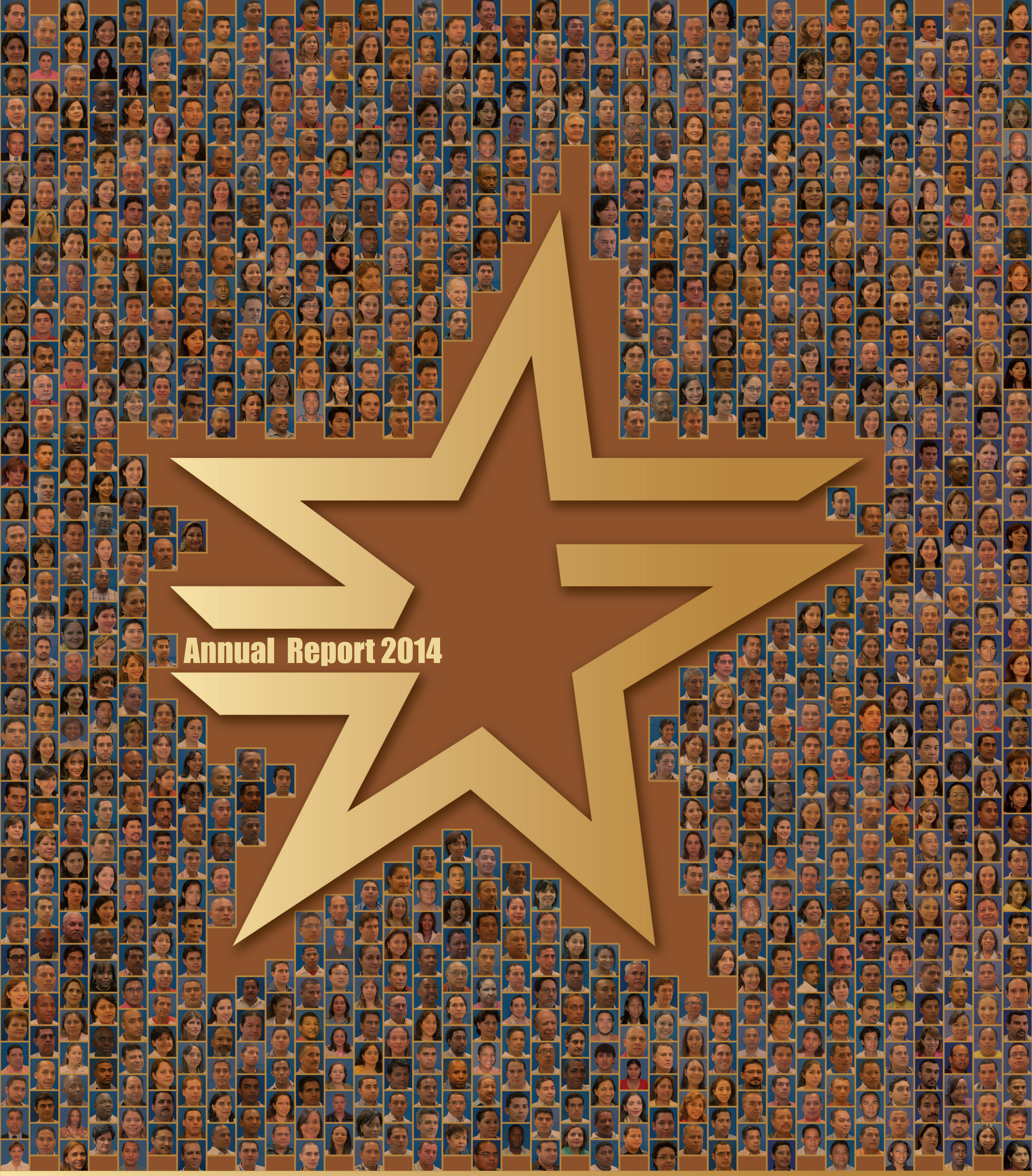
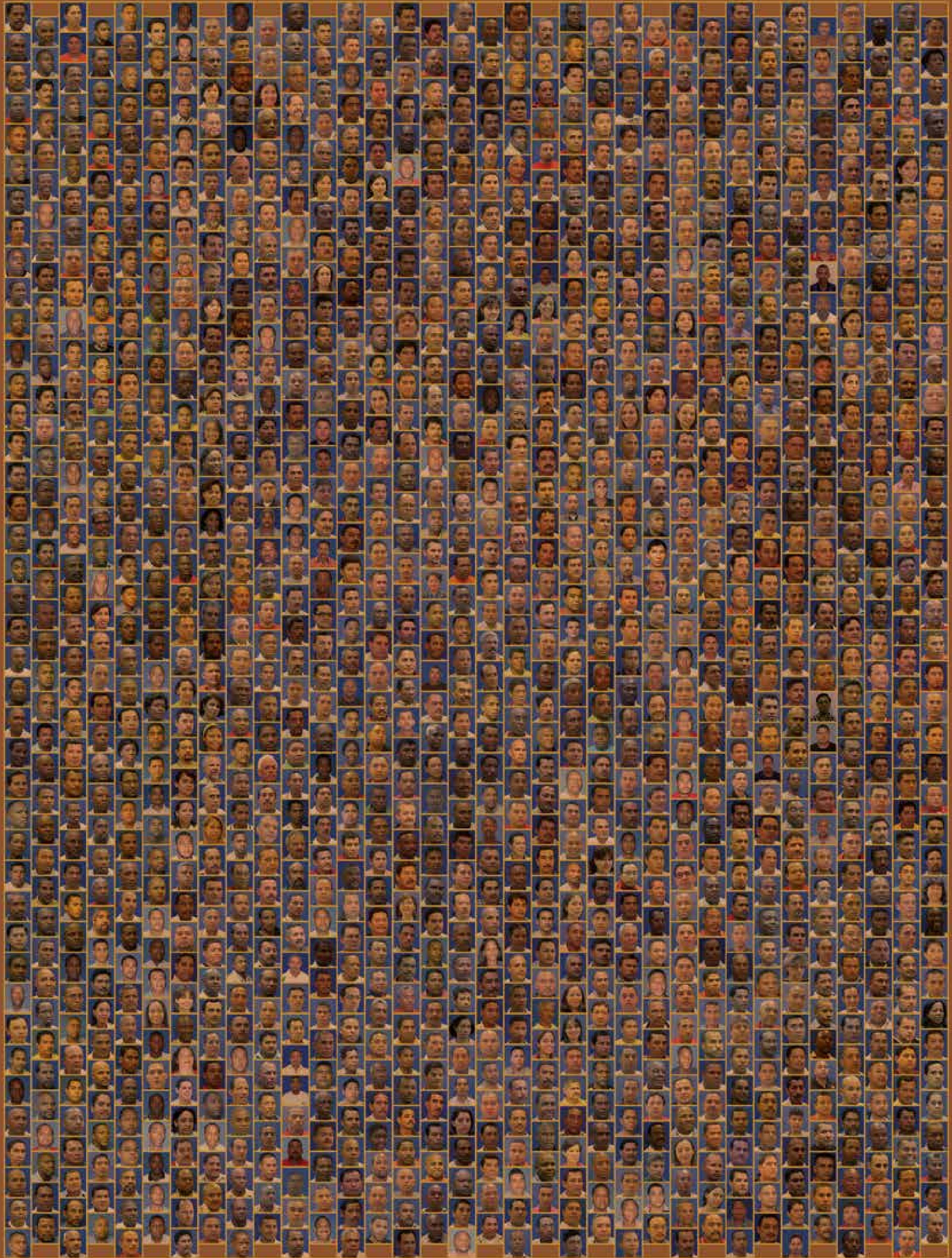
Annual Report 2014



CANAL DE PANAMÁ



Thanks to the life-force, soul, hard work and constant desire to succeed of all of those who have been part of the Canal´s workforce -its People- the Canal reaches its 100th anniversary. This Centennial represents, along the way, the historic challenge of the union of two oceans at the service of the world.

Therefore, we want to express our deepest gratitude and to congratulate those who have worn and lived the Canal throughout its history, for achieving a dream forged over a century ago, making it a reality and keeping it in force to position it to meet the new challenges that lie ahead.

One hundred years with open gates thanks to the work of all!

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CANAL DE PANAMÁ

Board of Directors
Canal de Panama

Roberto Roy
Chairman of the Board of Directors
Canal de Panama

Adolfo Ahumada
Director

Rafael E. Bárcenas P.
Director

Marco A. Ameglio S.
Director

Fiscal year 2014 was for the Panama Canal Authority (ACP) a year of challenges regarding the modernization and expansion of the Canal, as well as for a search for alternatives for the development of related activities that will result in business attraction, employment generation and additional income.

The arrival of the gates for the Third Set of Locks marked a milestone in the progress of the works, which attests to the commitment to comply with its design-build contract. ACP and the Contractor signed the variations incorporating the agreement reached to the original contract which was formalized in a Memorandum of Understanding that establishes the framework for the completion of all project components.

Under the advice and guidance of its Board of Directors, the ACP Administration has conducted market and research studies aimed at developing the proposal of a new tolls structure for the expanded Canal, including new segmentations, diversification of products and types of vessels which may transit the Third Set of Locks.

Since the beginning of the execution of the Expansion Program, different activities have taken place. These include: wildlife rescue and its relocation, reforestation of hundreds of hectares as part of the ecological compensation of the project, and the certification of forest projects currently implemented by the ACP in the Canal Watershed under the Global Voluntary Carbon Fix Standard (CFS).

A fact that filled Panama with pride was the Centennial of the Canal, which began with the presentation of the fully restored national flag of the heroic deed of January 9,1964, recognizing its historical value and the struggle of our people for our sovereignty. To commemorate the Centennial, we held musical and cultural events throughout the country, as well as photo exhibitions depicting the history of the Canal.

Other recognitions that exemplified part of the Centennial celebration were the presentation by the Board of Directors of the Panama Canal Award, to the relatives of the late Major General Omar Torrijos Herrera, and the former President of the United States, James Earl "Jimmy" Carter, Jr., for their significant involvement in the negotiation process for the signing of the Torrijos-Carter Treaties in 1977.

For the new fiscal year, the Panama Canal continues to formulate regular investment projects designed to increase efficiency, improve the reliability of its electrical system, protect water quality in the hydrographic watershed, and, in compliance with Law 28 of 2006, build a bridge on the Atlantic side of the Canal.

All these activities are disseminated in schools and universities, national and international forums, infrastructure congresses and civil engineering seminars, while maintaining transparency in the administration of the organization and sharing experiences and knowledge with the Panamanian people.

The achievements and goals reached during this period reflect the effort and dedication of our great workforce, who this Board of Directors expresses its deepest gratitude to.

CANAL DE PANAMÁ

Nicolás Corcione, Director · Guillermo O. Chapman, Jr., Director · Ricardo de la Espriella T., Director · Alberto Vallarino Clément, Director · José A. Sosa A., Director · Lourdes del C. Castillo M., Directora · Henri M. Mizrachi K., Director

Administrator

Canal de Panama

We are pleased to present the Annual Report of the Panama Canal Authority for fiscal year 2014. In the following pages you will find the most relevant information on operational, financial, and social performance and labor aspects of the organization; always committed to fulfill our responsibility of providing accountability to the country in a transparent and timely manner.

The year 2014 began with one of the most important challenges faced by the Panama Canal in recent times due to the differences that emerged during the construction of the Third Set of Locks. This situation once again put to test the ability of the Panamanian people, and especially of Canal employees, to address Canal affairs from a national perspective. And we did it based on the same principles of transparency and accountability, and always seeking the best national interests that have guided the administration and operation of the waterway during the past 15 years under Panamanian stewardship.

This year was unique and special because we celebrated the milestone of the Panama Canal's Centennial. It was undoubtedly an event that gave us the opportunity to measure the impact that the waterway has had on many aspects. From the novelty represented by its construction, the sacrifice of many to achieve this goal, and its continuous operation supported by a maintenance and investment program to modernize its infrastructure and equipment to the influence that it has had in shaping the identity and cultural diversity of our country; the Canal has become one of the symbols of our sovereignty, by deeds such as those of the Martyrs of January 9, 1964, and the historic transfer that we proudly celebrate today.

In terms of traffic and toll revenues, we completed fiscal year 2014 with very good news. We closed with of 326.8 million PC/UMS tons (Panama Canal Universal Measurement System), representing an increase of 1.8 percent compared to 320.6 million in fiscal year 2013. In addition, toll revenues amounted to B/.1,910 million, representing an increase of 3.2 percent as compared to fiscal year 2013. These revenues were complemented by ACP power generation plants which almost doubled the revenues generated in the previous year. This was vital to maintain adequate levels of electric power supply in the country during the dry season of fiscal year 2014.

It is important to highlight that the Panama Canal Board of Directors approved the contribution of B/.1,030 million to the National Treasury for the fiscal year under review, exceeding by B/.64 million the original approved budget, product of the effort and the capacity of over 10,000 Panamanians who operate and manage the waterway.

This contribution has three components: B/.654 million representing the surplus approved by the Board of Directors; B/.374 million in terms of net tons that transited the waterway; B/.2 million for public services rendered to the Canal, and others.

It is worth highlighting that since Panama assumed the responsibility for the operation and administration of the waterway at noon on December 31, 1999, the Panama Canal has contributed directly with B/.9,621 million to the National Treasury.

Once again good news was that at the completion of this reporting period, the Panama Canal reached a historical record of 982,392 visitors (11 percent more than in fiscal year 2013) in its three main tourist centers, attracted by the interest in knowing the interoceanic waterway during its centennial. This represents the highest number of visitors received in the Panama Canal in a year and reaffirms its potential as a tourist attraction.

As every year, the Canal continued to strengthen its commitment to providing quality service to its customers by adding value through ongoing maintenance and the modernization of equipment and structures essential for the operation, as will the acquisition of new tugs, plus innovative formulas to improve service to users.

We also stress the continuing commitment that the Panama Canal maintains with sustainable development; the cornerstone underlying the performance of the organization in all fields, ensuring equity and labor welfare for its main asset - its human resources - through continuous training while creating opportunities for professional growth.

This commitment is inherent in the actions the Canal undertakes regarding its natural and social environment, which consists of an active agenda of economic incentive programs, reforestation and other initiatives to improve the quality of life of the inhabitants of the Canal Watershed, while preserving natural and water resources vital or human consumption in productive activities and the operation of the interoceanic waterway.

In 2014, the Expansion Program reached its seventh year of implementation and achieved over 80 percent completion. Several important milestones such as the arrival of 16 gates that will operate in the new locks, the transfer of 8 of these to the Pacific, and the beginning of the installation process of these and other electromechanical equipment on the Atlantic side were achieved.

Likewise, we continue with the implementation of an investment training plan with the use of simulators due to the expanded Canal. Part of this training includes the construction of a new facility with two lakes, channels and scale model locks with the physical characteristics of the Canal to train pilots; the charter of a Post-Panamax vessel for several months; and the initial purchase of specialized high-precision instrumentation equipment using global positioning system technology to use in the expanded Canal and the existing Canal, in response to the recommendations made by Panama Canal pilots.

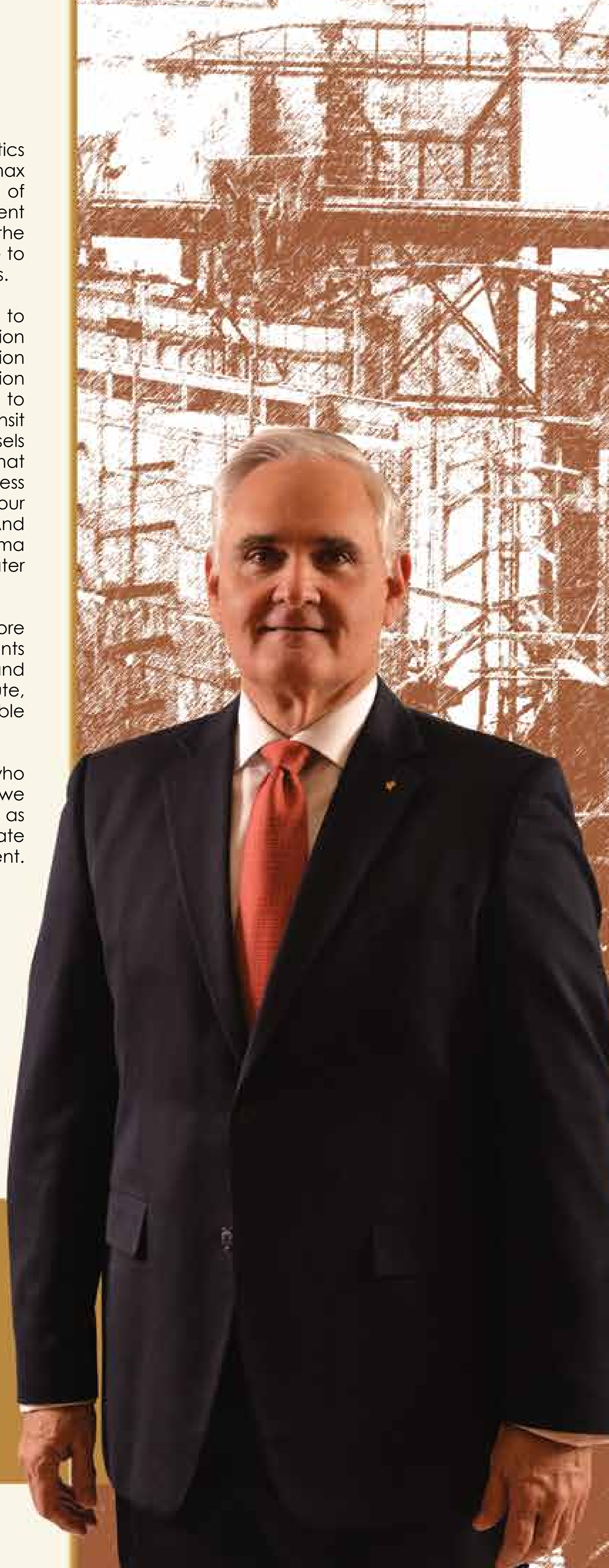
The Canal continues to innovate and look for ways to add value to the route. As a first major diversification project, we wish to highlight the beginning of a concession process for the design, construction and operation of a container port in Corozal, with specifications to accommodate Post-Panamax vessels that will transit the new expanded Canal and even larger vessels that could take advantage of the connectivity that Panama offers. We also began studies of other business projects and logistics facilities that will complement our offer and generate more revenue for the country. And most importantly, these activities will allow the Panama Canal route to remain highly competitive, with greater connectivity and a favorite of our customers.

Looking ahead, we feel optimistic about many more future challenges, opportunities and achievements in order to continue operating, maintaining and modernizing this important global transportation route, in an overall safe, competitive, profitable and reliable manner.

On behalf of the more than 10,000 Panamanians who have the privilege of working at the Panama Canal, we reaffirm the values that guide us in our daily actions, as well as our commitment to continue striving to create new and increased profits for our country´s development.

CANAL DE PANAMÁ

Jorge L. Quijano
Administrator
Canal de Panama



Jacinto Wong
Information and Technology

Oscar Vallarino
Corporate Affairs

Luis Alfaro
Engineering

Oscar Bazán
Planning and Business Development

Francisco J. Miguez P.
Finance and Administration

Jorge L. Quijano
Administrator

Administration
Canal de Panama

Manuel Benítez
Deputy Administrator

Esteban G. Sáenz
Operations

Carlos Vargas
Environment, Water and Energy

Ilya Marotta
Engineering and Program Management

Francisco Loaiza B.
Human Resources

Álvaro Cabal
General Counsel

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

To produce the maximum sustainable 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 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.

