CANAL DE PANAMÁ

2013

INFORME ANUAL / ANNUAL REPORT

CANAL DE PANAMÁ

RELIABILITY

Since opening in 1914, the Panama Canal has served over one million vessel transits around the world, responding to the needs of its customers, ensuring a safe, reliable, efficient and uninterrupted service.

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A Century after the First Lockage

Miter Gates for the Expansion Program

Alberto Alemán Zubieta Dredge

COMPETITIVENESS

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Message

CHAIRMAN of the BOARD of DIRECTORS

Roberto Roy
Chairman of the Board of Directors
Canal de Panama

For the Panama Canal Authority, fiscal year 2013 which just ended, has been, without a doubt, a period of many challenges and commitments. Even so, it can only be rated as a productive and very important year for the Canal.

The organization has sustained its dynamism, productivity and increasing activity, factors have been concurrent in previous years and that have helped maintain the quality of its customer service as well as the contributions to the State, despite the fluctuations caused by the global economic crisis; as the unmistakable sign of a job well done.

By the end of the fiscal year, the Panama Canal Expansion Program has reached a 66.6 percent progress. The attention of the entire workforce has focused on these works and on other major modernization projects such as the widening and straightening the Gaillard Cut, the dredging of Canal entrances, and the modernization of the towboat fleet, which are almost complete, and on more recent projects such as a new computer platform and others that have been identified to be accomplished in the future.

As a result of the periodic renewal brought about by constitutional mandate, at the end of this period three new directors, Lourdes Castillo, Alberto Vallarino and Henri Mizrachi have been integrated to the Board of Directors. The Board, as a decision making body, continues to work in close coordination with management, providing the necessary tools to maintain the proper safety and profitable functioning of the greatest asset of Panamanian society.

As helmsman of a first world company, the Board's interest and responsibility, including our constitutional concern, surpasses being custodian of the route and the adjacent areas. We must focus on new projects to keep our greatest asset

competitive, especially in these times when there is the possibility of competition arising with new routes in other geographical areas. That is why we are looking at, along with a pricing strategy that reflects the value of the expanded Canal, new policies for the development of complementary activities for transiting vessels. This, complemented with the added value resultant from the physical areas surrounding the Canal, will magnify its role as part of the world's maritime cluster transforming Panama into a logistics center that will generate employment and enhance Panamanian economy.

The fiscal year that begins has a special characteristic. The celebration of the 100th anniversary of the construction of the Panama Canal is right around the corner. The Panama Canal Authority expects the general population, without any distinction whatsoever, to participate in the various activities that have been programmed. It is a celebration of national nature and we take pride in the Canal´s achievements as well as in Panama's growth capacity, demonstrating that we are a small but entrepreneuring country.

CANAL DE PANAMÁ

Adolfo Ahumada
Director

Marco A. Ameglio S.
Director

Rafael E. Bárcenas P.
Director

Nicolás Corcione
Director

Guillermo O. Chapman, Jr.
Director

Ricardo de la Espriella T.
Director

Henri M. Mizrachi K.
Director

Lourdes del C. Castillo M.
Director

Alberto Vallarino Clément
Director

José A. Sosa A.
Director

Message

ADMINISTRATOR of the PANAMA CANAL

We are pleased to present the Annual Report of the Panama Canal Authority (ACP) for fiscal year 2013. In the following pages you will find the most relevant information on operational performance, financial, labor and social aspects of the organization, always committed to fulfill our responsibility of providing accountability to the country in a transparent and timely manner.

After two consecutive periods of record tonnage figures for 2011 and 2012, fiscal year 2013 ended, as anticipated, with a reduction in several indicators, as a result of the global outlook in markets like the United States and Europe, where economic recovery has not been as expected. The dry bulk carrier segment of the Panama Canal was hit hard by situations such as the draught in the U.S. , which significantly impacted the dry bulk movement through our waterway. Fiscal year 2013 ended with a total of 320.6 million PC/UMS tons, that is, a reduction of 3.9 percent compared to 2012, which as stated above, had been a record figure.

The Panama Canal continued to strengthen its commitment to provide quality service to its clients by adding value through the continuous maintenance and upgrading of essential equipment and infrastructures, such as the procurement of new tugs, in addition to the development of innovative ways to improve service to our customers. It is worth mentioning the trial of the "just-in-time service" system that will allow vessels to have more efficient transits.

As part of the culture of maintenance which has been essential to the mystique that has helped the Panama Canal successfully complete 99 years of continuous operations, during the last fiscal year important preventive maintenance projects such as the locks valve replacement were completed. This process was accomplished without affecting normal transit operations.

Jorge L. Quijano
Administrator
Canal de Panama

The Canal reported B/.2,400 million in revenues, representing an increase of 0.3 million compared to 2012. For this fiscal year, the ACP will make direct contributions to the National Treasury in the amount of B/. 981.8 Balboas as originally budgeted.

It is important to point out that these operational results are due mainly to the more than 10,000 men and women who make up the main asset of the Panama Canal. With their daily contributions and commitment, they consolidate the company's position as a leading player of a the safe and uninterrupted transit of international maritime trade and the driver of Panama´s sustainable development.

Sustainable development is precisely the cornerstone underlying the performance of ACP in all fields, ensuring equity and labor welfare for its human resources through continuous training while creating opportunities for professional growth.

Commitment to sustainability is also inherent in the actions undertaken by ACP regarding its natural and social environment, which consists of an active agenda of economic incentives programs, reforestation and other initiatives to improve the quality of life of the inhabitants of the Panama Canal Watershed, while preserving natural and water resources vital for human consumption in productive activities and the operation of the interoceanic waterway.

In 2013, the Expansion Program reached its sixth year of implementation and achieved an average progress of 66 percent. Several major components of the project have been completed, including the dredging of the Canal entrances in the Atlantic and the Pacific, in addition to the Culebra Cut navigational channels and most of the reaches of Gatun Lake. Important milestones were achieved, and the country and the world witnessed the impressive transport from Italy, and later the arrival in Panama, of the first four gates that are part of the new Panama Canal locks.

As can be seen from places like the Expansion Observation Center located in the Province of Colon, the new locks are already taking shape and the Expansion Program has entered a new phase. Thus, the ACP reaffirms its commitment to ensure that this important project, so vital to the country's development, and of world impact, will be completed with the highest levels of global quality.

We've had a year of significant challenges and continuous learning that have strengthened Canal management. Our commitment to our stakeholders is, and will always be, the administration and operation of this waterway with the highest standards of efficiency, accountability, security, integrity and transparency, based on strong values and principles.

This fiscal year marked the 99 years of operation of the Panama Canal. We are heading towards our Centennial and therefore, 2014 will be a year that will allow us to reassess our vision towards that future that we began to foresee from the moment the Panama decided to expand the Canal. It will allow us to highlight and share the legacy that has been building this maritime route throughout its history, as well as the contributions it has left the world with regards to innovation, culture, world trade, and the country's identity. And, above all, it will give way to other opportunities to improve competitiveness and add value to the Panama route.

CANAL DE PANAMÁ

Panama Canal

On December 31, 1999, the Panama Canal ceased operations under U.S. administration and became a corporate entity of the Panamanian government covered under Constitutional Title XIV and Law No. 19 of 1997. From that time, the business model that adequately served the Canal for 86 years under U.S. administration became obsolete. The Panama Canal, under a new legal framework, began its turnover from a break even operation company whose main objective was recovering costs, to a public efficient entity with clear profitable goals.

Immediately after its transition and during the first six months of the year 2000, a first strategic planning effort under Panamanian administration took place with the initial purpose of developing the Canal´s vision, mission, corporate values and subsequent strategic objectives. The results were the basis for formalizing and structuring the strategic planning process that has been used so far and for deriving the different initiatives, actions and plans to be implemented in short, medium and long term.

Estrategic Objectives

Objective 1 - To increase profitability in a sustainable manner for the benefit of the country.

Objective 2 - To expand the range of services and products in order to exploit market opportunities.

Objective 3 - To implement business practices that enhance good corporate governance.

Objective 4 - To efficiently manage the volume and quality of the water resources of the Panama Canal Watershed.

Objective 5 - To increase productivity through excellence in performance and the wellbeing of human resources.

Panama Canal

Jorge L. Quijano
Administrator

Esteban G. Sáenz
Operations

Francisco J. Miguez P.
Finance and Administration

Carlos Vargas
Environment, Water and Energy

Ilya Marotta
Engineering and Program Management

Francisco Loaiza B.
Human Resources

Administration

Manuel Benítez
Deputy Administrator

Luis Alfaro
Engineering

Rodolfo Sabonge
Planning and Business Development

Jacinto Wong
Information and Technology

Álvaro A. Cabal
General Counsel

Oscar Vallarino
Corporate Affairs

Manuel Domínguez
Corporate Communications

Vision

WORLD LEADER in services to the maritime industry and in sustainable development for the conservation of the Panama Canal watershed.

CORNERSTONE of the global transportation system and driving force for the progress, development and growth of Panama.

MODEL of excellence, integrity and transparency in our conduct; committed to the integral development of our human resource team.

Mission

Sustainably produce the maximum benefit from our geographical position.

OUR BUSINESS - This enterprise is charged with operating, maintaining and improving the Panama Canal so that it remains the route of choice for our customers.

OUR COUNTRY - We bring wealth to Panama and contribute with our efforts to the nation's welfare, its development and its progress, and to an improved standard of living for all Panamanians.

OUR CUSTOMERS - We build lasting relationships with our customers, understanding and anticipating their needs, adding value and offering quality service.

OUR PEOPLE - We recognize that the Canal employee is the most important resource in achieving service excellence. We recruit and promote the very best.

Corporate Values

- Honesty
- Transparency
- Competitivenes
- Loyalty
- Responsibility
- Reliability

Information Request

During fiscal year 2013, the Office of General Counsel has received 664 information requests.

109 are in the category of alimoney, all of which have been answeredto family courts.

555 are in the general request category (which encloses unions, employees, government entities, and general public). Of these, 532 have been resolved and 23 are in process, waiting for information to answer requesters.

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Reliability

Operation at the Service of Global Trade

Trade and logistics play a significant role in economic growth across the globe, including emerging markets. In fact, a substantial portion of business costs in developing countries can be traced to inefficiencies in their supply chains, limited by physical bottlenecks and the lack of streamlined administrative procedures.

According to the World Bank, in developing nations logistics expenses comprise from 15 to 30 percent of the GDP. Furthermore, the Inter-American Development Bank (IDB) estimates that transport costs account for up to 2/3 of total logistics expenses, which in turn constitute approximately 15 percent of the final value of goods. It follows that transportation expenditures are the single largest item of public investment programs, in some cases greater than 50 percent.

International trade flows, particularly exports, are crucial for the growth and development of countries because they enhance competitiveness and increase government revenues. These benefits are in part derived from the logistics sector, which transfers its savings to consumers through price reductions following a more efficient handling of goods. For instance, supply chain improvements result in the following:

- Increased export competitiveness and lower productions costs.
- Lower cost of basic consumer products in low income households, where up to 80 percent of the family income is spent on food.
- Greater integration between economies.
- Environmentally sustainable supply chains.
- Increased security and less corruption in the transportation of goods.

The Panama Canal is a key player in global trade flows, by facilitating exports. Since its opening in 1914, over 1 million vessels have transited the waterway, totaling over 9,000 million long tons. The Canal's main advantage is the great distance savings it provides: the Guayaquil – New York route through the Canal is a mere 2,848 kilometers, while sailing around Cape Horn would be 10,388 kilometers. Similar distance savings are observed in other routes, within the American continent and for longer journeys such as the East Asia – United States East Coast route.

Panama´s economy is highly dependent on the export of services. Over the last 12 years, total exports have averaged 69 percent as a portion of GDP

(including the reexporting of goods from the Colon Free Zone). This factor is crucial for employment generation, as well as fiscal revenues to fight poverty and provide better opportunities for all. In fact, Panama´s economic growth has historically been correlated with exports. In the 1960's, for instance, exports increased an average 13 percent annually while the economy grew 8 percent. From 1990 – 2000, exports grew on average 6.6 percent while the economy grew 6.7 percent, and in the last decade exports averaged 10.8 percent while the economy expanded 9.2 percent per annum.

Export as Percentage of GDP Including Colón Free Zone

(in millions of balboas)

Year	Exports	GDP*	% of GDP
2000	7,833	11,621	67.4%
2001	7,985	11,808	67.6%
2002	7,593	12,272	61.9%
2003	7,612	12,933	58.9%
2004	8,874	14,719	60.3%
2005	10,607	15,465	68.6%
2006	12,476	17,137	72.8%
2007	14,057	19,794	71.0%
2008	17,221	23,002	74.9%
2009	17,562	24,163	72.7%
2010	18,750	26,590	70.5%
2011	24,099	30,677	78.6%
2012	27,791	36,253	76.7%

** Nominal*
Source: ACP with information from INEC

On the other hand, the Canal supports the global export sectors by promoting world trade and economic development. Approximately 3 percent of world maritime commerce transits the Panama Canal.

Relative Importance of the Canal to Maritime Trade for Selected Countries

Furthermore, the waterway is a crucial channel for world commodities, affecting directly the GDP of several exporting nations. In 2012, 10.6 percent of global maritime grain transport transited the Canal, as did 5.8 percent of the chemical products, and 4.7 percent of the containerized cargo.

Maritime Trade Volume Transiting the Canal - Calender Year
(percentage of total metric tons)

	2006	2007	2008	2009	2010	2011	2012
Containerized Cargo	6.7%	6.5%	6.2%	6.0%	5.3%	5.1%	4.7%
Grains	12.4%	9.8%	9.7%	12.6%	11.9%	10.3%	10.6%
Oil and Oil Derivatives	1.3%	1.3%	1.3%	1.4%	1.3%	1.3%	1.3%
Coal and Coke	0.7%	0.9%	1.5%	0.9%	1.1%	1.5%	1.3%
Minerals and Metals	1.5%	1.1%	2.3%	3.0%	2.7%	2.8%	1.8%
Chemical products	8.5%	7.4%	7.4%	7.7%	6.6%	6.2%	5.8%
Total Canal Participations	3.0%	2.8%	2.7%	2.7%	2.5%	2.5%	2.3%

Source: ACP with information from IHS, October 2013

The Canal expansion constitutes a paradigm shift for world maritime trade, beginning with Panama and the Panama Canal main users such as China, the United States, Ecuador, and Chile, among others. It will create greater economies of scale in maritime transport, allowing 12,600-TEU ships, with up to 49 meter beams and 15.2 meters in draft, to use the new locks. At present, the Canal can accommodate container vessels with up to 4,400 TEU capacity.

The expansion project will bring forth other sectors linked indirectly to Canal traffic, further benefiting from the many competitive advantages Panama has to offer, including its dollarized economy, fiscal incentives, and favorable legal frameworks for the services industry (merchant marine registry, banking center, and legal services). The Canal, the port terminals, the Colon Free Zone, and Tocumen International Airport complement each other's strengths. In short, the Canal is the main driver within the logistics cluster, and in turn, the cluster strengthens the Canal's position as an optimal transit option. This cross-sector synergy has a multiplier effect and increases the country's overall competitiveness, and that of other countries in the region which can use Panama as a hub.

In summary, the Canal is a crossroads for economic activities based on maritime traffic. It also enables the region's export potential by spurring export-dependent economic sectors. These sectors are especially important in light of recent trade agreements signed with the United States and the European Union.

The Canal expansion also complements and indirectly encourages logistical and infrastructural development throughout the region. By increasing their export potential, these countries invest more resources on public infrastructure and port terminals. Therefore, the Canal and the export of services, including the international logistics hub, are the bedrock of Panama´s economy and a support base for other Latin American economies.

OPERATIONS

The Panama Canal ended fiscal year 2013 with 320.6 million PC/UMS tons, 13.1 million tons less than fiscal year 2012, with an operative cost per tonnage of B/.1.27 below the established goal of B/.1.33. These results reflect a small decrease in the demand of our services, due primarily to changes in the maritime industry. In response to these changes, innovative measures were implemented in the execution of processes, which resulted in a more efficient use of resources, without affecting the quality of the service provided.

As for transits, there were 12,045 oceangoing transits (excluding small vessels), 817 vessels less or a 6.35 percent decrease compared to fiscal year 2012 (12,862 transits). Out of this total, 8,189 transits correspond to super-size vessels (beam ≥ 91 ft.), 290 less transits than during fiscal year 2012 (3.42 percent). In addition, 3,856 transits corresponded to regular size vessels (beam < 91 ft.), (12.02 percent) more than fiscal year 2012 (4,383 transits). Small vessels had a drop of 67 transits (from 1,682 to 1,615 transits), which represents 3.8 percent regarding fiscal year 2012.

Vessel Tonnage
(in millions of PC/UMS)

Oceangoing Vessels Transits

Panamax vessel transits (beam ≥ 100 ft.) were 7, 035, a decrease of 206 transits (2.84 percent) compared to fiscal year 2012 (7,241). This drop was observed mainly in container ships (-228), dry bulk carriers (-436) and others (-180). Panamax transits represented 58.4 percent of oceangoing transits, compared to 56.3 percent during fiscal year 2012, which indicates that the vessel mix required more resources due to an increase in large size vessels with greater tonnage.

The usage average of the transit reservation system was 57.36 percent, 6.37 percent less than the 63.73 percent registered in fiscal year 2012. In fiscal year 2013, a total of 21 vessels booked through the auction system, 13 less compared to fiscal year 2012 (34). This decrease is the result of service quality improvements measured in Canal Waters Time (CWT). For non-booked vessels, the CWT average decreased 2.5 hours, compared to fiscal year 2012.

Panamax Vessel Transits

Performance in the Provision of Services

This period closed with a service level rendered of 88.32 percent, exceeding the goal of 86.0 percent established for this fiscal year. This service level measures the compliance with each market segment expectations for Canal Waters Time (CWT), including booked and non-booked vessels. The market with the highest levels for the services provided were: general cargo (91.76 percent), full container (94.06 percent), and passenger (99.81 percent). During fiscal year 2013 we began measuring the provided service level, based on compliance with each market segment

expected Canal Waters Time (CWT), exclusively for non-booked vessels. The result was 75.7 percent, exceeding the established goal of 72.0 percent. The constant monitoring and control of the vessels backlog and the appropriate resources allocation and maintenance programming have been key factors in the success achieved.

Canal Waters Time (CWT)

The Canal Waters Time (CWT), the total time elapsed since the vessel arrives at the Canal plus the actual transit time, registered an average of 24.5 hours in fiscal year 2013, a reduction of 4.53 percent compared to fiscal year 2012 (25.66 hours). This is the result, first of all, of a reduction in the daily average of vessels in waiting queue, from 46 vessels in fiscal year 2012 to 39 in fiscal year 2013 (a decrease of 15.21 percent); secondly, to the reduction of booked vessels, from 5,768 vessels in fiscal year 2012 to 5,068 in fiscal year 2013 (a decrease of 12.14 percent); and finally, to the decrease in the quantity of vessels that were affected by fog (from 417 vessels in fiscal year 2012 to 307 in fiscal year 2013).

The average CWT for booked vessels in fiscal year 2012 was 14.86 hours in comparison with 14.36 hours in fiscal year 2013, representing a 0.5 hour decrease. On the other hand, the CWT average for non-booked vessels in fiscal year 2012 was 34.5 hours and in fiscal year 2013, 31.95 hours, representing an important 2.55 hour reduction.

Canal Waters Time (CWT)

Monthly Average and YTD FY2012 vs. FY2013

In Transit Time (ITT)

The In Transit Time (ITT), the elapsed time since the vessel arrives to the firsts locks until it exits the last ones, registered an average of 10.78 hours in fiscal year 2013, a 0.08 percent increase over the fiscal year 2012 results of 10.7 hours.

This average was slightly affected by a 152-hour programmed maintenance increase (435 hours) during fiscal year 2013, in comparison with fiscal year 2012 (283 hours), performed during lane outages in Gatun, Pedro Miguel and Miraflores Locks.

In Transit Time (ITT)

Montly Average and YTD FY2013 vs. FY2012

Customer Satisfaction

Fiscal year 2013 closed with a customer satisfaction index of 98.7 percent, 2.7 percent over the fiscal year 2012 index of 96 percent. This accomplishment was the result of a customer satisfaction oriented work culture change effort undertaken. It started with a kick-off ceremony with the participation of about 250 operations employees. There were awareness-raising lectures and specialized courses on customer service. Furthermore, Customer Service Week was celebrated for the first time from February 4 to 8, 2013, with the participation of over 500 workers, strengthening their commitment towards work culture change. Metrics for the degree of customer satisfaction were extended to vessel captains calling at docks and anchorages to gather their ratings and suggestions for improvement. Additionally, internal customer satisfaction surveys were conducted, specifically among pilots, to collect their impressions regarding other operational areas.

Customer Satisfaction Index 2013

September 30, 2013

During this period, two activities were welcome by the maritime community: a plaque and gift presentation ceremony, to honor clients that transited the Canal during Customer Service Week; and a Panama Canal Honorary Pilot License award ceremony to honor the masters of vessels who, after a long career at the sea, and after many transits through the Canal, have reached their retirement age. Staff from shipping agencies that represented the vessels also participated in the award ceremonies, which took place aboard the vessels during their transit.

Dredging Services

In December 2012, Dredging Division completed the Culebra Cut Deepening Project, becoming an important milestone for the Canal expansion. The drilling and blasting barge Baru started works in March 2008. Culebra Cut, which is the narrowest part of the navigational channel is a difficult to access area for the type of material found there. For this reason, a variety of equipment was used, including dredges Mindi, Rialto M. Christensen and Quibian I, together with the drilling barges Thor and Baru. Contracted equipment has joined the effort with dredges Il Principe and Cornelius, belonging to Jan de Nul and Boskalis, respectively. In order to complete the Culebra Cut deepening project, a cumulative volume of 3.2 million cubic meters of material has been removed.

A routine maintenance plan has been developed by Dredging Division to maintain proper depths

and widths of the navigational channels, including the removal of sedimentation from the dredging projects. This plan also included an evaluation of the condition of the operational docks and other operating areas related to present and expanded Canal operations. The sedimentation rate was estimated at 3.4 million cubic meters per year. Critical areas were also evaluated to establish removal priorities, considering in-house and outsourcing dredging options.

The acquisition, installation and maintenance of Panama Canal aids to navigation, such as the buoys and bank lights set along the Canal's navigational channels, is another project carried on by ACP's Dredging Division. Atlantic and Pacific entrance buoys were relocated to the new navigational channel prism lines and to the new locks approaching channels, throughout most of its extension.

Buoys were installed on the Atlantic Side for the arrival of the new lock gates to the dock built in Davis Peninsula by the contractor Grupo Unidos por el Canal. Similarly, Dredging Division worked in the project to connect 12 pilings for the three water platforms in Gatun Lake, and in the installation of range tower lights in Gatun Lake peninsular islands. This activity is part of the contract for the construction of 25 Gatun Lake range towers and will contribute to establish the maintenance scope for the expanded Canal aids to navigation.

Finally, it should be noted that Dredging Division is participating in the removal of the remains of a shipwreck discovered at the Atlantic Entrance northern breakwater. This activity is in progress and, once concluded, it will allow for the design of the subsequent complementary dredging projects for the Expansion Program.

Preparation for the Expanded Canal Operation

During this period we have reached important milestones in order to be prepared for the operation of the expanded Canal and meet the expectations of our clients and to benefit the Canal and the State. These include transit methodology and the operational rules that will apply to the New Panamax vessels; and the establishment of necessary requirements to allow for the safe transit of New Panamax vessels through the new locks; and the maritime community has been informed about these requirements.

