF**	**26.0**	**11.3**	**10.3**	**16.1**	**14.1**	
Four Year Average	**18.9**	**NMF**	**20.4**	**11.4**	**11.0**	**15.4**	**15.2**	
EBITDA:								
Current	**9.4**	**10.7**	**16.0**	**7.5**	**4.7**	**9.7**	**9.4**	
Four Year Average	**9.7**	**11.1**	**13.7**	**7.6**	**4.8**	**9.4**	**9.7**	
Revenues	**1.4**	**3.0**	**5.6**	**4.3**	**1.9**	**3.3**	**3.0**	
FINANCIAL RATIOS:								
Revenues (Millions)	$3,446.7	$71.8	$11.0	$31.4	$62.1	$724.6	$62.1	$22.6
Assets (Millions)	5,799.7	244.9	41.8	109.3	316.9	1,302.5	244.9	65.4
Asset Turnover								
Current	0.59	0.29	0.26	0.29	0.20	0.33	0.29	0.26
Four Year Average	0.62	0.29	0.28	0.33	NA	0.38	0.31	0.36
D.F Earnings / Revenues	5.1%	4.7%	13.0%	23.4%	11.5%	11.6%	11.5%	29.6%
EBIT / Revenues:								
Current	8.4%	7.7%	21.3%	38.4%	18.9%	18.9%	18.9%	48.6%
Four Year Average	7.6%	10.6%	27.1%	38.1%	18.3%	20.3%	18.3%	51.7%
EBITDA / Revenues:								
Current	15.1%	28.2%	34.8%	57.5%	41.5%	35.4%	34.8%	51.3%
Four Year Average	14.8%	27.6%	40.4%	56.9%	41.8%	36.3%	40.4%	54.3%
EBIT / Assets:								
Current	5.0%	2.3%	5.6%	11.0%	3.7%	5.5%	5.0%	35.9%
Four Year Average	4.7%	3.0%	7.5%	12.6%	3.4%	6.3%	4.7%	56.0%
EBITDA / Assets:								
Current	9.0%	8.3%	9.2%	16.5%	8.1%	10.2%	9.0%	37.9%
Four Year Average	9.2%	8.0%	11.1%	18.9%	7.8%	11.0%	9.2%	58.9%
Total Debt / Equity	105.2%	24.9%	0.0%	1394.4%	0.0%	304.9%	24.9%	0.0%
EBIT / Interest	3.5	8.2	NMF	NMF	NMF	5.8	5.8	NA
Average Compound Annual Growth								
Sales	1.4%	8.4%	1.2%	0.1%	4.1%	3.0%	1.4%	0.3%
EBITDA	-3.0%	6.5%	-4.7%	-1.3%	2.9%	0.1%	-1.3%	10.0%

PANAMA CANAL AUTHORITY - WATER DIVISION

ASIAN GUIDELINE COMPARABLE COMPANY RATIOS

AS OF MARCH 31, 2005

	Eastern Water	Ranhill Utilities	Taliworks Corp	PBA Holdings	COMPARABLES (1) Average / Median		ACP Water
INVESTED CAPITAL RATIOS:							
EBIT:							
Current	**7.7**	**9.4**	**12.7**	**12.1**	**10.5**	**10.7**	
Four Year Average	**9.6**	**10.9**	**12.0**	**8.9**	**10.4**	**10.3**	
EBITDA:							
Current	**6.0**	**5.8**	**12.1**	**7.8**	**7.9**	**6.9**	
Four Year Average	**7.8**	**6.9**	**11.5**	**6.6**	**8.2**	**7.4**	
Revenues	**2.8**	**2.9**	**2.8**	**2.8**	**2.8**	**2.8**	
FINANCIAL RATIOS:							
Revenues (Millions)	$52.3	$129.0	$45.1	$40.5	$66.7	$48.7	$22.6
Assets (Millions)	199.4	2,011.5	96.0	201.2	627.0	200.3	65.4
Asset Turnover							
Current	0.26	0.06	0.47	0.20	0.25	0.23	0.26
Four Year Average	0.20	0.06	0.55	NA	0.27	0.20	0.36
D.F Earnings / Revenues	21.9%	18.9%	13.2%	14.0%	17.0%	16.5%	29.6%
EBIT / Revenues:							
Current	36.0%	31.1%	21.7%	22.9%	27.9%	27.0%	48.6%
Four Year Average	46.6%	31.7%	29.3%	35.2%	35.7%	33.5%	51.7%
EBITDA / Revenues:							
Current	46.3%	50.6%	22.9%	35.6%	38.9%	41.0%	51.3%
Four Year Average	57.3%	49.9%	30.4%	47.4%	46.2%	48.6%	54.3%
EBIT / Assets:							
Current	9.4%	2.0%	10.2%	4.6%	6.6%	7.0%	35.9%
Four Year Average	9.1%	1.9%	16.3%	NA	9.1%	9.1%	56.0%
EBITDA / Assets:							
Current	12.1%	3.2%	10.8%	7.2%	8.3%	9.0%	37.9%
Four Year Average	11.3%	2.9%	16.9%	NA	10.4%	11.3%	58.9%
Total Debt / Equity	77.0%	262.5%	16.5%	32.4%	97.1%	54.7%	0.0%
EBIT / Interest	3.7	5.0	NMF	3.4	4.0	3.7	NA
Average Compound Annual Growth							
Sales	25.0%	11.0%	13.4%	11.1%	15.1%	12.3%	0.3%
EBITDA	17.4%	10.6%	5.2%	7.1%	10.1%	8.9%	10.0%