Advisory Board

The Advisory Board is the consultative body which assists the Board of Directors and senior management of the Panama Canal Authority regarding the needs, requirements and improvement of international public service provided by the Canal, under the Constitution of the Republic, the Organic Law and its regulations. It is a forum composed of leaders from the international community who contribute with their views and experiences to the design and improvement of the plans developed by the Administration for the better future of the Canal. It is composed of 17 distinguished personalities from the maritime and business world who meet at least once a year, convened by the Board of Directors.

The Board of Directors met in Panama from August 12 to 14, 2014. The agenda consisted of a tour of the construction sites of the new locks and PAC 4 to witness first hand the progress of the project; in addition to briefings on Canal operational developments and its new projects. During its deliberations, the Advisory Board applauded the efforts of the ACP in operations and advancement on the Third Set of Locks Project and analyzed new projects to be undertaken by ACP, and the possible construction of a canal through Nicaragua.

Also, on January 15 to 16, 2014, three Advisory Board members travelled to Panama to conduct an inspection of the works.

In the picture from left to right: Tommy Thomsen; William Flanagan; Aaron Gellman; Salvador Jurado; Gerhard Kurz; William A. O'Neil, Chairman of the Advisory Board, Flemming Jacobs; Philip Embiricos; Joe Reeder; Andronico Luksic; and Albert Nahmad. Absent: C. C. Tung, Mikio Sasaki, Koji Miyahara, Ernst Frankel, Ma Zehua, and Francis Rooney.

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 efficiently manage the volume and quality of the water resources of the Panama Canal Watershed.

OBJECTIVE 4 - To increase productivity through excellence in performance and the wellbeing of human resources.

OBJECTIVE 5 - To implement business practices that enhance good corporate governance.

Corporate Values

TRANSPARENCY	COMPETITIVENESS	RESPONSIBILITY
HONESTY	LOYALTY	RELIABILITY

Ad-hoc Committee

Law 28 of 2006 was established and the Ad-Hoc Committee was created to guarantee the Panama Canal Expansion Program's transparency. This Committee receives periodic progress reports on the execution of the Panama Canal Expansion Program.

The Ad-Hoc Committee consists of seven Panamanian citizens from different sectors: the Executive Branch, National Legislators Assembly, the National Council for Organized Workers, the Council of Rectors, the National Council for the Private Enterprise, civic clubs, and the Ecumenical Committee. The Ad-hoc committee and its members were officially instated by Executive Decree signed by the President of Panama, in compliance with the above-mentioned law, which was ratified in referendum.

Based on Law 28, the Executive Branch is summoned quarterly to analyze, evaluate, and make observations or recommendations on the construction of the Third Set of Locks, under execution by the Panama Canal Authority (ACP). During the year 2014, four meetings were held chaired by the Minister for Canal Affairs: February 13, May 21, July 31 and October 29.

On the picture, sitting from left to right, are: Juan Pablo Fábrega of the civic clubs; Javier Cardoze of the National Council for the Private Enterprise; Marcos Allen of the National Council for Organized Workers; Raúl Estripeaut of the Executive Branch; and Walter Smith of the Ecumenical Committee, all members of the Ad-hoc Committee. Ilya Marotta, Executive Vicepresident for Engineering and Programs Administration, Jorge L. Quijano, Panama Canal Authority Administrator; Roberto Roy, Minister for Canal Affairs; and Oscar Vallarino, Vicepresident for Corporate Affairs, for the Panama Canal Authority.

The Panama Canal´s

Historic and Current Role

The Panama Canal plays a key role in global trade flows as an exports facilitator. 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 its users: the Guayaquil – New York route through the Canal is a mere 2,848 kilometers, while sailing around Cape Horn would extend it to 10,388 kilometers. Similar distance savings are observed in other routes, within the American continent and in longer ones such as the East Asia – United States East Coast.

Beyond the distance advantage, the Canal is a hub for Panama's extensive service sector. In fact, the export of logistics-related services have been a mainstay of the Panamanian economy for over a century, and its importance has only grown in recent years. Furthermore, these services add value to Canal users. Since Panama´s independence, the country has adopted several policies which capitalize on its privileged location, namely: 1) the lack of a central monetary authority and the circulation of the United States Dollar; 2) banking secrecy laws; 3) the founding of the Colon Free Zone; 4) the establishment of an international banking center; 5) and the Canal Expansion Program, approved by a national referendum.

Currently, around 80 percent of Panama´s productive capacity is concentrated along the Panama City-Colon metropolitan corridor, which is also the home to 60 percent of Panama's population. Services account for nearly three quarters of the country's economic activity, as well as its total exports. The Canal and most of the country's logistics-maritime sector are clustered around this region and have a significant effect on the national economy. The Panama Canal's operation contributes to the National Treasury, this includes employing a large number of Panamanians throughout the country. Its total impact, however, is much larger due to the following factors:

- They are, in most cases, service exports whose income comes from users and customers. The export of services is a large generator of economic growth and provider of jobs, as well as a magnet for investment, new technologies and human resources training.
- The maritime flow of cargo and passengers in turn generates further revenues thanks to related activities such as shipping agencies, vessel-refueling services, and cruise ships. Furthermore, many companies choose to be based in Panama because of the country's international competiveness provided by its geographical position, the transshipment ports, the Colon Free Zone, the transisthmian railway, several logistics and processing zones and the international air hub at Tocumen Airport, among others.
- The existence of other subsectors indirectly related to the cluster, which benefit primarily from Panama´s dollarized economy, fiscal incentives and a trade-friendly legal framework (shipping registry, the banking center and legal services). All of these are increasingly interlinked. For instance, the Free Zone conducts much of its banking locally; the Canal, ports and the international airport complement each other.

Based on several economic impact studies, the aforementioned activities account for approximately 22 percent of the national production, including more than 40 percent of the exports, 28 percent of fiscal revenues and 25 percent of the labor force. Activities directly or indirectly related to the logistics cluster generate some 200,000 jobs. The cluster is therefore one of Panama´s main economic and employment drivers.

Exports as a percentage of the GDP Including the Colon Free Zone
(in millions of balboas)

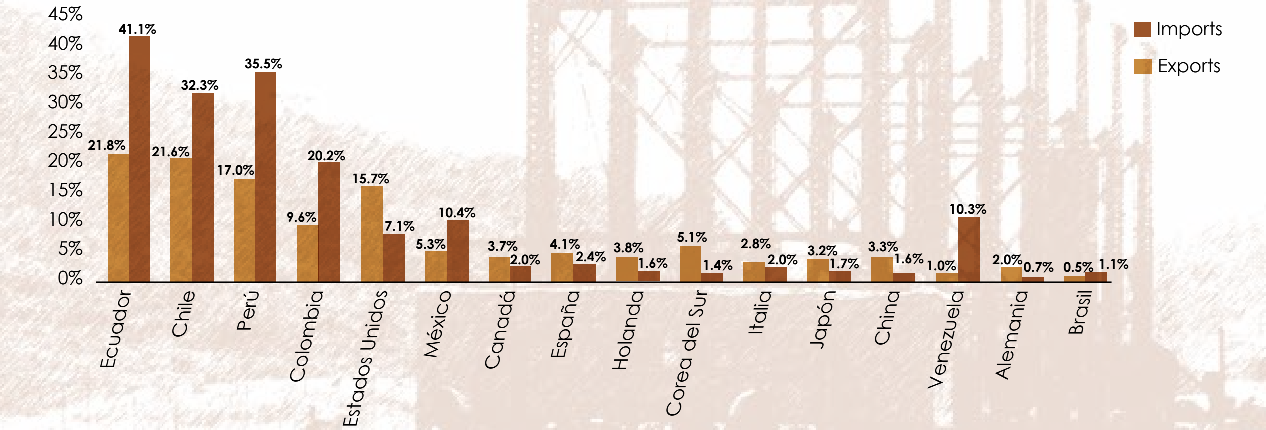
Year	Exports	GDP*	% of GDP
2000	7,833	11,621	67.4%
2001	7,985	11,808	67.6%
2002	7,593	12,272	61.9%
2003	7,612	12,933	58.9%
2004	8,874	14,719	60.3%
2005	10,607	15,465	68.6%
2006	12,476	17,137	72.8%
2007	14,057	21,122	66.6%
2008	17,221	24,884	69.2%
2009	17,562	25,925	67.7%
2010	18,750	28,814	65.1%
2011	24,099	33,271	72.4%
2012	29,956	36,253	78.9%
2013	29,554	42,648	69.3%

** Nominal*
Source: ACP with information from INEC

Panama´s economy is therefore highly dependent on the export of services. Over the last 13 years, total exports have averaged almost 68 percent of the gross domestic product (GDP), including the re-exportation of goods from the Colon Free Zone. This factor is crucial for the creation of jobs, as well as fiscal revenues to address poverty and provide better opportunities for all. In fact, Panama´s economic growth has historically been correlated with exports. For instance, during the 1960s, exports grew an average 13 percent annually while the economy grew 8 percent. From 1990 to 2000, exports grew an 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.

Similarly, the Canal supports the export sectors globally, by directly promoting world trade and economic development within these countries. Approximately 2.3 percent of maritime world commerce transits the Panama Canal.

Relative Importance of the Canal in the International Seaborne Trade of Selected Countries



Source: ACP with information from IHS, July 2014

Furthermore, the waterway is a crucial path for the world's commodities, directly impacting the GDP of several exporting nations. In 2013, 13.9 percent of global maritime grain transport transited the Canal, as did 6.0 percent of chemical products and 3.7 percent of containerized cargo.

Maritime Trade Volume Transiting the Canal – Calendar Year
(% of total metric tons)

	2006	2007	2008	2009	2010	2011	2012	2013
Containerized Cargo	3.9%	3.6%	3.8%	4.2%	3.6%	3.6%	3.6%	3.7%
Grains	18.8%	18.5%	18.4%	15.6%	14.7%	15.2%	14.4%	13.9%
Oil and Oil Derivatives	0.6%	0.5%	0.5%	0.4%	0.5%	0.6%	0.6%	0.5%
Coal and Coke	0.7%	0.9%	1.5%	0.9%	1.1%	1.5%	1.3%	1.7%
Minerals and Metals	2.1%	2.0%	2.0%	1.9%	1.8%	1.7%	1.7%	1.6%
Chemicals	8.5%	7.4%	7.4%	7.7%	6.6%	6.2%	5.8%	6.0%
Total Canal Participation	3.0%	2.8%	2.7%	2.7%	2.5%	2.5%	2.3%	2.3%

Source: ACP with information from IHS, July 2014

The Canal expansion, which in September 2014 reached its 80 percent completion mark, constitutes a paradigm shift for world maritime trade, particularly for Panama and the main user's of the Canal, including the United States, China, Chile and Ecuador, among others. It will create greater economies of scale in maritime transport, as it will allow the transit of ships with beams of up to 49 meters and 15.2 meters in draft through the new locks.

The expansion project will be a driver for other sectors indirectly linked to Canal traffic, further gaining from the many competitive advantages Panama has to offer. This cross-sector synergy has a multiplier effect and increases the country's overall competitiveness, and that of other countries which can use Panama as a hub.

Canal Traffic

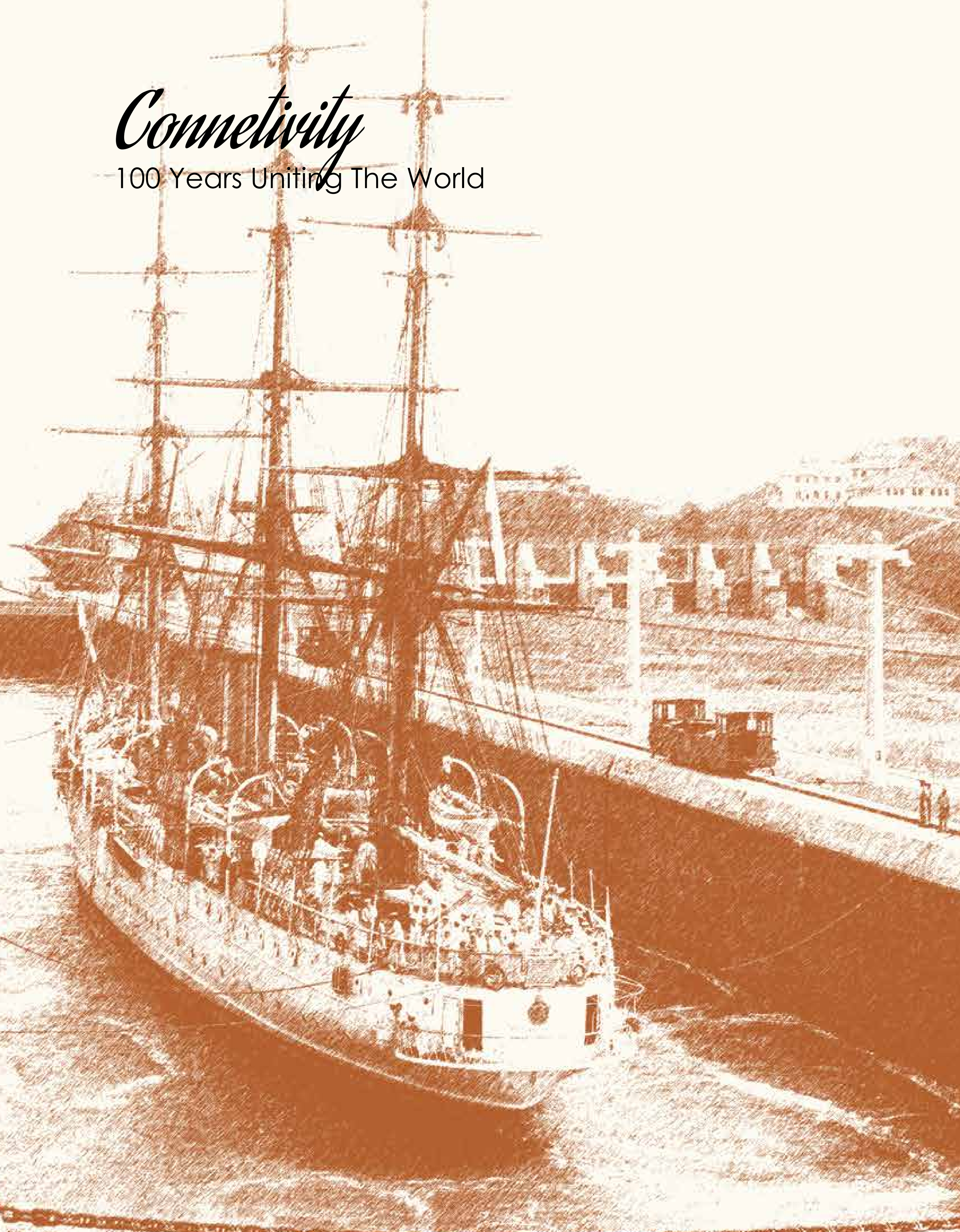
The Panama Canal PC/UMS (Panama Canal Universal Measurement System) net tonnage for fiscal year 2014 was 326.8 million tons, a 1.9 percent increase from the previous year tonnage. Toll revenues amounted to B/.1,910.2 million, a 3.3 percent increase from the previous fiscal year. In contrast, transits decreased 1.3 percent, from 13,660 in fiscal year 2013 to 13,481 in fiscal year 2014.

Fiscal year 2014 was characterized by relative improvements in the different economies that hinted at high expectations for recovery and growth at the end of 2013, but eventually turned into a mixed slowdown for the rest of the fiscal year. At the end of 2013, relative improvements were noticeable in the United States, the Eurozone and China. However, things changed after a cold front affected consumption in the United States, and limited productivity expansion coupled with market volatility and impacted the Eurozone. In addition, a decrease in exports prompted an unexpected decline in the growth rate in China.

At the beginning of 2014, an unexpected cold spell slowed down consumption and reduced production in the United States. The Federal Reserve indicated that during this period the economy contracted by 6.1 percent as a result of a slowdown in real estate and retail sales. Yet, improvements in consumption since March prompted a 6.7 percent economic rebound which mitigated the impact of that contraction. An increase in consumption boosted local production and created employment opportunities. These improvements have reduced the unemployment rate to 5.9 percent in September 2014.

Connetivity

100 Years Uniting The World



Since October 2013, the Eurozone economy showed mixed macroeconomic development. The response of the International Monetary Fund (IMF) and the European Central Bank's sovereign debt crisis in 2013 helped reduce market volatility causing a moderate economic expansion. This relative stability was marked by improvements in returns on the sovereign bonds of Spain, Portugal and Greece. However, the slowdown in the United States and China during the first quarter had a negative impact on production in Germany and France, sending Italy into recession in the second quarter. This situation has increased international concerns due to the importance of Europe on global demand, for both the United States and Asia.

In Asia, the economies experienced a slowdown. Much of this can be attributed to a reduction in Chinese exports as a result of a decline in global demand. The Chinese government intervened with limited monetary stimulus programs that increased economic growth rate by 7.5 percent during the second quarter. This has also lowered expectations for global trade, which was evident when the World Trade Organization (WTO) lowered its growth forecast for 2014 to 3.8 percent from 4.8 percent earlier in the year.

Whereas, the experience in Japan remained positive and raised expectations that were unseen during the last two decades and, in early 2014, the Japanese economy grew 6.7 percent in response to consumer buying sprees prior to a tax increase from 5 percent to 8 percent in April. This growth helped increase production and trade in the first quarter. However, as expected, aggregate consumption fell after the tax was implemented, causing a slowdown in the second quarter of 2014. Despite all, the economic outlook is positive and the fall of the yen is supporting export developments, which bodes improvement for the rest of the year.

In the geopolitical arena, 2014 was also a significant year. Earlier this year, Russia annexed the Crimean Peninsula, creating a geopolitical conflict between the United States, Europe and Russia that was marked by economic sanctions from both sides. On the other hand, in the Middle East, there was a resurgence of a group of Islamic militants (Wahhabis) who joined under the flag of the Islamic State of Iraq and Syria (ISIS) to reclaim new territory. These militants have increased regional instability not only in Iraq and Syria, but also in Saudi Arabia, the United Arab Emirates, Iran, and other Muslim countries which are being attacked by these fundamentalists. The United States has joined Iran and other countries in the region to stem their advance, but the results are still unclear. This instability could affect the price of oil and potentially impact the global economy. Finally, in the second quarter, an Ebola epidemic emerged in Africa which could affect international trade. The Ebola virus or Ebola hemorrhagic fever has spread through several countries in Africa and recently there have been isolated cases in the United States and Spain. While the international response has been positive, pressures to limit contact -commercial and/or tourism- with countries like Liberia and Congo are increasing and could significantly impact trade if such policies are imposed on the United States or Europe.

Full Container Vessels Segment

The full container segment is relatively a newcomer in the maritime industry; however its impact on world commerce is clear. Prior to containers, general cargo vessels with labor intensive and time consuming loading and unloading operations, were used to transport general cargo in bundles.

After the development of the container by Malcom McLean during the mid-1950s, container vessels revolutionized the maritime industry with the transport of containerized cargo. The Panama Canal has benefitted greatly from this market segment. During the 15 years of Panamanian administration, this segment has grown to account for 23 percent of transits and 47 percent of Panama Canal tolls.