Regarding the training of key operational personnel, 108 pilots and 40 tugboat captains completed their training at the SIDMAR (Simulation, Investigation and Maritime Development Center) in simulated navigation for the New Panamax vessels. Also, during this period, 18 new tugboat captains graduated, for a total of 38 (46 percent) who have completed the training program developed to comply with the expanded Canal operational requirements.

As for infrastructures, the adaptations required to cope with the increase of the Gatun Lake maximum operational level reached a significant progress of 55 percent, which includes lock gates hydraulic equipment and level sensors replacement, lock machinery tunnels adaptations, and bulkhead installation, among others.

In order to improve the planning of the required resources for the expanded Canal, the capacity model scope was broadened to: analyze crew variations in the present and new locks, as well as for tugboats, launches, and line handler crews; simulate maintenance periods at the locks and tie-up stations; and simulate resources and the optimized transit scheduling through the Canal and at the Pacific ports. As a result, demand curves were generated to establish the number of hulls by sector (Pacific and Atlantic) in the case of tugboats, and per dock in the case of launches, to establish appropriate tugboats and launch crews for daily assistances.

During this period, we received five new tugboats with the required power to assist NewPanamax vessels: Cerro Itamut, Cerro Picacho, Cerro Santiago, Cerro Pando and Cerro Jefe. We also received the new backhoe dredge Alberto Alemán Zubieta, launches Gorrion and Garza for the maintenance of aids to navigation, and 22 buoys for the expanded Canal.

New Initiatives to Improve Service and Capacity

With the purpose of tending to and improving customer service, the Canal implemented this year a service known as "Just in Time Service", which will allow booked vessels to arrive at Canal waters closer to the scheduled transit time in order to reduce their waiting time. This is a value added service that allows the customer to stay longer at its last port for loading and unloading operations,

prior to departing to the Panama Canal. It will even encourage those vessels that have chosen to navigate according to fuel consumption reduction practices to decrease their speed during navigation to arrive at Canal waters just in time to transit.

At the end of fiscal year 2013, 244 vessels from 15 shipping companies had participated during the trial period. The main ones being Hanjin, NYK and Maersk, and 97 percent of the participating vessels belonged to the container segment.

This initiative will give us more flexibility to offer our customers additional reservations with different transit times and differentiated prices.

Changes had to be made to the Regulations on Navigation in Panama Canal Waters to make the process more flexible in order to increase the number of reservations. Now, the system allows offering slots with in transit times (ITT) that differ from the traditional 18 hours, which could increase reservations and service quality and reliability levels.

Infrastructure Development

In order to increase Canal capacity and provide better customer service, we continued with the Culebra Cut Straightening and Widening Project, from 630 to 715 ft., with a global progress of 98.3 percent. We also continued with the installation of new range towers and PEL-6 sector lights in the Culebra Cut, and important aids to navigation along the Cut and Lake. These lights consist of high definition light projectors with different colors that indicate to the pilot his position and necessary corrections. They offer many advantages especially regarding navigational safety, helping the vessel to align with the prism line with a sector precision of less than a minute of ark (1m in 3.4km or 3 feet in 2 miles), day or night.

We have undertaken other infrastructure projects, such as: the widening of the Pacific entrance to 300m (south of the Bridge of the Americas); the widening of the reaches north of Bas Obispo; the adaptation of the Gamboa Mooring Station to accommodate NewPanamax vessels; and the expansion of the Peña Blanca Anchorage.

The design for the widening of the Pacific Entrance to 300m was completed to start the contract for its execution in fiscal year 2014. The approved design consists on the widening on both sides of the Canal, considering that there was also the option to dredge only the west side. The estimated dredging volume is 4.8 million cubic meters.

For the widening of the reaches north of Bas Obispo, which will be performed internally beginning fiscal year 2014, 1.8 and 8.5 million cubic meters will be excavated and dredged, respectively. During fiscal year 2013, path cuts were completed to allow for topographic surveys, ground exploratory drillings and bathymetric sounding to establish the initial volume. Also disposal sites were defined, and land excavation designs had significant progress.

As for the expansion of the Peña Blanca Anchorage, we completed the technical specifications and activities prior to the request for bids for the log removal contract for an estimated area of 743 hectares. The request for bids was published on July 2013 and the evaluation of the proposals began by the end of the period.

Connectivity

Succesful Performance for the World

The Panama Canal PC/UMS (Panama Canal Universal Measurement System) net tonnage for fiscal year 2013 was 320.6 million tons, a 4 percent decrease from the previous year.

Global markets improved marginally during fiscal year 2013, falling short of previous years accelerated recoveries. The United States economic growth was weak, with improvements in the mortgage and automotive sectors as a result of low interest rates, but unable to take off due to President Obama's second term predictable political problems. Unemployment decreased moderately, from 8.2 percent a year ago to 7.3 percent in September 2013.

The fiscal cliff problems in January 2013 were followed by the present disagreement pertaining to the debt ceiling, whereby sequester measures were adopted, forcing the United States Federal Government to cut spending in all public entities, which impacted the gross national product (GNP) by at least 0.3 percent. As a result, there was a slowdown of the economic recovery in the last quarter of 2012 and an increased uncertainty until October 2013, when it was decided to extend budget and debt negotiations until January 2014 and February 2014, respectively. Despite the aforementioned, there was a relatively healthy expansion in the third quarter of 2013, estimated to be 4.1 percent by the United States Bureau of Economic Analysis (BEA), although it tapered off slightly in the last quarter of the year. All economic indicators suggest that the United States' economic growth will be above 2 percent in 2014.

The Eurozone was beset by macroeconomic problems since October 2012, prompting Spain, Italy, Greece and other European countries to request aid form the European Central Bank (ECB). The latter, with the support of Germany and the International Monetary Fund (IMF), has implemented solvency-increasing measures in banks, along with other austerity measures, which caused a recession until December 2012. The ensuing economic growth has been extremely slow in the last few quarters, and unemployment figures in Spain have reached 28.0 percent, with similar levels in Italy, Portugal and Greece, among others. In 2013, the Eurozone improved slightly and got over its sovereign debt issues which at some point posed the threat of an economic collapse and the dissolution of the single currency.

In Asia, China has followed the same deceleration pattern, on a much lesser extent. The Chinese economy has continued growing, supported by the demand of developing countries and on a smaller scale, the United States and Eurozone countries. The decrease in demand resulted in a GNP drop to 7.8 percent, then to 7.5 percent in the first two quarters of fiscal year 2013, quite below the 10 percent yearly figure which was customary for China over the last decade, but still within the 7 percent limit established by the Communist Party in its last five-year plan.

Following over two decades of economic stagnation, Japan experienced an unprecedented expansion during 2013. The Japanese GNP increased 3.8 percent in the first quarter of 2013, and according to the IMF, it will close the year with 2.9 percent growth. This apparent resurgence is due to a formula implemented by Prime Minister Shinzo Abe, in office since December 2012. The economic measures, called "Abenomics" benefitted the export sector and included buying off Japanese debt, thereby lowering the interest rate and the yen, which in turn has stimulated the demand for automobiles and other products.

However, doubts remain about whether Abe's measures are sustainable in the midst of new

taxes scheduled for 2014 to meet increases of Japan's public debt which is among the highest in the world.

Full Container Vessels Segment

The full container vessels segment had an average performance during fiscal year 2013, with 3,103 total transits, 117.6 million PC/UMS tons and 12.1 million TEUs capacity. These figures reflect a 6.8 percent decrease in transits, 1.9 percent in PC/UMS tons and 0.8 percent in TEUs compared to the previous fiscal year. PC/UMS and TEUs variations are significantly smaller than the change in transits due to an increase in the average vessel size from 3,659 TEUs in fiscal year 2012 to 3,895 TEUs in fiscal year 2013.

Toll revenues for fiscal year 2013 totaled B/.951.4 million and 94 percent corresponded to TEUs capacity and 6 percent from the 7.2 million loaded TEUs which transited the waterway. Revenues from this segment accounted for 51.5 percent of the overall Canal toll revenues for fiscal year 2013.

The number of liner services through the Panama Canal route experienced significant variations during fiscal year 2013. This year ended two previously existing services, and took on only one of the two services usually deployed during the peak season. Fiscal year 2013 closed with 30 active services in the Panama Canal route.

Reefer Vessels Segment

During fiscal year 2013, reefer vessels registered 1,110 transits, 10.3 million PC/UMS tons, 114,383 TEUs transported on deck, and B/.51.3 million in toll revenues. Despite the fact that there were 6 fewer transits than in fiscal year 2012, the amount of TEUs and PC/UMS tonnage increased 4.6 percent and 0.8 percent, respectively. During fiscal year 2013, reefer vessel operators maintained their strategy to maximize the TEUs carried on deck in order to compete against full container vessels, which continue to attract more refrigerated container cargo to liner services.

Bananas, the main reefer vessel commodity through the Panama Canal, accounted for 65

percent of the total long tons in this market segment. During fiscal year 2013, the production of bananas in Ecuador was less than optimal due to the cold weather which delayed the harvest, resulting in lower volumes than the previous year. Some traders, whose traditional banana source is Ecuador, switched to Colombia and Central America, to take advantage of the lower prices.

The oversupply of bananas from Central America and Colombia destined to Europe, in addition to the low demand in European markets, resulted in a drop in the price of bananas in the last months of fiscal year 2013, which brought losses to Ecuadorian banana exporters.

Liquid Bulk Segment

The liquid bulk segment performed well in fiscal year 2013. This segment registered 2,469 transits, 53 million PC/UMS tons and B/.233 million in toll revenues, a slight 0.4 percent decrease in transits, and 2.6 percent and 9.8 percent increases in PC/UMS tons and tolls revenues, respectively, from fiscal year 2012.

These results were due to an increase in the average vessel size, as vessels transiting with beams ≥ 100 feet rose 6 percent, which was reflected in an increase of 27.4 percent in PC/UMS tonnage, 3.4 percent in cargo, and 13.4 percent in tolls revenues for vessels within this beam range, compared to the previous fiscal year.

During fiscal year 2013, diesel, gasoline and miscellaneous petroleum products were the main drivers for this segment. Diesel accounted for the largest flows in the route from the Gulf of Mexico to the West Coast of South America, mainly Chile and Peru, while gasoline was driven by exports from the Gulf of Mexico to Ecuador, Guatemala, Taiwan, Mexico, and El Salvador.

Chilean imports of diesel, mainly from American refineries in the Gulf of Mexico, fell 28.3 percent from the previous year. Despite this decline, Chile continues to be the main destination of shipments through the Panama Canal.

On the other hand, although it is a small segment, gas carriers significantly improved all of its traffic indicators with increases of 4.8 percent in transits, 14.3 percent in PC/UMS tonnage, and 21.4 percent in toll revenues compared to fiscal year 2012. This remarkable performance of gas carriers was driven by flows of ammonium compounds and propane on vessels ≥ 100 feet beam, which increased 17.5 percent this year in transits, 22.9 percent in PC/UMS tonnage, and 30.6 percent in toll revenues compared to the previous year. For the most part, these vessels transported liquefied petroleum gas (LPG) and ammonium.

During fiscal year 2013, gas carrier cargo through the Canal, increased 17.4 percent over the previous fiscal year. It is important to note that the emergence of a new trend, as a result of the increase of propane and butane gas production from shale gas deposits in the Gulf of Mexico, was complemented by new port infrastructures to enable LPG exports from the United States from Targa and Enterprise in Houston, Texas

Therefore, this year, propane cargo flows included some movements from Houston to Japan and to the Pacific Coast of Panama. In the latter, a top-off operation was identified, in which propane from Houston transited the Canal to the Panamanian Pacific side and, by means of a ship-to-ship cargo transfer from a Panamax LPG to a VLGC, it was sent to Japan.

In addition to propane, which increased 45.9 percent over the previous fiscal year, ammonium

compounds flows from Trinidad and Tobago to the West Coast of Mexico and the United States registered a 34 percent increase.

Drybulk Carrier Segment

Dry bulk carriers recorded a total of 93.7 million long tons, a 5 percent decline compared to fiscal year 2012. A total of 2,903 transits and 72.7 million PC/UMS tons were recorded, resulting in declines of 13.1 percent and 12.8 percent, respectively, compared to the previous fiscal year. Tolls revenues decreased 4.9 percent as a result of lower recorded volume; however, this effect was partly offset by the toll rates increase effective October 1, 2012.

Grains, the main commodity group of the segment, registered 32.9 million long tons in fiscal year 2013, an 11 percent decrease compared to the 36.9 million long tons in fiscal year 2012. This decrease was mainly due to the severe drought that befell grain with detrimental effects in grain-producing regions of the United States during 2012. Reports from the U.S. Department of Agriculture, indicated that corn shortages, increased grain purchases from alternative sources, such as Brazil, Argentina, and Ukraine.

Mineral and metal flows decreased 23.7 percent as a result of the decline in iron ore shipments from Northern Brazil to China. Cargo was diverted through a transshipment center which began operating in July 2012 off the Coast of Trinidad and Tobago. Cargo loads are transferred to vessels that exceed the Panama Canal limitations and are there by transported to China via the Cape of Good Hope.

On a positive note, coal flows reached a new record with 16.1 million long tons of thermal coal primarily originating from the Atlantic Coast of Colombia and destined to Chile, Mexico, Guatemala, and Peru. Colombia's share the total coal transported through the Panama Canal, increased from 38 percent to 52.5 percent. The main route from Colombia to Chile increased 76.1 percent from 3.7 to 6.5 million long tons. Shipments from Colombia to Guatemala, Mexico and Peru increased 34.5 percent, 73.4 percent 528.7 percent, respectively. Other routes from the United States Gulf to Mexico and Chile increased 22.5 percent and 10.9 percent, respectively.

Vehicle Carriers and RoRo Segment

The vehicle carriers and RoRo market segment had a modest performance during fiscal year 2013, in which the main indicators of traffic through the Panama Canal showed mixed results compared to the previous fiscal year.

Traffic figures for fiscal year 2013 recorded a total of 766 transits and 43.0 million PC/UMS tons, a 2.3 percent decline in transits and a 0.1 percent increase in PC/UMS tonnage. The slight positive variation in PC/UMS tonnage is the result of an increase in the average vessel size, from 54,752 PC/UMS tons to 56,093 PC/UMS tons, a 2.4 percent increase over the previous fiscal year. Vessels ≥ 100 feet beam accounted for 93.6 percent of all transits.

Toll revenues for this segment during fiscal year 2013 reached B/.179.4 million, a 1 percent rise compared to fiscal year 2012. This increase in revenues was mainly due to a 1.1 percent

increase in the effective toll rate, from B/.4.14 to B/.4.18 per PC/UMS ton as a result of a 1.7 percent toll rate adjustment effective October 1, 2012. Starting in October 2012, the RoRo vessels were included in the vehicle carrier segment.

Cargo tonnage totaled 4.4 million long tons, a 4.6 percent decrease compared to fiscal year 2012 in which 4.6 million long tons were transported via the Panama Canal. The cargo volume decline was driven by the Japanese automobile manufacturers' strategy of increasing the fabrication of cars in local (consumption) markets. Mexico is an example of this strategy as the recent expansion of production has focused on supplying the North American market. During fiscal year 2013, there was a 11.3 percent decline in the main route of Japan to the United States East Coast. This decline represented a drop of 116,700 long tons equivalent to approximately 66,000 light vehicle units or 16 Canal transits at B/. 250,000 per transit.

However, from a positive perspective, the shift of production centers has created non-traditional routes for the Panama Canal, as there are more countries manufacturing automobiles. An example is Mexico, as we are registering transits originating from Mexico's West Coast to the United States East Coast. This particular route recorded a positive variation of 73.8 percent or 85,600 long tons more than the previous year. It is expected that the local production for internal consumption strategy will lead to an increase in coastal transport within the regional bloc of the Americas.

Passenger Vessels Segment

During the 2012-2013 cruise season, passenger vessel traffic through the Panama Canal was modest. In fiscal year 2013, the segment recorded 206 transits (171 full transits and 35 turnarounds), 5 transits less than in the previous year (171 full transits and 40 turnarounds). The total number of passengers was 225,367, 1.4 percent less than the 228,489 registered during the previous fiscal year. Toll revenues amounted to B/.39.4 million, a 0.9 percent reduction from the B/.39.7 million in fiscal year 2012.

In fiscal year 2013, vessels of more than 30,000 gross tons accounted for 86.8 percent of the total revenue. During the 2012-2013 cruise season, the Panama Canal billed passenger capacity totaled 256,432, a rise of 7,758 berths or 3.1 percent compared to the 2011-2012 season, as a result of an increase in the average vessel size.

Vessels of less than 30,000 gross tons accounted for 13.2 percent of total revenue for the segment and 45.6 percent of total transits. Traffic tonnage for these vessels in fiscal year 2013 was 1.1 million PC/UMS tons, a 20.2 percent decrease compared to the 2011-2012 cruise season. This decline is the result of the reduced share of cruise lines like Seabourn and P&O Cruises, which deployed fewer ships of less than 30,000 gross tons via the Panama Canal compared to the previous year. Furthermore, this portion of the segment also experienced an average vessel size decrease from 15,170 to 12,746 PC/UMS tons.

Throughout this season, cruise lines such as Princess Cruises, Holland America Line, and Celebrity Cruises, among others, completed their journeys through the waterway. As in previous seasons, the Panama Canal recorded cruise ships inaugural transits, as in the case of Carnival Miracle, which transited on March 22, 2013. In addition, smaller passenger vessels such as the National Geographic Sea Lion and Wind Spirit also transited the Panama Canal. Usually, the itineraries of these vessels are short between the Caribbean islands and the East and West Coast of Central America.

Competitiveness

Expansion, Six Years Later

Six years from the commissioning of Panama Canal Expansion works, a significant progress of the Program's most visible and symbolic physical component – the massive concrete structures of the new locks – allows us to envision the future canal area. The intensity of the concrete works for these structures has reached its peak this year, and the great dimension of this engineering wonder becomes evident and irrefutable before our eyes with the arrival of the new lock gates – one of the project's most critical components. All of the highly committed professionals involved in the project – contractors, subcontractors, and ACP internal forces – press on with the works overcoming each new challenge as they arise.

During the year, characterized by a number of activities in multiple work fronts, ACP contractors and internal forces continue facing diverse defying situations in the technical, financial, weather, environmental and occupational safety areas. Many of these challenges have been addressed with innovative solutions that have made it possible for the Expansion Program to achieve a 67 percent progress rate by the end of fiscal year 2013. The contract award rate increased to 98 percent; dry excavations for the Pacific Access Channel totaled 42.9 million cubic meters out of the 49.1 million to be removed; and dredging works in navigational channels reached a total of 48.6 million cubic meters out of the estimated 52.2 million to be dredged. On the other hand, the combined volume reported by the Pacific and Atlantic sites for the construction of the new locks, excavations, and dredging activities, totaled 38.6 million cubic meters from the projected 46.5 million; structural concrete placements added up to 3.1 million cubic meters from the required 4.2 million; and 176 out of the required 197 tons of steel rebars were received. These accomplishments were achieved thanks to over 13,000 workers who have worked day and night to complete this magnificent work.

Post-Panamax Locks

This program component has advanced a 58 percent progress rate and consists of the construction of two lock complexes – one on the Pacific and another on the Atlantic side – each with three levels and water saving basins. The consortium responsible for this task, Grupo Unidos por el Canal S.A. (GUPCSA), continued with the fabrication of electromechanical components such as valves and gates, and dam construction activities; and has begun placing backfill around some components for which the structures have been substantially completed. Tasks are diverse and require multiple work fronts to move forward the construction of the two lock complexes on both ends of the Canal. In its new schedule, the contractor has estimated the completion date for all works under the contract to be June 2015 (eight months after the contract date).

The arrival of the first gates for the new locks is perhaps the most relevant milestone of this year. After the conclusion of the construction of the dock to receive these gates, the first four arrived in Gatun in August and are stockpiled in a provisional area while preparations are done for their transportation and installation into their respective recesses in the new locks. Meanwhile, fabrication of the remaining gates continues in Cimolai S.p.A.'s facilities in Italy and preparations are made to ship a second batch. The ACP locks design overview team maintained a resident engineer in Italy to inspect and follow up on the gate fabrication.

Fabrication of valves and associated elements is ongoing in the facilities of Hyundai Samho Heavy Industries Ltd. in South Korea. A last shipment of 25 valves to complete the 158 required should arrive in December. These fabrication activities are monitored by the resident inspection firm NDE Associates Inc. (sub-contractor of the management services consultant for the Expansion Program, CH2M Hill Panamá S. de R.L.). The hydraulic engines for the cylinders are manufactured in the U.S. and South Korea supervised by Bosch-Rexroth, while the hydraulic cylinders for the valves are manufactured and tested by Bosch-Rexroth AG in China.

In the excavation and dredging activities conducted by GUPCSA on the Pacific side, the contractor reported having removed a cumulative volume of approximately 19.8 million cubic meters. In the meantime, the cumulative volume removed by the main excavation on the Atlantic side is around 15.7 million cubic meters and about 3.1 million for the Atlantic entrance.

During this year the contractor has focused mainly on placing structural concrete, an activity that reached a total of approximately 1.6 million cubic meters for the Pacific locks and 1.5 million for the Atlantic.

Design and Construction of the Third Set of Locks

Dredging and Excavation Volumes

Actual vs Programmed through September 2013

The progress accomplished on some of these concrete structures has allowed the initiation of the filling activities during the period. Filling of water saving basins is ongoing on the Pacific and Atlantic sites with soil, basalt, and weatherized basalt, on both sides of the three chambers, and with filter and rock material in different lock heads.

As part of the measures to support its works, GUPCSA hired Consorcio Borinquen S. A. to build three dams and excavate the north Pacific approach channel.

Aggregates are transported from the Pacific side to supply this material to the Atlantic side, where it is processed to fine aggregates to be used to make concrete. In this aspect, the contractor reports an accumulated total of 5.5 million cubic meters as of the end of the fiscal year. On the other hand, GUPCSA's reinforcing steel sub-contractor, the Mexican company ArceloMittal, has delivered a total of approximately 97 thousand tons to the Pacific site and 80 thousand to the Atlantic.

The progress reached with concrete structures also facilitates initiating many activities related to control, communications, safety, and protection systems. Major progress was made with the design of several of these systems and the delivery of key components. Delivery is complete for the equalization valves, bulkheads for the equalization valves and conduit valves, as well as culvert and conduit isolation bulkheads. Also during this year, the ACP has received hydraulic cylinders for the valves, hydraulic power units, pipelines, transformers, engine control centers, and switchboards, among other equipment. GUPCSA has installed 30,765 meters of grounding cable in the lock heads.

The quality assurance, environmental management, and occupational safety efforts continued uninterruptedly during this period. Regular audits, inspections, and meetings have been conducted to this effect, in addition to maintaining constant presence at the construction sites both on the Pacific and the Atlantic sides. During the year, the ACP and senior managers of the companies that are part of the consortium responsible for this project continued to meet regularly to follow up on project execution, always seeking to highlight the importance of complying with contract requirements and urging the contractor to take the relevant corrective actions when so required.

Pacific Access Channel

The location of the three-level locks complex on the Pacific side of the Canal requires building a new nearly 6.1km. access channel to connect the new locks with the Culebra Cut. Three of the four phases considered necessary to meet this purpose have been successfully completed and the fourth phase reports a 74 percent progress as of the end of the fiscal year.

The contractor that performs these works, consortium ICA-FCC-Meco, formed by the companies Ingenieros Civiles Asociados S.A. de C.V. (ICA), Fomentos de Construcciones y Contratas S.A. (FCC) and Constructora Meco S.A., was not able to meet the contract termination date, set as August 18, 2013. The contractor continues conducting excavations, removing unclassified material from the areas for the new access channel

and the footprint of Borinquen Dam. Excavations were also performed in Miraflores Hill in order to supply the materials demand for the construction of the dam.