PANAMA CANAL AUTHORITY - WATER DIVISION

NORTH AMERICAN GUIDELINE COMPARABLE COMPANY RATIOS

AS OF MARCH 31, 2005

	California Water	Pennichuck Corp	Southwest Water	York Water	COMPARABLES (1) Average / Median		ACP Water
INVESTED CAPITAL RATIOS:							
EBIT:							
Current	**15.4**	**15.4**	**22.8**	**19.3**	**18.2**	**17.4**	
Four Year Average	**20.1**	**13.9**	**26.0**	**20.9**	**20.2**	**20.5**	
EBITDA:							
Current	**10.7**	**10.3**	**15.2**	**16.3**	**13.1**	**12.9**	
Four Year Average	**13.4**	**9.7**	**17.1**	**17.6**	**14.5**	**15.2**	
Revenues	**2.9**	**4.2**	**1.7**	**8.2**	**4.2**	**3.5**	
FINANCIAL RATIOS:							
Revenues (Millions)	$315.8	$23.0	$195.1	$23.4	$139.3	$109.2	$22.6
Assets (Millions)	942.9	102.1	404.8	156.1	401.5	280.4	65.4
Asset Turnover							
Current	0.33	0.23	0.48	0.15	0.30	0.28	0.26
Four Year Average	0.33	0.24	0.52	0.16	0.31	0.29	0.36
D.F Earnings / Revenues	11.3%	16.5%	4.6%	25.9%	14.6%	13.9%	29.6%
EBIT / Revenues:							
Current	18.5%	27.1%	7.6%	42.4%	23.9%	22.8%	48.6%
Four Year Average	16.2%	30.4%	8.6%	44.3%	24.9%	23.3%	51.7%
EBITDA / Revenues:							
Current	26.8%	40.7%	11.4%	50.1%	32.3%	33.7%	51.3%
Four Year Average	24.3%	43.5%	13.2%	52.6%	33.4%	33.9%	54.3%
EBIT / Assets:							
Current	6.2%	6.1%	3.7%	6.3%	5.6%	6.2%	35.9%
Four Year Average	5.4%	7.4%	4.5%	7.1%	6.1%	6.3%	56.0%
EBITDA / Assets:							
Current	9.0%	9.2%	5.5%	7.5%	7.8%	8.2%	37.9%
Four Year Average	8.1%	10.5%	6.8%	8.5%	8.5%	8.3%	58.9%
Total Debt / Equity	95.9%	101.6%	94.6%	108.1%	100.0%	98.8%	0.0%
EBIT / Interest	3.3	3.2	2.6	4.6	3.4	3.2	NA
Average Compound Annual Growth							
Sales	8.5%	0.4%	19.1%	5.1%	8.3%	6.8%	0.3%
EBITDA	16.1%	-6.9%	7.8%	3.7%	5.2%	5.8%	10.0%

PANAMA CANAL AUTHORITY - WATER DIVISION

SOUTH AMERICAN GUIDELINE COMPARABLE COMPANY RATIOS

AS OF MARCH 31, 2005

	Saneamento Basico	Consolidated Water	Aguas Andinas	Empreso Obras	COMPARABLES (1) Average / Median		ACP Water
INVESTED CAPITAL RATIOS:							
EBIT:							
Current	**8.4**	**NMF**	**15.6**	**13.8**	**12.6**	**13.8**	
Four Year Average	**8.0**	**NMF**	**19.7**	**17.8**	**15.2**	**17.8**	
EBITDA:							
Current	**5.7**	**NMF**	**11.3**	**10.2**	**9.1**	**10.2**	
Four Year Average	**6.8**	**NMF**	**13.8**	**16.0**	**12.2**	**13.8**	
Revenues	**2.5**	**9.2**	**6.8**	**5.9**	**6.1**	**6.3**	
FINANCIAL RATIOS:							
Revenues (Millions)	$1,663.0	$23.3	$33,105.0	$13,156.3	$11,986.9	$7,409.6	$22.6
Assets (Millions)	6,347.6	69.6	134,743.1	74,412.1	53,893.1	40,379.9	65.4
Asset Turnover							
Current	0.26	0.33	0.25	0.18	0.25	0.25	0.26
Four Year Average	0.24	0.39	0.22	0.15	0.25	0.23	0.36
D.F Earnings / Revenues	17.9%	13.0%	26.5%	26.0%	20.9%	22.0%	29.6%
EBIT / Revenues:							
Current	29.4%	21.3%	43.4%	42.7%	34.2%	36.0%	48.6%
Four Year Average	34.5%	21.3%	42.2%	44.6%	35.7%	38.4%	51.7%
EBITDA / Revenues:							
Current	43.0%	34.4%	60.3%	57.5%	48.8%	50.3%	51.3%
Four Year Average	40.3%	33.5%	60.6%	48.4%	45.7%	44.4%	54.3%
EBIT / Assets:							
Current	7.7%	7.1%	10.7%	7.5%	8.3%	7.6%	35.9%
Four Year Average	8.2%	8.4%	9.4%	6.9%	8.2%	8.3%	56.0%
EBITDA / Assets:							
Current	11.3%	11.5%	14.8%	10.2%	11.9%	11.4%	37.9%
Four Year Average	9.7%	13.1%	13.5%	7.6%	11.0%	11.4%	58.9%
Total Debt / Equity	88.7%	37.6%	82.1%	97.8%	76.5%	85.4%	0.0%
EBIT / Interest	1.9	4.3	5.1	3.0	3.6	3.6	NA
Average Compound Annual Growth							
Sales	8.6%	28.3%	15.1%	16.2%	17.0%	15.6%	0.3%
EBITDA	10.6%	24.8%	13.6%	26.2%	18.8%	19.2%	10.0%