The full container vessels segment had a moderate performance during fiscal year 2014, with 2,891 total transits, 110.0 million PC/UMS tons and 11.6 million TEU capacity. These figures reflect a 6.8 percent decrease in transits, 5.6 percent in PC/UMS tons and 4.2 percent in TEUScompared to the previous fiscal year. PC/UMS and TEU variations are smaller than the change in transits due to an increase in the average container vessel size from 3,895 TEUs in fiscal year 2013 to 4,004 TEUs in fiscal year 2014.

Toll revenues for this segment during fiscal year 2014 added up to B/.911.4 million out of which 94 percent came from TEU capacity and 6 percent from the 6.9 million loaded TEUs which transited the waterway. Revenues from this segment accounted for 47.8 percent of the overall Canal toll revenues for fiscal year 2014.

The number of liner services through the Panama Canal route experienced significant variations during fiscal year 2014. This year the Panama Canal faced the departure of two previously existing services, and the introduction of only one service. Fiscal year 2014 closed with 29 active services in the Panama Canal route.

Reefer Vessels Segment

During fiscal year 2014, reefer vessels registered 999 transits, 9.3 million PC/UMS tons, 89,079 TEUs transported on deck, and B/.45.4 million in toll revenues. Due to 111 fewer transits than in fiscal year 2013, the amount of TEUs and PC/UMS tonnage decreased 22.1 percent and 9.4 percent, respectively.

Bananas, the main transported in reefer vessels through the Panama Canal, accounted for 69.4 percent of the total long tons in this market segment. During fiscal year 2014, reefer vessel operators maintained with scant success, their strategy to carry TEUs above deck in order to compete against full container vessels; the latter continue to attract more refrigerated container cargo to liner services. The migration of perishable goods to container vessels continues to be the main threat for conventional reefer vessels.

During 2014, Ecuador, one of the main exporters of perishable goods through the Panama Canal, announced the signing of a free trade agreement with the European Union; however this agreement will come into effect until 2016. This grants an interim advantage to countries that do not require transit through the Panama Canal and which have similar agreements with the European Union, until the Ecuador agreement goes into effect.

Liquid Bulk Segment

A century ago, the United States was in an oil and gas production boom, due to important discoveries of conventional reservoirs, but lacked the necessary domestic transportation infrastructure. As of 1920, the Panama Canal became one

of the important links in the development and growth of this industry by facilitating the movement of oil coming from California to the refineries in the Gulf of Mexico.

Today, 100 years later, the United States once again faces the challenge of a new energy revolution. The discovery and extraction of oil and natural gas from shale formations in North Dakota, Pennsylvania and Texas will most likely allow the Panama Canal and its expansion project to become a cornerstone for the transportation of these products to target markets in Asia, Central and South America.

The liquid bulk segment had a good performance in fiscal year 2014. This segment registered 2,353 transits, 51.4 million PC/UMS tons and B/.239.7 million in toll revenues. Its performance resulted in a mixed outcome when compared with fiscal year 2013, as it showed a 4.7 percent decrease in transits and 3.0 percent in PC/UMS tons, while toll revenues increased 2.9 percent.

The total cargo transported during fiscal year 2014, registered a 3.0 percent increase compared to the previous fiscal year, mainly driven by the Ecuadorian oil exports, bound to North American refineries in the Gulf of Mexico and the increase in exports of liquefied oil gas (LPG) from the United States to the West Coast of Central and South America. This increase in cargo volume was reflected in the transits of vessels with a beam range of over 100 feet, which increased 5.2 percent compared to fiscal year 2013.

With regards to tanker vessels, transits dropped 13.8 percent, 12.5 percent in PC/UMS tons and 5.6 percent in toll revenues when compared with the previous fiscal year. The drop is explained by a 44 percent decrease in north bound ballast transits of vessels with a beam of 100 feet.

The reduction in the ballast transits was due to a decrease in gasoline imports from Europe[1] to the West Coast of the United States. Additionally, higher freight rates in Panamax vessels used to transport diesel in the arbitrage between the United States and the Northeast Coast of Europe, contributed to the decline of laden and ballast transits of vessels via the Panama Canal [2].

Cargo transported in tanker vesselsshowed a 5.8 percent increase compared to the previous fiscal year, with a 3.2 percent increase in the transits of laden vessels with a beam of 100 feet or more. Crude oil was the highest growing commodity during fiscal year 2014, mainly from Ecuador to the Gulf of Mexico route, which increased by 32.0 percent compared to the previous fiscal year.

The increase in crude oil exports from Ecuador in fiscal year 2014 is related to Petroecuador's strategy to sell crude oil on the spot market with a discounted price per barrel, which is indexed to WTI (West Texas Intermediate). Traditionally, Petroecuador sells most of its oil to Petro China, but occasionally tenders to sell the oil on the open market.

Ecuadorian Orient and Napo crude oil are in high demand by American refineries, as these types of crudes are optimal for blending with the light crude extracted from tight oil deposits in the United States[3] .

Chemical tankers results were mixed, showing a decrease of 4.0 percent in transits and 2.0 percent in PC/UMS tons, while toll

[1] *Europe Awash with Gasoline as Shipments to U.S. at Decade Low, Reuters, October 2013.*
[2] *Increased Flows on LR Vessels Lead to USGC-NWE MR Tanker Rates Bottoming Out, Platts, June 2014.*
[3] *Repsol, BP and Mitsubishi Win Tenders to Buy Ecuador Crudes, Reuters, May 2014.*

revenues increased 3.3 percent when compared to fiscal year 2013. This resultis attributed to an increase in the average size of chemical vessels with beam ranges from 80 to 99 feet and 100 feet or more.

Chemical tankers cargo declined 0.5 percent in fiscal year 2014, compared to the previous fiscal year. The products with the largest decreases were miscellaneous petrochemicals and mixed xylenes from the Gulf of Mexico to South Korea and China.

The decline in exports of mixed xylenes from the Gulf of Mexico in fiscal year 2014, was driven by a decrease in the production of the United States, which increased the price of mixed xylenes and discouraged the exports to South Korea[4], showing a reduction of 28.0 percent in the volume of cargo transported through the Canal, mainly in vessels with a beam range of 100 feet and over.

It is noteworthy that one of the products resulting from the extraction of shale gas is ethane, which is used to replace mixed xylenes as feedstock for petrochemical production.

Gas carriers had an excellent performance in all of its traffic indicators with increases of 14.4 percent in transits, 24.0 percent in PC/UMS tonnage, and 29.6 percent in toll revenues. This remarkable performance of gas carriers was driven by an increase in the transits of vessels with a beam of 100 feet and over compared to fiscal year 2013.

Cargo transported in gas carriers through the Canal during fiscal year 2014, showed a 24.5 percent increase over the previous fiscal year, driven by propane and butane increased reports originating in the Gulf of Mexico. It is worth mentioning that the volume of butane and propane available for export is the result of the extraction of these products from shale in the United States.

Moreover, the expansion of Targa and Enterprise terminal for export of LPG in Houston, Texas, drove LPG flows to Ecuador, Chile and Guatemala, increasing transits of LPG tankers with a beam of 100 feet or more through the Panama Canal.

Recently, LPG transshipment operations in the Atlantic and Pacific coasts of Panama have been identified. The transshipment operation in the Atlantic is performed by using a VLGC[5] with propane loaded in Houston, which transfers the cargo to a Panamax gas carrier deployed on routes to Guatemala, Ecuador and Chile[6]. The Panamax vessel transits laden through the Canal and later returns in ballast for replenishment.

The transshipment operation in the Pacific employs a Panamax ship loaded in Houston with LPG, which transits through the Panama Canal and transfers the cargo to a VLGC that is anchored in the Pacific. Once loaded, the VLGC begins its journey to Japan, and then returns to the Pacific coast of Panama to repeat the operation.

[4] Platts, US shale boom impacts Asian Petrochemicals, May13, 2014.

[5] Very Large Gas Carrier – Post-Panamax.
[6] Market Research, ACP Liquid Bulk Segment, September 2014.

Drybulk Carrier Segment

During fiscal year 2014, dry bulk carriers, the second most important segment for the Panama Canal, recorded a total of 112.0 million long tons, a 19.6 percent increase compared to fiscal year 2013. A total of 3,339 transits and 86.0 million PC/UMS tons were recorded, resulting in 15.0 percent and 18.2 percent increments, respectively. Toll revenues increased 27.2 percent as a result of higher volumes and a toll rate increase effective October 1, 2013. It is important to note that the record numbers for total cargo tons, PC/UMS tons and toll revenues for the segment are a result of record grain and salt movements. In terms of transits and up to fiscal year 2002, dry bulk carriers were the top undisputed number one ship type, followed by full container vessels and reefers. Since then full container vessels had the top performance in Panama Canal traffic.

Grains, the main commodity group of the segment, registered a record 47.7 million long tons in fiscal year 2014, a 49.7 percent increase compared to the 31.8 million long tons in fiscal year 2013[7]. Grain flows increased due to the record movements of soybeans and sorghum from the East Coast of the United States to China and the strong corn flows destined to Japan, China, and several destinations on the West Coast of Central and South America from the East Coast of the United States. In fiscal year 2014 the grain flows through the Panama Canal benefitted from an excellent corn and soybeans crops in the United States, especially compared to the previous drought-affected year. China has become an important player in the grain trade, including soybeans. Up to fiscal year 2001, grains were the leading commodity through the Panama Canal. Since fiscal year 2002, container cargo has become the main commodity through the Panama Canal.

Minerals and metals flows increased 6.4 percent as a result of increased shipments of iron metal from South Korea and Japan destined to the East Coast of the United States and copper metal from the West Coast of South America to Europe. At the same time, it is worth noting the record salt movements from Chile and Mexico destined to the East Coast of the United States, registered more than 8 million long tons for fiscal year 2014[8] .

On the other hand, coal and coke flows declined 11.5 percent because of lower thermal coal movements from the Colombian Atlantic Coast destined to Chile, due to the temporary closure of Port[9] Drummond due to non-compliance with the direct coal loading rules in Colombia and less coal demand for electricity generation given alternate energy sources, such as gas and hydro[10] .

In the near future it is expected that the dry bulk segment will continue its contribution to Panama Canal traffic in terms of revenue and cargo tons. Depending on the grain trade out of the East Coast of the United States, affected by crop levels and the growing demand for food in Asia, especially China, this segment will continue to be one of the mainstays for the

[7] *According to ACP Datawarehouse.*

[8] *Salt used mainly for ice melting.*

[9] *Drummond reanuda operaciones portuarias con inversión de $360 millones en moderno sistema de cargue directo, 1 de abril 2014. El Informador.*

[10] *Power generation in Chile increased 3.1 percent in May: Government, Reuters, June 30, 2014.*

Panama Canal. Soybeans from the United States destined to China, in completion with the production from Brazil and Argentina will continue to be one of the main trades for dry bulkers.

Overall, depending on the demand of the relevant economies for the Panama Canal, mainly the United States, China, Chile and Japan, the demand for coal, metals and minerals will be key contributors to this segment. The level of industrial activity and the demand for energy will be the main drivers for the segment, considered one of the key indicators of maritime trade.

Vehicle Carriers and the RoRo Segment

The vehicle carriers / RoRo market segment has evolved considerably during the one hundred years of the Panama Canal. From the inauguration of the Panama Canal in 1914, and all the way to 1950, automobiles were not a commodity transported by sea. However, in the early 1950s the seaborne trade of automobiles started to emerge. Back then vehicles were loaded and unloaded one by one using cranes by the lift-on/lift-off (LO/LO) system at an approximate rate of 15 cars per hour. These vehicles were transported by conventional liners that carried mainly general commodities, that is, general cargo vessels, and it is estimated that as early as 1955 some vehicles were transported through the Panama Canal. General cargo vessels amounted to 6,654 transits in that year.

In the mid-1960s, as automobile transportation between Europe and the United States increased, the demand for car shippers for high quality service increased as well. This led to the design and construction of pure car carriers (PCC), which used the roll-on/roll-off (RO/RO) technology developed during the Second World War. These vessels were dedicated to the transportation of cars and cargo, and could be loaded at an approximate rate of 250 cars per hour, a remarkable improvement from 15 cars per hour. By the end of the 1970s, pure car and truck carriers (PCTC) were introduced to transport high and heavy equipment such as trucks, buses, construction machinery, and agricultural equipment. By 1985, 844 vehicle carriers (PCC and PCTC) transited the Panama Canal with an average PC/UMS of thirty-three thousand tons. Almost thirty years later, during fiscal year 2014, the vehicle carriers / RoRo market segment recorded a total of 815 transits. Even though the number of transits has decreased in comparison to 1985, the average vessel in 2014 was 56,241 PC/UMS tons, an increase of 69.3 percent in size.

In general, the vehicle carriers / RoRo market segment had a strong performance during fiscal year 2014, in which the main indicators of traffic through the Panama Canal showed positive results in comparison to the traffic indicators from the previous fiscal year. During Fiscal year 2014, the segment recorded a total of 815 transits and 45.8 million PC/UMS tons. In comparison to fiscal year 2013, these figures represent a 6.4 percent increase in transits and a 6.7 percent increase in PC/UMS tonnage. Vessels with 100 feet and over beams accounted for 93.4 percent of the total Panama Canal transits. Toll revenues during 2014 accounted for $191.1 million, a 6.5 percent growth compared to fiscal year 2013. This growth in revenues was mainly a result of an increase in traffic.

Cargo tonnage totaled 4.6 million long tons, a 4.6 percent increase compared to fiscal year 2013 in which 4.4 million long tons were transported via the Panama Canal. The increase

in cargo volume through the Canal was driven by exports to the United States from Japan, South Korea, Mexico, Germany, and the United Kingdom. The main trade route for the Panama Canal, Japan – East Coast of the United States, recorded 1.0 million long tons, a 9.8 percent increase compared to the previous fiscal year. On the other hand, the Europe trade lane (Germany/United Kingdom) to the West Coast of the United States registered 0.6 million long tons, an increase of 0.1 million long tons. The West Coast of Mexico to the East Coast of the United States route has become the third most important path for the segment since 0.6 million long tons were transported via the Canal, a 0.4 million long ton increase in comparison to last year. This increase in volume is a direct result of the local production for local consumption strategy, which has led to an increase in coastal maritime transport within the regional bloc of the Americas. Lastly, the trade route South Korea to the East Coast of the United States recorded 0.3 million long tons, a 22.0 percent increase from fiscal year 2013.

Seaborne movements of finished vehicles are in the middle of a global paradigm shift, with further expansion in export trade from the United States, Mexico and Southeast Asia. In the past, the main routes for seaborne transport of automobiles were from Japan/South Korea to the East Coast of the United States, and from Europe to the West Coast of the United States in linear services (i.e. following a regular schedule). Today, however, more countries are producing and consuming automobiles, creating a rich trade web. Export countries now include Thailand, Mexico, China, and South Africa, among others. Auto manufacturers not only seek to increase local production for local consumption, but increasingly to produce the same model in several countries to have the flexibility to respond to exchange rate fluctuations and seek the most profitable combination of production sites to sales destinations.

In the near future the Panama Canal will face changing trade patterns as auto manufacturers relocate production closer to end markets. It is expected that as numerous new factories in Mexico start production, shipping volume of finished vehicles from Japan to North America will decline gradually. On the other hand, exports from new manufacturing bases in the United States and Mexico to neighboring countries are expected to continue to increase. Therefore, the trend toward local production for local consumption is not only a challenge for the Panama Canal, but also an opportunity to capture increasingly diverse trade flows.

Passenger Vessels Segment

Since the transit of the first passenger ship, the M/S Alliance, on June 8, 1914, the Panama Canal has been involved in a constantly evolving cruise industry. It is considered that the concept of the tourist cruise ships was conceived between 1918 and 1939, although it was exclusive for upper and upper middle classes. During this period, companies such as Cunard Line and Pacific Steam Navigation, with their ships Laconia and Reina del Pacifico, used the Panama Canal for their round the world journeys and 25-day cruises, respectively. In the United States, during the Prohibition era, the Cunard Line ships, Mauretania and Berengaria, offered the popular known "cruises to nowhere". These cruises allowed United States citizens to circumvent the ban outside US territorial waters (1920 -1933).

During World War II (1939 – 1945), most ships were used the transportation of troops or for other logistics related services, thus, the cruise industry did not exist. By the end of the war in 1945, most of the ships had sunk or were severely damaged. Due to this situation, the cruise industry was not resumed until the 1950s. Among the shipping companies that resumed their activity were Cunard Lines, Canadian Pacific, Panama Line, and P & O, among others. During this period, Panama Line offered two-week cruises from New York to the Canal Zone with three steamers, Ancon, Cristobal and Panama. During fiscal year 1955, the Panama Canal recorded 312 transits and $1.9 million in revenues.

Since 1960, the cruise industry experienced tremendous growth due to a new strategy targeted at the middle class segment that offered extremely affordable prices on vessels with greater capacity. Between 1960 and 2001, both supply and demand grew considerably, at an average 8 percent annual growth.

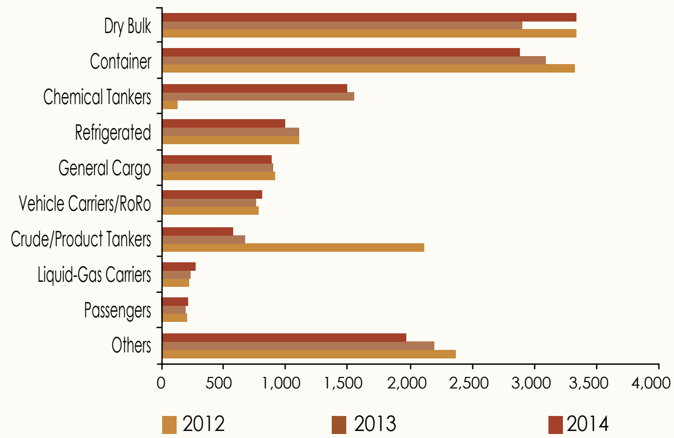
During the transition periodf or the transfer of the Panama Canal to the Panamanian government in 1999 to fiscal year 2003, transits dropped B/.32 percent, from 299 to 204. However, during fiscal year 2004, the segment registered a 26 percent increase with revenues of over B/.31 million. In the last decade (Fiscal year 2005 to fiscal year 2014) the average number of transits was 222, and the average ship size 43,439 PC/UMS tons. It is noteworthy that in fiscal year 2008, the toll structure was modified to adapt to the cruise industry by establishing a charge perberth and a charge per PC/UMS ton. Since then, berth toll rates have accounted for more than 83 percent of the segment revenues.

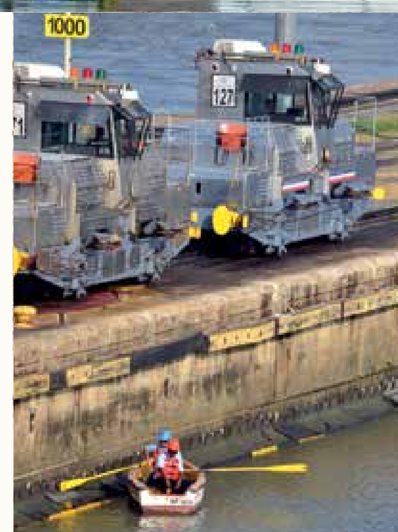
During the 2013-2014 cruise season, passenger ship traffic through the Panama Canal experienced a moderate performance. At the completion of fiscal year 2014, the segment recorded a total of 218 transits (178 full transits and 40 turnarounds), 12 additional transits thanduring the previous year (171 full transits and 35 turnarounds). The total number of passengers was in the order of 234,865, a 4.2 percent increase over the 225,367 registered during the previous fiscal year. Toll revenues amounted to B/.40.7 million, a 3.4 percent increase compared to the B/.39.4 million recorded during fiscal year 2013.