Pacific Access Channel (PAC4)
Excavation Volumes
Actual vs Programmed through September 2013

As of the end of this period, the contractor focuses its efforts in dam foundation treatment activities, and continues to work specifically in the dam core area, where it cleaned approximately 40,000 square meters of rock, and placed fill concrete in areas requiring leveling. To this date, the contractor has covered some 154 thousand square meters with rock cleaning in the shell's foundation; has placed around 736 thousand cubic meters of embankment along the entire dam; and has built a total of 5,500 square meters of the 3-meter (equal to 1,833 linear meters) deep concrete cut-off wall in the dam centerline. The injection works for the grout curtain that works as a screen underneath the dam to prevent filtrations report approximately 97 percent advancement. Additionally, the contractor removed a total of about 700 thousand cubic meters of unclassified material, for a total of 20 million, accumulated since the project began, which represents a 76 percent progress rate for this activity. This material was extracted both from the access channel area and the main dam's footprint.

Navigational Channel Improvements

In order to obtain the necessary depth for Post-Panamax ships to transit safely, another component was included under the Expansion Program, which comprises the widening and

Pacific Entrance Deepening and Widening
Dredging Volumes
Actual vs Programmed through September 2013

Atlantic Entrance Deepening and Widening

Dredging and Dry Excavation Volumes
Actual vs Programmed through September 2013

deepening of existing navigational channels in Gatun Lake, and in the sea entrances in the Pacific and Atlantic, as well as the deepening of Culebra Cut. Deepening and widening works for Canal entrances have both concluded with the removal of 8.6 million cubic meters of material from the Pacific Entrance through dredging operations, and the removal of approximately 17.6 million from the Atlantic Entrance through dredging and excavation efforts.

Gatun Lake and the Culebra Cut

The ACP concluded another major Expansion Program phase by finishing the deepening works in the Culebra Cut, setting another significant Program execution milestone. Deepening dredging activities entailed the removal of 3.2 million cubic meters of material. Other major milestones reached during the period were the conclusion of the contract for the northern entrance to the Pacific Access Channel, by Jan De Nul n.v. and the award of the contract for the construction of 25 range towers.

Works were mainly performed by Dredging Division, using the cutter-suction dredges Mindi and Quibián I, dipper dredge Rialto M. Christensen; and, contracted dredging equipment, the Il Principe and Cornelius dredges, which belong to Jan de Nul, and Boskalis, respectively. The efforts in Gatun Lake and Culebra Cut include the removal of 26 million cubic meters of material,

Gatun Lake Deepening and Widening and Culebra Cut Deepening

Dredging and Dry Excavation Volumes
Actual vs Programmed through September 2013

22.4 million of which were already removed by the end of the fiscal year. These amounts include the volumes removed under former contracts completed by Dredging International de Panamá S.A. in Gatun Lake's northern reaches and in the northern entrance to the Pacific Access Channel, by Jan De Nul n.v.; for 4 and 3.8 million cubic meters, respectively. Only finalizing the dredging of the Mamey, Juan Grande and Gamboa reaches is pending in order to complete the project.

Increasing Gatun Lake's Maximum Operational Level

This project is the Expansion Program's component that is aimed at ensuring an adequate water supply for human consumption and other needs, as well as to allow Post-Panamax vessels to transit the expanded Canal during the dry season with fewer depth restrictions. This Program component consists on increasing the maximum operational level of Gatun Lake by 45cm, and includes mitigation works for third-party structures affected by this increase. Works required to reach this objective continued during the period, taking the project's progress to 46 percent.

The first semisubmersible hydraulic cylinders were installed during the period in Gatun Locks' four gates. Other activities that were completed during the period are the installation of the new water level sensors and adaptations to third-party structures in the communities of Ciricito, Nuevo Porvenir, Escobal, Cuipo, La Arenosa, Lagarterita and La Leona. Installation works continue for the watertight doors and bulkheads, as well as the adaptations for the existing gates; works for the concrete isolation walls to place the rubber boots; the adjustment of the conductor slot drainage; and assembly and final installation of the yoke seals in the gates, among others. Remediation works continued with the startup of the works in the south access gangway in Gamboa ramp; the dock used by the Surveys, Hydrography and Cartography Section; the dock for tugboats and boats in Paraiso; the facilities for the Hydrological Unit in Pedro Miguel; a structure in the Emberá Querá community; and two structures in the community of El Limón.

Administration and Financing

The ACP program management team maintains its purpose of keeping the Expansion Program in line with its objectives. Its effort continued with program controls activities, which include the administration of funds, schedules, changes, documentation, and risks, among others. The programs administration services consultant, CH2M Hill Panamá R. de S.L., and ACP worked together, with special attention on all work execution aspects for the new locks and on advisory services on different topics, such as

structural engineering, instrumentation and controls, claims and dispute adjudication. Additionally, during the fabrication of the lock valves and gates, they continued to offer supervisory and inspection services in South Korea and Italy, respectively. Mayer Brown LLP, the contractor that provides legal advisory services on international contracts and Vinson & Elkins LLP provided advice on subjects such as the locks contract and, particularly, claims. Other contractors, such as Shearman & Sterling and URS Holding Inc., also provided support to the program management effort on legal, financial, and technical consulting on geological aspects and dam construction, respectively.

The five multilateral agencies that provide the credit facility required to execute the Expansion Program, continued to receive financial, operational and program progress reports, as established in the common terms agreement (CTA). During this period, the ACP received the ninth disbursement under the CTA with the multilateral agencies, in the amount of B/.100 million. It also received a CTA modification to extend the funds availability termination date. As of September 2013, the ACP has disbursed B/.1,450 million from the total credit amount.

Project Occupational Safety

Since the beginning of the Expansion Program, the Panama Canal has been committed to provide cutting-edge leadership to control and eradicate work accidents, injuries, and professional diseases from the Program. This is achieved through the implementation of operational and engineering controls, together with administrative measures that help create healthier and safer work environments as well as to establish a prevention culture that promotes self-care and learning to avoid incident recurrence. The section's most significant and noticeable effort has been following up on contractors' on-site safety and hygiene activities, including personal protection equipment, fall prevention, unhealthy (noise, dust) work condition controls, and ergonomic risks assessments, etc. Additional responsibilities include revising safe work procedures and plans, and specific audits.

Aimed at maintaining a high profile and reinforcing the safety culture within the Expansion Program, multiple efforts were taken to promote objectives. Among these efforts, are for example, a root-cause analysis workshop organized by the ACP and facilitated by an international expert; health and safety inductions; relaunching the safety mission for Executive Vice Presidents; participation in a seminar offered by an expert on environmental, health and safety metrics. The

latter was organized by the American consulting firm Business and Legal Resources.

Environmental Management

Follow up on the mitigation measures established in the environmental impact study and with the National Environmental Authority´s (ANAM) approval, includes aspects such as water, air, and noise monitoring; management of work-areas solid wastes and hazardous materials; labor conditions; erosion control; sediment migration; secondary controls for storing fuel and lubricants; fauna care and protection; and ecological compensation, among others.

The reforestation program is also a demanding task, in coordination with ANAM and the Water Resources Authority of Panama (ARAP); it includes efforts in the provinces in Colon, Panama, Cocle, Herrera, and Chiriqui. The ACP awarded a new contract to Consultores Ambientales y Reforestadores S.A. for the reforestation of 75 hectares of red mangrove in the protected area of the bay in Chame, which will cover approximately 701 hectares of planted land – 576 of woodlands and 125 of mangrove. The rest of the plantations have already been established and are in their 4-year maintenance phase, including yearly cleanups, fire protection, specific replanting, among others activities. The first Expansion Program efforts that have completed the entire reforestation cycle this year were in the Camino de Cruces and the Altos de Campana National Parks. The effort to minimize environmental impact also includes wildlife rescue and relocation in areas where vegetation has been reduced due to expansion work.

During the period, the independent environmental consulting firm Environmental Resources Management Panamá S.A., conducted two biannual visits to project sites and reforestation areas; and submitted the respective reports on the verification of the implementation and effectiveness of the social and environmental mitigation and follow-up measures, in compliance with the monitoring requirements agreed with the multilateral agencies and ANAM.

Paleontological and Archaeological Studies

As a result of the dredging and excavation activities, some areas become exposed that would not be visible other wise, allowing to conduct paleontological rescues, and evaluate artifacts and other identified cultural remains.

Works under the paleontological evaluations contract with the Smithsonian Tropical Research Institute (STRI) ended during this fiscal year with a press conference and findings exhibition. Two STRI scientists presented to an audience

of approximately 150 attendees, including the media, ACP, STRI, Technological University of Panama, and ANAM representatives. The results of the studies conducted on fossils discovered have forced scientists to reevaluate theories regarding the formation of the Isthmus of Panama.

Archaeological inspections were also performed during the period in different Program areas, though these inspections have been reduced after the design level was reached in most of the work fronts through dredging and excavations. Among the items recovered during archaeological inspections in the CAP4 project and in the Atlantic site were glass bottles, horseshoes, industrial hardware, bowls and vehicle remains. The artifacts from the PAC4 area are considered very valuable for their volume and variety. The discovery of 14 crosses from a cemetery associated to the village of Bohio Soldado was also documented. The cemetery was used by the French and Americans during their respective construction periods.

Public Relations, Communication and Historical Documentation

The communication effort associated to the development of this mega project doesn't stop for those in charge of generating communication instruments, such as brochures, flyers, leaflets, texts, reports, presentations, photos, videos, and recordings. Preserving documents for the benefit of future generations is another gigantic endeavor that requires technical knowledge and long-term vision to be able to understand how the images and documents will be perceived, in order to make sure that they remain valid throughout time.

Approximately 104,000 people have visited the new locks project construction sites, both on the Pacific and Atlantic, as well as the dredging and excavation areas. This number includes the visitors to the Panama Canal Expansion Observation Center on the Atlantic side. Additionally, there have been presentations and briefings regarding program progress to about 21,000 national and international visitors; almost 1,500 foreign and local media requests have been served; and over 1,300 calls have been responded through the 800-0714 customer care telephone line and through the ampliacion@pancanal.com email address.

To commemorate and contribute to the cultural and historical wealth of this project daily activities such as heavy-duty equipment and work force mobilizations are regularly depicted in oil and watercolor paintings by national artists like George Scribner, Carlos González Palomino (who passed away during the period), José Inocente Duarte, Amalia Tapia and Roberto Vergara.

In April, the ACP received an award from the International Academy of Visual Arts for a corporate video on the development of the Expansion Program, produced by the Communications and Historical Documentation Section.

Sustainability

A Commitled Route

The Panama Canal upon its 99 years of existence faces the reality of a completely different world from the one of its first days. The challenges of one of the most valuable resources of the isthmus of Panama are no different from other centennial companies worldwide.

Therefore, it is necessary to manage an integrated approach for the meaning of sustainability, by defining and framing it on how to ensure long term business success while contributing to economic and social development, in a healthy environment within a stable society.

For our company it is very important to take the lead on sustainability, looking always for a competitive advantage through the design and implementation strategies and the right programs, seeking a balance between all our partners. We look for true sustainability through environment friendly innovative actions.

But we are convinced that we can accomplish this by creating value through innovation, renovating, revamping or reinventing our processes and actions while relying on our most valuable asset: our people's commitment. We inspire efficiency by doing more with less and minimizing our environmental footprint as the greatest challenges for the next 100 years of the Canal.

For the Panama Canal sustainability is not just goal, it is the path to follow. Through the years, the ACP has innovated on a numerous amount of projects and initiatives that support environmental management, labor practices and community development, strengthening the business, which has resulted in strong financial management . The synergy created by the combined efforts, together with the contributions of its workforce, the community, their customers and their suppliers, accelerate steps in the right direction, leaving behind seeds of prosperity that will be harvested by future generations.

Environmental Sustainability

The Panama Canal Authority incorporates its environmental management as an essential part of its vision and mission, focusing on two aspects: its water and the environmental quality.

With respect to water resources, the ACP by means of its organic law is responsible for the administration, maintenance, use, and conservation of the Panama Canal Watershed hydric resources together with the coordination for the conservation of its natural resources to enable the functions of this natural capital. Therefore, the Panama Canal implements and coordinates through the Interinstitutional Commission for the Panama Canal Watershed (CICH) the sustainable development and integrated management of its water resources, through its environmental information system and the active participation of the inhabitants of the territory.

Managing the Canal Watershed is paramount because hydric resources are crucial for the water provision to the most populated cities, for the operation of the Panama Canal, and many other economic activities. The water in the zone allows the ACP to operate and maintain its infrastructure and facilities for the provision of drinking water, electricity and cold water for the air conditioning systems. Furthermore, the water from the Watershed contributes to international trade by facilitating the transoceanic movement of goods.

In addition to the management of the Watershed, the Canal values corporate performance according to environmental quality standards in its operations, both maintain and use its resources in a sustainable manner, and to accomplish better operational results and provide economic benefits to the country. Hence, it develops procedures, plans and programs for the conservation and environmental protection, including assessment and environmental impact studies, the surveillance of natural resources, environmental education, and community organization.

This fiscal year, the Canal reached important goals in the areas of water management and environmental quality.

Vegetable Cover and Use of Soil in the Watershed

Vegetable cover and the use of soil are constantly under the surveillance, in coordination with the National Environmental Authority (ANAM), as elements that directly affect the environmental health of the Watershed. A favorable tendency was observed during the 2008-2013 period that is attributed to a natural regeneration process and a positive impact of the reforestation developed by the ACP in collaboration with the community and other organizations.

The sites where the forest coverage (mature and/or secondary) has decreased are in the Chagres National Park, in the banks of the Alhajuela and Gatun Lakes, and in the headstreams of the Ciri Grande and Trinidad rivers. It has been determined that it is the result, among other aspects, of the great amount of rainfall registered in 2010 and 2011, so as the development of infrastructures during the last five years in the Transisthmian Corridor area that connects the terminals cities of Panama and Colon.

Water Resources

The Panama Canal has a permanent hydrological surveillance program, through a network of stations for measuring volumes and water flow, precipitation levels and water resources quality. Dozens of stations monitor the reservoirs and permanently generate information about the different attributes of the water resources.

There is strict monitoring of the quality of natural water in the stations located in the Gatun, Miraflores and Alhajuela tributary rivers and reservoirs. This helps to obtain information about the physical-chemical and biological conditions of the water resources, for decision- making regarding policies, programs and projects which contribute to the sustainable use and efficient management of water. The quality of drinking water is also monitored for the presence of metals, organic compounds, pesticides, algae and cyanobacteria, protozoans and other biological indicators in the three water plants managed by the Panama Canal: Miraflores, Mendoza and Mount Hope. Another aspect studied is the quality of wastewater generated by the operations of the Canal in order to take control and for prevention measures.

This year the Global Water Quality Index of the rivers and lakes in the Watershed was 87,

which means that it ranges between good and excellent.

Drinking Water Production

The Panama Canal manages the Mount Hope, Miraflores and Mendoza water filtration plants that provide drinking water to more than half a million of inhabitants from Colon, Panama, Arraijan and La Chorrera. Raw water is extracted from the Panama Canal Watershed and treated for an approximate daily supply of 120 million gallons of potable water per day, in compliance with quality standards established by the Ministry of Health of the Republic of Panama.

In order to provide drinking water and to guarantee the effectiveness and efficiency of the drinking water treatment operation, the Panama Canal pays close attention to the regular maintenance of its infrastructure, equipment, and instrumentation. There is also a great amount of investment in technical training in relevant areas such as the operation of water filtration plants and technical support. This year the filters of Mount Hope and Miraflores Filtration Water Plants were refurbished and a training program for pipefitters culminated, while a technical training program for water plant operators initiated.

Climate Change Vulnerability

During the last years, Panama experienced extreme climate-related events associated with global weather change. Unusually heavy rainfall resulted in significant damage throughout the country, with the loss of human lives, millions of dollars lost in crops, infrastructure, and the reduction of drinking water production to satisfy the needs of the population.

Recently, the Panama Canal performed a vulnerability assessment of the Panama Canal Watershed to identify the main potential Watershed areas threatened by extreme climatological events (rainfall and droughts). The ACP is working with the National Civil Defense System and the communities we sought to design a community risk management plan in three areas of the Canal Watershed. Workshops on managing risks from natural disasters were given during the process.

In addition, in order to face the challenge of climate change with an integrated social, economic and environmental vision, the ACP designed and implemented measures to help adapt to climate change in a medium and long term basis, based on a sustainable culture oriented on risk prevention. The action parts of the Green Route Program are good examples of these specific measures.

The Panama Canal Green Route

Since its opening, the Panama Canal has offered a green route. In 1914, by contributing to a bunker usage reduction calculated by unit load to transiting vessels, as compares to other routes. By using the Panama Canal, the global maritime sector has managed to reduce its carbon dioxide emissions. The expanded Canal will enable the transit of vessels by carrying twice the load compared to those transiting today. In fact, this will enhance the Canal's qualification as an emission reduction route.

The Panama Green Route strategy includes coordinated measures to mitigate, implement environmental and social management, and to operate on low carbon footprint standards. In this sense, the Panama Canal is enforcing an overall plan to manage carbon dioxide emissions by developing a greenhouse gasses baseline from Canal operations and implementing a strategy for the reduction and compensation of these emissions.

This year the Panama Canal Authority received its second certification for its Reforestation and Sustainable Production Models, from the Environmental Economics Incentives Program. In March 2012, the Canal obtained a second certification under the voluntary carbon standard from climate, community and biodiversity, and another this year under the auditable emission reduction CarbonFix Standard (in transition to Gold Standard). Both standards combine actions to improve the quality of life for Watershed communities, the conservation of Watershed biodiversity and the mitigation of greenhouse gasses.

With the technical and financial support from the German Agency for International Cooperation, the Canal took on a project to reduce emissions from deforestation and degradation actions in the Canal Watershed.

The main purpose is to account for carbon dioxide gases reduction in Canal Watershed mature forests and to obtain additional funds to continue reforestation projects.

Environmental Economic Incentives Program

In its fourth year, through this program linked to the Green Route, the Panama Canal has reforested and maintained more than 6,200 hectares in the Canal Watershed. Thus, the Canal has promoted good practices for agricultural production and the development of sustainable environmental businesses. More than 1,100 producers have already benefited directly, increasing their production by planning in their farms under sustainable livestock and agriculture designs. In four years, the Panama Canal benefited directly 2,780 people in 50 Watershed communities; and has grown almost three million seedlings of a variety of species in strategic sectors of the Canal Watershed.

Among the green production patterns developed by the Panama Canal are the agroforestry models, mainly shade-grown coffee production, mainly the Robusta variety (coffee canephora). From this year the Panama Canal has included the establishment of cacao agroforestry models. Within the context of these activities, the ACP, in conjunction with the Ministry of Agricultural Development of Panama (MIDA), has trained farmers in productive, marketing and solidarity work techniques. As a result, producers were organized as the Ciri Grande and Trinidad River Sub Basins Coffee Producers Association (ACACPA). It is expected that for medium and long term this coffee production will become a highly profitable agricultural activity, where production will be carried out with environmentally friendly methods for the conservation of soil and water resources, and farmers will reach national and international markets.

The Environmental Economic Incentives Program is executed with the support of the Cadastre and Land Titling Program, which promotes legal certainty of ownership of farms in favor of its inhabitants. To date, through the National Lands Administration Authority (ANATI) over 3,500 producers and residents of the Watershed have received their land titles. The cadastre program has covered about 30,300 hectares in the towns of El Cacao, Ciri Grande, Santa Rosa, Ciri de Sotos, and La Trinidad.

Knowledge: Key to Sustainable Development

To encourage the informed participation within the population of the Canal Watershed on conservation efforts, the Panama Canal, together with the Institute for Professional Formation and Human Resources Development (INADEH) and the Ministry of Education (MEDUCA) carries out an environmental conservation program together with job-training. Training is provided to help Watershed residents develop skills to facilitate the incorporation into the labor market. This fiscal year 2013, courses were taught in 27 Canal Watershed educational and community centers. To date, more than 5,666 residents have participated in this program, receiving approximately 10,868 certifications.

Another line of knowledge for elementary level students is Our Canal and Its Watershed Program (NUCA) which promotes the formation of human capital for the development on an entrepreneurial attitude and environmental sustainability. During fiscal year 2013, 92 Panama Canal volunteers trained 2,292 students from 49 Canal Watershed schools in peri-urban and rural areas.

By means of a third line that reaches children and youngsters, the ACP worked this year with 10 educational centers through the Watershed Guardians Program. Some 5,689 students and teachers from the Canal Watershed participated in missions and environmental projects to respond to social and environmental situations in their communities. The topics included water quality, biodiversity conservation, solid waste management, climate change adaptation, risk management, and reforestation.

Corporate Environmental Performance

Concerning environmental quality improvement, this year the Panama Canal Authority continued with efforts in the application of good practices, measures, regulations and environmental improvements in all activities, in order to operate under the cleaner production concept, with efficiency and respect for the environment. These efforts include: (i) quality of effluents; (ii) emissions from stationary and mobile sources; (iii) carbon footprint; (iv) hydrocarbon management and regulatory compliance and (v) waste management.

The ACP monitored the quality of the effluents, as well as the emissions of stationary and mobile sources of 83 percent of the motor fleet (100 diesel and 4000 gasoline engine vehicles). Samples were taken from the Miraflores Thermoelectric Plant in compliance with the Standard 2610-EAC-112, and 4 out of 5 types comply with the limits. In line with its continuous improvement philosophy, the Panama Canal continues to work on the implementation of the measures set out in the Environmental Adaptations Plan (PAA), to

increase compliance with the standard in this thermoelectric power plant. Finally, emission samples were taken from 25 watercrafts from of a fleet of 66. Sample results revealed 100 percent compliance as specified in MARPOL's Annex VI.

On the other hand, the Canal's municipal waste was characterized as common garbage, organic waste, packaging, paper products and cardboard material, wood waste, plastic and glass. The data collected will support future actions for waste generation reduction, and will strengthen processes for the recovery of resources and ensure the proper disposal of those materials that cannot be used.

Green Construction

This year came into effect the AD-2012-05 guide line, which establishes green specifications for the projects that will be developed by the ACP beginning fiscal year 2014. Therefore, the traditional design concepts are being transformed into more efficient, sustainable and friendly practices for its inhabitants and the environment.

Some of the measures include the use of natural illumination with the application of modern skylight domes with heat insulation and light diffusion for spaces that do not require air conditioning, as is the case of warehouses, workshops, hallways, bathrooms and other similar spaces. High efficiency standards are applied to air conditioning systems, together with a limit to potential and energy in illumination, the application of sensors and timers for the control of lights in kitchens, eating halls, hallways, bathrooms, and conference and classrooms. Insulation standards for walls and ceilings have also been included. Even, the specifications are not limited to the aspect of energy, since to water saving measures and the recycling logistics were included.

Energy Efficiency

The Panama Canal Authority has a 2011-2020 energy efficiency management plan focused on rational and efficient energy consumption. This year a pilot system was implemented for measuring energy consumption in buildings, with data collected via Intranet. More buildings will be added progressively. The main objective is to relate the measurement to the implementation of energy audits and action plans to optimize consumption. Much attention has been paid to the use of energy in water pumping systems, air conditioning and other lighting related products. This last aspect started the renovation of luminaires in industrial facilities and the purchase process for replacements demands efficient devices for conducting a progressive diphase of the previous technologies.