In fiscal year 2014, vessels charged on a berth basis accounted for 88.8 percent of the total revenues for the segment. During the 2013-2014 cruise season, the Panama Canal registered 270,369 billable berths, an increase in the order of 13,937 berths or 5.4 percent compared to the 2012-2013 season. On the other hand, vessels charged on a PC/UMS basis, accounted for 11.2 percent of the total segment revenues and 47.2 percent of the total transits, registered 1.0 million PC/UMS tons, a 12.6 percent decrease compared to the previous season.

Throughout this season, cruise lines such as Princess Cruises, Holland America Line, Celebrity Cruises and Norwegian Cruise Line, among others, included the Panama Canal in their itineraries. As in previous seasons, the Panama Canal recorded inaugural cruise transits as was the case of Carnival Legend with its first transit on August 22, 2014.

Transits by Market Segment



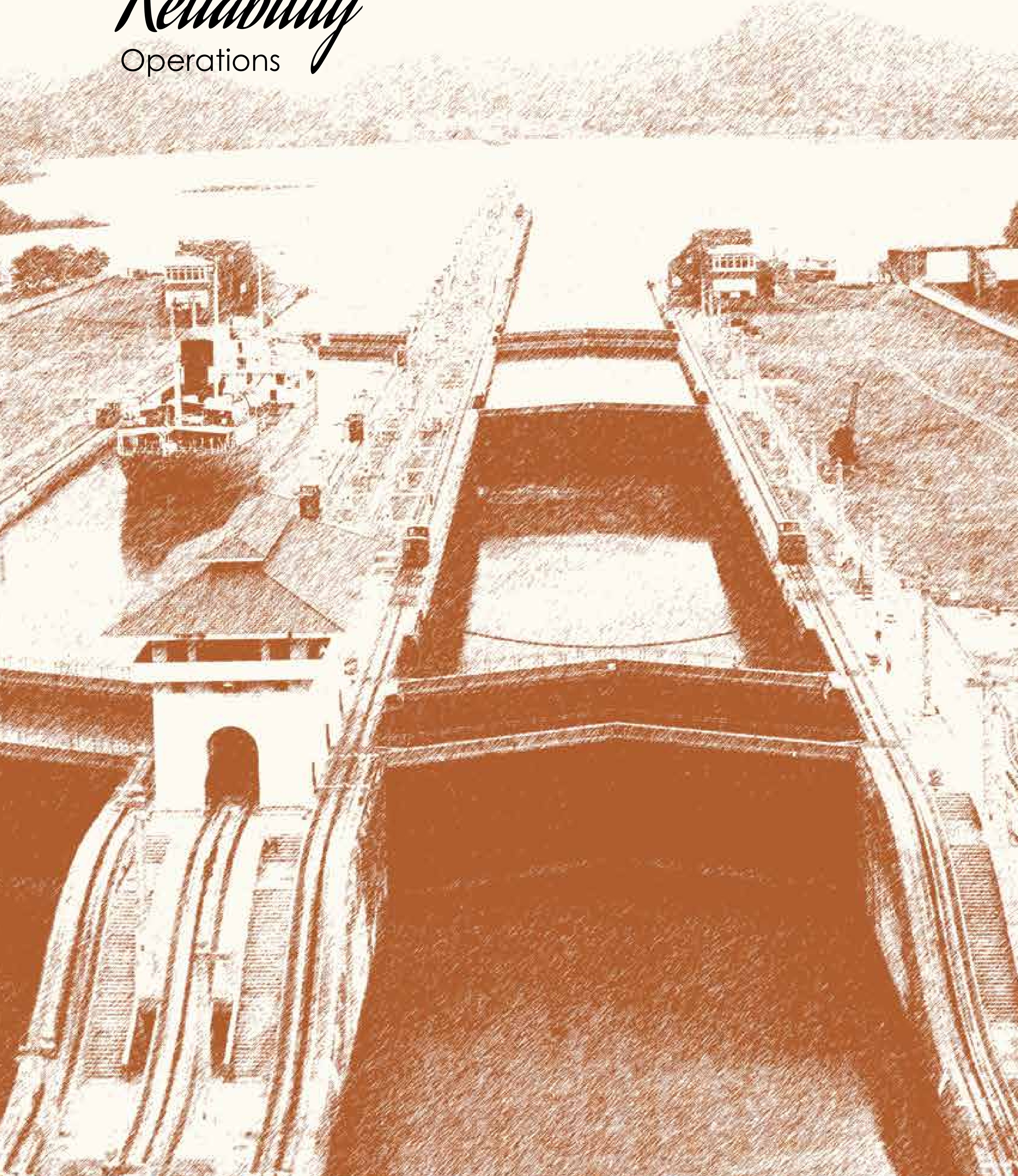


Two new transit records were set during fiscal year 2014. The first was the transit of 7,379 Panamax vessels (with a beam greater than or equal to 100 ft.), 138 more than the record of 7,241 Panamax vessels achieved in fiscal year 2012. This record was also established in percentage terms considering that Panamax vessels that transited this year (61.72 percent) exceeded the previous record of 58.41 percent established in fiscal year 2013. The second record was the transit of 3,161 vessels with draft of 38 ft. or more, 437 more than the previous record of 2,724 vessels in fiscal year 2012. It is important to emphasize that the transit record of 8,467 supervessels (with beams greater or equal to 91 ft.), was 12 vessels less than the current record of 8,479 established in fiscal year 2012.

As part of the Panama Canal Centennial celebration, the Second International Maintenance Congress was held from August 27 to 29, with the participation of 26 international speakers from Europe, Canada, the United States, Latin America, and the Panama Canal. Forty six companies participated with exhibits, shared and exchanged techniques and knowledge in the field of maintenance with close to 400 attendees. In addition, the 23rd Marine Accident Investigators' International Forum (MAIIF) was held from July 27 to August 1, 2014, in coordination with the Panama Maritime Authority (AMP) with a total of 45 delegates from 40 countries. This forum allowed the Panama Canal to share information and experiences with fellow investigators from other countries.

Canal operations officials and their counterparts in other government institutions coordinated the boardingfor inspection and seizure of the North Korean freighter MV Chong Chon Gang for suspicion of undeclared cargo. Canal operations personnel strengthened their support to other government institutions with an agreement signed between the ACP and the CBP (Panama Fire Department). This mutual support was evident during various fire emergencies in Panama City.

Reliability
Operations



Service
Level Performance

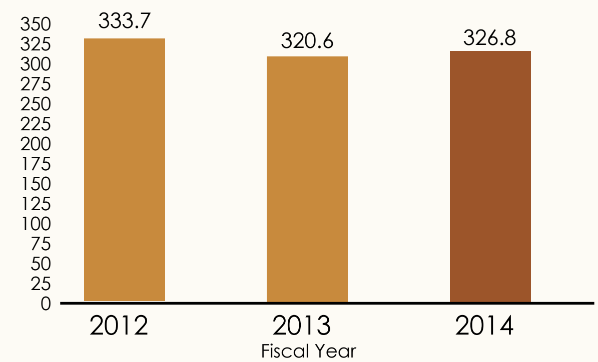
Fiscal year 2014 ended with a customer service level rendered of 81.66 percent, lower than our 85.5 percent goal. The service level measures the PC/UMS tonnage percentage in compliance with the expected Canal Waters Time (CWT) for each market segment, for vessels with and without reservation. This result was influenced by the transit increase of vessels with drafts of 36 ft. or more (4,353 compared to 3,870), by the increment of Panamax vessels (7,379 compared to 7,035), and by the number of vessels delayed due to fog (428 compared to 307). The market segments with the highest service levels were liquid gas carriers (87.31percent), containers (95.85 percent) and passengers (98.62 percent). However, the service level for vessels without reservation was 50.9 percent, higher than our 44 percent goal, in spite of the use of the reservation system (from 41.65 percent in fiscal year 2013 to 55.91 percent in fiscal year 2014).

During fiscal year 2014 326.8 million PC/UMS transited the Panama Canal, 6.1 million tons more than fiscal year 2013, with an operating cost of B/.1.27 per ton, exceeding the set goal of B/.1.36. Furthermore, the total revenue, which includes tolls and other maritime services, was B/.2,322 million, a 4.5 percent increase compared to fiscal year 2013, due to a tonnage and booked vessels increment.

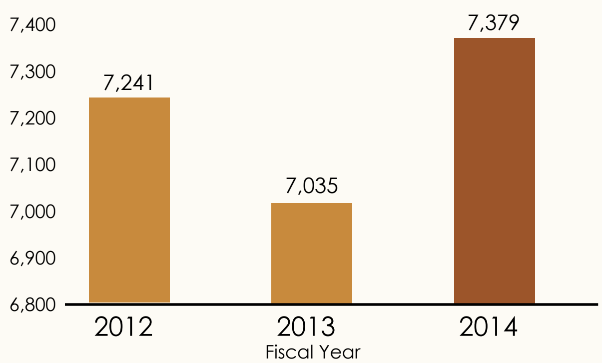
There were 11,956 oceangoing vessel transits (excluding small vessels), a 0.74 percentdecrease of 89 vessels compared to 12,045 transits in fiscal year 2013. Of this total, 8,467 transits were super-sizevessels (with beamsgreater than or equal to 91ft.), 278 or 3.39 percent over iscal year 2013. Similarly, 3,489 transits were regular size vessels (with beams ofless than 91 ft.), 367 or 10.52 percent less transits compared to 3,856 transits in fiscal year 2013. Small vessels registered a 5.90 percent decrease or 90 less transits with1, 525 compared to 1,615 in fiscal year 2013. Total transits, including small vessels,

Vessel Tonnage

(in millions of PC/UMS)



Panamax Vessels Transits



decreased by 179, from 13,660 to 13,481 in fiscal year 2013. Panamax vessels (with beams greater than or equal to100 ft.) registered 7,379 transits, 344 more transits or a4.89 percent increase, compared to 7,035 in fiscal year 2013. The greatest increase was registered in the dry bulk carrier segment (436, from 2,903 to 3,339). Panamax transits represented 61.72 percent of all oceangoing transits, compared to 58.41 percent in fiscal year 2013, thus requiring additional resources for larger vessels size and more tonnage.

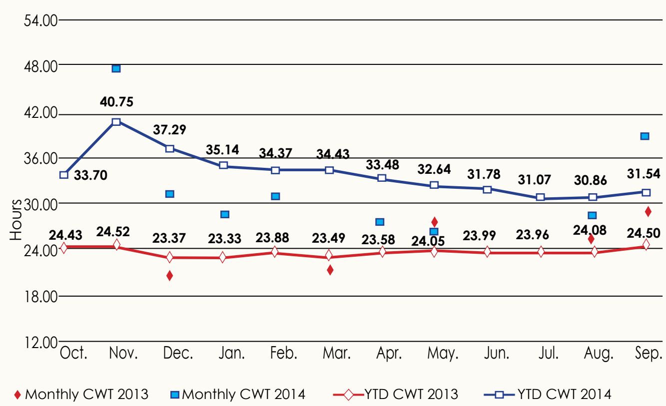
The usage average of the transit reservation system increased 18.07 percent compared to fiscal year 2013 (increased from 57.35 percent to 75.42 percent), a total of 95 vessels were booked through the auction system, 74 more compared to 21 in fiscal year 2013.

Canal
Waters Time (CWT)

Canal Waters Time (CWT), the total time elapsed since the vessels arrive at the Canal plus the actual transit time, registered an average of 31.54 hours, seven hours more than the 24.5 hours average for fiscal year 2013. This is the result of an incrementin the number of vessel saffected by fog (428 compared to 307 in fiscal year 2013), the increase in transit of vessels with draft of 36 ft. or more (4,353 compared to 3,870 in fiscal year 2013), and to the increase Panamax vessels transits (7,379 compared to 7,035 in fiscal year 2013). The average CWT for booked vessels was 16.73 hours, a 2.36 hours increase compared to the 14.37 hours in fiscal year 2013. For non-booked vessels, the CWT was 51.53 hours, 19.58 hours more than the 31.95 hours in fiscal year 2013.

Canal Waters Time (CWT)

Monthly Average and YTD 2014 vs. 2013



In Transit Time (ITT)

The In Transit Time (ITT), the elapsed time since the vessel arrives at the first locks until it exits the last ones, registered an average of 12.15 hours, 12.7 percent more than the 10.78 hours registered in fiscal year 2013. This average was affected by the number of vessels delayed by fog, which was particularly high in the first trimester (71 days of fog, which affected 428 vessels); by the increase in transit of vessels with draft of 36 ft. or more (4,353 compared to 3,870 in fiscal year 2013); by the increase of Panamax vessels (7,376 compared to 7,035 in fiscal year 2013); and by the increase in the usage of the reservation system (50.7 percent of reserved vessels). The 10.22 ITT hours for booked vessels affected the ITT for non-booked vessels due to the waiting time at the mooring or anchorage stations to allow passage to booked vessels. There was also a 255-hour increase for programmed maintenance performed during lane outages in Gatun, Pedro Miguel and Miraflores Locks, for a total of 698 hours compared to 443 hours in fiscal year 2013.

Dredging Services as Part of Operations

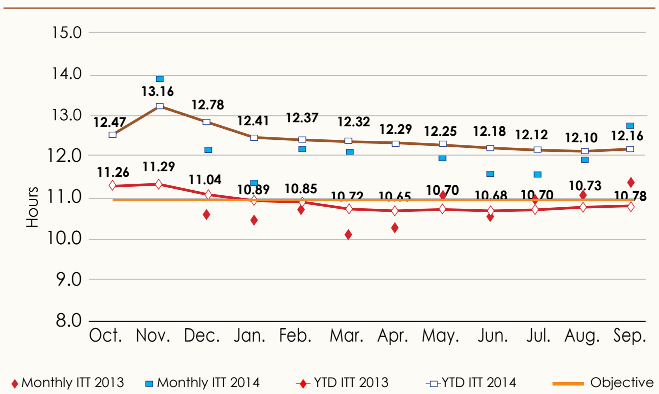
During this period, the Panama Canal dredging equipment mainly worked projects for the straightening and widening of the Culebra Cut to 218 meters, the dredging of Gatun Lake as part of the Canal Expansion Program, and the widening of the Chagres Crossing and Gamboa Reaches to 300 meters.

The Culebra Cut Straightening and Widening Project reached a global progress of 99.2 percent, which includes the dredging of a cumulative volume of 621,258 cubic meters, the installation of aids to navigation towers, range tower lights, and bank lights, and the construction of a communication booth and tower. The Gatun Lake Dredging Project, a component of the Canal Expansion Program, reached a global progress of 92 percent, as the Juan Grande Reach and seven other deliverables were accepted (one deliverable is equivalent to seven kilometers on one side of the channel).

Sediment was removed at the Pedro Miguel Locks approach to guarantee the adequate depth for the safe transit of vessels during the periods when Gatun Lake reaches critical levels. A contractor dredged 1.4 million cubic meters of accumulated sediment at the Miraflores Approach and Balboa Reach, for a total of B/.12.5 million. In addition, the remains of a ship wreck discovered at the Atlantic entrance north break water were removed.

In Transit Time (ITT)

Monthly Average and YTD 2014 vs. 2013



Infrastructure
Development

The widening of the Pacific Entrance to 300 meters began, including the dredging of 4.8 million cubic meters on both sides of the Canal; the widening of the reaches north of Bas Obispo (north of the Culebra Cut) to 300 meters; the modification of the Gamboa Mooring Station to accommodate New Panamax vessels; and the expansion of the Peña Blanca Anchorage in Gatun Lake, which includes the removal of submerged logs as well and dredging to the required depth.

The remodeling of the Maritime Traffic Control Center was completed; it has now a new display system (video wall), which provides traffic controllers with a better view of the activity in the channel and terminal ports, allowing a faster response to everyday Canal operations. Acoustic walls and floors were installed to improve radio communication and the reception of information; lighting systems were designed to be used without affecting video wall visionto work with greater precision; and ergonomic workstations were installed according to a space efficiency analysis. This state-of-the-art center has improved the working environment which results in better productivity.

New
Initiatives to Improve Service and Capacity

The just in time service was permanently implemented as an added value to the transit reservation system to improve the transit process, contributing to an increase in the utilization of the booking slots. Along with this initiative, the required arrival time for booked vessels

with the just in time service was modified in order to give customers greater flexibility and make the product more attractive.

In order to improve capacity, transit times and productivity, the lockage procedure modifying locomotive requirements were modified from six to eight for vessels with 700 ft. or more in length or drafts of 38 ft. or more. In Miraflores Locks relay operations, eight locomotives were assigned to vessels with 650 ft. in length or greater; and in Pedro Miguel Locks, at the high point of the transit season, flushouts were implemented for vessels with drafts of 38 ft. or greater, which expedited lockages.

For trial purposes and in order to allow choosing the most appropriate system to assist pilots during navigation, two new PPU (Pilot Portable Units) were acquired. Also, the resources assignment process for tugboats, launches,

ground transportation and deckhands was substantially improved with data access automation (Suites), allowing for greater flexibility in resources management.

The Fleet and Equipment Maintenance Division was restructured and important process improvements were accomplished, especially in floating equipment overhauling and preventive maintenance. These efforts resulted in the dry docking for the overhaul of 10 tugboats, Dredge Mindi, and seven barges (Drillboat Thor, salvage barges No. 1 and No. 3, the spud barge, lighter barges 214 and 219, and the Dredge Mindi anchor barge), as well as 25 launches.

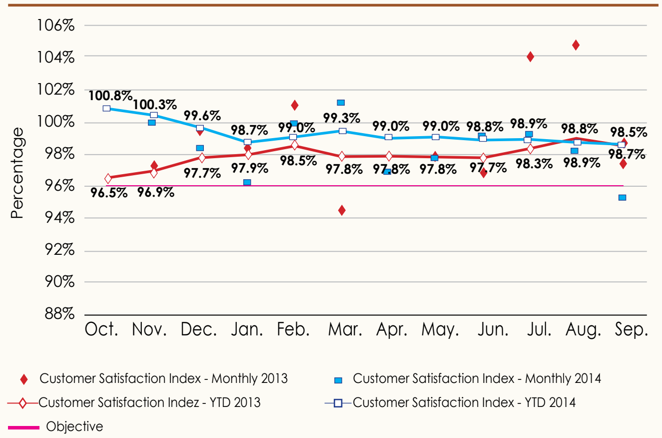
Customer Satisfaction

Fiscal year 2014 closed with a customer satisfaction index of 98.5 percent, representing a slight decrease of 0.2 percent compared to fiscal year 2013. This year the importance of our internal customers was stressed during Customer Service Week, from February 17 to 21, with activities oriented to motivate first contact employees and the attendance of more than 450 Operations employees, which included supervisors, leaders and foremen.

Managerial and operational personnel presented Panama Canal Centennial commemorative plaques to vessels that reached 100 transits, in the presence of representatives from the respective shipping agencies. On August 15, 2014, other commemorative plaques were presented to vessels on their inaugural transit, vessels holding a reservation that day, and to the first northbound and southbound vessels.

Customer Satisfaction Index

Monthly and YTD 2014 vs. 2013



Preparation for the Expanded Canal Operation

Significant progress was made in the preparation for the operation of the expanded Canal. This includes the remodeling and modernization of the infrastructure of the Maritime Traffic Control Center, with modern displays and new and better workstations. Existing computer applications were also updated to meet the expanded Canal requirements, allowing us to process the arrival vessels with greater capacity and drafts; the physical inspection process of vessels; establish expanded Canal locations, restrictions and resources; and submit queries and reports for thenew locks operations.

There was also advancement in the training of pilots and tugboat captains at SIDMAR (Simulation, Investigation and Maritime Development) Center, by simulating the navigation of New Panamax vessels through the new channels and locks structure. In addition, we continued to train more maritime traffic controllers, port entry coordinators and admeasurers. We reached 89 percent progress in the tugboat captain training development program, which will provide for enough trained tugboat captains for the proper operation of the expanded Canal.

Existing locks adaptations were completed to increase of the Gatun Lake maximum operational level to 89 ft. PLD (Precise Level Datum), required to operate the expanded Canal. We replaced 32 lock gate hydraulic cylinders; improved locks machinery tunnel ventilation; replaced 24 level sensors; installed 40 locks tunnel machinery room water side bulkheads, inside bulkheads and boots; sealed 32 lockgate joke sealing areas; and modified 186 conductor slot drainages, completing the project three months ahead of schedule.

During this time, eight new tugboats built in Spain were received, with up to 80 tons of bollard pull, the required power to assist New Panamax vessels, at a unit cost of B/.11.313 million. These tugboats complement the existing fleet and can be used in both the present and the expanded Canal operations.

As part of the Canal Centennial celebration, restoration and lands caping works were carried out at various Canal locations, such as, the Administration Building, Goethals and Stevens monuments, Miraflores Visitors Center, and the Gatun Yacht Club.

Canal Expansion

Seven Years Later

Being the main economic activity of the country, the Panama Canal requires to be expanded in order to ensure its competitiveness, while taking advantage of the Isthmus' geographical position which has turned Panama into a world trade, transportation and logistic shub. Such an expansion of capacity will also assure integral and sustainable growth of maritime activities that take place in the country.

Seven years after its commencement, the Expansion Program has reached 80 percent progress by the end of fiscal year 2014, during which a 13 percent progress rate was achieved. All this effort would not have been possible without the more than 10,000 employees from contractor companies who have worked day and night throughout the year to excavate 90 percent of the 49 million cubic meters needed for the new Pacific Access Channel, and to dredge 96 percent of the 52.2 million cubic meters estimated for navigational channels.

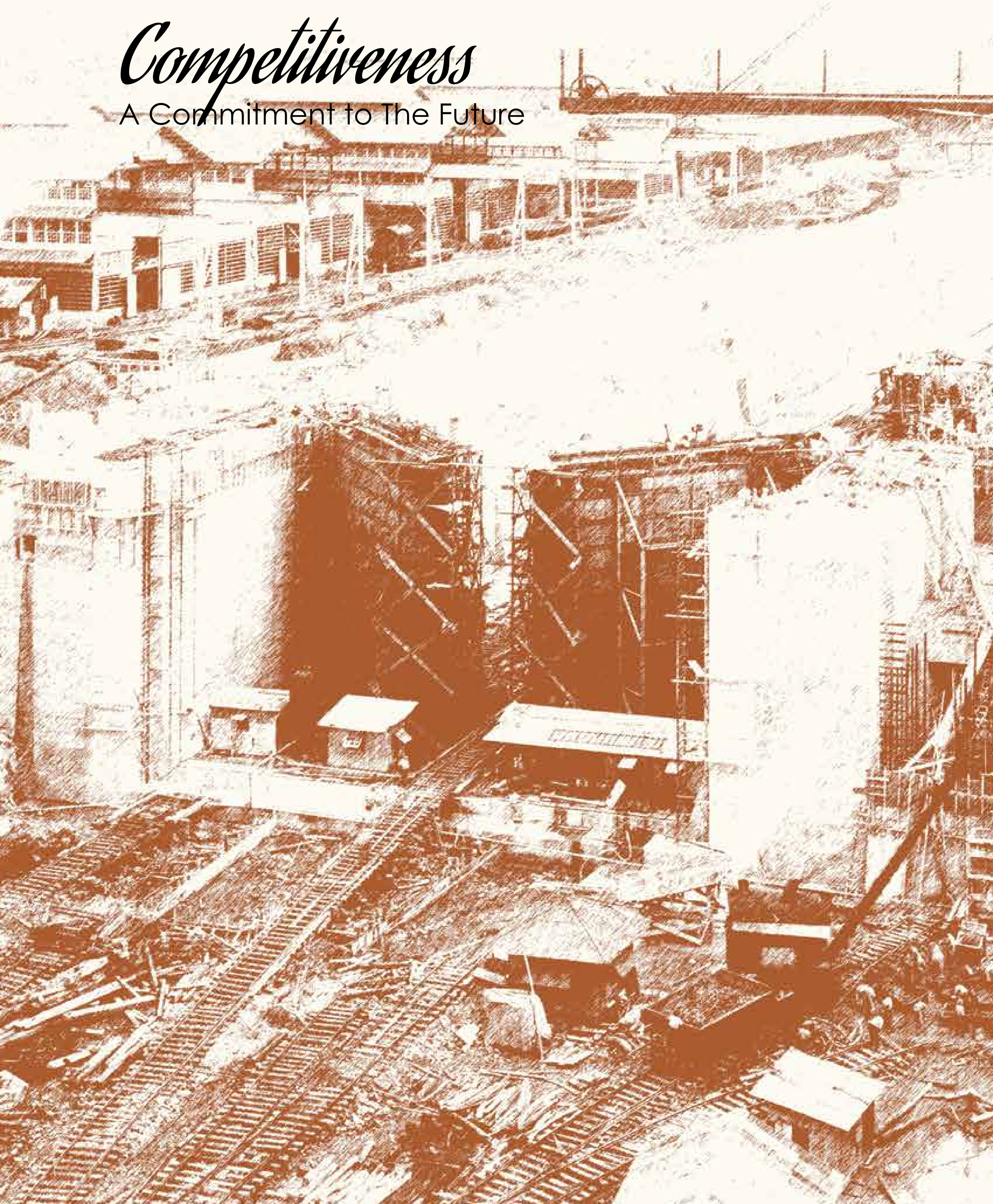
Regarding volumes reported for the construction of the new locks, excavation and dredging activities reached 42 million cubic meters from a total of 48.7 million forecasted while structural concrete and concrete pouring totaled 4 million cubic meters from the 4.4 million required.

Locks

The year 2014 represented a challenge for the Third Set of Locks contract. In February, the consortium Grupo Unidos por el Canal, S.A. (GUPCSA) suspended project field work with the intention that the Panama Canal Authority (ACP)

Competitiveness

A Commitment to The Future



acknowledged its claims regarding alleged cost overruns of up to B/.1,600 million. After months of extensive negotiations with the contractor, the effort of a committed team resulted in an acceptable agreement for both parties, ensuring the continuity of the works. The agreement, which did not change the legal framework or the contract price, nor does it include payments for claims, was formalized through a contract modification.

Another important milestone was achieved with the arrival in June and September 2014 of the respective second and third shipment of the new lock gates in a semi-submersible vessel. A total of 12 gates have arrived and five of them have already been relocated to the Atlantic-site lock chambers for their installation. Such a challenging operation as the relocation of the gate (with gates having an average weight of 3,300 tons) was performed by transporting them by means of a ramp with a slope no greater than 6 degrees.

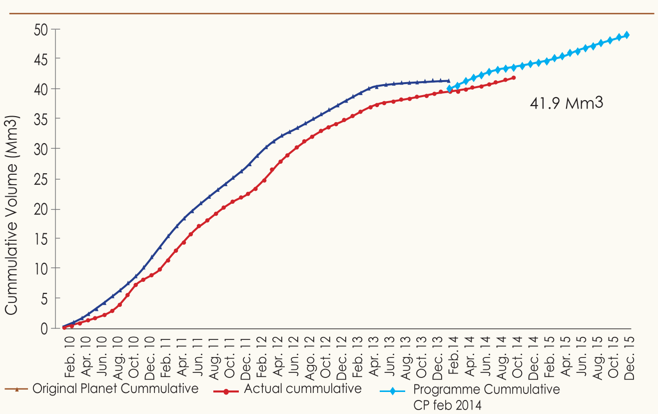
In the same manner, the on-site delivery of the main electromechanical components for operating the new locks was completed.

Concrete production reached a total volume of 4 million cubic meters for both lock complexes, representing a 92 percent progress rate. This amount includes the 2-million-cubic-meter milestone for concrete poured in the new Pacific-site locks on June 14, 2014.

Such progress on concrete structures allowed for the commencement of other activities, such as backfilling with filter materials. The installation of electromechanical elements also advanced, including second-stage

Design and Construction of the Third Set of Locks

Dredging and excavation volumes - actual vs programmed through September 2014



embedments for gates and valves, and concrete work began for the water saving basins at the Pacific site.

In regard to the construction of the three dams for the Third Set of Locks, a 99 percent progress rate was achieved for back filling work for the largest dam located at the west side of the access channel; and work for the other two dams significantly progressed at such a pace that in certain months rates have surpassed those programmed for material-placement activities.

At the end of fiscal year 2014, the design-build contract for the new locks achieved 77 percent progress. The agreement reached between both parties (ACP and GUPCSA) establishes December 31, 2015 as the date of completion of the works, and the availability of an expanded operational Canal during the first quarter of year 2016.

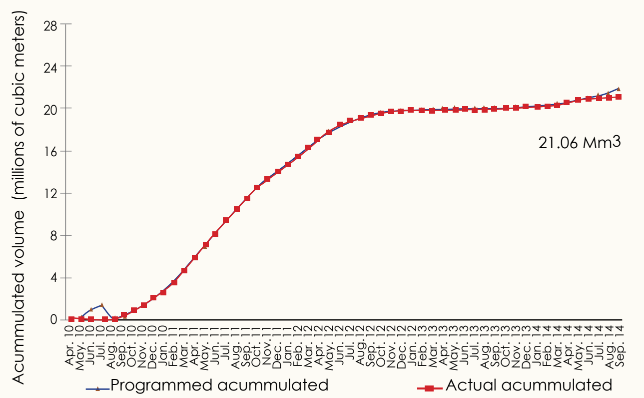
Pacific Access Channel

The Expansion Program requires the construction of a new 6.1-kilometer long access channel to connect the new locks in the Pacific sector with the Culebra Cut. Three out of the four stages involved in achieving this purpose have been successfully completed, and the fourth reflected 76 percent progress by the end of September 2014.

Its most difficult component consists of the construction of a rock dam and impervious clay core, known as the1E Borinquen dam, which will block the waters from Gatun Lake. The consortium responsible for this project, ICA-FCC-Meco, completed the construction of the almost 2.3-kilometer-long and 3-meter-deep concrete cutoff wall that runs beneath and along the dam center line.

Because of the great volume of material required to build this important structure, Miraflores and Fabiana Hills, located inside the Canal's operational area, were excavated. A cumulative volume of 1.28 million cubic meters was removed, from the 1.38 million estimated for this area. Excavations also began in the area known as Miraflores II (the secondary work front near Miraflores Hill), and 19,200 cubic meters were removed, from the 2.5 million foreseen. Material excavated consisted mainly of clay, for which an embankment test began prior to placing it in the dam.

Pacific Access Channel (PAC4)
Excavation Volumes – Actual vs Programmed
through september 2014



An impass arose for this contract, but was likewise settled through management commitment after several months and multiple negotiations. The agreement stipulates that the consortium waives the claims and arbitral processes presented to date in any of the dispute courts allowed under the contract. The ACP, on its part, modified the contract to financially compensate the contractor due to different site conditions, and provide an extension of 651 days for completing contract execution. The new contractual-completion date established was May 31, 2015.

Navigational Channel Improvements

The Expansion Program established dredging projects in the Atlantic and Pacific entrance channels to the Canal, Culebra Cut and Gatun Lake in order to guarantee the navigation of Post-Panamax vessels, which have three times more load volume capacity than the Panamax that currently transit the waterway. The deepening of both sea entrances and Culebra Cut was finished during prior periods for these projects.

With respect to the deepening of Gatun Lake, at the end of fiscal year 2014, 23.8 million cubic meters of material were dredged, from a total of 26.5 million foreseen. ACP Dredging Division was mainly in charge of the works. Among the dredges used for this purpose were the historical “Mindi” and the “Rialto M. Christensen”, built in 1943 and 1977, respectively, and the modern “Quibián I” and “Alberto Alemán Zubieta”, acquired by the ACP during the last three years. The installation of 25 navigational towers in the lake was also completed.

The volumes mentioned above include those for the concluded contracts for the reaches located to the north of the Gatun Lake by Dredging International de Panamá S.A., and for the north entrance of the Pacific access channel by Jan De Nul n.v. Only pending is the dredging work for the Mamey and Gamboa reaches in order to complete this project.

Raising Gatun Lake’s Maximum Operating Level

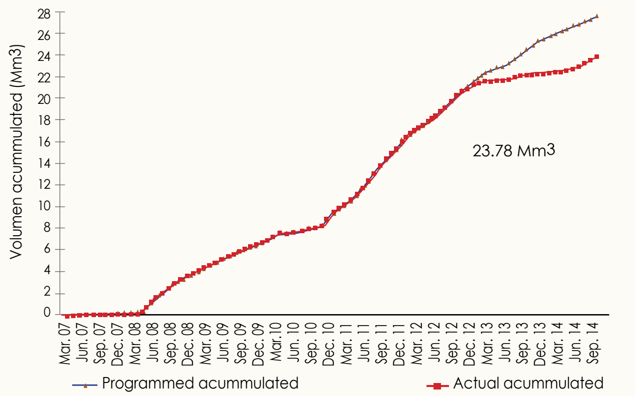
In order to improve water supply for Canal operations, it was decided to increase the maximum operational level of Gatun Lake by 45 centimeters, from 26.7 to 27.1 meters. This raise will provide an additional 200 million cubic meters of water, and requires the modification of the Canal operational structures that are being affected by this increment. Remediation work for third-party structures such as docks and housing is also necessary. These works achieved 93 percent progress.

During the period, all activities related to the modifications required to reach a new operating level for Gatun Lake were completed at Pedro Miguel and Gatun locks. In addition, remediation works were performed for third-party structures as well asmodifications to ACP infrastructure in preparation for a future raise of the lake´s level.

During year 2014, the replacement of 32 hydraulic cylinders with new semi-submersible units to activate the lock gates at Gatun and Pedro Miguel locks was completed.

Gatun Lake Deepening and Widening and Culebra Cut

Dredging and dry excavation volumes - actual vs programmed through September 2014



Administration
and Financing

The program management consultant, CH2M Hill Panamá R. de S.L., worked together with the ACP, with special attentionon all work execution aspects for the new locks. Additionally, it continued providing supervisory and inspection services in Italy during the fabrication of the new lock gates.

Regarding legal advisory services related to international contracts, Mayer Brown LLP and its subcontractor, Vinson & Elkins LLP, provided adviceon subjects related to the locks contractand, particularly, claims.

On September 2014, took place the hearings before the Dispute Adjudication Board in relation to the GUPCSA claim on basalt and concrete.

The five multilateral agencies that provide the credit facility required for the execution of the Expansion Program continued to receive financial, operational and program progress reports from the ACP, as established in the common terms agreement (CTA). As of September 2014, the ACP had received the complete disbursement of the contracted financing for an amount of B/.2,300 million.

For her outstanding work in charge of the Expansion Program, the ACP Executive Vice President for Engineering and Program Management (IA), Ilya Espino de Marotta, received the recognition named "Distinguished Woman of Year 2014", from the Panamanian Association of Business Executives and Association of Business and Professional Women of Panama.

Project
Safety and Occupational Health

Follow-up of safety and hygiene measures applied by the contractors at work sites was focused on core subjects such as the previous planning of critical tasks (lifting, excavating, blasting, working in confined spaces, and crushing), adequate lighting for work fronts, and control of the environmental aspects of work impact (such as noise, dust and vibrations).

As during Canal construction days, when extraordinary efforts were made in health matters, regular vector control monitoring has been performed under the Expansion Program as part of contract compliance and aligned with the national emergency to avoid mosquito breeding sites.

Tools such as formal audits, joint field visits, information exchange workshops, and nonconformities were used by ACP Project Occupational Safety Section to seek for the application of preventive and corrective actions regarding contractor safety and hygiene matters.

The ACP also shared important information with contractors regarding tendencies of deficiencies or non-compliances, aimed at reducing incident rates.

Additional efforts included health fairs, the relaunching of the health and safety mission with the stamping of fingerprints by all IA personnel, safety talks, and evacuation drills, among other activities.

Environmental Management

ACP environmental protection specialists are constantly monitoring all ongoing projects under the Expansion Program to ensure compliance with socio-environmental mitigation measures.

The reforestation program is a challenging task that is being executed in coordination with the National Environmental Authority (ANAM) and the Aquatic Resources Authority of Panama (ARAP) in the provinces of Colon, Panama, West Panama, Cocle, Herrera and Chiriqui.

During fiscal year 2014, the ACP awarded Consultores Ambientales y Reforestadores S.A. (Careforsa) two new reforestation contracts for 62 and 65 hectares in the Soberanía National Park (Agua Clara and Camping Resort, respectively). Thus, a total of 812 hectares have been planted throughout the country, 703 hectares of forest and 109 of mangrove areas.

The five-year maintenance phase for reforestation projects, comprising 270 hectares in the Omar Torrijos, Chagres and Baru Volcano National Parks; and in the Center for Forest Research (phase I) was completed.

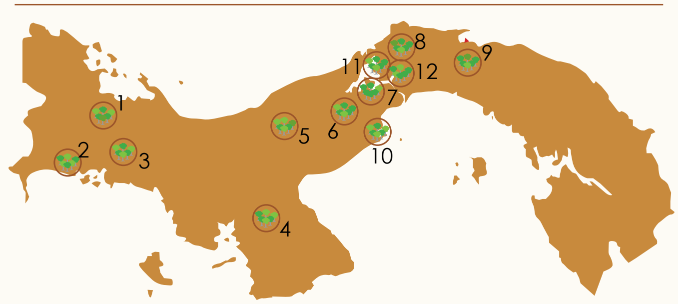
On its last visit in August 2014, Environmental Resources Management Panamá S.A. (ERM), the independent auditor for the credit facility lendersand ANAM, highlighted the continuous improvement of IA management in its12 semiannual audits, and confirmed that the Expansion Program is in line with the Equator Principles and International Finance Corporation performance standards.

Archaeological findings from the Pre-Columbian, Colonial and Republican periods were discovered during inspections conducted throughout the year. And estructures belonging to the mid-twentieth century were discovered. This will facilitate recreating and obtaining a better vision of the massive military facilities that were built by the United States armed forces for the defense of the Panama Canal before and after World War II.

A Pre-Columbian deposit that might have been used at the beginning of the Christian era, between years 200 B.C. and 240 A.D, was also found. This conclusion was reached due to the discovery of materials painted with motifs from the La Mula style from Gran Cocle.