The first emission free all-electric vehicle was bought as a relevant milestone in the Canal's commitment to energy efficiency. This vehicle

was assigned to the Panama Canal Mail Unit on March 26, 2013. This addition to the vehicle fleet encourages the substitution of fossil fuel for a more efficient renewable energy alternative. This vehicle will serve as basis for the analysis of an automobile fleet with diversified technology to optimize energy resources.

Clean and Sustainable Energy

Power generation for the Canal is important to ensure the reliability of its operation, facilities, and infrastructure. The ACP also invests continuously in improving its energy generation systems for environment friendly technology. Furthermore, the Canal is constantly investing in a more economic and high-technology eco-friendly power system. This year work continued for the replacement of two vapor turbines from the Miraflores Thermoelectric Plant with two stroke-diesel motors, each one of 39.34MW, which started commercial operation in mid-October 2013. A two stroke-diesel motor system was chosen over the four stroke-diesel motors and the gas and vapor turbines, due to its efficiency.

On the other hand, the use of natural gas systems for electrical power generation is a market tendency in Panama; therefore the ACP initiated a feasibility study to incorporate natural gas combustion system in its daily operations.

Solar and Wind Energy

This year the Panama Canal is looking forward to diversify its thermal plant generation by compiling immediate and accumulating power and energy data of the Mendoza Water Treatment Plant. In addition, a study was conducted based on satellite information and historical climatological records of the potential for wind energy production at Mendoza´s site. The potential identified in Mendoza is too small, but the Panama Canal Authority will continue looking for alternate clean energy sources. On the other hand, the ACP continued collecting information on wind speed and direction to begin the feasibility study that will determine the amount of energy that can be generated at this point.

Human Capital
Sustainability

The greatest asset of the Panama Canal Authority (ACP) is its workforce as the driving force for its day-to-day. Each member of this talented group of people plays a fundamental role, which through professionalism and commitment, strengthens the organizational culture and charts the way to success, allowing the ACP to meet corporate goals and exceed customer expectations. Management, through a solid planning and development process of its human capital, ensures current and future capabilities of the organization to ensure their sustainability over time.

With a 6.1 percent turnover rate, well above its historical rate and largely based on the labor force regular retirement process, fiscal year 2013 ended with a total payroll of 10,098 employees, of which 8,288 are permanent and 1,810 are temporary to support the implementation of specific projects or activities and included those participating in the student assistant program.

It should be noted that the ACP considers women and men with different backgrounds and training to enrich its work team and reinforce team leadership. The Panama Canal has a highly productive, inclusive and diverse work teams that facework from different perspectives, offering better solutions.

It must be noted that of the total workforce, 1,293 are female, and 29 occupy executive or managerial positions while 146 are in occupations traditionally performed by men. There are men in positions that are not traditionally for men, which confirm the importance of equity and the merit and equal opportunity principles in the Panama Canal.

Employees by Gender

	2011	2012	2013
Men	8,724 (87%)	8,933 (87%)	8,805 (87.2%)
Women	1,330 (13%)	1,329 (13%)	1,293 (12.8%)

Distribution of Men and Women by Supervisory Position

Year	Level of Supervision	Men	Women	Total
2011	Executives/Managers	87	32	119
	Supervisors/Leaders	946	114	1060
	Non-supervisory	7691	1184	8875
	Subtotal	**8724**	**1330**	**10054**
2012	Executives/Managers	87	32	119
	Supervisors/Leaders	987	129	1116
	Non-supervisory	7859	1168	9027
	Subtotal	**8933**	**1329**	**10262**
2013	Executives/Managers	90	29	119
	Supervisors/Leaders	935	124	1059
	Non-supervisory	7780	1140	8920
	Subtotal	**8805**	**1293**	**10098**

While the majority of the workforce is from the provinces of Panama and Colon, 16 percent come from other provinces and from the indigenous regions of Guna Yala and Darien. This diversity promotes strong quality teams with a wide range of skills that help develop strategies based on the social and cultural context of each region.

Training is a cornerstone for the Panama Canal's human capital management. It represents a significant investment through which the current and future performance of those who contribute to achieving corporate objectives is enhanced.

Ongoing training programs for both specific needs and for comprehensive professional development are implemented. Thus the ACP channels its interest in improving the skills and competencies of its employees.

As managing workplace safety is a key component of the Panama Canal's corporate culture, in fiscal year 2013 safety played an important role with 2,276 additional instances with respect to the last fiscal year.

Emphasis has been made on training based on injury and physical and mental illness

prevention in the workplace through early detection and control of unsafe or unhealthy conditions. During fiscal year 2013 there were no work-related fatalities reported.

Two hundred twenty three employees received certificates for completing one of the formal development programs offered by ACP to its employees, such as the Project Management Professional and Maritime Economics certifications, Development Program for Operational Areas Supervisors, the Technical Development Program, the Upward Mobility Program, and the Safety Program for Supervisors.

Among the programs designed and implemented to ensure the sustainable management of human talent we have the Canal Identity Program, better known as Together is Better, which is meant to improve internal relations, promote employee loyalty and align organizational goals. Through this program, the bond that must exist between management and their work teams is reinforced, strengthening internal communication tools and fostering the timely transfer of basic, as well as critical information regarding the main business components.

The program consists of various modules and during fiscal year 2013, a total of 6,132 employees participated in one of the program components.

The performance evaluation process covered 100 percent of Canal employees allowing the enhancement of communication and cooperation between work teams. It also facilitates the assessment of each person's contributions and to create commitment, strengthen a employee development, and align individual performance with corporate strategy.

The Panama Canal has an awards and incentives program to recognize the individual and collective performance and commitment of its workers.

Unions are representative institutions of freedom of association and labor rights guaranteed by the Panama Canal special employment regime that applies to the ACP. Interestingly, the ACP maintains its focus on the prevention and early resolution of conflicts, leading to the development of a constructive and supportive relationship of mutual trust. Of the total ACP workforce, 91 percent belong to one of the six bargaining units.

On September 3, 2012, the collective bargaining

process began for the recently established Captains and Deck Officers Union (UCOC) that will have its own collective agreement.

In view of the imminent completion of the Expansion Program, the ACP has begun negotiations with the Panama Canal Pilots Union to address negotiable issues.

Employees by Bargaining Units

	Permanent	Temporary	Total
Non Professional	6,637	1,611	8,248
Excluded	768	136	904
Pilots	280	-	280
Captains /Towboat Master	214	15	229
Professional	162	8	170
Marine Engineers	159	31	190
Firefighters	68	9	77
Total	**8,288**	**1,810**	**10,098**

There are always employees who are willing to go the extra mile to achieve the best results.

To manage excellence, emphasizing strengths through the recognition of values, attitudes, and behavior, the Panama Canal has various programs to reward those employees who have an outstanding performance.

During fiscal year 2013, 7,343 recognitions were granted.

Program	2010	2011	2012	2013
On the Spot Award	4,574	4,094	4,222	4,501
Special Act or Service Award	595	789	759	767
Safety Award	701	559	760	210
Years of Service Award	1,641	1,690	1,665	1849
Suggestion Award (implemented)	20	29	8	11
Distinguished Service Award	1	1	1	4
Rodolfo Lammie Service of Excellence Award	1	1	1	1
TOTAL	**7,533**	**7,163**	**7,416**	**7,343**

The Canal recognizes its workforce as its most important asset and remains committed to their comprehensive wellness through health programs aimed at the early detection and control of occupational risk factors that may affect their health, safety, performance, and productivity. It provides first aid care, physical therapy services, rehabilitation programs for addictions, and financial advice. The Panama Canal Authority offers a voluntary retirement incentive to ensure a generational shift that will facilitate a dignified transition of its employees from working life to retirement with increased financial support.

Employees with at least ten years of service who qualify for retirement as established by

the Social Security Fund Regulations and are eligible for a regular pension or early retirement, have the option of taking advantage of the voluntary retirement benefit. During fiscal year 2013, 452 employees retired under this program, increasing the turnover rate since it was implemented.

One of the most important legacies parents can give their children is to teach them the importance of saving. Similarly, in order to encourage savings and financial planning among its workforce, the ACP established a Corporate Savings Program, which allows permanent employees to save the equivalent 120 hours of accrued vacation in one or more savings funds. Employees may also choose to request the equivalent to one hour of leave for each hour that has been deposited in one or more savings funds, as established by Law 10 of 1993 of the Republic of Panama.

To ensure that ACP employees have adequate rest periods, they must maintain a 160 hour leave balance after transferring to the savings funds. In fiscal year 2013, 66.2 percent or 5,486 permanent employees made contributions to a retirement fund.

Hours Utilized for the Savings Plan	Total Hours	Amount in Millions of B/.	%
Cash Hours	266,395.00	4,548,028.55	43%
Savings Hours	355,506.50	6,133,891.71	57%
Total	**621,901.50**	**10,681,920.26**	**100%**

Getting Ready for New Challenges

In 2009 the Panama Canal saw the need to prepare for the challenge of training its maritime personnel for the operation of the expanded Canal, which will use tugs to support transits and will be exposed to larger ships. One of the greatest challenges was to update the Canal database in the ship maneuvering simulator acquired by the ACP in 2001, which has undergone many changes over the years,

especially in the width and depth of the navigation channels.

That's when an aggressive plan to update the database began dividing it in three phases. The first phase is called Pacific database, the second is the Atlantic database and the third the Lake and Cut database. Once this project was finished we proceeded to validate operational experts through simulator exercises. Following this, and as of 2011 began the Pilots and Tug Masters training program, which focuses on the interaction between them during maneuvers and to familiarize them with the NeoPanamax vessels. In parallel, transits have been made in the current locks without locomotives to familiarize personnel with such operations. On the other hand, we have maintained regular training for Canal maritime personnel, in order to keep the necessary skills for the performance of their functions.

There are big challenges ahead and we are committed to continue with the next steps for training Pilots and Tug Captains and begin a comprehensive engineer training program for all floating equipment personnel, to meet necessary skill needs.

We have also continued an intensive and comprehensive training process for critical works identified by Canal operating areas leaders. These includewelders, shipfitters, sheetmetal workers, roofers, mechanics, electricians, riggers, among others. All these programs have been carried out under theoretical and practical format using class and field practice and, including mentors who serve as coaching staff during their field practice.

A Company Based on Ethics and Values

The Panama Canal Authority has built a faultless management model of excellence, integrity and transparency as is set out in its corporate vision statement. The result has been an impeccable reputation and image, which is object of national and international respect, admiration and recognition.

Up to a great extent, this achievement has been possible thanks to a strong value-oriented organizational structure, which encourages adequate behavior, in strict compliance with the Canal's Organic Law and regulations.

An important element that encourages and ensures full and transparent management is the Ethics and Conduct Program. It includes a variety of initiatives aimed at offering guidance to the entire workforce regarding the provisions contained in the Ethics Regulation and Code of Conduct of the organization, and to raise awareness on the responsibility of behaving according to principles and values in the workplace and in our personal lives.

In fiscal year 2013, more than 5,000 employees participated in online and classroom training instances and we carried out various activities to reinforce the ethics and values spirit among Canal employees.

Each year we promote, update and enhance the contents and scope of the Ethics Program. Our aim is to strengthen our business management by forming better human beings and citizens, whose ethical actions have a positive impact on the organization, transcend and set the example for the community and the country.

Indicators

Human Capital

Fiscal Year	2011	2012	2013
Permanent	8,404	8,564	8,288
Temporary	1,650	1,698	1,810
Total	**10,054**	**10,262**	**10,098**

Fiscal Year	2010	2011	2012	2013
Turnover Rate	3.0%	2.6%	1.9%	6.1%*

**The Incentive Program for Voluntary Retirement has impacted the turnover rate.*

Average Age of Permanent Employees	47
Average Age of Temporary Employees	36

Employees by Province of Birth

National	9,918
Panamanians born abroad	118
Naturalized	38
Foreign	24
Total	**10,098**

	Women	Men	Total
Employees by Level of Education	1,293	8,805	10,098
Less than High School	2	712	714
Higt School or Vocational Education	114	4,378	4,492
Tertiary Education	143	704	847
Undergraduate Education	457	2,161	2,618
Graduate Education	571	835	1,406
Doctorate or Professional Degree	6	15	21

Women in Non-Traditional Positions

Year	No. of Women	Increase/Decrease
2008	123	26
2009	124	1
2010	126	2
2011	141	15
2012	155	14
2013	146	-9

Social *Sustainability*

Being in contact with the community is a priority for the Panama Canal. During fiscal year 2013 more Panamanians had the opportunity to experience the waterway at the visitors centers and by participating of summer concerts, tours, and educational programs. Interactions also increased in the social networks.

The number of visitors to the Miraflores and Gatun Visitors Centers, as well as to the Expansion Observation Center in Colon, increased 3 percent in comparison to fiscal year 2012 with 839,216 visits. This represents a new record for the Panama Canal. Of these, 21 percent were locals and 79 percent by foreigners. These visits added up to B/.5.5 million.

Connecting with the Country

Joy, music and performing arts filled the parks of the provinces and Panama City with the Canal's summer program, which included the staging of the musical Chiquilinga by Rogelio Sinan, a show with folk dances and décima singers, as well as a family informative fair, and a concert with a variety of Panamanian artists. The highlight was the Gilberto Santa Rosa concert in the area surrounding the Administration Building's stairs which gathered close to 12,000 people in a safe environment.

The Panama Canal also reaches out to the community with the program "El Canal de Todos", which takes young students in an educational fieldtrip that includes a partial transit through the Canal. For many students and teachers this is their first opportunity to be in contact with the Canal. During fiscal year 2013 this experience included 12,388 persons.

The Panama Canal has fourteen information centers in the countryside that organized 1,749 educational and recreational activities, reaching out to 157,114 persons.

The Canal's Network

The Panama Canal not only connects with people; it also interacts with them through the use of new digital tools whose immediacy and personalization create direct communication channels with the public. The Panama Canal web page was updated with a friendly and modern design and reached more than 888,000 visits and the Panama Canal accounts on Twitter and Facebook have reached 66,300 new followers.

We can also mention the Canal's use of Instagram to share exclusive images from different sites, including the intimate outlook of its users which added up to 8,000.

As part of these interactions, the Canal crossed the innovation border with the Canal Challenge, the first Panama Canal online game. The game's audience is youngsters and it offers an interactive and educational experience with information about the history, operation and evolution of the Panama Canal.

During fiscal year 2013 the Panama Canal reached a total of 108,000 persons through the social networks.

Image and Perception

Since the Canal was handed over to Panamanian hands, it began a closer and more extensive relationship with local and international media, opening communication channels and giving direct answers to their inquiries while offering information about all the relevant aspects of the operations of the Canal, its history and the future of the waterway.

During fiscal year 2013 the media published 7,826 news reports and articles related to the Panama Canal. Of this total, 94 percent were positive publications, which confirmed the Canal´s excellent reputation. One of the

most important events, in terms of coverage, was the arrival of the gates for the new locks. The journey from Italy was documented and presented increasing expectation up to the day of their arrival in the province of Colon, which was broadcasted live by a national television network, together with national and international press, and complemented by the social networks.

During fiscal year 2013, survey results with 92 percent acceptance confirmed the positive opinion of Panamanians about the Canal, while Panama's pride for the waterway increased from 91 to 96 percent.
Surveys rated the positive opinion about the expansion works of the Panama Canal at 95 percent.

Recognizing Innovation

Innovation placed itself as a key element in the efforts of the Panama Canal to enhance its commitment to communication; and the effort has paid off.

First, its new web page micanaldepanama.com received the Best Web Page Award from the National Authority for Government Innovation. Second, the campaign "You are the Wonder" was awarded by the University of Panama an Excellence Award for the best institutional communication campaign.

United by Concord

During fiscal year 2013 the Panama Canal was nominated to the Prince of Asturias Award for Concord, for its contribution to world unity and international understanding during almost 100 years of operations.

For this purpose a support campaign was developed and more than 34,000 physical and digital signatures were collected.

It was a great effort that highlighted the support of thousands of persons, including well known Panamanian and international personalities and organizations, that endorsed the Panama Canal through a special website created by the Panama Canal and this information was to be sent to Spain to help with the nomination process.

On the Way to the Centennial

The celebration of the hundred years of operation of the Panama Canal began with the official presentation of the logo in Miraflores Locks during an event that was broadcasted live by the main news media. As part of this

celebration and in alliance with the University of Panama, a display called "The Architectural Legacy of the Panama Canal" was organized and first exhibited in the City of Knowledge. The exhibit will continue its route throughout the country until October 2014, as a cultural contribution of the Canal.

Historical Coordination

Shortly before the year 2014,and as we come upon the remembrance of the 50 years of the events of January 9, 1964, the Panama Canal supported all the groups involved with the documentation and communication regarding the historical effort to restore the Panamanian flag used during this heroic deed. This operation yielded positive results with the recovery of a central part of Panamanian history.

Fair Business According to the Value Chain

The contracting system for the procurement of works, goods and services necessary for the operation, maintenance, preservation, modernization and expansion of the Panama Canal communicates and promotes the Canal´s corporate values, principally transparency, and honesty.

The Tender Online System is the media used by the Panama Canal to publish procurement information, receive offers and inform the general public about awards for purchases and contracts for works, goods and services, 24 hours a day, anywhere in the world. During fiscal year 2013, the Panama Canal:

- Announced approximately 8,773 tenders, received 23,979 offers, and awarded 19,671 contracts.

- Administered B/.554 million in investment projects[1], awarded 80 new contracts for a total investment of B/.109 million, with a cost performance index (CPI, which measures de efficiency of the resources used in projects) of 1.01 and schedule performance index (SPI, which measures the efficiency in the time spent in projects) of 1.02.

- Processed more than 3,597 centralized purchases for B/.991 million and 26,170 decentralized for B/.42 million.

[1]*Only thise investments managed by the Procurement Projects Management Unit (FAAQ), Purchasing, Warehouse and Inventory Division (FAA) are reflected. It does not include investment figures related to (Works/Expansion) managed by the Vice Presidency for Engineering and Program Management (IA).*

The Panama Canal as part of its commitment to transparency and accountability, maintains a simple and easy to use protest system to be used by vendors to present claims against tender specifications, contract award acts, and the disqualification of bidders. During the last two years there have only been protests for 0.15 percent of the awards as proof of the vendors' confidence in the system. Forty two percent of these protests were resolved in favor of those using the resource, showing that it produces an effective review and reconsideration of the facts underlying such protests.

Fair business practices in the chain value arise from the Panama Canal's Organic Law, which states that the contracts will be based on promoting open competition, reasonable flexibility in designs and specifications to promote the participation of contractors, fairness and equity in the decisions in the relationship with contractors.

-In compliance with these guidelines, the ACP Acquisition Regulations establish the obligations of suppliers and contractors, and dictates the rights that the Authority is obliged to respect.

The Panama Canal recognizes that the employees of contractors frequently require protection, so it has established contractual clauses, such as a statutory minimum wage, and the requirement to present the certificate of good standing from the Social Security in order to protect them. All of this along with its commitment takes on as an integral part of its strategy and operations to look after and promote the principles of the United Nations Global Compact among suppliers and contractors. This strategic policy commits the Authority to the protection of workers' rights and ensures fair treatment.

Corporate Volunteering

Globally, volunteers are the greatest inspiring

force. They have become a never-ending source of possibilities, creativity, and they bring about the renewal of values and hope for the future. Since 2008, the Panama Canal family feels great pride in its growing volunteer network, which is made up of employees, dependents and retirees. Our network adds up to more than 2,200 Panamanians, who are agents of change and social cohesion. During these five years, the Panama Canal has supported and promoted a great variety of social and community programs led by its volunteer force.

One of them, which was part of the beginning of the Canal´s corporate volunteering, is the Children to the Canal Camp Program. This social endeavor helps the Panama Canal to share knowledge and values with Panamanian youngsters while contributing to their integral and social development. This program is hosted by more than 350 volunteers and benefits more than 200 visiting scholars from all of Panama's provinces.

Endless volunteer hours have been invested into making improvements to 15 schools in difficult to reach areas. All together, these days dedicated to hard work demonstrated the commitment of the community, parents, teachers and students while working hand in hand to improve schools' infrastructure for our children's educational possibilities. With this in mind, Canal volunteers have devoted 43,000 man hours during the last five years.

The Canal's commitment to environmental protection has inspired more than 90 volunteers year-to-year to play the teacher role for elementary school children and share the message of the importance of conserving the Panama Canal Watershed and our inexorable responsibility to protect our country's environmental wealth.

The Panama Canal also has a group of volunteer tutors, who by teaching their peers and set the example of solidarity. They provide weekly tutoring all those enrolled in the Teacher at Home and Tecnoeducame programs which were instituted as an opportunity for Canal employees to get a high school diploma. Panama Canal tutors have been a key factor for the graduation of more than 281 Canal workers, of the more than 500 employees enrolled in both programs.

Christmas activities are also part of the programs supported by Canal employees, who in a spirit of solidarity become the bearers of illusion by sharing the Canal's sense of belonging, while reaching out to the communities. Over the last years we have managed to reach more than 2,500 children in approximately 30 communities.

The ACP volunteer network participates in multiple efforts and supporting non-governmental agencies that work to protect the environment, to enhance children's health or by supporting activities that benefit society.

Panama Canal volunteers are an example of tenacity, strength and perseverance. In five years they have invested more than 100,000 hours in social action, which undoubtedly have made a difference in our country.

Financial Sustainability

The Panama Canal Authority (ACP) once again met its revenue goals and makes direct contributions to the National Treasury. This reaffirms Panama´s ability to manage the Canal with high levels of productivity, safety and reliability in its operations; as well as the prudence in the management of risks and expenses, and full utilization of its installed capacity, while maintaining a competitive route at the service of world maritime trade.

During fiscal year 2013, the global markets showed little improvement and affected the Panama Canal's performance. The economy of the United States continued to grow slowly, limited mainly by the uncertainties that have arisen from delays in political agreements between the Senate and the House of Representatives regarding tax cuts, debt ceiling, and the national budget. On the other hand, the Eurozone remained in recession, mainly impacted by the sovereign debt crisis and the austerity measures proposed by the European Central Bank and the International Monetary Fund. This drop in demand in developed economies impacted exporting countries, including China and Latin American countries, resulting in a decrease in the global GDP during fiscal year 2013.

The Panama Canal continues its commitment as a driver of growth and development of the country, producing the maximum sustainable benefit from our geographical position. In this regard, the National Assembly approved the budget for the 2013 fiscal period, from October 1, 2012 to September 30, 2013, with estimated 330.1 million PC/UMS tons (Panama Canal Universal Measurement System), total revenues of B/.2,413.2 million, and B/.960.2 million in direct contributions to the National Treasury. Total direct contributions for fiscal year 2013 were B/.981.8 million, exceeding by 2.2 percent the budgeted amount.

Our 10,098 employee workforce is committed to the development and improvement of ACP´s customer service, the environment and social surroundings. Personal services represent 73 percent of the operating expenses of the 2013 fiscal period, contributing directly to the economy. Additionally, the Expansion Program has generated 32,771 jobs, out of which 91 percent (29,889) are filled by Panamanians, benefiting directly Panama's economy.

The Miraflores and Gatun Visitors Centers received 750,614 and 124,285 visitors, respectively; representing an income of B/.3.9 and B/.0.6 million, while giving them the opportunity to learn about one of the wonders of the world.

In January 2013 we held the First International Maintenance Congress, with the theme "Building a Maintenance Culture: Investing to Ensure Profitability and Sustainability", focusing on the best maintenance cycle practices designed from a strategic point of view, not as an expense but as an investment to ensure service quality and reliability, in order to generate economic benefits for businesses.

During thirteen years (2000-2013), under Panamanian administration, the Panama Canal has contributed directly and indirectly to the State with more than B/.7,000 million. It has been one of the drivers of Panamanian economy as it represents close to 6 percent of the current gross domestic product (GDP).