In addition to the archaeological assessment that is being made of these areas, both the ACP and contractors

Reforestation Program Location Map



1. Barú Volcano National Park -30 has
2. Chiriquí Viejo River Mangrove Forest -50 has
3. Forest Research Center -100 has
4. El Montuoso Forest Reserve -50 has
5. Gral. Omar Torrijos National Park -150 has
6. Altos de Campana National Park -30 has
7. Camino de Cruces National Park -115 has
8. Chagres National Park -40 has
9. Tapagra Hidrologic Protection Zone -61 has
10. Chame Bay Multiple Use Zone -59 has
11. Soberania National Park Camping Resort -65 has
12. Soberania National Park Aguas Claras -62 has

continue performing archeological monitoring during soil removal activities in order to register and rescue any finding of such materials, thus avoiding potential damage to the nation's cultural patrimony.

Public Relations, Communication and Historical Documentation

If field work doesn't cease, neither do the activities related to communication and historical documentation of the Expansion Program progress.

Since the beginning of the task, a total of 52,741 persons have been received, including visitors to construction sites for the new locks and dredging and excavation areas. Conferences and briefings have been given to national and international audiences regarding Program progress, and requests from local and foreign media have also been responded.

Within the framework of the Canal Centennial, 200 artistic silkscreens were reproduced from five paintings made by distinguished Panamanian artists. The paintings, selected from the Expansion Program Painting Collection, emphasize workforce and movement of heavy equipment.

Honoring the acquired commitment with the documentation of this work, the ACP published the third volume of the book entitled "The Panama Canal Expansion: Portraits of a Historic Undertaking 2012-2013", which contains photographs of field activities and Panamanian workers who contribute their effort to accomplish this goal.

For the second consecutive year, the ACP received a the prize from the International Academy of Visual Arts for a corporate video on the progress of the Expansion Program. The video was produced by the ACP Communication and Historical Documentation Section.

A Sustainable Canal

The world is evolving and, in the meantime, all actions and activities related to modern business management impact or leave their footprint. This results in the development of new major opportunities or risks that are impacted by both social and environmental issues and whose relation to financial issues become a reality in the equation of a business and its sustainability

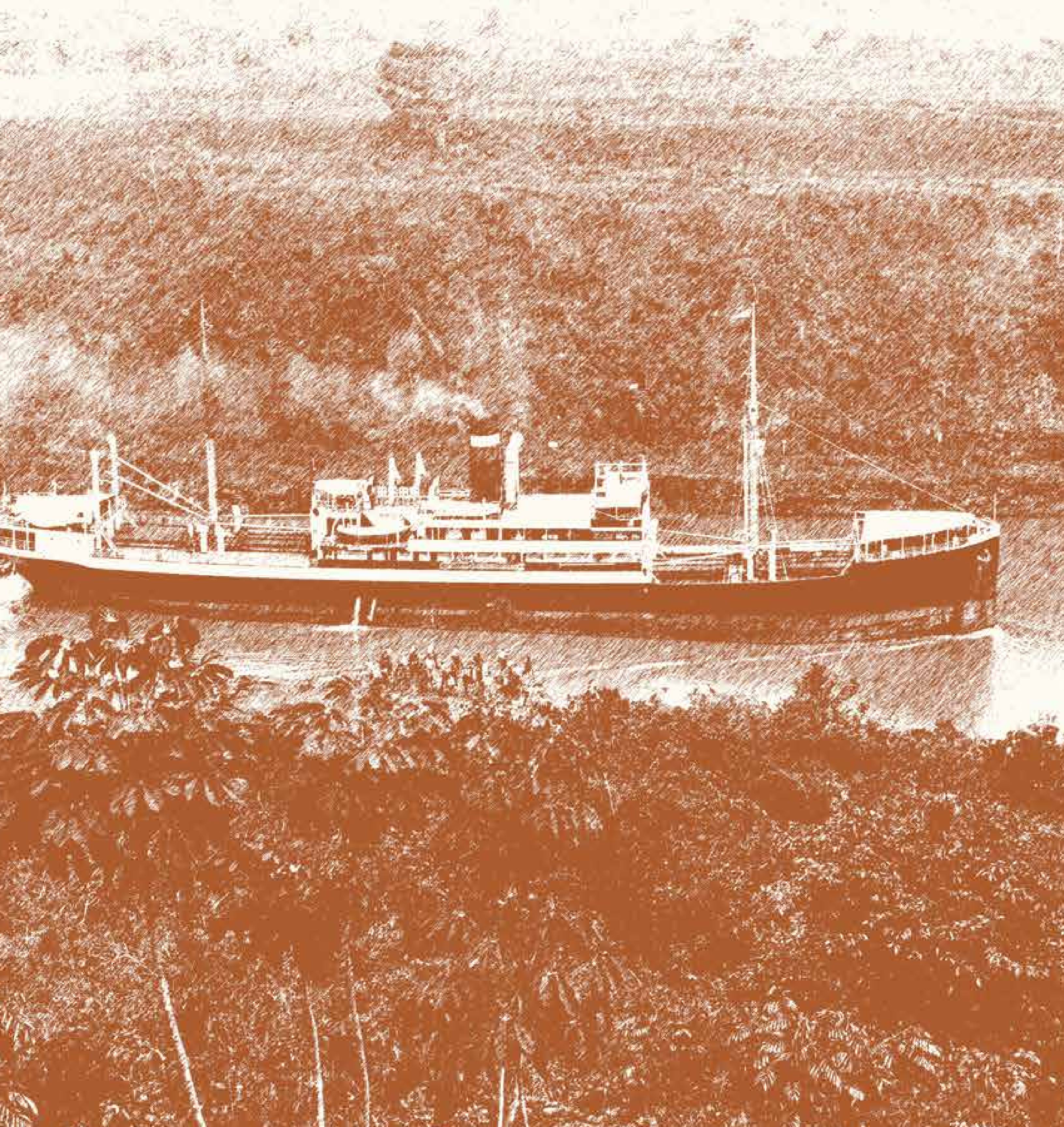
The Panama Canal Authority (ACP) is no stranger to relevant issues such as: climate change, energy costs, natural resources use regulations, carbon footprint, green routes, demographic shifts, changes in behavior patterns and consumption, the relocation of production centers, labor costs, the emphasis on human rights, water quality and population education. They are all closely linked to the concept of sustainability and the importance and impact of the administrative actions taken around them can ensure the validity of the company in the competitive environment of modern business systems.

For the Panama Canal, the organization's worth surpasses and is not limited to annual financial results. Today, we see the value reflected through a long-term vision that promotes and ensures business continuity and wealth generation, permanently taking into account environmental and social constraints on our planet.

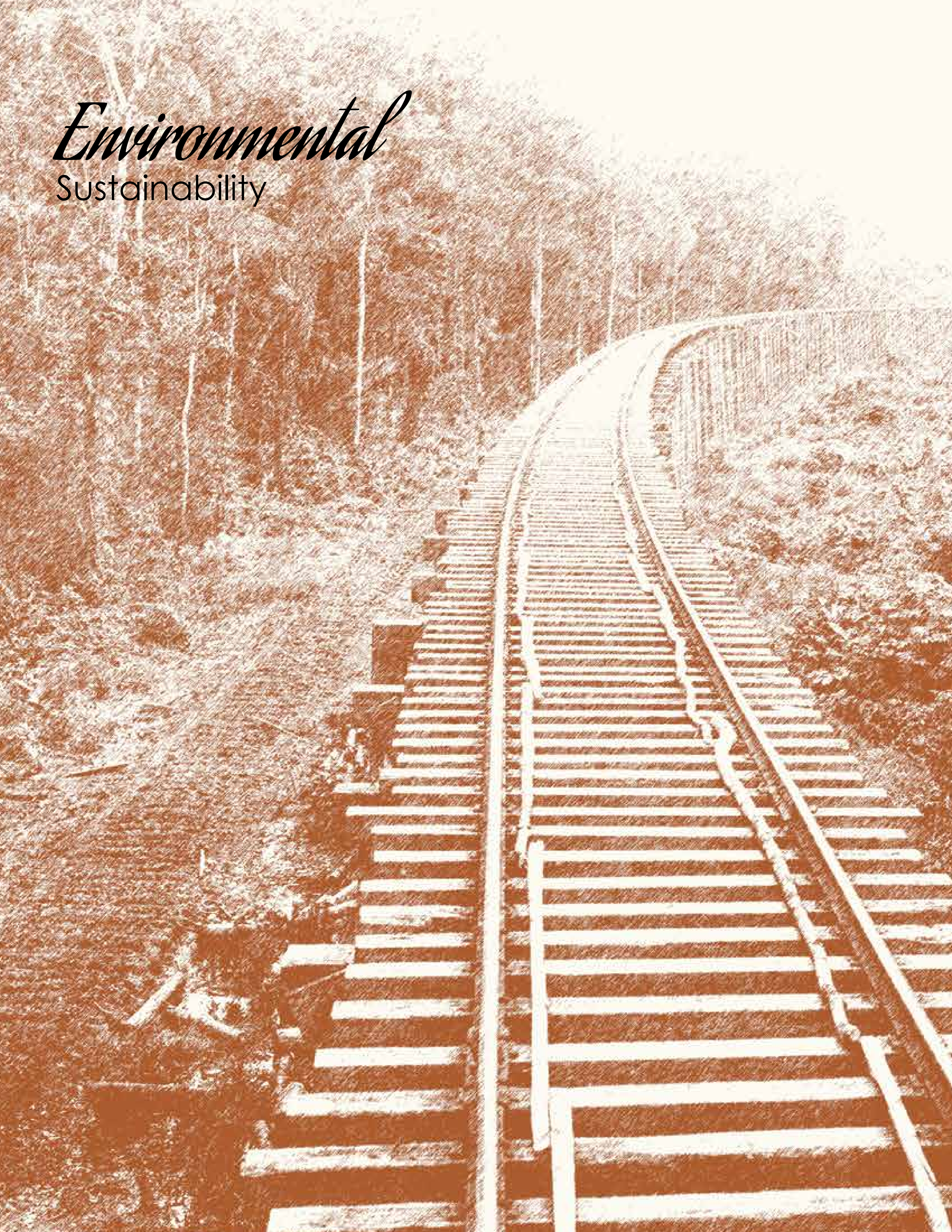
We confirm our commitment to our company's key stakeholders of continuing to boost Canal growth and development and to establish the ties that lead to operational execution, which is consistent with the guidelines as a sustainable organization that will continue to ensure future generations inherit our legacy of as the country´s main asset.

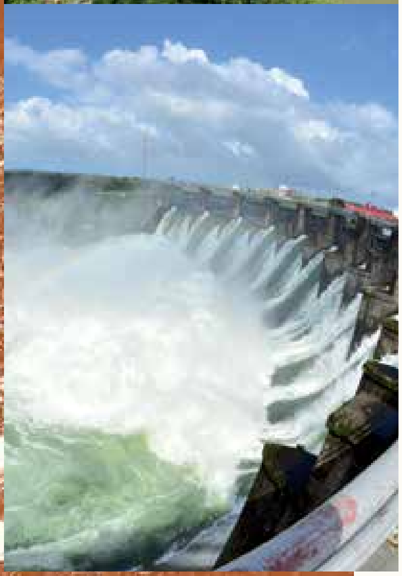
Sustainability

for the Country´s Future



Environmental Sustainability





The Panama Canal celebrated 100 years of operation, thanks to the efficient and competitive effort of its workforce, which ensures an expeditious, safe and permanent transit of vessels in the future. It is a journey of more ambitious goals for the next 100 years, innovating for environmental management and sustainability.

Due to its proximity to the economically active areas, the Panama Canal Watershed (PCW) is a territory characterized by an increasing population growth and a variety of productive activities that significantly contribute to drive the country's growth as a whole. However, it also impacts the natural resources of the area that must be mitigated and properly managed.

Deforestation, erosion and decreased soil fertility, siltation and localized water pollution, are some of the impacts that affect the environmental health of the watershed, the living conditions of its inhabitants and the important role that this ecosystem provides for Canal operations and water supply for human consumption.

To address this situation, the Panama Canal, based on its legal mandate to administer, maintain, use and conserve the water resources of the watershed, implements the "Sustainable Development and Integrated Water Resources Management Plan" in the PCW (DS-GIRH, for its acronym in Spanish) aimed at promoting sustainable development and coordinated management of the Watershed. This framework is part of a wider strategy known as "The Panama Canal Green Route, "that includes environmental management of Canal operations, promoting energy efficiency initiatives and recognizing positive environmental actions by shipping companies and vessels using the Canal".

Environmental
Management

Since the transfer of the Canal to the Republic of Panama, the ACP has promoted environmental management, with resources to fulfill the constitutional mandate to administer, maintain, use and conserve water resources of the Panama Canal Watershed.

The ACP develops the "Program for Sustainability of the Watershed" and its residents, where employees, producers and national institutions, combine social and economic activities with specific actions for the protection and conservation of water resources, in harmony with the activities developed by the inhabitants of the region. This is a corporate social responsibility and a commitment by the watershed residents to protect the natural resources, while improving their living conditions.

The program includes the development of productive systems, which incorporate appropriate land use, according to their ability to preserve the quality and quantity of water resources in areas of strategic importance of the watershed, with a farm planning and sustainability approach.

The "Panama Canal Green Route" is the initiative that highlights elements of environmental and social management by the ACP, emphasizing the Canal as the shortest route, compared with the other alternatives. "The Route" reduces emissions from ships and promotes environmental awareness at various levels of the maritime industry and society. At the same time, the Canal reduces and prevents contamination, makes efficient use of energy in all its operations, and promotes the use of best practices among its customers.

The Panama
Canal Green Route

The Panama Canal has been a Green Route since its opening in 1914. The vision and mission of the Panama Canal Authority consider as key elements the watershed management and implementation of an environmental management system to evaluate, propose, design and implement appropriate measures to avoid, reduce and control the environmental impacts due to its operations, as well as to evaluate alternatives to be efficient and reduce emissions.

In 2014, the ACP uploaded in the digital portal of the global information and financial services company, MARKIT, the Verified Emission Reductions (VERs) or carbon credits of the reforestation projects in the watershed, which makes the Panama Canal the first Panamanian public institution that implements this type of activity.

The ACP, also accomplished the transition from the Carbon Fix Standard to the Gold Standard, one of the most recognized standards globally. The Gold Standard certified that ACP projects will fix about 378,566 tons of CO_2 equivalent. A total of 113,570 tons will be placed in a buffer account and 264,996 tons of CO_2 equivalent may be used to offset emissions or traded as VERs-in the international market.

The Panama Canal works in the consolidation of the Green Route strategy through the Panama Canal. In this strategy, ACP will define in a 5-year baseline, the guide lines, goals and initiatives to be developed, seeking support from strategic partners, international financing agencies and technical cooperation options such as the Development Bank of Latin America (CAF), that supports the design of a tool for calculating the ACP annual carbon foot print and the assessment to identify positive actions to recognize the environmental performance of our clients; and the German Agency for International Cooperation (GIZ) that supports the Canal on the monitoring of vegetation cover, the calculation of carbon stocks in watershed forests, the consultation and participation process and other key initiatives that contribute to the Green Route.

Monitoring of Vegetation Cover in the Watershed

The program aims to identify forest cover trends in the watershed. In fiscal year 2014, joint activities between the ACP and the National Environmental Authority (ANAM, for its acronym in Spanish) were conducted, based on a cooperation agreement between the two institutions, to establish the condition of the forests and land use in the watershed, through continuous environmental monitoring in the region.

To date, data recording has been structuredfor interpretation and generation of information for decision-making, and the establishment of strategies that consider a participatory and integrated approach for the protection of forests, water resources and biodiversity in the watershed.

Environmental Economic Incentives Program

With the collaboration of government institutions, community involvement, and technical support of field personnel and specialized advice from the ACP, the Environmental Economic Incentives Program (PIEA for its Spanish acronym) has been implemented in more than 100 communities located in Colon and the Panama Oeste Province. More than 6,635 hectares have been established considering sustainable practices in livestock and agriculture; farmers have been trained in conservation schemes to implement a profitable business model for these activities. At the same time, organizational strengthening of the Ciri Grande and Trinidad River Sub Basins Coffee Farmers Association of the Watershed (ACACPA, for its acronym in Spanish) is in progress to achieve socioeconomic and environmental improvement in the area, driven by the Green Route strategy.

This year, ACP evaluated a project to economically recognize landowners that maintain forest cover within its properties. At this moment, ACP is working on a concept called "Incentive for Protection and Monitoring of the Forest Cover in the Watershed". The project started as a pilot in 600 hectares located in the Ciri and Trinidad watersheds.

This year, through the National Land Authority (ANATI, for its acronym in Spanish), the Cadaster and Titling Program

that is supported by ACP in the Canal Watershed, has cadastered 33,294 hectares in the District of Capira. Approximately 4,644 farmers and inhabitants of the watershed have received their land titles so far. This program is a long-term strategy for the sustainable use of water resources that provides the basis for strengthening PIEA activities, and givesthe inhabitants legal rights and property over their farms.

Community
Relations in the Canal Watershed

The Panama Canal develops a water resource management model, which is based on the establishment ofcommunication and participation processes with stakeholders who live and workin thewatershed. The gradualapproach and consistency of this process has facilitated the construction of a "Participatory Platform" consisting of 30 local committees and six Advisory Councils in the watershed.

These structures were organized under a watershed planning criteria and represent the local and regional network of the territory. The ACP, communities, institutions and local authorities face challenges related to the protection and conservation of water resources and sustainable development in this this region. Experience has shown that only through dialogue, consensus and solidarity, challenges can be met and success shared.

Knowledge:
Key to Sustainable Development

The ACP implements the Environmental Conservation and Work Training Program under a strategic partnership with the National Institute for Human Development (INADEH), and the Ministry of Education (MEDUCA), to provide opportunities for the population of the watershed to enter the labor market by gaining technical or advanced training. In eight years, more than 7,790 inhabitants have been trained, with a focus on competitiveness and environmental conservation, so that young people have greater opportunity to face their future with more and better preparation.

The Environmental Information Center for the Watershed (CIAC) is responsible for collecting, analyzing and acting as focal point for the dissemination of environmental information that is generated and developed in the Watershed, in support of integrated management for sustainable development.

This year, the ACP continued to strengthen the sustainable development of the Watershed, applying learning strategies in the educational community. Through the keystones in education, the promotion of sustainable management of natural resources was applied in the courses "Our Canal and its Watershed" (NUCA), designed to encourage entrepreneurship among fourth grade students in elementary school. This was achieved through the participation of 81 volunteers, who taught 81 courses to 2,267 students from 44 schools in the watershed. Nature trails were developed in the Gatuncillo School and the Professional and Technical Institute of Chilibre to promote awareness of ecological systems for present and future generations.

Climate
Change

Climate change and its potential impacts worldwide is the subject of ongoing debate and research by specialized institutions, including the Intergovernmental Panel on Climate Change (IPCC), established by the United Nations Environment Program and the World Meteorological Organization (WMO). The Panama Canal Authority is part of the National Climate Change Committee organized by ANAM.

To address the issue, the Panama Canal continuously implements activities that contribute to reducing emissions, which include the design of more efficient facilities, the adequacy of existing facilities to reduce energy consumption, improvement of existing power generation systems and data compilation and preparation of feasibility studies for generation with renewable resources and / or more efficientpower generation. Since this year has been relatively dry, these measures have influenced the decision to encourage the efficient use of water and energy.