Canal Contribution

(Fiscal Year, as a Percentage of Current GDP)

*Estimated Value

Direct Contributions

During 2013, total direct contributions to the National Treasury were B/.981.8 million, which represents a B/.21.5 million increase with relation to what was approved and exceeds by B/.413.8 million the minimum established by Law 28 of July 17, 2006.

From the beginning of the Canal Expansion Program in 2007 to date, the total contributions to the National Treasury add up to B/.6,275.4 billion which is the equivalent to B/.1,527.6 or 32.2 percent more than what has been projected in the Panama Canal Master Plan for this period.

Total Direct Contributions to the National Treasury
Actual vs Budget

Total Direct Contributions to
Actual vs Master Plan - FY 2007 to FY 2013

The Canal generated surplus for B/.610.5 million for fiscal year 2013, which represents an increase of 4.9 percent with relation to what was approved in the budget for fiscal year 2013, which was B/.581.6 million.This surplus exceeds by 127 percent the minimum established by Law 28 of July 17, 2006.

Accumulated Direct Contribution
PCC vs ACP

Surplus
Actual vs Budget

Due to a decrease in the demand, the total fee per PC/UMS tons and the rate for public services was B/.371.2 million, B/.7.8 million less than the approved budget.

Fee per Net Ton and Public Services
Actual vs Budget

Indirect Contributions and Other Contributions to the National Economy

In addition to the direct contributions, the Canal contributed indirectly to the State by means of income tax, social security, and educational insurance for B/.172.0 million. Other contributions to the national economy include the payment of net wages in the order of B/.1.755.1million and the procurement of goods and services from local suppliers.

Indirect Contributions to the National Treasury	
Income Tax	B/. 62.3
Social Security	99.1
Educational Insurance	10.6
Total	**B/.172.0**

Other Contributions to the Economy	
Net Salaries Paid to Panamanian Employees	B/. 389.8
Purchase of Goods and Services to Local Vendors	1,365.3
Total	**B/.1,755.1**

Operating Profit

EBITDA*

*Considering fees per net ton and public services as expenses.

The profit before taxes, depreciation and amortization (EBITDA) for fiscal year 2013 was

B/.1,306 million, a B/.52.4 million increase or 4.2 percent more than the budget approved for this fiscal year.

Net Income

The net profit of B/.1,213 million decreased 3.7 percent of that of fiscal year 2012 (B/. 45 million). Based on this, the Board of Directors establishes the necessary reserves to fund the capital and equity reserves investment programs.

Regarding the capital investment programs, we can point out that at the end of fiscal year 2013; the Expansion Program reached a 66.6 percent progress.

In addition to the Expansion Program, the Canal keeps making capital investments in different areas of its operation, such as the maintenance of the navigational channel, and the modernization of its equipment and machinery, and information technology systems, in order to increase reliability and respond to the market's demands. In this regard, the ACP executed investment projects approved for fiscal year 2013 for B/. 690.5 million,which are part of a portfolio of multi-year projects in the order of B/. 2,358.6 million.

Financial Indicators

The Panama Canal´s financial performance indicators remain at robust levels. In fiscal year 2013, 50 cents of net profit were generated for each balboa of income. This profit margin confirms the Canal´s wealth generating capacity, even while under weak upturn of world trade and the substantial capital investment being made.

A 26 percent turnover of assets demonstrates a 3 percentage points reduction in comparison

Dupont Analysis

with fiscal year 2012, mainly for the 26 percent increase of the fixed assets resulting from the construction works related to the Expansion Program.

The return on total assets had a 2 percentage point reduction in 2013, in line with a decrement in the asset turnover. This result was expected during the execution period of the Expansion Program and it should pay off once the project is completed and the third set of locks is working.

The equity multiplier or assets leverage demonstrates the Canal's capacity of financing investments mainly with its own resources. For fiscal year 2013, you can observe a 1.6 percentage point increase when compared with the previous year, as a result of the long term B/.450 million disbursement for the financing of the Expansion Program. A return on equity of 16 percent demonstrates the efficient administration of ACP's capital investment, validating its capacity of generating income and value in a sustainable manner.

Revenues

The Canal ended fiscal year 2013 with total revenues of B/.2.411.3 million, very close to the revenues of 2012 (B/. 2410.9 million). Despite a decrease in tons transited during the year (320.6 million PC/UMS) versus those registered during fiscal year 2012 (333.7 million PC/UMS), revenues held primarily by increased tolls and profit from the sale of surplus electricity to meet domestic demand.

Net tons decreased 3.9 percent compared to fiscal year 2012, primarily in the bulk carrier segments (12.8 percent), car carriers (12.4 percent), and less than 2 percent in the container ship segments, passenger and general cargo. This decrease was partially offset by an increase in the segments of tankers, refrigerated cargo vessels and others.

Tons Distribution

PC/UMS by Vessel Segment

SEGMENT	PC/UMS	Var. vs FY2012
Container	117.6	-1.9%
Dry bulk	72.7	-12.8%
Liquid bulk	53.0	2.6%
Vehicle Carriers	37.6	-12.4%
Refrigerated Cargo	10.3	0.8%
Passengers	8.9	-1.5%
General Cargo	9.2	-0.1%
Others	11.3	53.3%

This revenue growing performance has been driven mainly by toll revenues, which added up to B/.1,849.7 million, some B/.13 million or 1 percent more than fiscal year 2012, and a 0.1 percent decrease percent compared to fiscal year 2012.

Revenue from transit related services denotes 16.0 percent of the total revenue, representing B/.374.3 million for fiscal year 2013, a 5.4 decrease with respect to what was invoiced during fiscal year 2012. This was mainly the result of a

Other Revenue

Energy, Water, Interests, Misellaneous

reduction in the number of transit reservations due to a reduction in transits and to customers streamlining to improve the efficiency of their operations during this period of global financial recovery.

During fiscal year 2013, the Canal generated other revenue that is not related to the transiting of vessels for a total amount of B/.187.3 million, which represents a 3 percent increase with respect to this fiscal year's budget.

The income for the sale of surplus electric power reached B/.127.6 million, 31.5 percent more than fiscal year 2012, resulting from the energy crisis during the months of April and May. On the other hand, the sale of potable water contributed B/.28.6 million, an increase of 8 percent with

respect to fiscal year 2012, supported by an increase in the consumption of the cities of Panama and Colon, as well as western sector of the province of Panama. The installation of new distribution lines to the new tanks by IDAAN in La Chorrera, and the expansion of Mendoza plant also contributed to the increased distribution network capacity.

ACP's management of liquidity generated B/.16.7 million as interest earned on time deposits and investments in securities, which represented an increment of B/.6.1 million or 26.8 percent less with respect to fiscal year 2012, as a result of an increase in profitability due to investments made with better return on investment rates. This is mainly due to the combined effect of the decrease in the average volume B/.526 million of liquidity, and the average yield rate. It is noteworthy that the international financial market experiences a downward trend in interest rates, which continued during the year, mainly driven by the monetary policy stimulus of the U.S. Federal Reserve to support the modest economic growth.

Finally, miscellaneous income resulting from the visitors centers, from the occasional or recurring commercialization of the installed capacity, technological infrastructure, from the sale of excess property, the concession over land or space, among others, generated B/.14.4 million, which at the end of fiscal year 2013 reflect a 13.7 percent decrease with relation to the previous year.

Income vs Expenses

Expenses

The total operating expenses for fiscal year 2013 equal to B/.733.8 million, or 30.4 percent of the total income.

Distribution Expenses
Fiscal Year 2013

The increase in total expenses, in comparison to fiscal year 2012, is related to an increase in fuel consumption of the Miraflores thermoelectric plant, which was necessary for the country's power requirements, together with unbudgeted work for the removal of material due to a landslide in the area of East La Pita, caused by heavy rain in the month of November.

Assets

Assets Distribution
Current Assets and Non-Current Assets

As of September 31, 2013, the Canal closed its fiscal year with total assets of B/.9,429 million, distributed in: B/. 2,296 million in current assets or 24.4 percent of the total assets; and B/. 7,133 million in non-current assets or 75.6 percent of the total assets, out of which B/.6,323 million correspond to property, plant and equipment.

Fixed Assets Composition
Property, Plant and Equipment

The Canal is transformed as the capital investment projects advance. At the closing of fiscal year 2013, B/.3,370.0 million or 56 percent of the fixed assets correspond to construction in process (CIP) associated with the Expansion Program.

The Canal´s equipment constitutes 15 percent of the fixed assets, out of which 52 percent are floating equipment (dredges, drillboats, tugs, cranes and boats), 13 percent are locomotives and the rest correspond to mobile equipment, information technology equipment, and others. The navigational channel and the landings equal to 56 percent of all the structures and the rest consists of the locks, dams, spillways, and others.

Investment Program

The Panama Canal´s success is based on the ongoing maintenance to its operational infrastructure. Ninety-nine years after its opening, it is possible to serve international maritime trade in a reliable and secure manner. As a complement to its excellent maintenance program and to ensure a competitive and updated presence, the Panama Canal launched in 1996 a millionaire investment program to modernize its infrastructure, increase capacity and traffic safety, and reduce Canal Waters Time.

Since fiscal year 2000, the Panama Canal has mainly invested B/.2,232.9 million in modernization and rehabilitation projects, the maintenance and improvement of buildings and facilities that are part of the Canal's heritage together with management information systems and related equipment, to support the operations of the Canal, ensuring the integrity and availability of online information in real time.

The Panama Canal investment program has been executed in accordance with the strategic objectives to increase profitability in a sustainable manner for the benefit of the country and to expand its range of services and products to take advantage of market opportunities.

Canal Investments are aimed at:

Increasing Canal capacity and services performance to enhance reliability and respond to market's demands by means of an infrastructure and equipment modernization and rehabilitation program.

• Acquisition of Towing Locomotives

In order to enhance Canal services for the benefit of transiting vessels, in fiscal year 1996 the Panama Canal took on the upgrading of its locomotive fleet with the acquisition of 18 new locomotives and the replacement of the existing 82, for a fleet of 100 units. The project ended in fiscal year 2007 with an investment of B/.210.4 million.

• Locks Machinery and Controls

In fiscal year 1999 began the projects to replace the locks electromechanical machinery used for operating the gates for an electrohydraulic system and the control house manual controls for electronic instruments in order have an automated operation. The replacement of the 92 miter gates machinery for the three sets of locks ended in fiscal year 2007. The implementation of the new automated system ended in fiscal year 2005. The total investment in these projects was of B/.49.4 million.

• Track Rehabilitation

During fiscal year 1997 began the tow track replacement project to upgrade the system with a new design built to withstand the new locomotives which were designed to assist the growing number of Panamax vessels transiting the Canal. The track network consists of approximately 53,100 feet ; 20,000 return track and 17,000 spur track for crane movements. The works for this project ended during the first trimester of fiscal year 2009, at a cost of de B/.146.2 million.

• Telecommunications Network

Rehabilitation works on the Transisthmian ducts

(FY2000 – FY2003), together with the acquisition of and installation of fiber optic cable (FY2001 – FY2006), strengthened the Canal´s underground telecommunications structure. These projects, with a cost of B/.6.4 million, have allowed the Canal to have transmission speeds and sufficient band width to integrate video, voice and data services to its network, from the Pacific to the Atlantic.

• Enhanced Vessel Traffic Management System (EVTMS)

In fiscal year 1997 began the development of a state-of-the-art computerized system to update vessel tracking in order to have efficient and safe management of Canal resources. This project ended in fiscal year 2002 at a cost of B/.25.2 million.

• New Cartagena Tie-Up Station

During fiscal year 2006 began the execution of the incorporation of a tie-up station at the northern exit of the Pedro Miguel Locks, in order to reduce idle time and the restrictions given in the locks. Additional benefits were projected by way of possible reservation increments, to ensure transit times for a larger number of vessels and lessen the impact on the capacity of the Canal due to adverse weather conditions (fog). The project was completed in fiscal year 2009 at a cost of B/.20.5 million.

• Culebra Cut Straightening

The project to straighten the Culebra Cut began in 2003 to meet the minimum navigation bridge visibility requirements following Regulation 22 of the International Convention for the Safety of Life at Sea, which states that vessels over 45 meters in length must have a field of vision to sea water surface forward of the bow of more than 500 meters. Work will be completed in March 2014 at an estimated cost of B/.237.7 million.

• Gatun Lake and Gaillard Cut Deepening

The project to deepen the Panama Canal navigational Channel 0.9 meters to increase Gatun Lake water capacity with 362.9 million cubic meters of water maintaining reliability at 99.6 percent began in fiscal year 2006. The project included dredging 12.4 million cubic meters of material form the channel bottom, which benefits the country as it increases the water saving capacity for human consumption as well as for commercial and industrial use. The Canal benefits from securing water for its operation while reducing draft restrictions that affect transit during periods when water is scarce. This project ended in 2008 at a cost of B/.110.4 million.

• **Cutter Suction Dredge Acquisition**

In order to perform the dredging works in conjunction with the existing dredges in the Expansion Program, in fiscal period 2007 began the project to purchase a new cutter suction dredge. The new dredger costing B/.99.6 million was named Quibian I and began operations in fiscal year 2011. The new dredge will replace the dredge Mindi.

• **Acquisition of a Backhoe Dredge**

During fiscal year 2011 began the project to purchase a backhoe dredge with more capacity than the existent mechanical dipper dredge in order to reach the necessary navigation channel levels for the Canal Expansion. The new dredge named Alberto Alemán Zubieta had a cost of B/.45.5 million, and began operations during fiscal year 2013. This backhoe dredger will replace the R.M. Christensen dredge.

• **Drilling and Blasting Barge Acquisition and Assembly**

The acquisition of a new drilling and blasting barge arises due to the need to perform drilling and blasting work forthe Gatun Lake and Gaillard Cut Deepening Project, which was approved in fiscal year 2002, and to eventually replace the drillboat Thor. This project began during fiscal year 2003 and included the assembly of the four tower drillboat in the Mount Hope drydock. The new drilling and blasting barge Baru, costing B/.19.4 million, began operations in fiscal year 2006.

Among the projects to preserve the environment, water quality and its use for human consumption, among which we include:

• **Development of the Western Sector Potable Water System**

In order to expand the range of services and products, adding value and contributing to the country's social and economic development; in fiscal year 2007 began the construction of a water filtration plant with capacity to provide 40 million gallons per day, in the community of Mendoza. The project included the construction of a new raw water intake and pump station, as well as the adduction pipes (conduction) for raw water. This project serves the demand for drinking water in the western sector of the province of Panama and will result in benefits for the country's development as the IDAAN

with be able to provide the rapidly growing western sector with high quality drinking water. The new water treatment plant began operations in October 2009 at a cost of B/.26.5 million.

Managing information systems and related equipment to ensure the integrity and availability of real-time online information to support Canal operations.

• Project Management System

In fiscal year 2006, the ACP started implementing an integrated project management system in order to administer in a centralized manner a portfolio of investment and operations projects executed by the Panama Canal. This system makes it possible to plan, analyze, schedule, monitor and validate in a timely manner the activities in each project. It also allows the electronic collaboration among all participants in the execution and the centralization of the documentation generated by all of them, helping to maintain them according to the original execution plan and budget. The system's implementation was completed in fiscal year 2011 with a cost of B/.6 million

•Approach Wall Fender Systems Improvement

This project consisted in replacing the fender system with arch type fenders at the lower level of the approach walls in the three sets of locks. A total of 2,438 fenders, 936 in Miraflores, 800 in Gatun and 702 in Pedro Miguel were replaced. This program began in fiscal year 2009 and ended during fiscal year 2012, with a cost of B/.7.2 million.

• Fire Truck Replacement

In fiscal year 2009 began a fire truck replacement program to optimize the fire truck fleet in order to respond to fires in Panama Canal operational areas, reduce maintenance costs and optimize the use of resources. The program ended in fiscal year 2013, with the replacement of seven trucks at an estimated cost of B/.4.6M.

• Acquisition and Replacement of Split Hopper Barges

The acquisition and replacement of the split hopper barges consisted in the acquisition of five split hopper barges, built with welded steel and with a capacity of 1,000 cubic meters. These barges support the dredging operation and help increase the production of the R.M Christensen and Alberto Aleman Zubieta dredges. The project began in fiscal year 2007 and will end at the end of fiscal period 2013 at a cost of B/.26.2 million.

Financial Statements

Autoridad del Canal de Panamá

Year ended September 30, 2013
with Independent Auditors' Report

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Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF AUTORIDAD DEL CANAL DE PANAMA

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

We have audited the accompanying financial statements of the Autoridad del Canal de Panama, which comprise the statement of financial position as of September 30, 2013, and the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Autoridaddel Canal de Panama as of September 30, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

November 25, 2013
Panama, Republic of Panama

Autoridad del Canal de Panama
Statement of Financial Position
September 30, 2013

(In thousands of balboas B/.)

Notes		**2013**	2012
	Assets:		
	Non-current assets:		
	Property, plant and equipment:		
11	Properties, plant, and equipment, net	**B/. 2,648,483**	B/. 2,326,406
5	Construction in progress	**3,674,314**	2,695,222
5	Total properties, plant, and equipment	**6,322,797**	5,021,628
6	Accounts receivable	**810,567**	598,628
	Total non-current assets	**7,133,364**	5,620,256
	Current assets:		
7	Inventories, net	**80,222**	73,001
6, 24	Trade and other receivables	**34,657**	42,991
8	Other financial assets	**640,912**	423,443
9	Accrued interest receivable and other assets	**15,401**	15,526
10	Cash and bank deposits	**1,525,040**	2,259,770
	Total current assets	**2,296,232**	2,814,731
	Total assets	**B/. 9,429,596**	B/. 8,434,987
	Equity and liabilities:		
	Equity:		
11	Contributed capital	**B/. 1,905,223**	B/. 1,904,473
12	Contributions for investment programs	**4,309,164**	3,769,045
12	Reserves	**684,250**	621,503
23	Other equity accounts – cash flows hedge	**(131,845)**	(227,770)
14	Unappropriated retained earnings	**610,537**	648,991
	Total equity	**7,377,329**	6,716,242
	Non-current liabilities:		
15	Borrowings	**1,450,000**	1,000,000
17, 24	Trade and other payables	**62,319**	32,456
16, 23	Other financial liabilities	**131,845**	227,770
	Total non-current liabilities	**1,644,164**	1,260,226
	Current liabilities:		
17, 24	Trade and other payables	**247,952**	303,069
18	Provision for marine accident claims	**16,689**	20,235
	Accrued salaries and vacation payable	**121,468**	113,954
16	Other financial liabilities	**13,007**	12,076
19	Other liabilities	**8,987**	9,185
	Total current liabilities	**408,103**	458,519
	Total equity and liabilities	**B/. 9,429,596**	B/. 8,434,987

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

Autoridad del Canal de Panama
Income Statement
For the year ended September 30, 2013

(In thousands of balboas B/.)

Notes		**2013**	2012
	Revenues:		
	Toll revenues	**B/. 1,849,679**	B/. 1,852,379
	Other Canal transit services	**374,266**	395,498
		2,223,945	2,247,877
	Other revenues:		
	Electric power sales	**127,646**	97,092
24	Potable water sales	**28,597**	26,486
	Interest earned	**16,693**	22,787
	Miscellaneous	**14,404**	16,639
	Total other revenues	**187,340**	163,004
	Total revenues	**2,411,285**	2,410,881
	Expenses:		
	Salaries and wages	**474,099**	453,643
24	Employee benefits	**61,730**	60,204
	Materials and supplies	**59,573**	51,590
	Fuel	**115,093**	101,289
	Transportation and allowances	**2,317**	2,600
	Contracted services and fees	**69,502**	60,768
	Insurance	**10,505**	10,176
18	Provision for marine accidents	**391**	3,626
7	Provision for obsolete inventory	**144**	144
5	Depreciation	**92,817**	86,525
	Other expenses	**12,736**	13,165
		898,907	843,730
20	Labor, materials, and other capitalized costs	**(72,256)**	(74,652)
	Total expenses	**826,651**	769,078
	Income before fees	**1,584,634**	1,641,803
14, 17, 24	Fees per net ton	**(369,003)**	(381,130)
14, 24	Panamanian Treasury (Tesoro Nacional) - public service fees	**(2,228)**	(2,218)
	Net income of the year	**B/. 1,213,403**	B/. 1,258,455

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

Autoridad del Canal de Panama
Statement of Comprehensive Income
For the year ended September 30, 2013

(In thousands of balboas B/.)

Note		**2013**	2012
	Net income of the year	**B/. 1,213,403**	B/. 1,258,455
	Other comprehensive income:		
13	Net change on cash flows hedges	**95,925**	(30,528)
	Total comprehensive income of the year	**B/. 1,309,328**	B/. 1,227,927

This statement of comprehensive income is included in compliance with the revised IAS 1, which requires presenting what would have been the net income of the year in the hypothetical event that the ACP liquidated those hedge instruments at the end of the fiscal year and at the market rate of the moment.

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

Autoridad del Canal de Panama
Statement of Changes in Equity
For the year ended September 30, 2013

(In thousands of balboas B/.)

Notes		Contributed capital	Contribution for investment programs	Reserves	Other equity accounts - cash flows hedge	Unappropriated retained earnings	Total equity
	Balance as of September 30, 2011	**B/. 1,904,473**	**B/. 3,167,137**	**B/. 613,947**	**B/. (197,242)**	**B/. 674,292**	**B/. 6,162,607**
	Net income of the year	-	-	-	-	1,258,455	1,258,455
13	Other comprehensive income:						
	Cash flows hedge	-	-	-	(30,528)	-	(30,528)
	Comprehensive income of the year	-	-	-	(30,528)	1,258,455	1,227,927
14	Transfer to Panamanian Treasury	-	-	-	-	(674,292)	(674,292)
12	Contributions to the investment program	-	601,908	-	-	(601,908)	-
12	Net decrease in equity reserves	-	-	7,556	-	(7,556)	-
	Balance as of September 30, 2012	**1,904,473**	**3,769,045**	**621,503**	**(227,770)**	**648,991**	**6,716,242**
	Net income of the year					1,213,403	1,213,403
13	Other comprehensive income:						
	Cash flows hedge	-	-	-	95,925	-	95,925
	Comprehensive income of the year	-	-	-	95,925	1,213,403	1,309,328
14	Transfer to Panamanian Treasury	-	-	-	-	(648,991)	(648,991)
12	Contributions to the investment program	-	540,119	-	-	(540,119)	-
12	Net increase in equity reserves	-	-	62,747	-	(62,747)	-
	Properties transferred to ACP	750	-	-	-	-	750
	Balance as of September 30, 2013	**B/. 1,905,223**	**B/. 4,309,164**	**B/. 684,250**	**B/. (131,845)**	**B/. 610,537**	**B/. 7,377,329**

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

Autoridad del Canal de Panama
Statement of Cash Flows
For the year ended September 30, 2013

(In thousands of balboas B/.)

Notes			**2013**		2012
	Cash flows from operating activities:				
	Net income of the year	**B/.**	**1,213,403**	B/.	1,258,455
5	Depreciation		**89,719**		83,584
5	Loss on disposal of fixed asset		**481**		519
7	Provision for obsolete inventory		**144**		144
18	Provision for marine accidents		**391**		3,626
	Changes in working capital:				
	Decrease in trade and other receivables		**8,334**		3,805
	Increase in inventories		**(7,365)**		(4,522)
	Decrease in accrued interest receivable and other assets		**125**		9,847
	(Decrease) increase in trade and other payables		**(25,254)**		73,764
18	Payments of marine accident claims		**(3,937)**		(1,883)
	Increase in accrued salaries and vacation payable		**7,514**		11,741
	Increase (decrease) in other current financial liabilities		**931**		(865)
	(Decrease) increase in other liabilities		**(198)**		5,814
	Net cash provided by operating activities		**1,284,288**		1,444,029
	Cash flows from investing activities:				
	Net increase of property, plant and equipment		**(1,390,619)**		(1,220,840)
	(Increase) decrease in other financial assets		**(217,469)**		309,280
6	(Increase) decrease in non-current assets, receivables		**(211,938)**		15,646
	Decrease in time deposits, over 90 days		**585,310**		352,685
	Net cash used in investing activities		**(1,234,716)**		(543,229)
	Cash flows from financing activities:				
15	Increase in long-term borrowings		**450,000**		100,000
14	Transfer to Panamanian Treasury		**(648,991)**		(674,292)
	Net cash used in financing activities		**(198,991)**		(574,292)
	Net (decrease) increase in cash and cash equivalents		**(149,419)**		326,508
	Cash and cash equivalents at beginning of the year		**602,957**		276,449
10	Cash and cash equivalents at end of the year	**B/.**	**453,538**	B/.	602,957
	Investing activities that did not represent cash outflows:				
5, 20	Fixed assets - capitalized depreciation	**B/.**	**(3,098)**	B/.	(2,941)
	Properties transferred to ACP		**(750)**		-
		B/.	**(3,848)**	B/.	(2,941)
	Interests:				
	Received	**B/.**	**29,798**	B/.	48,809
	Paid	**B/.**	**53,865**	B/.	52,444

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

Explanation Added for Translation into English

The accompanying financial statements have been translated from Spanish into English for international use. These financial statements are presented in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Certain accounting practices applied by Autoridaddel Canal de Panama which are in conformity with International Financial Reporting Standards may differ from accounting principles generally accepted in some countries where the financial statements may be used.

1. General information

The Autoridad del Canal de Panama(ACP) is an autonomous agency established in conformity with Article 316 of the Political Constitution of the Republic of Panama. The ACP is responsible for the administration, operation, conservation, maintenance, modernization, and other related activities of the Panama Canal (the Canal), that are necessary to ensure the safe, uninterrupted, efficient and profitable operation of the Canal in accordance with the constitutional and legal regulations in effect. The ACP has its own patrimony and the right to manage it. The ACPwas organized under Law No.19 of June 11,1997 (Organic Law).

The ACP, in coordination with government entities designated by law, is also responsible for the management, maintenance, use and conservation of the water resources of the Canal watershed, including lakes and their tributary streams. As part of this responsibility, the ACP optimizes these resources through the sale of water, energy and tourism relatedactivities in the Canal.

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

The main ACP offices are located at the Administration Building No. 101, Balboa,Corregimiento de Ancon,Republic of Panama.

2. Statement of compliance

The financial statements of Autoridaddel Canal de Panama, including the comparative figures, have been prepared in accordance with the International Financial Reporting Standards (IFRS), disseminated by the International Accounting Standards Board (IASB).

3. Basis of presentation of the financial statements

The financial statements have been prepared on a historical cost basis, except for hedging instruments which have been measured at fair value.

Functional currency

The ACP maintains its accounting records in balboas (B/.), which is its monetary unit, and the financial statements are stated in this currency. The balboa, monetary unit of the Republic of Panama, is at par and of free exchange with the U.S. dollar. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender.

Foreign currency

In preparing the financial statements, transactions in currencies other than the entity's functional currency (balboas B/.) are recorded using the exchange rates prevailing at the dates of transactions are conducted. At the end of each reporting period, monetary items denominated in foreign currencies are converted at the exchange rates prevailing at that time.

Exchange rate differences are recognized in the profit or loss of the period, except for differences as a result of transactions related to hedge of the exchange rate risk.

4. Significant accounting policies

Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the ACP and the revenue can be reliably measured, regardless of when the payment is being received. The specific recognition criteria described below must also be met before revenue is recognized:

Toll revenue

Toll revenue is recognized once vessels complete their transits through the Canal.

4. Significant accounting policies (continued)

Electric power sales revenue

Electricity sales revenue is recognized based on contractual and physical delivery of energy and installed capacity valued at contractual rates or at prevailing spot market rates. Revenue includes unbilled amounts for electricity sales and installed capacity supplied but not liquidated at the end of each period which are recorded at contractual rates or at estimated prices in the spot market at the end of each period.

Potable water sales revenue

Potable water sales revenue is recognized when treated water is delivered based on prices contracted with the Instituto de Acueductos y AlcantarilladosNacionales (IDAAN).

Services rendered

Revenues from other services are recognized when such services are rendered.

Interests

For all financial instruments measured at amortized cost, interest income is recognized using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount of the financial asset or liability. Interest income is included in a separate line in the income statement.

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of the assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as expenses when incurred. Borrowing costs consist of interest and other costs that ACP incurs in connection with the borrowing of funds.

Properties, plant, and equipment

Properties, plant, and equipment held for use in the production or supply of goods or services, or for administrative purposes, are presented in the statement of financial position at their acquisition cost or production cost, net of accumulated depreciation and impairment, if any.

Replacements and improvements of complete elements that increase the useful life of the asset or its economic capacity are accounted for as an increase in the cost of the properties, plant, and equipment, with the respective retirement of any replaced element. Parts of properties, plant, and equipment, with different useful lives, are accounted separately.

Periodic maintenance, preservation and repair costs are expensed as incurred, based on the accrual method.

Depreciation is calculated, using the straight-line method, over the useful life of the assets, with the understanding that the land on which buildings and other constructions are settled have an indefinite useful life and, therefore, are not subject to depreciation.

The following estimated useful lives were used to calculate depreciation:

Buildings	25 – 75 years
Structures	5 – 100 years
Equipments	3 – 75 years

Construction in progress includes all direct charges for materials, labor, research, equipment, professional fees and indirect costs related to the expansion work. Once these works are concluded, the construction value will become part of the properties, plant, and equipment and its depreciation will begin.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and carrying amount of the asset) is included in the income statement when the asset is derecognized.

Impairment of non-financial assets

The ACP assesses, at each reporting period date, whether there is an indication that an asset may be impaired. If any indication exists, the ACP estimates the asset's recoverable amount, defined as the higher of an asset's fair value less costs to sell and its value in use. When the asset´s carrying amount exceeds its recoverable value, the asset is consider impair and it is adjusted to its recoverable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment losses are recognized in the income statement in the year they are determined.

4. Significant accounting policies (continued)

Cash and cash equivalent

Cash and cash equivalent comprises cash and highly liquid short term investments which their maturity are equal or less than three months since the acquisition date as of the date of the financial position. These financial assets are valuated at fair value with changes in operating results as of the date of the financial position, without deducting transaction costs that could be incurred when they are sold or disposed. For cash flows purposes, ACP presents the cash and cash equivalent net of overdrafts, if any.

Inventories

Inventories of materials, operating supplies, and fuel are valued at the lower of cost or net realizable value. Inventories are valued using the average cost method based on purchase cost to suppliers, not exceeding the realizable value, net of allowance for obsolescence.

Provisions

Provisions are recognized when the ACP has a present obligation, either legal or constructive in nature, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation amount.

The amount recognized as a provision is the best estimate of the disbursement required to settle the present obligation at the end of the reporting period, taking into account the corresponding risks and uncertainties. When a provision is measured using estimated cash flow to settle the present obligation, its carrying amount is the present value of such cash flow.

When the reimbursement of some or all economic benefits required to cancel a provision is expected, an account receivable is recognized as an asset, but only when the reimbursement is virtually certain.

Provision for marine accidents and other claims

The ACP recognizes a provision for marine accidents and contract claims as soon as a known probable economic obligation is derived from any particular incident.

For marine accident claims, the ACP performs a detailed investigation to determine the cause of the accident. Based on the results of the investigation, if applicable, a provision is initially recorded based on the estimated cost of permanent or temporary repairs that the Administration considered to be ACP's responsibility. The amount of the provision is reviewed at each reporting date, and if necessary, adjusted to reflect the best estimate at that time.

For contractor claims that arise during contract execution, as a result of contract interpretation or termination, the contracting officer first determines whether the claim has merit. If so, the contracting officer estimates ACP liability and tries to reach a settlement with the contractor. If unsuccessful, the contracting officer documents the circumstances, recognizes a provision for the estimated amount of the claim and the parties initiate the administrative resolution procedure established in the contract. Certain contracts include arbitration as the jurisdictional instance for dispute resolution.

The ACP will pay for claims that are properly supported and approved by ACP, in its administrative stage or judicial stage, according to Article 69 of the Organic Law or pursuant to a final ruling by the maritime tribunal. In those cases where the ACP may be liable as a result of a claim of a contract, if the contract contains an arbitration clause, the claim will be heard by the Conciliation and Arbitration Center of the Chamber of Commerce, Industries and Agriculture of Panama (Centro de Conciliación y Arbitraje de la Cámara de Comercio, Industrias y Agricultura de Panama). If there is no arbitration clause, the case will be resolved by the Third Chamber of the Supreme Court.

Employee benefits for voluntary retirement

The ACP recognizes its benefit plan for retirement as a liability only when the ACP commits to grant these termination benefits as a result of an offer made to employees in order to encourage voluntary retirement. The employee should resign and retire from the ACP when completing the required age (regular or anticipated) according to the rules of the Panamanian Social Security (Caja de Seguro Social).

Financial assets

Financial assets are classified in the following categories: held-to-maturity investments, accounts receivables and hedging financial instruments recorded at realizable value. Classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

4. Significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are measured at amortized cost using the effective interest rate method, less any impairment.

Held-to-maturity investments

Investments in commercial paper and debt instruments with fixed maturities are classified as held-to-maturity when the ACP has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method less any impairment. The amortized cost is calculated taking into account any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

Derecognition of financial assets

The ACP derecognizes a financial asset only when the contractual rights to receive the cash flows from the asset have expired; or when the ACP has transferred substantially all the risks and rewards of ownership of the financial asset to another entity. If the ACP neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but keeps control of the transferred asset, the ACP recognizes retained interest in the asset as well a liability for the amounts it may have to pay. If the ACP retains substantially all the risks and rewards of ownership of the financial asset transferred, the ACP continues to recognize the financial asset and also recognizes a liability secured by the amount received.

Impairment of financial assets

The ACP assesses whether there is objective evidence that a financial asset is impaired at each reporting date. A financial asset is impaired if there is evidence that as a result of one or more events that occurred after the initial recognition of the asset, there has been a negative impact on the estimated future cash flows of the financial asset.

Recognition

The ACP utilizes the liquidation date for the recognition of financial assets transactions.

Financial liabilities

The ACP, at initial recognition, measures its financial liabilities at fair value in addition to the direct transaction costs. After initial recognition, the financial liabilities are measured at amortized cost using the effective interest rate method. The ACP recognizes the profit or loss in the income statement when a financial liability is derecognized as well as through the amortization process.

The ACP financial liabilities include borrowings, trade and other payables, and other financial liabilities.

Borrowings

Borrowings are initially recognized at fair value at their respective contractual dates, including the costs attributable to the transaction. After its initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

Trade and other payables

Accounts payable do not earn interest and are booked at their face value. The ACP does not make payments or transfers of funds to any legal or natural person, whether public or private, except for services contracted by the ACP, for property it may acquire, or for an obligation it has legally contracted. The ACP is exempt from the payment of any national or municipal levy, tax, duty, fee, rate, charge or contribution, with the exemption of Social Security payments, educational insurance, workmen's compensation, and fees for public services.

Other financial liabilities

The ACP subscribes to a variety of financial instruments to manage its exposure to the interest rate risk, foreign currency risk and commodity price risk.

Financial instruments are initially recognized at fair value at the date the hedge contract is entered into, and are subsequently measured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately, except for the effective portion of a hedging instrument for which the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The ACP designates certain financial instruments as hedges of the exposure to changes in fair value of a recognized asset or liability or a previously unrecognized firm commitment (fair value hedge) or hedges of the exposure to variability in cash flows that is either attributable to a particular risk associated

4. Significant accounting policies (continued)

with a recognized asset or liability, or a highly probable forecast transactions, or the foreign currency risk of firm commitments (cash flow hedge).

A financial instrument with a positive fair value is recognized as a financial asset, while a financial instrument with a negative fair value is recognized as a financial liability. A financial instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other financial instruments are presented as current assets or current liabilities.

Hedge accounting

The ACP designates certain financial instruments as either fair value hedges or cash flow hedges. Hedges of foreign exchange on firm commitments are accounted for as cash flow hedges.

At inception date of the hedge, the ACP documents the hedging relationship and the objective and risk management strategy to undertake the hedging transaction. At inception of the hedge, and ongoing basis, the documentation shall include the identification of the hedge instrument, the transaction or instrument covered, the nature of the risk covered and the manner in which theACP would measure the effectiveness of the hedge instrument to compensate the exposure to changes in the fair value of the item covered or the changes in the cash flows of the covered risk. These hedges are expected to be highly effective in order to mitigate changes in cash flows of the hedged item and are periodically evaluated to determine if they had been highly effective during the financial reporting periods for which they were designated.

Cash flow hedges

The effective portion of changes in the fair value of financial instruments that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, within the same line of the income statement as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or the non-financial liability.

The ACP discontinues hedge accounting, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Derecognition of financial liabilities

The ACP derecognizes financial liability when they are expired, cancelled, or met ACP's obligations.

Changes in accounting policies

IAS 19 Employee Benefits

The amendment to IAS 19 became effective for accounting periods beginning on January 1, 2013. As the ACP's fiscal year 2013 began on October 1, 2012, this amendment will be applicable to ACP starting on fiscal year 2014. During fiscal year 2013, the ACP evaluated the possible financial impact of this amendment and its effect on its accounting records for the programs: Voluntary Retirement Incentive (VRI) and the Labor Retirement Benefit Program (LRB). Changes to IAS 19 require that the employment benefit plans lacking a defined time frame, such as the IRV and the BRL shall be classified as long term defined benefit plans due to the existence of a constructive obligation and in consequence an actuarial liability should be recognized. It is an ACP policy to fund all its liabilities. Consequently, it is estimated that application of IAS 19 might require ACP to provide funds for approximately B/.228 million in fiscal year 2014. The ACP is evaluating the alternatives provided in this standard to reduce the need of resources in the implementation of IAS 19.

New International Financial Reporting Standards (IFRS) and Interpretations not adopted

Standards issued but not yet in effect

Standards and interpretations issued but not yet in effect at the date of issuance of the financial statements are detailed below. ACP expects that these standards and interpretations could have an impact on the reported disclosures, the financial position or the results when applied in a future date. The ACP has the intention to adopt these standards when they are entered into effect:

4. Significant accounting policies (continued)

IFRIC 21 Levies

IFRIC 21, issued in May 2013, is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and establishes the criteria for the recognition of a liability, one of which is that, the entity has a present obligation as a result of a past event. This interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 Financial Instruments

This standard introduces new requirements for the classification and measurement of financial assets and its early application is permitted. It requires that all financial assets be classified in its entirety by the entity's business model for the administration of financial assets and its characteristics of the contractual cash flows of the financial assets. Under this standard, financial assets are measured either at amortized cost or at fair value. Only financial assets measured at amortized cost should be assessed for impairment. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Improvements to IFRSs

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements

Amendments to IFRS 10 and 12 and IAS 27 result from proposals of the Standard Project of Investment Entities published in August 2011. These modifications define investment entities and an exception is introduced in order to consolidate certain subsidiaries pertaining to investment entities. The amendments require that an investment entity registers the subsidiaries at fair value with changes in profit or loss according to IFRS 9 Financial Instruments in its consolidated and separate financial statements. These amendments also introduce new information requirements to disclose related to investment entities in IFRS 12 and IAS 27. It is required that entities apply these amendments for annual periods beginning on or after January 1, 2014.

IAS 32 Financial Instruments, Presentation

The amendments to IAS 32, issued in December 2011, are aimed to clarify the differences in the application of balance set-off in order to reduce the level of diversity in current practice. These modifications are applicable to annual periods beginning on or after January 1, 2014.

IAS 36 Impairment of Assets

The amendments to IAS 36, issued in May 2013, refer to the disclosure of information about the recoverable amount of the impaired assets, if the amount is based on the fair value less cost of disposal. These modifications are related to IFRS 13 Fair Value Measurement. Amendments should be applied retrospectively for annual periods beginning on or after January 1, 2014. Early application of this amendment is permitted when the entity had already applied IFRS 13.

IAS 39 Financial Instruments, Recognition and Measurement

The amendments to IAS 39, issued in June 2013, provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which over the counter derivatives are designated in hedging relationships and are directly or indirectly novated to an entity of central counterparty, as a consequence of laws or procedures, or the introduction of laws or procedures. It is required that entities apply these modifications to annual periods beginning on or after January 1, 2014.

Critical accounting judgments and key sources of estimation uncertainty

These financial statements are prepared in conformity with IFRS which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include the determination of the useful life of fixed assets (note 5), fair value of financial instruments (note 23), and the estimates for the provision for marine accident claims and contingencies (notes 18 and 26, respectively).

5. Properties, plant and equipment

Property, plant and equipment are detailed as follows:

Cost	Buildings	Structures	Equipment	Land	Construction in progress	Total
Balance as of october 1, 2011	B/. 93,809	B/. 771,007	B/. 1,143,914	B/. 1,022,228	B/. 1,569,299	B/. 4,600,257
Additions	950	533	96,376	-	1,125,923	1,223,782
Adjustments:						
Loss recognition on asset disposals	-	-	(46)	-	-	(46)
Retirements	(695)	(9)	(3,344)	-	-	(4,048)
Balance as of september 30, 2012	94,064	771,531	1,236,900	1,022,228	2,695,222	5,819,945
Additions	20,051	91,892	212,924	89,757	979,092	1,393,716
Adjustments:						
Loss recognition on asset disposals	-	-	(261)	-	-	(261)
Retirements	(39)	(7)	(9,608)	-	-	(9,654)
Property transfers:						
Received from the Republic of Panama	82	-	668	-	-	750
Balance as of september 30, 2013	B/. 114,158	B/. 863,416	B/. 1,440,623	B/. 1,111,985	B/. 3,674,314	B/. 7,204,496

Accumulated Depreciation	Buildings	Structures	Equipment	Land	Construction in progress	Total
Balance as of october 1, 2011	B/. (33,632)	B/. (232,069)	B/. (449,665)	-	-	B/. (715,366)
Depreciation expense	(2,023)	(27,202)	(57,300)	-	-	(86,525)
Reclassifications				-	-	-
Retirements	271	9,000	3,294	-	-	3,574
Balance as of september 30, 2012	(35,384)	(259,262)	(503,671)	-	-	(798,317)
Depreciation expense	(2,686)	(26,302)	(63,829)	-	-	(92,817)
Retirements	39	7	9,389	-	-	9,435
Balance as of september 30, 2013	B/. (38,031)	B/. (285,557)	B/. (558,111)	B/. -	B/. -	B/. (881,699)
Net Book Value						
Balance as of september 30, 2013	B/. 76,127	B/. 577,859	B/. 882,512	B/. 1,111,985	B/. 3,674,314	B/. 6,322,797
Balance as of september 30, 2012	B/. 58,680	B/. 512,269	B/. 733,229	B/. 1,022,228	B/. 2,695,222	B/. 5,021,628

5. Properties, plant and equipment (continued)

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Others	Construction in progress total
Balance as of october 1, 2011	B/. 1,438,455	B/. 130,844	B/. 1,569,299
Net change	846,800	226,163	1,072,963
Interests, commissions and other financing expenses	52,960	-	52,960
Balance as of september 30, 2012	2,338,215	357,007	2,695,222
Net change	975,951	(52,239)	923,712
Interests, commissions and other financing expenses	55,380	-	55,380
Balance as of september 30, 2013	B/. 3,369,546	B/. 304,768	B/. 3,674,314

During fiscal year 2013, the ACP recorded losses of B/.481 (2012: B/.519) as a result of the derecognition of assets. Main assets derecognized included infrared camera, boat, tractors, spectrometer, centralized security system and tugboats. During fiscal year 2012, main assets derecognized included tape backup system, vehicles, copying machine, switch W2 and buildings.

Depreciation of B/.3,098 (2012: B/.2,941) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

6. Accounts Receivable

Non-current

Non-current accounts receivable are detailed as follows:

	2013	2012
Grupo Unidos Por El Canal, S.A. (GUPCSA)		
Mobilization	**B/. 247,959**	B/. 247,959
Plant	**300,000**	300,000
Reinforced steel	**1,654**	13,894
Suppliers of key project materials	**68,279**	23,074
Specific suppliers	**148,903**	-
Lock gates	**19,132**	-
Sub-total	**785,927**	584,927
Others:		
Miraflores thermal power plant	**2,323**	13,701
Construction of bridge over the Atlantic side of the Canal	**22,317**	-
Sub-total	**24,640**	13,701
	B/. 810,567	B/. 598,628

GrupoUnidosPor El Canal, S. A. (GUPCSA): these receivables represent outstanding balances of advance payments for the following ítems:

Mobilization and Plant

Advance payment for mobilization for B/.247,959, with an original amount of B/.300,000, fully guaranteed with an irrevocable letter of credit issued by a bank with an investment grade rating of A from S&P. According to the contract, this advance payment was to be repaid by withholdings of 10% from each paymentcertificate from the ACP to the contractor until 50% of the advance payment has been repaid and then by withholdings of 15% from each paymentcertificate until the advance payment has been repaid in full, commencing with the paymentcertificate in which the total of all certified interim payments exceeds 10% of the accepted contract amount.

On August 10, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to provide for a temporary suspension of the repayment of the advance payment and the provisions and timing for repayment were further modified at the request of GUPSCA by subsequent amendments to the contract on February 14, 2013 and on June 24, 2013. These amendments introduced various conditions with which the contractor must comply in order to prolong the suspension of repayment of the advance payment and provide that it must be repaid in full by the payment certificate of April 2015 to be issued in May 2015, otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

The contract provides that the letter of credit must remain valid and enforceable until the advance payment for mobilization has been repaid in full. If the advance payment has not been repaid in full by the date 45 days prior to the specified expiry date of the letter of credit, which is currently January 31, 2014, no later than 30 days before such expiry date GUPSCA is obliged to extend the validity of the letter of credit for a period of not less than one year (or such lesser period as may be required).

As of July 2012, the ACP has withheld B/.52,041.

Advance payment for plant for B/.300,000, fully guaranteed with two irrevocable letters of credit, one for B/.100,000 issued by a bank with an investment grade rating of A from S&P and the other for B/.200,000 issued by a bank with an investment grade rating of BBB- from S&P. According to the contract, this advance payment was to be repaid by withholdings of 19% from each paymentcertificate from the ACP to the contractor until the advance payment has been repaid, commencing with the paymentcertificate in which the total of all certified interim payments exceeds 50% of the Accepted Contract Amount.

On February 14, 2013 at the request of GUPCSA, it was agreed by the parties to amend the contract to provide for a temporary suspension of the repayment of the advance payment. This amendment along with a subsequent amendment also agreed at the request of the GUPCSA on June 24, 2013, introduced various conditions with which the contractor must comply in order to prolong the suspension of repayment of the advance payment and provide that it must be repaid in full by the paymentcertificate of April 2015 to be issued in May 2015, otherwise the ACP shall be entitled to claim under the letters of credit for the outstanding amount.

The contract provides that the letter of credit must remain valid and enforceable until the advance payment for plant has been repaid in full. If the advance payment has not been repaid in full by the date 45 days prior to the specified expiry date of the letter of credit, which is currently March 31, 2014, no later than 30 days before such expiry date GUPSCA is obliged to extend the validity of the letter of credit for a period of not less than one year (or such lesser period as may be required).

As of September 30, 2013, no amounts have been withheld by the ACP.