One Hundred
Years of Management of the Water Resources in the Panama Canal

Water is the natural resource that is vital to the operation of the Panama Canal. It is stored in the Gatun and Madden Dams, and is used to cover the demand for the transit of vessels and the supply of water for human consumption in the surrounding areas; the surplus is used to generate hydroelectric power.

To manage the water resource, ACP uses 11 gauge measuring stations of rivers, reservoirs and tides and 61 rain stations, of which 11 measure other atmospheric parameters. ACP relies on a weather radar, satellite images, radio sounding atmospheric and an electronic port of the National Oceanic and Atmospheric Administration office of the United States (NOAA) and the weather and hydrologic forecasting models.

Panama
Canal - a Century of Good Water

The Panama Canal celebrates 100 years of continuous and uninterrupted operation after decades of technological and geopolitical milestones that impact

public health, sanitation, innovation and urbanism. Managers and operators of the Mount Hope Water Treatment Plant shared the 100 years of water production celebration in the Atlantic area. Inaugurated in 1914, with a capacity of 30 million of liters per day (MLD), it currently produces 132 MLD to supply the metropolitan area of Colon.

The Panama Canal's centennial and water production history should be seen from the standpoint of their importance and relevance at regional scale. The Mount Hope Water Plant and its predecessor, Agua Clara or Gatun, should be regarded and valued as the first facilities of this type in the region, where flocculation, sedimentation and filtration processes where used.

Water
Quality

The Panama Canal, as the watershed resources administrator for the Panama Canal Watershed, is responsible for ensuring the quality and availability of

water for human consumption and the operation of the Canal by means of complex forecasting systems, together with water quality monitoring and flood control and prevention programs.

The Water Quality Surveillance and Monitoring Program includes stations located on tributary rivers, priority sub basins and the Gatun, Alhajuela and Miraflores reservoirs. Data and information on the physico-chemical and biological conditions of the hydric resources are generated for decision-making regarding policies, programs and projects that contribute to sustainable use and efficient water management. Results from the Water Quality Index (ICA) indicate that water in ACP reservoirs is of good and excellent levels; the Index synthesizes varied and complex information, and is an indicator of our environmental performance and a tool for integrated water resource management.

The Potable Water Program includes daily, monthly, quarterly, and yearly analysis of the process and the final product of the Mount Hope, Miraflores and Mendoza Water Treatment Plants. This program, approved and supervised by the respective authorities, includes physical, chemical and bacteriological analysis, testing for metals, organic compounds, pesticides, algae, cyanobacteria, toxins, protozoa and other chemical and biological indicators. Also, in 2014, samples for the characterization and monitoring of oily waters discharges, corporate waters and waters from the Canal floating equipment treatment systems were collected and analyzed.

Raw Water Pumping Stations

The project for the reconstruction and installation of the auxiliary system for the raw water pumping stations in Paraiso and Gamboa was executed to guarantee the continuous operation of the main pumping equipment for potable water, during the period in which the operative level of the Gatun Lake could descend below 24.38 meters PLD (Panama Canal Precise Level Datum), due to the severe dry season during April, 2014.

This reconditioning was critical for the efficient operation of the main pumping equipment of Paraiso and Gamboa Stations, necessary for the production of potable water in the Miraflores Water Treatment Plant.

Balboa Chilled Water Plant

The Balboa Chilled Water Plant advanced in the execution of the modernization plan for the replacement of the cooling towers and the Engines Control Center. It also included the replacement of the components of the cold water system that service ACP's buildings in Balboa and Ancon.

The work in the cold water distribution systems improved the efficiency of the energy consumption per ton of cold water produced by an annual average of 0.93 tonh/kwh to 1.01 tonh/kwh (ton hour for kilowatt hour). These indexes are within the acceptable parameters of energy efficiency for these systems.

Collection and Treatment of Wastewater in ACP Operational Areas

On August 10, 2014, ACP completed the construction of Mount Hope sewage network. This completes the first phase of the Collection and Treatment of Wastewater in ACP Operational Areas, which included the construction of five sanitary sewer systems in Mount Hope, Gamboa

and the East side of the Miraflores Locks, Pedro Miguel Locks and Gatun.

The next stage of the project will be the construction of five wastewater treatment plants. The last stage of the project is the construction of two final sludge disposal sites located in Gamboa and Gatun. With the completion of this project, the ACP is in compliance with the internal and national regulations on wastewater discharges to surface water bodies.

Corporate Environmental Performance

In 2014, we strengthened our corporate information and communication programs to include the environmental components in projects implemented by the Panama Canal. More than 20 ACP Environmental Coordinators were trained, and information on environmental requirements was provided to different corporate players on the responsibilities inherent in the Environmental Management System, the ISO14001 Standard Certification and updating of the Environmental Policy. Various forums on environmental responsibility were organized in coordination with the National Environmental Authority (ANAM), and in environmental and use planning, "the Islands and Shores of Lake Gatun Strategy" was implemented, a baseline was established and up to 64 policemen and 300 environmental consultants were trained.

The "Corporate Effluent Monitoring Program" established a baseline for monitoring conditions of sanitary infrastructure, in line with new sanitary and storm sewer projects implemented by the ACP in 2014. In the "Total Water Monitoring Program", 163 environmental inspections were conducted to recommend preventive compliance with environmental legislation and identify improvement opportunities.

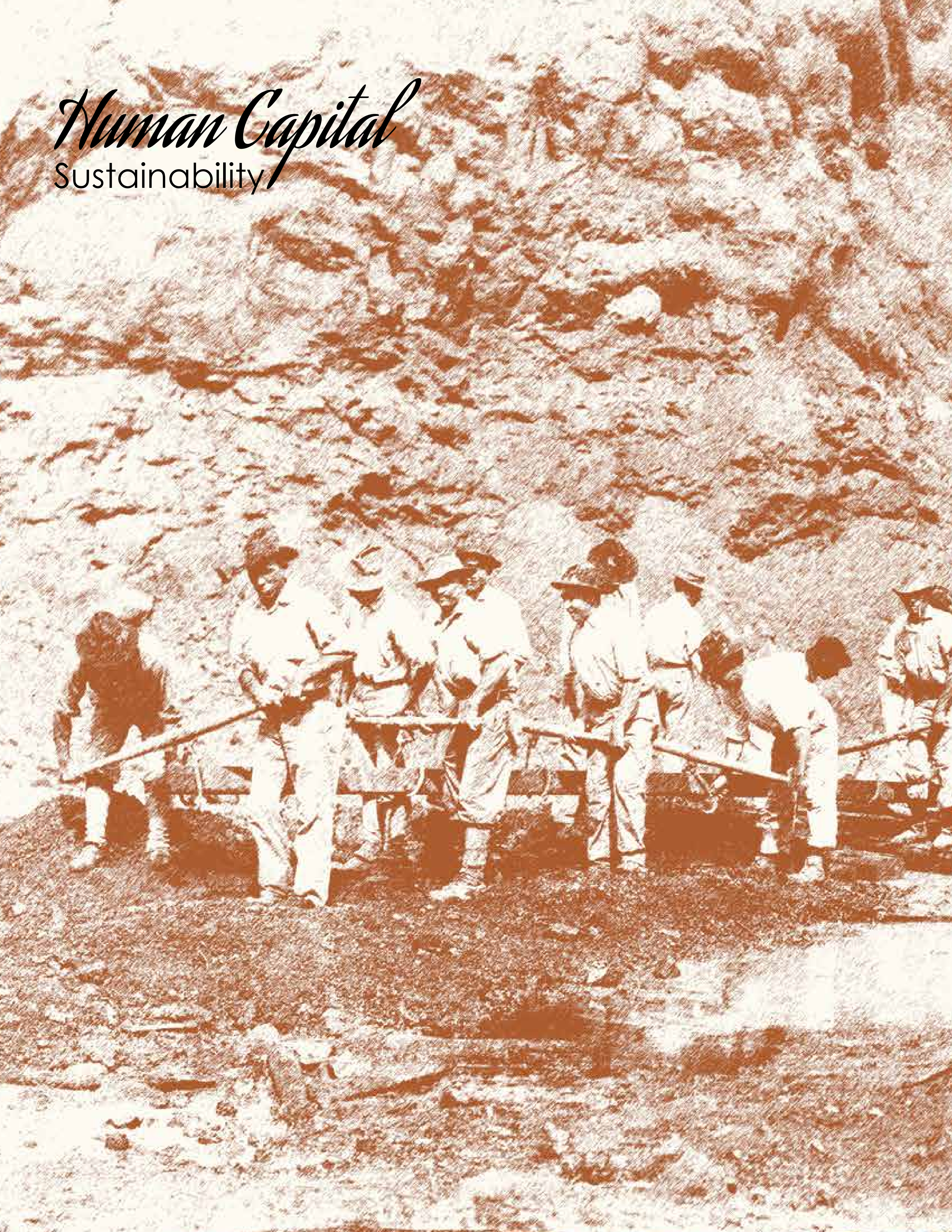
Monitoring in the Miraflores Power Plant showed 100 percent compliance with Regulation 2610-EAC-112 for emissions from stationary sources. For mobile sources, 94 percent of gasoline vehicles and 96 percent of diesel vehicles comply with the regulation. This year, the fine-tuning of the "Corporate Environmental Performance Index" (IDAC) began regarding clean production, standardizing, recording and continually improving our environmental performance. There was an increase in the number of Environmental Impact Studies (EsIA), Preliminary Environmental Assessment (EAP) and Initial Recognition of Environmental Conditions (RICA) submitted for review that resulted in recommendations for noise monitoring, wildlife rescue and mechanisms for attention to complaints from the public, among other requirements.

One Hundred Years of Energy in the Panama Canal and Still Moving

Power generation in the Panama Canal has been a very important issue to guarantee the reliability of Canaloperations, as well as a key issue during the national energy crisis.

Nowadays, ACP continues to innovate in the energy field with the start of operation of 80 MW produced by two time engines, plus 51MW from four-stroke engines and 35 MW produced by gas turbines installed in the Miraflores Thermoelectric Plant. The continuous and uninterrupted support provided by the ACP with additional energy supply, helped to overcome the national energetic crisis during the summer of 2014.

Human Capital
Sustainability



The People

The Heart of the Panama Canal

A century has gone by since the fulfillment of the dream of a navigable link that would join the Atlantic and the Pacific oceans. This was only possible thanks to the will of thousands of actors who inspired each of the pages in the annals of the waterway.

The hope of immigrants seeking new lands, the struggle for work in defiance of nature, the desire to make history or perhaps the desire for prosperity, among other factors, lured many foreigners to come to Panama and work in the construction of one of the most impressive works in the world and one of the marvels of modern engineering.

The Panama Canal's success is to witness the effort and tenacity of workers from different places. Between 1904 and 1913, a period of backbreaking work, approximately 56,307 people worked in the construction of the Panama Canal, 11,873 Europeans, 31.071 from the West Indies, and 11,000 from the United States.

Conquering nature to open the route through the Isthmus to achieve the dream of uniting the two oceans was not an easy task. During the U.S. construction period, 5,609 workers were reported dead to diseases and accidents. In the French period, according to a report by Dr. William Gorgas US Navy (Surgeon General at the time), 22,000 workers died during the construction of the Canal. The main causes of death were endemic malaria and yellow fever.

But the daring and determined men and women achieved that momentous dream, and are therefore now part of the great history of the Canal.

After the conquest of a hundred year successful operation and as a prelude to the waterway's evolutionary projection, the history of the people of the Canal reminds us of their efforts as well as that of those that managed it over time.

This achievement reinforces the commitment to carry out one of the greatest responsibilities, that they will have the creation of the environmental and corporate culture necessary for the organization to continue to progress with pride and efficiency.

After a century, the men and women who are part of the Panama Canal workforce will fulfill its greatest purpose, managing a widened Canal that will continue providing great wealth to Panama and be the source of pride for Panama and the world.

Workforce

The Canal's main asset is its 10,016 employees, 8,702 men and 1,314 women, who, with a strong sense of belonging and pride, work to generate benefits for an entire country.

Employees by Gender

	2012	2013	2014
Men	8,933 (87%)	8,805 (87%)	8,702 (87%)
Women	1,329 (13%)	1,293 (13%)	1,314 (13%)

The ACP workforce consists of 8,079 permanent employees and 1,937 temporary hires either for a specific project, to relieve other workers, or for a student development program.

The turnover rate is 3.8 percent, which is less than that of fiscal year 2013, but higher than those prior to the implementation of the Voluntary Retirement Incentive (IRV). This shows that there is mobility and a generational shift within the company.

The Panama Canal promotes gender equality. Female workers make up 13 percent of the workforce, of this percentage 152 women occupy top and middle management positions (executives, managers and supervisors) and we must highlight that the country's flagship project, the Canal widening, is led by a woman.

Similarly, 1.5 percent of the workforce is composed of women working in occupations traditionally performed by men. The ACP also has men in non-traditional positions, such as on-site human resources specialists and nurses.

The Panama Canal's work culture is enriched by the diversity of its human resources. In fact, 78 percent of the workforce is made up of Panamanians from the provinces of Panama and Colon, and 21.7 percent of this figure represents Panamanians from the rest of the provinces, including the Comarca Guna Yala. Only 0.3 percent come from abroad and was part of the labor force prior to the transfer of the Canal to Panama.

Maximizing Talent

Human capital is and will remain the fundamental resource and driving force of the Panama Canal. Its evolution throughout history, in its various stages, is the result of strategic human resources management that has formed and transformed its reality and ways of doing things, setting minimum and necessary basis for employee to be consistent with the Canal's mission, vision and values.

ACP employees are the pillars of the Canal's success, making it a priority to offer them attractive opportunities for personal and professional development. We seek to have a team of professionals and technicians committed with their work and the development of Panama; respectful people with a sense of leadership and with closely knit teams, who endeavor to make space for dialogue, participation, integration, and recreation.

The professionalization of the workforce is essential for the Canal's growth and to have a leading role in the industry. Continuous development enables us to provide tools and policies for Canal employees to be motivated to fulfill their tasks efficiently and safely, consistent with their personal and family life style, thus forming top performance professionals.

Our leadership development effort is based on the concept that for future organizations leadership is an attitudinal factor for each employee, and it is the absolute determinant of the success or failure of organizational objectives.

During fiscal year 2014, we sensitized 98 managers, 333 supervisors and foremen, and 176 leaders, and emphasized personal leadership skills and the strengthening of their human resources know how.

Distribution of Men and Women

by Supervisory Position

Year	Level of Supervision	Men	Women	Total
2012	Executives/Managers	87	32	119
	Supervisors/Leaders	987	129	1116
	Non- supervisory	7859	1168	9027
	Subtotal	**8933**	**1329**	**10,262**
2013	Executives/Managers	90	29	119
	Supervisors/Leaders	935	124	1059
	Non- supervisory	7780	1140	8920
	Subtotal	**8805**	**1293**	**10,098**
2014	Executives/Managers	88	32	120
	Supervisors/Leaders	918	120	1038
	Non- supervisory	7696	1162	8858
	Subtotal	**8702**	**1314**	**10,016**

Succession planning is critical for ACP's leadership development and business continuity. During fiscal year 2014, the Succession Program methodology was reinforced to facilitate the search for future leaders and tools to facilitate the identification of key talent were defined. Special career plans were structured for the total immersion of participants in the core of the Panama Canal business leadership in order to ensure the development of the necessary skills.

Technical development remains essential to ensuring the generational shift in operational-craft positions with a skilled workforce. During this century, we have shifted from offering exclusive internal technical training to promoting external technical/craft training to young people with a vocation for this type of work. We train them and provide practical experience in their field of study. They also receive a stipend to cover their academic and transportation expenses.

During fiscal year14, we had 212 participants in corporate programs like Panama Crece (Panama Grows) whose target are young senior technical undergraduate students and the Technical Craft Development and the Upward Mobility Programsaimed at staff with experience. Also, the year ended with13,301 training instances in the maritime, industrial and security areas.

The evolution of the Canal has also been accompanied by a progression of its human development approach. During the last years we have been aiming towards transforming training into a strategic human management force, evolving from the training center concept to a corporate university. We launched the ACP Corporate University Virtual Classroom with the motto "Start your day with virtual learning, don´t let the future catch up with you, reach out to your future today", to complement the on-site training effort and facilitate the design of individual development plans.

Our diversified approach towards our human capital development includes from our global leadership programs, and is complemented by virtual, technical and craft training, as well as the management of scholarships, which allowed three employees to obtain Master's Degrees in Geological Engineering from the Universidad Complutense de Madrid, and in Mechanical Engineering and Automation and Control Science from the University of Newcastle, in England. This helps us to provide interesting personal and professional growth opportunities for our people, and facilitates benchmarking practices and strengthens our capabilities to reach our goals, which are a constant challenge.

In addition, eighteen instructors/training and development specialists received certifications in Course Design from ADEN Business School in order to reinforce our Corporate University.

An Aligned Workforce: The Route

Having a committed executive team is not enough for a company to be successful. It is necessary to share the company's vision and to spread the team's motivation

throughout the organization. It is important to make it viral, to cultivate it and create the necessary conditions for everyone to plant and harvest the fruits of commitment. This is accomplished with analigned and motivated workforce with a strong sense of belonging and pride.

During two years the program Identidad Canalera (Canal Identity), which was designed for this purpose, reached 1,033 workers. Taking advantage of the benefits of technology, the program's virtual model was launched to facilitate the training and connecting with a greater number of workers in the company.

Performance Evaluations

Continuous improvement is constant for the Panama Canal, therefore, the systematic process review and the regular evaluation of our people enables us to improve our results. That is the reason the ACP has a Performance Evaluation System that covers 100 percent of the workforce and helps identify areas where our employees require further development in relation to our strategic focus.

Care and Safety

Caring for our employees and their safety is our top priority; that is why the health, safety and wellness programs are integrated and the protection of life and personal well-being are important. They are based on a prevention culture through risk and impact control, ensuring compliance with legal requirements and alignment with universal standards governing the matter.

During fiscal year 2014, the number of work related accidents and days lost due to disability were reduced. For a second consecutive year, no work-related fatalities were reported. Seventeen percent of the workforce participated in the Always Alert, Always Active Safety Program.

With regard to integral health and wellness management, during fiscal year 2014, 5,162 audiometry examinations were performed, there were 12,243 consultations, 3,764 physical examinations and 366 first-aid instances.

Voluntary
Pension Savings and Retirement

It is a known fact that it is necessary to complement the current contribution system for a better retirement. Faced with this reality, the ACP motivates its employees to save by means of a Voluntary Savings Plan, which to date registered discounts for a sum of B/.6,350,718.93 saved by the employees who have welcomed this initiative. This makes evident that it has been well accepted.

In addition, the Voluntary Retirement Incentive Program (IRV) continues, in order to allow workers to have a responsible separation upon their retirement. This allows them to leave the company with an additional financial compensation upon their acceptance of the retirement established by the Social Security.

In fiscal year 2014, 78 percent of the employees eligible for retirement agreed to separate from the company and receive this benefit.

Relating
with Our Employees

The Panama Canal favors open, informed, honest and trust-based relationships with its employees. On these grounds, it has nurtured a relationship based on important cornerstones such as respect for people, commitment to personal and professional development, adherence to law and absolute respect for the labor regulations applicable in the Canal and the legitimacy of trade organizations.