6. Accounts Receivable (continued)

Reinforced steel

On July 26, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to allow an advanced payment for the reinforced steel escalating price in the amount of B/.19,632 (120.041 tm). According to the contract, this advance payment is to be repaid by withholding the amount that would otherwise have been payable to the contractor for The adjustment amount due this period in respect of reinforcing steel from each paymentcertificate from the ACP to the contractor until the advance payment has been repaid, commencing from the first adjustment date following July 26, 2012. This advance payment is fully guaranteed with a payment bond issued by Nacional de Seguros de Panama y Centroamerica, S.A., and the ACP shall be entitled to make a claim under the payment bond should the contractor fail to repay the advance payment in full within 45 days of January 24, 2014.

The contract provides that the payment bond must remain valid and enforceable until the advance payment has been repaid in full. If the advance payment has not been repaid in full by the date 45 days prior to the specified expiry date of the payment bond, then no later than 30 days before such expiry date GUPSCA is obliged to extend the validity of the payment bond for a period of not less than one year (or such lesser period as may be required).

As of September 30, 2013, the ACP has withheld B/.17,978 (2012: B/.5,738).

Key Suppliers

On August 29, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to enable the ACP to make advance payments of amounts to be paid by the contractor to certain key suppliers for invoices dated between May 2012 and the contractor's application for interim payment in December 2012 for a maximum amount of B/.82,500. As of September 30, 2013, the amount remitted by ACP to GUPCSA was B/.68,279 (2012:B/.23,074). According to the contract, this advance payment was to be repaid by withholdings of 5% from each paymentcertificate from the ACP to the contractor commencing with the paymentcertificate issued in response to the January 2013 interim application for payment until the advance payment is repaid in full. Subsequent amendments to the contract on November 23, 2012, February 14, 2013 and June 24, 2013, at the request of GUPSCA, introduced a temporary suspension of the repayment of the advance payment for the key suppliers, which set out various production targets and conditions with which the contractor must comply in order to prolong the suspension of repayments.

If the contractor complies with all the various production targets and conditions, then the maximum period of suspension of the repayment that it could achieve is until the end of December 2013, with the advance payment to be repaid by way of equal withholdings from each paymentcertificate from the ACP to the contractor commencing with the paymentcertificate issued in February 2014 in response to the January 2014 interim application for payment and continuing until the advance payment is repaid in full. This advance payment shall be repaid in full and shall become due and payable if itis not repaid prior to July 2014.

Specified suppliers

On December 24, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to enable the ACP to make advance payments of the amounts to be paid by the contractor to certain specified suppliers up to a maximum amount of B/.150,000 or up to a cut-off date of April 30, 2013, whichever occurs earlier. As of September 30, 2013, the amount remitted by ACP to GUPCSA was B/.148,903. According to the contract, which was further amended at the request of GUPSCA on June 24, 2013 and June 28, 2013, this advance payment is to be repaid by equal withholdings from each paymentcertificate from the ACP to the contractor commencing with the paymentcertificate of January 2014 to be issued in February 2014, in order that the advance payment is repaid in full by the paymentcertificate of June 2014 to be issued in July 2014.

This advance payment is protected by a joint and several guarantee issued by the shareholders of the contractor and the ACP shall be entitled to claim under such guarantee should the advance payment not be repaid in full by July 2014.

Lock gates

On June 28, 2013, at the request of GUPCSA, it was agreed by the parties to amend the contract to enable the ACP to make advance payments of the amounts to be paid by the contractor to the Lock Gates Fabricator for a maximum amount of B/.150,000. As of September 30, 2013, the amount remitted by ACP to GUPCSA was B/.19,132. According to the contract, which was further amended at the request of GUPSCA on September 30, 2013, this advance payment is to be repaid by equal withholdings from each paymentcertificate from the ACP to the contractor commencing with the paymentcertificate of December 2013 issued in January 2014, in order that the advance payment is repaid in full by the paymentcertificate of May 2014 to be issued in June 2014.

This advance payment is fully guaranteed with a payment bond issued by Zurich AmericanInsurance Company, Inc., and the ACP shall be entitled to claim under such bond should the advance payment not be repaid in full by June 2014.

6. Accounts Receivable (continued)

Others:

Miraflores thermal power plant

The contract for the expansion at the Miraflores Thermal Power Plant was awarded to Hyundai Heavy Industries Co., Ltd., for an amount of B/.114,284, which includes the incorporation of heat recovery system of the gas exhaust. The contract establishes the ACP to advance 20% of the contract value, which represents B/.22,780 paid in August 2011. This receivable is backed by a performance bond and an irrevocable letter of credit for 100% of the value of this advanced payment by the Korea Exchange Bank. This advance will be repaid through agreed deductions from payments to Hyundai Heavy Industries Co., Ltd. for work performed, which according to modification of the contract has been extended until October 29, 2013. As of September 30, 2013, the amount retained was B/.20,457 (2012:B/.9,078).

Construction of bridge over the Atlantic side of the Canal

The contract for the construction of the bridge over the Atlantic side of the Canal was awarded to the company Vinci Construction Grands Projects on October 26, 2012. Advances are for a maximum amount of B/.35,000 which will be made in three payments; the first for B/.20,000, second for B/.10,000 and the third for B/.5,000. As of September 30, 2013, the ACP disbursed to the contractor B/.23,317. This advance is guaranteed with an advance payment bond from a bank with international investment rating A of S&P, in full and expired on August 4, 2016. According to the contract, the repayment of this advance will be through deductions that will perform the ACP to payments to the contractor for work performed.

Trade and other receivables

Trade and other current receivables are detailed as follows:

	2013	2012
Transit-related services	**B/. 6,853**	B/. 15,752
Electric power sales	**17,427**	16,001
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**5,457**	6,129
Other government entities	**1,366**	1,555
Other services	**3,554**	3,554
	B/. 34,657	B/. 42,991

Accounts receivable do not generate interest and the maturity term is 30 days.

	2013	2012
60 - 90 days	**B/. 10**	B/. 93
90 - 180 days	**79**	132
	B/. 89	B/. 225

7. Inventories, net

Los inventarios se detallan como sigue:

	2013	2012
Supplies and materials	**B/. 73,308**	B/. 71,449
Fuel	**11,014**	6,267
Provision for obsolete inventory	**(4,100)**	(4,715)
	B/. 80,222	B/. 73,001

Change in the provision for obsolete inventory of supplies and materials is as follows:

	2013	2012
Balance at the beginning of the year	**B/. 4,715**	B/. 4,363
Increases	**144**	144
Reversion	**-**	208
Write-off	**(759)**	-
Balance at the end of the year	**B/. 4,100**	B/. 4,715

The amount of material and supplies, recognized in the income statement during fiscal year 2013, was B/.37,330 (2012: B/.27,466).

The amount of fuel, recognized in the income statement during fiscal year 2013, was B/.102,284 (2012: B/.88,524).

8. Other financial assets

Other financial assets are detailed as follows:

	2013	2012
Financial assets measured at amortized cost		
Investments in bonds (i)	**B/. 640,912**	B/. 423,443

((i) At September 30, 2013, bonds' annual interest rate of return is 0.89% (2012: 1.15%) payable at the end of each term with a maximum maturity date of up to one year.

8. Otros activos financieros (continuación)

Bonds are measured at amortized cost and were acquired with the intention to be held to maturity. All ACP's investments are comprised of short-term investment grade instruments.

The Organic Law establishes that the ACP´s funds must be placed in short-term investment grade debt instruments and may not be used to buy other types of investment instruments issued by Panamanian or foreign public or private entities, nor to grant loans to said entities or to the National Government.

9. Accrued interest receivable and other assets

Accrued interest receivable and other assets are detailed as follows:

	2013	2012
Interest receivable	**B/. 12,548**	B/. 11,106
Prepayments	**2,853**	4,420
	B/. 15,401	B/. 15,526

10. Cash and bank deposits

Cash and bank deposits are comprised of the following:

	2013	2012
Cash on hand	**B/. 43**	B/. 47
Deposits in current accounts	**79,336**	80,823
Deposits in saving accounts	**260,070**	285,163
Time deposits with original maturities under 90 days	**114,089**	236,924
Total cash and cash equivalents	**453,538**	602,957
Time deposits with original maturities over 90 days not exceeding one year	**1,071,502**	1,656,813
	B/. 1,525,040	B/. 2,259,770

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. At September 30, 2013, the investment of these resources has the priority to cover all ACP obligations and earn interest rates which vary between 0.13% and 1.01% (2012: 0.15% and 1.44%).

As of September 30, 2013 and 2012, there were no restrictions over the balance of cash and bank deposits.

11. Contributed capital

Article 316 of the Political Constitution of the Republic of Panama states that the ACP has its ownpatrimony and the right to manage it. Upon the transfer of the Canal to the Republic of Panama at noon on December 31, 1999, the ACP became the administrator of all goods and real estate property identified in the Organic Law of the ACP 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 all those installations, buildings, structures and equipment that support the operation of the Canal, as established in Article 33 of the same Law.

In compliance with these requirements, the Government of Panama transferred the related land and buildings: for its recognition, a conservative method was used to reflect an estimated fair value for each asset subsequently registered in the Public Registry.

12. Reserves and contributions for investment programs

Changes in reserves are detailed as follows:

	2013	Increase (decrease)	2012	Increase (decrease)	2011
Reserves for:					
Canal expansion	**B/. 186,572**	**B/. 30,000**	B/. 156,572	B/. 65,266	B/. 91,306
Catastrophic risks	**36,000**	**-**	36,000	-	36,000
Contingencies and working capital	**196,830**	**540**	196,290	7,556	188,734
Enterprise capitalization	**264,848**	**32,207**	232,641	(65,266)	297,907
	684,250	**62,747**	621,503	7,556	613,947
Contributions for:					
Investment programs	**4,309,164**	**540,119**	3,769,045	601,908	3,167,137
	B/. 4,993,414	**B/. 602,866**	B/. 4,390,548	B/. 609,464	B/. 3,781,084

Canal expansion

The ACP maintains an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the ACP for determined projects during the execution of the program. In fiscal year 2013, an increase to this reserve was approved for B/.30,000 while in 2012, the increase of this reserve was of B/.65,266.

Catastrophic risks

The ACP maintains an equity reserve to cover the deductibles of the catastrophic risks insurance policies with a maximum amount of B/.36,000.

Contingencies and working capital

The ACP maintains an equity reserve for contingencies and working capital which is calculated based on the ACP's level of revenues and is defined as 30 days of average revenues or billing of the Canal. During fiscal year 2013, it was approved to increase this reserve by B/.540 (2012: B/.7,556) for a total reserve of B/.196,830 (2012: B/.196,290).

Enterprise capitalization

The ACP maintains an equity reserve for capitalization with the purpose to ensure and facilitate the long-term financial projection of the ACP. During fiscal year 2013, it was approved to increase this reserve for B/.32,207 and in 2012, it was approved to decrease this reserve by B/.65,266.

12. Reserves and contributions for investment programs (continued)

Contributions to investment programs

At September 30, 2013, the ACP increased the funds of the investments programs by B/.540,119 (2012: B/.601,908) for a contributed total of B/.1,444,134 (2012: B/.1,142,387) for the Investment program – others and B/.2,865,030 (2012: B/.2,626,658) for the Investment program – Canal expansion. This reserve includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period

The Organic Law establishes that, after covering the costs for operation, investment, modernization, and expansion of the Canal, as well as the necessary reserves provided by the Law and Regulations, any surplus shall be forwarded to the National Treasury in the following fiscal period.

13. Other equity accounts – cash flows hedge

Other equity accounts are comprised entirely of the unrealized gain (loss) from the valuation of cash flow hedge instruments, as required by IAS 39.

Adjustments to other comprehensive income (loss) are as follows:

	2013	2012
Cash flow hedges:		
Income (loss) during the year:		
Variability in interest rates	**B/. 95,940**	B/. (24,733)
Variability in diesel prices	**(15)**	(5,795)
Net change in cash flow hedges	**B/. 95,925**	B/. (30,528)

Variability of the interest rates (financing for the Canal expansion program)

On December 9, 2008, the ACP signed a loan agreement for USD 2,300,000 with five multilateral agencies to finance a portion of the Expansion Program, of which USD 500,000, the ACP has the option to choose either a fixed or a floating rate at the date of each disbursement, and a floating rate for USD 1,800,000.

Loan disbursements (millions of balboas)	Fixed Rate	Floating Rate	Total Disbursements	Total Available
European Investment Bank (EIB)	100	100	200	300
Japan Bank for International Cooperation (JBIC)	-	800	800	-
Inter-American Development Bank (IADB)	-	400	400	-
Andean Development Corporation (ADC)	-	50	50	250
International Finance Corporation (IFC)	-	-	-	300
Total	**100**	**1,350**	**1,450**	**850**

To eliminate the interest rate fluctuation risk on loans obtained at floating rates, the ACP subscribed an interest rate swap contract in March 2010. This hedge instrument was competitively placed among three specialized entities for the amount of USD 800,000. The hedge transaction of USD 800,000 was fixed at a 5.42% rate for 18.5 years, which is 83 basis points lower than the 6.25% rate that was originally estimated in the Master Plan for the Expansion Program.

Variability of diesel prices

In July 2009, the ACP awarded the contract for the design and construction of the third set of locks to the consortium "GrupoUnidospor el Canal, S. A." The contract includes adjustment clauses in the event of fluctuations in the price of the diesel to be used during execution. With the purpose of mitigating the volatility risk in the price of light diesel agreed in this contract, in April 2012, theACP competitively hired the bidder with the lowest price to provide a hedge instrument to transfer some of this risk to the financial markets. This transaction guarantees the fuel costs in the lock's contract to the ACP until July 2014.

The ACP has covered the following forecasted cash flows, which mainly vary with interest rates and diesel prices. The periods in which these cash flows are expected to occur and their expected impact in the income statement, without considering any hedging adjustment, is shown as follows:

	Total	1 year	1 - 5 years	More than 5 years
2013				
Cash flows covered	**B/. 262,619**	**B/. 6,861**	**B/. 54,613**	**B/. 201,145**
2012				
Cash flows covered	B/. 217,662	B/. 26,368	B/. 31,286	B/. 160,008

14. Unappropriated retained earnings

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 12, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.610,537 to the Panamanian Treasury which corresponds to the year ended September 30, 2013 (2012: B/.648,991). (See note 27)

In compliance with Law 28 of July 17, 2006, during the construction period of the third set of locks, the ACP will continue to make increasing payments to the Panamanian Treasury based on Canal tonnage fees and any operational surplus. Any payments based on an operational surplus shall not be less than those made to the Panamanian Treasury in 2005 for the amount of B/.268,850.

The combined payments based on Canal tonnage fees and operational surpluses shall not be less than the payments effected in fiscal year 2006 for the amount of B/.568,128.

	2013	2012
Payments to the Panamanian Treasury		
Unappropriated retained earnings	**B/. 610,537**	B/. 648,991
Fees per net ton	**369,003**	381,130
Public service fees	**2,228**	2,218
Total	**B/. 981,768**	B/. 1,032,339

15. Borrowings

Financing received for the Canal Expansion Investment Program, presented at amortized cost as of September 30, is detailed as follows:

	2013	2012
Japan Bank for International Cooperation (JBIC)	**B/. 800,000**	B/. 800,000
European Investment Bank (EIB)	**200,000**	100,000
Inter-American Development Bank (IADB)	**400,000**	100,000
Andean Development Corporation (ADC)	**50,000**	-
Balance at the end of the year	**B/. 1,450,000**	B/. 1,000,000

Financing from JBIC, IADB, ADC and a tranche of EIB are subscribed at a floating rate (6-month Libor plus margin), with semi-annual payments to principal beginning on May 15, 2019, and ending in November 2028. A tranche of EIB is subscribed at a fixed rate with semi-annual payments to principal beginning on May 15, 2019, and ending in November 2028.

The ACP complies with reporting to the five multilateral agencies about the financial obligations of the Common Terms Agreement concerning the verification of the financial covenants over this debt related to two debt indicators to be maintained: Total Debt to EBITDA Ratio and the Debt Service Coverage Ratio.

16. Other financial liabilities

Other financial liabilities are detailed as follows:

	2013	2012
Financial instruments designated as hedging instruments carried at fair value		
Interest rate swaps	**B/. 144,573**	B/. 239,582
Commodities swap	**279**	264
	B/. 144,852	B/. 239,846
Current	**B/. 13,007**	B/. 12,076
Non-current	**131,845**	227,770
	B/. 144,852	B/. 239,846

On April 18, 2012, the ACP subscribed a hedge contract with J.Aron& Co. (Goldman Sachs) for 18.1 million gallons of light diesel used in the channel operations. The hedge was contracted to transfer the risk of variability of future cash flows attributable to variability in the diesel price index from April 26, 2012 to July 25, 2014.

In order to transfer the variability risk of the future cash flows related to the volatility of the interest rate paid in the borrowing associated to the Canal Expansion Program, the ACP subscribed an interest rate swap contract which pays at a fixed rate and receives at a floating rate.

17. Trade and other payables

Trade and other payables are as follows:

	2013	2012
Panamanian Treasury	**B/. 31,336**	B/. 31,263
Suppliers and others	**278,935**	304,262
	B/. 310,271	B/. 335,525
Current	**B/. 247,952**	B/. 303,069
Non current	**62,319**	32,456
	B/. 310,271	B/. 335,525

The balances payable to the Panamanian Treasury correspond to the fees per net ton pending for payment.

The Organic Law establishes that the ACP shall annually pay the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by the ACP. At September 30, 2013, the total of such fees amounted to B/.369,003 (2012: B/.381,130).

18. Provision for marine accident claims

The provision for marine accident claims of B/.16,689 (2012: B/.20,235), represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the ACP expects to be liable.

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

	2013	2012
Balance at beginning of the year	**B/. 20,235**	B/. 18,492
Provision for the year	**391**	3,626
Payments made	**(3,937)**	(1,883)
Balance at end of the year	**B/. 16,689**	B/. 20,235

The provision is included as an expense of the current period under "Provision for MarineAccidents."

19. Other liabilities

Other liabilities are detailed as follows:

	2013	2012
Inventories – in transit	**B/. 4,010**	B/. 4,427
Miscellaneous claims	**2,594**	3,027
Other trusts	**1,929**	1,203
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**454**	528
	B/. 8,987	B/. 9,185

20. Labor, materials and other capitalized costs

The most significant projects of the investment program that have been executed with ACP´s own resources and equipment are detailed as follows:

		2013		2012
Investment Program				
Widening and straightening of the Gaillard (Culebra) Cut	**B/.**	**23,936**	B/.	18,065
Assets management system		**324**		517
Bridge over the Canal in the Atlantic		**852**		-
Improvement to locks fender system at approach walls		**-**		1,350
Expansion of the thermoelectric plant at Miraflores		**3,319**		-
Replace water treatment plant for tugboat fleet		**-**		418
Complementary projects of dredging at the entrance of the Canal		**4,395**		2,397
Sewer treatment project at ACP		**1,093**		574
Widening of the Pacific entrance of the Canal at 300 square meters		**1,117**		-
Widening of the north reach of Bas Obispo and Gamboa tie-up station		**759**		-
Replace and repair plumbing line for potable water		**438**		-
Replace of RMC dredge for new hydraulic backhoe dredge		**319**		
Other various projects		**1,610**		1,902
		38,162		25,223
Investment Program - Canal Expansion				
Dredging of Gatun Lake		**27,041**		40,767
Dredging at the Pacific entrance		**1,203**		2,534
Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen's dam		**1,304**		1,279
Program management		**857**		821
Increase of maximum operational level of Gatun Lake		**1,530**		935
Design and construction of post-panamax locks		**1,985**		1,590
Environmental management		**51**		-
Disposal site studies in the Atlantic Side		**123**		1,461
Other various projects		**-**		42
		34,094		49,429
	B/.	**72,256**	B/.	74,652

21. Income taxes

The ACP is not subject to income taxes, as stated in Article 43 of the Organic Law which exempts it from the payment of all national or municipal taxes, except for the employer's contribution of social security, educational insurance, workmen's compensation, fees for public services, and the fee per net ton.

22. Employee benefits Benefit programs to employees

In July 2012, the ACP established an incentive program for voluntary retirement(VRI) at the required retirement age for permanent employees and managers of the ACP. Before theestablishment of the VRI, there is other program named Labor Retirement Benefit (LRB) which continues to be active. The employee shall select between one program and the other, but in no case will be able to choose both. These programs were established for an indefinite period of time and could be suspended or modified by the Board of Directors. The LRB remains an option because it is included as such in collective bargaining agreement of the ACP.

The requirements and criteria under the LRB are: 1) it applies to permanent employees in positions of trust and those permanent employees covered by collective bargaining agreementfrom the moment in which they complies with the required retirement age, according to the standards of the Caja de Seguro Social (regular and early retirement). Temporary employees, officials or permanent employees covered by firefighters´ and canal pilots´ collective agreements are not eligible, 2) eligible employees must retire from the ACP within the period of time between the age of early retirement (55 years old for women and 60 years old for men), and 60 days after the regular retirement age (57 years old for women and 62 years for men), and 3) file Form 194 "Termination of Employment Relationship" at least 30 calendar days before retirement, but not beyond the date you meet the regular retirement age.

The requirements and criteria under the VRI are: 1) the receives the benefit of VRI only if it complies with 10 years of service and retires to the required age (early or regular) as may be established by the Caja del Social Social, 2) be not less than 10 years working in the Canal; 3) accept the offer of VRI, 4) cease its work no later than 60 calendar days after completing the required age, and 5) providing the form of termination of employment through voluntary resignation.

The cost of benefit programs to employees are detailed as follows:

		2013		2012
Labor Retirement Benefit (LRB)	**B/.**	**140**	B/.	2,015
Voluntary Retirment Incentive (VRI)		**31,584**		-
Balance at the end of the year	**B/.**	**31,724**	B/.	2,015

23. Risk management

Financial risk management

The ACP maintains a conservative financial policy, designed to protect its capital and generate optimal performance with low risk, for which various risk management activities that include: analysis, evaluation and risk mitigation, are performed throughout the year. This allows management to plan and make decisions that enhance the economic contribution and operational excellence, improving the chances of achieving strategic goals.

The ACP's capital structure consists of net debt (borrowings as detailed in note 15), compensated by cash and bank deposit balances (note 10) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 11, 12, 13 and 14, respectively).

Historically, the ACP has operated with its own resources due to its high levels of cash generated by its operations; however, on December 9, 2008, the ACP subscribed to a common term agreement with five multilateral and bilateral agencies, which committed to grant borrowings totaling B/.2,300 with the purpose of partially finance the Canal Expansion Program (see note 15).

23. Risk management (continued)

Categories of financial instruments

	2013	2012
Financial assets		
Cash and bank deposits (note 10)	**B/. 1,525,040**	B/. 2,259,770
Amortized cost:		
Trade and other receivables (note 6)	**34,657**	42,991
Other financial assets at amortized cost (note 8)	**640,912**	423,443
	B/. 2,200,609	B/. 2,726,204
Financial liabilities		
Financial instruments designated as hedging instruments (note 16)	**B/. 144,852**	B/. 239,846
Amortized cost:		
Trade and other payables (note 17)	**310,271**	335,525
Borrowings (note 15)	**1,450,000**	1,000,000
	B/. 1,905,123	B/. 1,575,371

Financial risk management objectives

The main ACP's financial liability consists of borrowings and trade accounts payable. The main purpose of these financial liabilities is to finance the Canal expansion program. The ACP also has trade and other receivables, cash and bank deposits which originate directly from its operations and optimizes the performance of its funds through its investment in debt instruments with short maturities which held until maturity. The ACP also contracts hedging instruments.

The ACP is exposed to credit, market and liquidity risks.

The ACP administration monitors these risks. ACP's Treasury coordinates the access to international financial markets, monitors and manages the financial risks related to the ACP's operations through internal risk reports, which analyze the exposures depending on degree and magnitude. These risks include market risk (including exchange risk, and price risk), credit risk, liquidity risk, and interest rate risk. All the activities related to hedge risk are performed by teams of specialists with the knowledge, experience and appropriate supervision.

The ACP maintains policies that provide written principles about foreign exchange risk management, interest rate risk, credit risk, and the use of hedge financial instruments and the liquidity investment. The internal auditors periodically monitor the compliance with the policies and exposure limits. The ACP does not subscribe or negotiate financial instruments for speculative purposes.

The ACP's treasury quarterly updates the Board of Directors Finance Committee and follows up the risks and implemented policies to mitigate risk exposure.

The Board of Directors revises and approves the policies for managing each of the following risks:

Market risk

ACP activities are primarily exposed to financial risks due to variations of currency exchange, interest rates, and commodity prices. With the purpose of managing exposure to these risks, the ACP subscribes a variety of hedge financial instruments, including:

- Interest rate swaps to mitigate the risk of interest rate increases.
- Diesel price swaps to mitigate the risk of fluctuations in the price of this commodity used in the third set of locks contract for the expansion program.
- Option contracts for future diesel purchases to mitigate the risk of fluctuations in the price of light diesel required in the Canal's regular operations.

23. Risk management (continued)

Exchange rate risk management

The ACP has established a policy to manage foreign currency risk related to its functional currency. This policy indicates that all investments, and bank deposits, shall be in the currency of the United States of America, or in other currencies authorized by the Board of Directors.

As of September 30, 2013 the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Interest rate risk management

The ACP is exposed to interest rate risk because it borrows funds at both fixed and floating interest rates. The risk is managed by the ACP through the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rates and the defined risk tolerance, ensuring that the most cost-effective hedging strategies are applied.

Interest rate swap contracts

Since March 2010, the ACP established interest rate swap contracts, without collateral, to fix the floating interest rate of the B/.800,000 variable rate loan. Of the B/.800,000, B/.200,000 were disbursed on March 1, 2010; B/.300,000 on October 29, 2010, and B/.300,000 on April 13, 2011. Biannual amortizations of B/.40,000 are programmed to start on May 15, 2019 until loan maturity on November 15, 2028.

According to interest rate swap contracts, the ACP agrees to swap the difference between the fixed and floating interest rate amounts calculated on the agreed notional principal amounts. Such contracts allow the ACP to mitigate the risk of interest rate changes over the cash flow of the hedged debt agreed at a floating interest rate. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the curves at the end of the period in question and the inherent credit risk in the contract, as it is detailed further ahead.

The following table details the notional principal amounts and the remaining terms of the outstanding interest rate swap contracts at the end of the reporting period:

Cash flow hedges
(Effective date: May 15, 2010, maturity: Nov 15, 2028)

Contracts with floating interest rates and outstanding fixed payment rates	Average contracted fixed interest rate		Notional principal value		Fair value	
	2013	2012	**2013**	2012	**2013**	2012
5 years or more	**4.67%**	4.67%	**B/. 800,000**	B/. 800,000	**B/. (144,573)**	B/. (239,582)

23. Risk management (continued)

The interest rate swaps are paid biannually. The floating rate on the interest rate swaps is at 6-month Libor rate. The ACP will pay or receive the difference between the floating and the fixed interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the ACP's cash flow exposure resulting from floating interest rates on borrowings.

Interest rate sensitivity analysis

The following sensitivity analyses have been determined based on the financial instruments exposure to interest rates at the end of the reporting period.

As of September 30, 2013, for each basis point increase/decrease in the Libor rate curve through the remaining term of the contract, the unrealized loss on the interest rate swap contract would decrease/increase by B/.834.4. This amount was calculated based on the DV01 indicator generated by Bloomberg's valuation model tool used in the valuation of interest rate swap contracts.

As of September 30, 2013, the ACP expects that the Libor rate would increase its value by 30 basis points through the remaining term of the contract during fiscal 2014, representing an equity increase of B/.25,032.

Fuel price risk

The ACP is exposed to commodity price fluctuations risk mainly from the fuel used in its maritime operations and power generation activities for its operations and for the sale of surplus energy to Panama's National Grid (Sistema IntegradoNacional), to the extent that such variations cannot be transferred to ACP's customers.

Maritime Operations

The ACP uses annually approximately between 10 and 12 million gallons of light diesel on its vessel transit operations. Since October 20, 2009, risk management for price fluctuations on this commodity is mainly performed during the fiscal year, as this period is considered representative for the implementation of appropriate commercial policies.

This process is carried out by means of specific hedging activities for approximately 80% of the forecasted fuel volume, with the objective of maintaining an economic balance of the commodities.

For fiscal year 2013, the ACP purchased a hedge instrument (cap) establishing a maximum price of B/.2.68 per gallon for 9.988 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations, of which 11.86 million gallons were consumed by September 2013.

Energy generation

Power generation is related to the consumption of the Canal operations, while excess capacity is sold in the domestic electricity market. During fiscal year 2013, the ACP consumed 20% of the energy produced, while the remaining 80% was sold to the electricity market. Hydroelectric plants produced 37% of the energy and thermal plants 63%.

Thermal plant generation is exposed to the risk of fuel price volatility. However, this price is indexed to the energy sale rate. This indexing is defined in contractual clauses when the energy is sold under previously defined contracts or in weekly reports when energy is not sold under contracts, namely, in the spot market.

Operational fuel price risk sensitivity analysis

As of September 30, 2013, the current price index for light diesel purchases made by the ACP was B/.3.20 per gallon. With an estimated consumption for fiscal year 2014 of 12.88 million gallons, assuming an upward variation trend that increases diesel prices to B/.3.37 per gallon during fiscal year 2014, fuel expenses would show an increase of approximately B/.5,394,000. Up to date it has not been established an exercise price of the hedging instrument for the 2014 fiscal year.

Price risk on adjustment clauses in contracts related to the Canal Expansion Program

As mentioned in Note 25, the ACP has different commitments related to the Canal Expansion Program. These commitments include adjustment clauses related to the main commodities that will be used during construction, such as: reinforced steel, cement, structural steel, and light diesel. The clauses use, as adjustment references, representative price indexes of the commodities' fair value, a fixed reference price for each commodity, the quantities or maximum volume, and the target dates for adjustment calculations.

23. Risk management (continued)

The maximum quantities, to which the ACP is exposed to when contracts were signed, are as follows:

Commodity	Agreed volume (thousands)	Fixed reference price	Fair value reference index
Reinforced steel	279.0 metric tons	B/.575 per metric ton	"Reinforcing Bar - Platts Steel Market Daily"
Structural steel	67.2 metric tons	B/.1,000 per metric ton	"Plate - Platts Steel Market Daily"
Cement	1,278.6 short tons	B/.100 per short ton	"Portland and Other Cements, Commodity Code 13220161" from the US Bureau of Labor Statistics
Light Diesel (Third Set of Locks contract)	60,000 gallons	B/.1.4000 per gallon	US Gulf Coast Diesel No.2 Oil from Platts Latin American Wire
Light Diesel (Pacific access channel excavation contracts)	2,054 gallons	B/.1.7580 per gallon	Diesel's Import Parity Price from the Secretariat of Energy for Light Diesel

23. Risk management (continued)

During the life of the project, the ACP shall determine the fair value of the commodities and consumed materials among periods established in the proposal in order to define the difference with the fixed referenced price. This price difference shall be multiplied by the agreed quantities of commodities or consumed materials in order to obtain the amount over which the ACP must pay or charge the contractor during periodic payments for work progress made. Additionally, the locks construction contract allows compensation for a portion of the incremental local labor cost, as it was considered to cover exclusively over costs in Panamanian labor costs.

Sensitivity to price risk on adjustment clauses in contracts related to the Canal Expansion Program

The ACP's internal policies allowtoaward hedging contracts with specialized institutions, in an effort to neutralize or mitigate the risks associated with the price fluctuation of the commodities procured by the ACP, in regards to the functioning, maintenance, operations, modernization, and expansion of the Canal.

Light diesel

On April 18, 2012, ACP conducted a hedging transaction for 18.1 million gallons of light diesel to cover the risk of variability in future cash flows attributable to variability in the diesel price index from April 26 2012 to July 25, 2014. The instrument was set at a swap price of B/.3.1347/gal.

On April 22, 2010, ACP conducted a hedging transaction for 36.5 million gallons of light diesel to cover the risk of variability in future cash flows attributable to variability in the diesel price index from April 26 2010 to April 25, 2012 (first two years of the project). The instrument was set at a swap price of B/.2.4396/gal.

The variation of light diesel prices will not affect the ACP's income statement or its equity, as it is capitalized as part of the expansion program.

Reinforced steel and cement

For these commodities, under market conditions, it has not been feasible to obtain financial hedge services to allow the mitigation of future cash flows risk due to price variability. For this reason, the ACP is exposed to price fluctuations, assuming the risk of price increases or benefiting from decreasing prices.

The following table shows the quantities established in the lock design and construction contract and the estimated adjustments at the beginning of fiscal year 2013:

Commodity	Unit	Quantity	Total (in thousands)
Reinforced Steel	Metric Ton	82,890	B/. 14,995
Cement	Short Ton	455,750	B/. (3,720)

Reinforced Steel

During fiscal year 2013, the scaling adjustment for reinforced steel totaled B/.12,240, representing B/.2,755 less than the estimate at the beginning of fiscal year 2013. As of September, 30, 2013, the reinforced steel price (moving average as stipulated in the contract) was B/.694.44 per metric ton, which is B/.119.44 over the reference price of B/.575.00 per metric ton. If the average price remains unchanged for fiscal year 2014, for the established volume of 5,726 metric tons, ACP's exposure would total B/.683.9.

Cement

During fiscal year 2013 the scaling adjustment for cement resulted in a credit totaling B/. 3,801 in favor of ACP, exceeding by B/.81 the amount estimated at the beginning of fiscal year 2013. As of September 30, 2013 the price was B/.94.98 per short ton, B/.5.02 per short ton below the reference price of B/.100.00 per short ton. If the average price remains unchanged during fiscal year 2014, and with an established consumption of 34,597 short tons, it would represent a credit of B/.173.7 in favor of ACP.

The variation in price in these commodities will not affect the ACP's income statement nor its equity, as it is capitalized as part of the Canal expansion project.

Credit risk management

It refers to the risk that the borrower or issuer of a financial asset may not comply, completely and on time, with any payment to be made in accordance with the terms and conditions agreed upon when the obligation was acquired. To mitigate the credit risk, the liquidity investment policy establishes limits by industry and limits by issuer, as the result of the categorization of the Risk Assessment System adopted by the ACP, which includes the following factors: short-term risk rating, issuer leverage index, economic factor, liquidity index, and deterioration index.

23. Risk management (continued)

Counterparty risk refers to the risk of a counterparty defaulting in the payment of a security purchase transactions. The ACP does not have counterparty risk, as it buys all of its securities using the method of payment on delivery ("delivery versus payment") through payment systems, using a custodian account.

Credit risk refers to the risk that one of the parties does not comply with its contractual obligations, resulting in financial loss to the ACP. ACP's policies only allow depositing funds in banking institutions and financial instruments that have more than one short-term international investment quality risk rating of at least the following: A-2 by Standard &Poors, P-2 by Moody's Bank Deposit Ratings, or F-2 by Fitch Ratings.

The ACP is not allowed to place its funds in banks or to invest in financial instrument if one of its ratings is lower than what is indicated herein, except for the BancoNacional de Panama (National Bank of Panama). The ACP's exposure and the credit ratings of its counterparties are continuously monitored. The credit exposure is controlled by counterparty limits that are reviewed quarterly through the use of an own financial model called "Risk Assessment System for Banking Institutions and Financial Instruments".

The maximum limits for funds deposits in each bank institution and financial instruments are assigned according to the assessment of the following weighted factors:

1. Short-term risk rating
2. Capital coverage or leverage
3. Economic factor for the country where the counterparty is located, including gross domestic product, unemployment index, inflation index, and current account balance
4. Liquidity index
5. Impairment index

Banking institutions are rated in three categories within the ACP's risk system:

A. Up to B/.100 million
B. Up to B/.80 million
C. Up to B/.60 million

Liquidity risk management

The ACP manages the liquidity risk through continuous monitoring of the forecasted and actual cash flows, and reconciling the maturity profiles for the financial assets and liabilities. Historically, the cash generated by the ACP's operations has been enough to cope with its operations and the requirements of its investments program, while generating adequate returns to the ACP. However, since 2008, the ACP faced the necessity to obtain financing for a portion of the Canal Expansion Program. The credit facilities available to the ACP to reduce the liquidity risk are detailed afterwards.

Interest and liquidity risk tables

To finance the expansion program, the ACP has a credit facility with five multilateral financial institutions. Currently, 6.9% of the debt is contracted at fixed effective rate of 5.196%, and the remaining 93.1% shows a moving average effective rate of 2.89% percent, calculated based on undiscounted cash flows to the date in which the ACP shall make the payments.

	Weighted average effective interest rate (%)	1 month or less	1 - 3 months	1 - 5 years	More than 5 years	Total
September 30, 2013 (2012)						
Variable interest loan	**2.89%** (2.611%)	B/. -	B/. -	B/. -	B/. 1,350,000	B/. 1,350,000
Fixed interest loan	**5.196%** (5.196%)	-	-	-	100,000	100,000
		B/. -	B/. -	B/. -	B/. 1,450,000	B/. 1,450,000

23. Risk management (continued)

The following table details the ACP's expected cash flows for its main financial assets:

2013

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
Time deposits	B/. 35,000	B/. 79,088	B/. 1,071,503	B/. -	B/. -	B/. 1,185,591
Held-to maturity Securities	-	-	640,912	-	-	640,912
	B/. 35,000	B/. 79,088	B/. 1,712,415	B/. -	B/. -	B/. 1,826,503

2012

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
Time deposits	B/. 60,000	B/. 176,924	B/. 1,656,813	B/. -	B/. -	B/. 1,893,737
Held-to maturity Securities	-	-	423,443	-	-	423,443
	B/. 60,000	B/. 176,924	B/. 2,080,256	B/. -	B/. -	B/. 2,317,180

The ACP has access to financing facilities, as described afterward, of which USD 850,000 were not utilized at the end of the 2013 period. The ACP expects to comply with its other obligations with the cash flows from its operations and from the maturity of financial assets.

The following table details the ACP's liquidity analysis for its financial instruments. The table has been designed based on contractual net cash flows that are paid on a net basis. Cash flows are based on the contractual maturities of financial instruments.

	Less than 3 months	3 to 12 months	1 - 5 years	More than 5 years
September 30, 2013				
Trade and other payables	B/. 247,952	B/. -	B/. 62,319	B/. -
Other financial liabilities	13,007	-	-	131,845
Borrowings	-	-	-	1,450,000
	B/. 260,959	B/. -	B/. 62,319	B/. 1,581,845
September 30, 2012				
Trade and other payables	B/. 303,069	B/. -	B/. 32,456	B/. -
Other financial liabilities	12,076	-	-	227,770
Borrowings	-	-	-	1,000,000
	B/. 315,145	B/. -	B/. 32,456	B/. 1,227,770

23. Risk management (continued)

All subscribed contracts with the different counterparties have a clause that prevents the ACP from having to provide collateral guarantees for any unrealized loss resulting from the periodic valuations of these financial instruments.

Financing structure

Used and available borrowing amounts:

	2013	2012
Amount used		
Japan Bank for International Cooperation (JBIC)	**B/. 800,000**	B/. 800,000
Inter-American Development Bank (IADB)	**400,000**	100,000
European Investment Bank (EIB)	**200,000**	100,000
Andean Development Corporation (ADC)	**50,000**	-
	1,450,000	1,000,000
Available amount		
European Investment Bank (EIB)	**300,000**	400,000
Inter-American Development Bank (IADB)	**-**	300,000
International Finance Corporation (IFC)	**300,000**	300,000
Andean Development Corporation (ADC)	**250,000**	300,000
	850,000	1,300,000
	B/. 2,300,000	B/. 2,300,000

23. Risk management (continued)

Fair value of financial instruments

Fair value of financial instruments measured at amortized cost

Except for what is detailed in the following table, the ACP considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values:

	2013		2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Financial assets measured at amortized cost:				
Investment in bonds	**B/. 640,912**	**B/. 640,930**	B/. 423,443	B/. 424,258
Financial liabilities				
Financial liabilities measured at amortized cost:				
Borrowings at floating rate	**B/. 1,350,000**	**B/. 1,297,414**	B/. 900,000	B/. 884,863
Borrowings at fixed rate	**100,000**	**109,713**	100,000	123,203
	B/. 1,450,000	**B/. 1,407,127**	B/. 1,000,000	B/. 1,008,066

Valuation techniques and assumptions applied in order to measure fair value

The fair value of financial assets and financial liabilities is determined in the following manner:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

- The fair value of other financial assets and financial liabilities (excluding hedging instruments) is determined in accordance with generally accepted fixed pricing models based on discounted cash flow analysis using prices from current observed market transactions and quotes for similar instruments.

- The fair value of derivative instruments is calculated using quoted prices. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

23. Risk management (continued)

Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels from 1 to 3 based on the degree to which the fair value is observed:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from indicators other than quoted prices included within Level 1 which are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include indicators for the assets or liabilities that are not based on observable market data (unobservable indicators)

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
LIABILITY:				
Financial liabilities at fair value with changes in other comprehensive income				
Financial instruments in hedged relationships	**B/. -**	**B/. 144,852**	**B/. -**	**B/. 144,852**

	2012			
	Nivel 1	Nivel 2	Nivel 3	Total
LIABILITY:				
Financial liabilities at fair value with changes in other comprehensive income				
Financial instruments in hedged relationships	B/. -	B/. 239,846	B/. -	B/. 239,846

24. Related party transactions

Commercial transactions

During the year, the ACP executed the following commercial transactions with the Republic of Panama:

	Sale of goods and services		Purchase of goods and services	
	Year ended		Year ended	
	2013	2012	**2013**	2012
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**B/. 28,597**	B/. 26,486	**B/. -**	B/. -
Other government entities	**2,807**	1,581	**-**	-
Employee benefits	**-**	-	**61,730**	60,204
Purchase of land to Ministerio de Economía y Finanzas	**-**	-	**89,757**	-
Public service fees	**-**	-	**2,228**	2,218
Panamanian Treasury - fees per net ton	**-**	-	**369,003**	381,130
	B/. 31,404	B/. 28,067	**B/. 522,718**	B/. 443,552

The following balances were outstanding at the end of the reporting period:

	Amounts owed by the Republic of Panama		Amounts owed to the Republic of Panama	
	2013	2012	**2013**	2012
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**B/. 5,457**	B/. 6,129	**B/. -**	B/. -
Other government entities	**1,366**	1,555	**-**	-
Employee benefits	**-**	-	**19,413**	22,794
Public service fees	**-**	-	**177**	186
Panamanian Treasury - fees per net ton	**-**	-	**31,336**	31,263
	B/. 6,823	B/. 7,684	**B/. 50,926**	B/. 54,243

Amounts owed by and owed to the Republic of Panama are classified as accounts receivable and accounts payable, respectively.

Sales of goods and services to the Republic of Panama were made at ACP's usual list prices without discount.

The outstanding amounts are unsecured and will be settled in cash. No guaranties have been given or received. No expense has been recognized in the current or prior period for bad or doubtful debts with respect to the amounts owed by related parties.

Compensation and benefits to key managers

The ACP paid a total of B/.3,352 (2012: B/.2,768) for remuneration and benefits to its key management personnel. It is the responsibility of the Administrator to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

25. Commitments

Commitments as a result of construction contracts in progress and undelivered purchase orders amounted to approximately B/.2,018,000 (2012: B/.2,677,000), as follows:

	2013	2012
Investment programs:		
Canal Expansion	**B/. 1,525,000**	B/. 2,362,000
Others	**463,000**	275,000
Sub-total	**1,988,000**	2,637,000
Operations	**30,000**	40,000
	B/. 2,018,000	B/. 2,677,000

Total commitments include the Panama Canal expansion program contracts awarded during the fiscal year totaling B/.22,343 (2012: B/.30,271).

Contracts awarded during fiscal year 2013, include miter gate hydraulic cylinders to IHC VremacCilindersBV for B/.3,602, procurement of medium voltage cables for the third set of locks to Conductores Monterrey S.A. de C.V for B/.3,848 and construction of 25 range towers in Gatun Lake to Ingenieria Continental, S.A. for B/.6,455.

Contracts awarded during fiscal year 2012, include Modifications to Agua Clara Substation on the East Side of the Canal at the Atlantic Side to Celmec, S.A. for B/.3,797, realignment of Highway Limón, new Telfers Road and improvements to the Bolivar Avenue at the Atlantic Side to Howard Group, S.A for B/.5,777 and diesel swap hedge for the Panama Canal expansion program to J Aron Company for B/.9,227.

Fiscal year 2013 balance includes the design-build contract for the Canal Expansion Program´s major component, the third set of locks, to Grupo Unidos por el Canal, S.A. (GUPCSA) of B/.1,408,126 (2012: B/.2,205,906).

26. Contingent liabilities

At September 30, 2013, the ACP has received claims from GUPCSA for a total of B/.589,000. These claims are at different stages of the dispute resolution process provided for in the contract for the design and construction of the third set of locks. One of these claims concerning mixtures of concrete and aggregates was denied by the ACP. At September 30, 2013, GUPCSA filed this claim for B/.498,000 to the Dispute Adjudication Board (known by its acronym as DAB) for evaluation and conclusion. A hearing is scheduled for January 2014 which is expected to have a decision during the first quarter of 2014. In addition, the ACP received other claims for an aggregate amount of B/.91,000 of which have been denied by the ACP. Some of these claims could be submitted to the DAB for its decision within the next few months.

The contractor submitted claims for B/.130,000 of which were rejected entirely by the DAB. GUPCSA has submitted a Notice of Dissatisfaction with which reserves the right to seek for an international arbitration, but has not indicated whether it will proceed to date like this.

ACP has received claims related to other contracts of the Expansion Program for an aggregate amount of B/.54,000 of which have been rejected in their entirety by the ACP.

Additionally, the ACP has received claims related to other investment projects for an aggregate amount of B/.7,000 which, likewise, have been denied entirely by the ACP.

The notes contained herein relating to claims against the ACP cannot and should not be considered as support or evidence of acceptance of responsibility on the part of the ACP. In the opinion of the Administration and its General Counsel, the outcome of these actions will not have significant adverse effects on the financial position of ACP.

27. Events that occurred after the reporting period

On November 1, 2013, the ACP requested the EIB, a disbursement of B/.300,000 based on the agreement related to the financing contracted with multilateral agencies to fund a portion of the Canal Expansion Program. The funds will be received in the month of December 2013. (See note 15).

On November 25, 2013 meeting, the Board of Directors approved the transfer to the Treasury of the operating and functioning economic surplus corresponding to fiscal year 2013 in the amount of B/.610,537. (See note 14).

28. Approval of financial statements

The financial statements of the Autoridad del Canal Panama for the period ended as of September 30, 2013, were approved by the Board of Directors and authorized for issuance on November 25, 2013.

430
325
240
175
275
375

For more information about the Panama Canal, visit the Balboa Administration Building Information Office or call (507) 272-7602 or (507) 272-7677.
The Miraflores Locks Visitors Center is open daily from 9 a.m. to 5 p.m.
Internet users can visit the ACP website www. pancanal.com or send an e-mail to info@pancanal.com

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