Employees by Bargaining Units

	Permanent	Temporary	Total	Tipo
Firefighters	65	8	73	0.74%
Cap/Towboat Master	210	13	223	2.26%
Marine Engineers	161	33	194	1.96%
Non Professional	6,396	1,603	7,999	81%
Professional	173	9	182	1.84%
Pilots	276	0	276	2.8%
Excluded	767	158	925	9.4%
Total	**8,048**	**1,824**	**9,872**	

Currently, 90.6 percent of the total ACP workforce is covered by one of the six established bargaining units created to represent the best interests of employees within the company.

During fiscal year 2015 there will be an opening for the negotiation of collective agreements with the exclusive representatives of four bargaining units in order to strengthen the commitment of the workforce and the competitiveness of the Canal to face upcoming challenges.

Information
Requests

During fiscal year 2014, the Office of General Counsel has received 581 information requests.

81 are in the category of alimoney, all of which have been answered to family courts.

500 are in the general request category (which encloses unions, employees, government entities, and general public). Of these, 436 have been resolved and 64 are in the process, waiting for information to answer requesters.

Indicators

Human Capital

Fiscal Year	2012	2013	2014
Permanent	8,564	8288	8,079
Temporary	1,698	1810	1,937
Total	**10,262**	**10,098**	**10,016**

Fiscal Year	2011	2012	2013	2014
Turnover Rate	2.6%	1.9%	6.1%*	3.8%

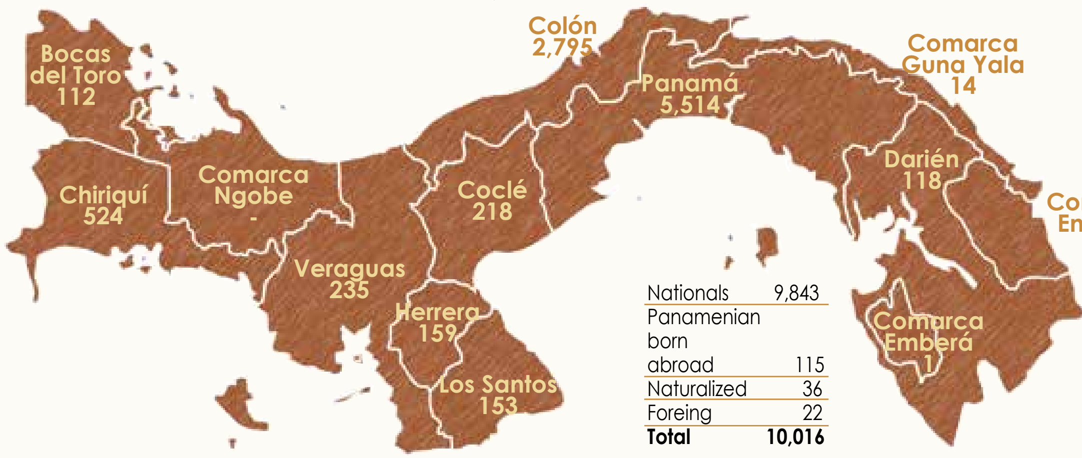
The Incentive Program for Voluntary Retirement Program has impacted the turnover rate.

Average Age of Permanent Employees	48
Average Age of Temporary Employees	36

INDICATORS	2012	2013	2014
Accident Severity Index (average disability absence days)	23.99	25.16	23.37
Number of Fatalities related to work	1	0	0

Integral Management of Health and Welfare	
Audiometry	5162
Daily Consultation	12243
Physical Examination	3764
First Aid	366

Employees by Province of Birth



Nationals	9,843
Panamenian born abroad	115
Naturalized	36
Foreing	22
Total	**10,016**

	Women	Men	Total
Employess by level of Education	1,293	8,805	10,098
Less than High School	2	604	606
High School or Vocational Education	105	4,242	4,347
Tertiary Education	148	725	873
Undergraduate Education	459	2,225	2,684
Graduate Education	595	890	1,485
Doctorate	5	16	21

Program	2011	2012	2013	2014
On the Spot Award	4,094	4,222	4501	5,333
Special Act or Service Award	789	759	767	925
Safety Award	559	760	210	73
Years of Service Award	1,690	1,665	1849	1,524
Suggestion Award (implemented)	29	8	11	1
Distinguished Service Award	1	1	4	0
Rodolfo Lammie Service of Excellence Award	1	1	1	1
TOTAL	**7,163**	**7,416**	**7,343**	**7,857**

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
2014	153	+7

Area of Development	FY-11	FY-12	FY-13	FY-14
Maritime Training	2,357	2,863	2,993	2,399
Industrial and Safety Training	13,011	8,796*	10,942	10,295
Professional Development Training	19,877	18,613	14,552	11,533

Social Responsibility
Sustainability

Good social responsibility practices at the Panama Canal are part of a large sustainability strategy that provides a framework for management and identifies new business opportunities, improves relations with stakeholders, strengthens the organization's reputation and boosts economic performance, while generating opportunities to foster social and environmental values.

This is a cross-cutting strategyof the organization, which promotes enthusiasm, raises awareness and alignment to meet the highest expectations of employees, the community, suppliers, customers and the State.

The contributions during this period in governance, Human Rights, Labor Practices, Fair Operating Practices, Community Development and Corporate Volunteering are the result of the commitment of the organization to contribute through ethical and transparent behavior, to promote the building on values in all its stakeholders.

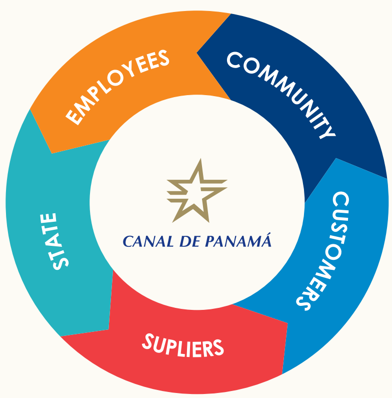
Customers: Improve relations with customers by providing a safe and reliable service, keeping the communication channels open.

Employees: Ensure employee wellness, provide opportunities for growth and development of employees and strengthen ACP's ethical culture.

Community: Contribute to the integral social development of communities through the transfer of knowledge and the participatory aid of the organization.

State: Maintain contributions to the National Treasury and promote the sustainable development of the country. Contribute to the country through effective integration.

Suppliers: Promote diversity in the contractual process, supervising compliance with suppliers in terms of quality and ethical conduct.



Governance

Transparency, accountability and ethics are the foundation of an organization that is committed to the Panamanian society, and allows free access to Information so that it can be reviewed and analyzed by all stakeholders. The Panama Canal is recognized by having a transparent administration and communicating in a clear and timely manner its actions to the Panamanian nation and the general public. The Canal is audited by internal and external auditors and by the Office of the Comptroller General of the Republic every year.

Panama Canal governance is implemented through a participatory, ethical and transparent management, and it takes into account the various stakeholders to which it serves, anticipating equity and inclusion in areas of particular sensitivity, as well as effectiveness and efficiency in the operation of the Panama Canal and its related activities and services, preserving the environment and water resources in the Panama Canal Watershed.

Human Rights

During this period, the Panama Canal joined the nationwide efforts to eradicate child labor, achieving awareness among employees, suppliers and the community about the negative and irreversible effects of working children.

Likewise, employees and suppliers received training on the thirty fundamental human rights and we underscored the prerequisite that all suppliers must validate their commitment to respect human rights before participating in public tenders of the organization, in order to prevent violations in the value chain.

Fair Operating Practices

During the second half of this period, the Panama Canal incorporated criteria that prevent the violation of human rights in 100 percentof purchases and contracts that the ACP conducts through its value chain. Also, different types of training were considered. These were conducted together with SUMARSE, the ICCO Foundation and the Embassy of the Netherlands. Employees from ten companies learned in-depth details about the principles of the Global Compact, Human Rights, Labor Practices, Environment and Anti-Corruption Practices, in addition to the best practices in Corporate Social Responsibility (CSR) during five sessions with national and international experts.

Community
Development and Corporate Volunteering

The Panama Canal volunteer network participated in more than forty activities during fiscal year 2014. More than 1,300 volunteers participated in multiple activities throughout the year and accumulated a total of 21,733 hours of volunteer work.

Corporate volunteers were engaged in activities to develop the different communities within and outside the Panama Canal Watershed. During the first quarter of the report period, the bridge of the Boqueron community in the Province of Colon was rehabilitated as well as the infrastructure of La Bonga School in the District of Capira, Province of Western Panama. Also, volunteers participated in many activities of the Special Olympics and supported fundraising activities for children with leukemia and cancer.

In the second quarter, more than 300 Panama Canal volunteers, eager to share with children the joy and magic of the holiday season, organized Christmas parties in 23 communities. In January, volunteers shared the pride of contributing with their grain of sand to earn a Guinness world record during the family activity "Let's Paint the 100 years of the Canal", when more than 5,000 Panamanian children gathered to paint on the same canvas simultaneously, thus setting a world record for our country. This same quarter, the volunteers also held a gathering with children from the Home of the Divine Child, a temporary home for abused children.

During the third quarter of the period, the volunteers participated in recycling fairs, planted seedlings in deforested areas and participated in community walks for the elimination of breeding disease-carrying mosquitos. During the month of June, Kids to the Canal Camp was heldwith the participation of over 550 volunteers to care for more than 200 children from schools from all regions of the country.

In addition, volunteers worked for several days to rehabilitate the sanitary system and infrastructure of Cuipo School in the Province of Colon, and volunteers participated as field staff in athletics and Special Olympics swimming competitions.

During the fourth quarter, several trips were made to build new a preschool center for children from the Cuipo community in Colon. Other gatherings with patients from the Cancer Institute, the Foundation of the Friends of Children with Leukemia and Cancer and children living with HIV of the Mary Hostel. Volunteers also participated in cleaning activities at the Metropolitan Natural Park; an underwater cleanup of Cacique Beach, Province of Colon, and the XXIII National Cleanup of Beaches, Rivers and Coastlines. Likewise, volunteers contributed

to rehabilitate the school and the Santa Rosa Family and Community Center for Preschool Education (CeFaCEI) in the Province of Colon.

During the year, volunteers participated as academic tutors in the Panama Canal Academic Remedial Program to support other co-workers to complete their elementary, middle and high school studies. Corporate volunteers also participated in basketball classes, which included lectures on values during almost all weekends of the year, in order to give young people at-risk of the city of Colon, an opportunity to healthy recreation and personal growth.

Panama Canal Centennial A Year to Remember

During the year 2014, the Panama Canal proudly celebrated one hundred years of operation. This important milestone was commemorated with various internal and national events.

The construction of the Canal brought a cultural makeup when a great number of men and women came to the Isthmus from abroad to build the dream of many -a route that would allow a passage between the Pacific and Atlantic Oceans. They came from France, Spain, Cuba, Italy, Greece, Armenia, the United States of America, the West Indies, Barbados, Guadeloupe, Martinique, Jamaica, Trinidad, Curacao, St. Kitts, St. Lucia, St. Vincent, Grenada, Costa Rica and Colombia.

To commemorate the Centennial, many local and foreign visitors, took the opportunity to tour the waterway and thus leave their footprint.

The visitor's centers at Miraflores and Gatun Locks and the Expansion Observation Center welcomed 982,392 visitors during the year, which represents an11 percent increase. This is the highest number of visitors recorded since the Canal opened these facilities, with foreigners accounting for 70 percent of the visits. The total visits represented B/. 6.7 million in revenues.

Students and interest groups also came into direct contact with the Canal in this Centennial celebration through the "El Canal de Todos" program; which recorded the participation of 12,933 persons with guided tours, during partial transits on board the ship Atlas, and in the visitors centers.

We have taken advantage of the Canal's digital communications platform, which consists of a website and social networks, to enhance communication around the core topic of the Canal's Centennial of the Canal.

This strategy helped position the Panama Canal Authority's identity in this type of communication, as can be noted by the growing number of Panama Canal followers in the social networks, which increased 231 percent, from 108,000 followers in 2013 to more than 250,000 in 2014.

An advertising campaign with posters and videos reflecting how the Panama Canal has been synonymous with social issues such as cultural diversity, innovation, global connectivity and health, which are a sense of pride for our country, was launched in July. Through a casting process, Canal employees were selected to participate in the campaign whose slogan was: "One hundred years of open gates."

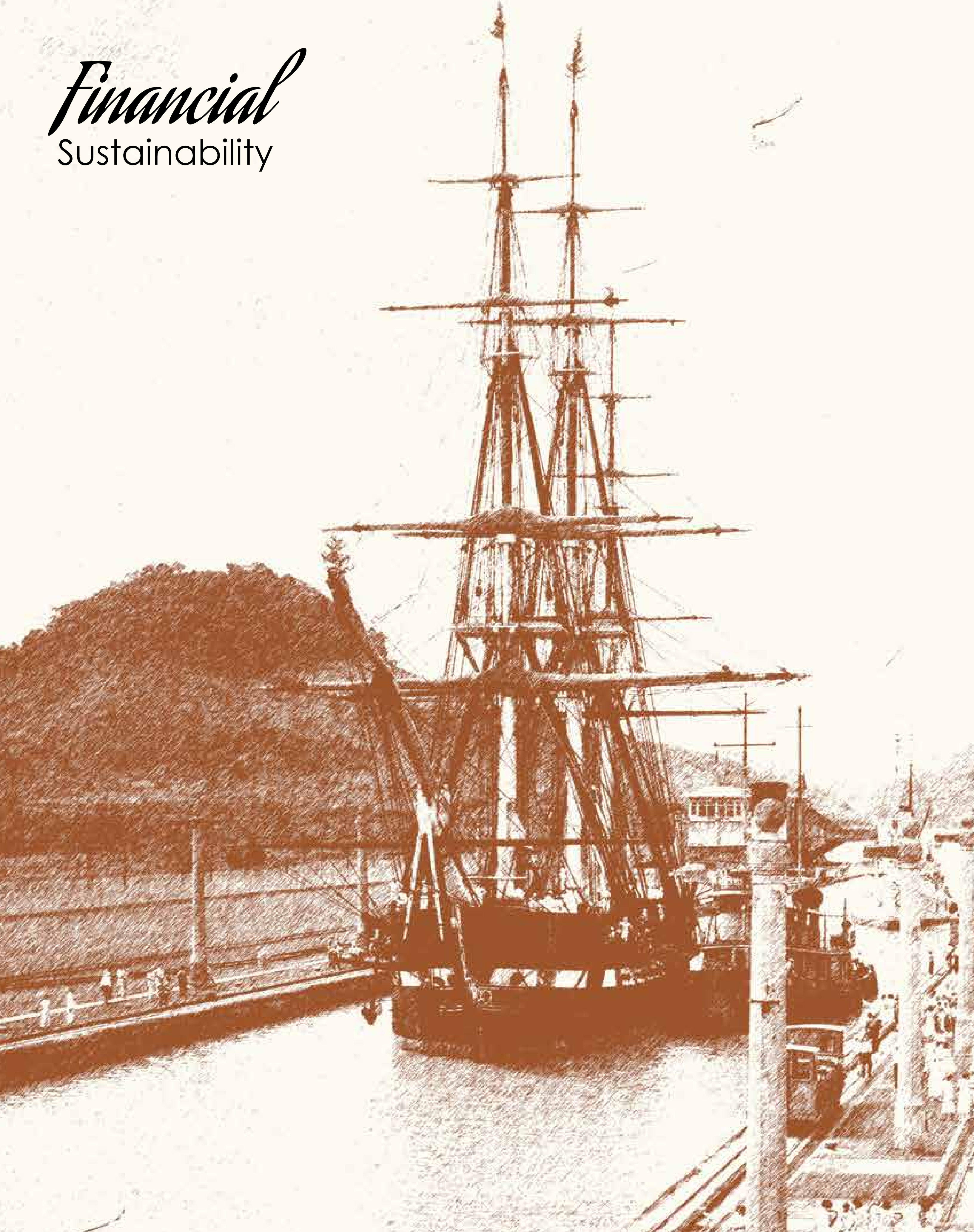
For the first time in the history of the Canal´s summer celebrations, more than 60,000 people gathered in El Prado Boulevard around a stage full of music, performing arts and activities for children and adults. The Centennial served as ground for a different celebration with a play based on the movie Shrek, a show that took the audience on a journey through Panama's musical traditions with troubadours and accordionists, the grace and elegance of the Panama Canal Folkloric dance group, games and activities for children, together with music for every taste, from which is noteworthy the international artist Juan Luis Guerra.

While commemorating 50 years of the Deed of January 9, the Panama Canal paid tribute to the Panamanian flag that in 1964, in the hands of National Institute students was the protagonist of the events that led to the negotiations for the transfer of the Canal. Panama Canal management arranged for the flag to be restored and presented it to the country in a moving ceremony.

During fiscal 2014, the media published over 10,000 notes and articles on the Panama Canal, of which 87 percent were positive.

Several operational sections such as Dredging, Aids to Navigation, Energy, Contamination Control and Response, Firefighting and Pilots celebrated a century of continuous and efficient operation.

Financial Sustainability



Historical Background

On August 14, the Panama Canal opened its gates to the world, with the transit of steamship Ancon. This event was overshadowed by the outbreak of World War I on August 4, 1914. It was not until December 4, 1915, when in San Francisco, California, a big international fair was held to commemorate the monumental effort that represented the construction of this great feat of engineering.

Since its opening in 1914, the trade route across the Isthmus grew in importance, revitalizing Panama's vocation as a country of transit. The Panama Canal connects the world, shortening distances, time and transportation costs between production and consumption centers. Today, the Panama Canal is a synonym of connectivity, thanks to the 144 maritime routes that converge here and make calls at 1,700 ports in more than 160 countries.

For a century, the Panama Canal has offered its services to the international maritime industry, promoting progress, development and growth of Panama. The different conventions and treaties signed throughout its Republican history, placed the Canal as a leading center of these negotiations, each of which resulted in greater economic benefits for Panama. These treaties include the following:

- Hay-Bunau Varilla Treaty of 1903: The United States Government agrees to pay to the Republic of Panama the sum of ten million dollars (US$10,000,000) in gold coin of the United States after the exchange of the ratifications of the agreement, in addition to an annuity for the life of the Convention of two hundred fifty thousand dollars (US$250,000) in gold coins of the United States.

- Treaty of Mutual Understanding and Cooperation of 1936: It included an increase in the amount of four hundred and thirty thousand US dollars (US$430,000) annuity that the United States Government gave the Government of Panama.

- Treaty of Mutual Understanding and Cooperation, 1955: Increased the annuity to one million nine hundred and thirty thousand US dollars (US$1,930,000), and collection of income tax from Panamanians or residents employed under Panamanian jurisdiction who worked in agencies of Canal Zone is achieved, to be delivered to the Government of Panama. Among the provisions, an increase in the amount of US$2.1 million and US$2.33 million in 1972 and 1973, respectively, is established.

- Panama Canal Treaty and the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal in 1977 are repealed and replaced the previous treaties. The new treaty establishes the following payments to the Republic of Panama:

a) A fixed annuity of ten million United States dollars (US$10,000,000) to be paid out of Canal operating revenues;

b) An annual amount of up to ten million dollars United States dollars (US$10,000,000) per year, to be paid out of Canal operating revenues to the extent that such revenues exceed expenditures of the Panama Canal Commission;

c) An annual amount to be paid out of Canal operating revenues computed at a rate of thirty hundredths of a United States dollar ($0.30) per Panama Canal net ton, for each vessel transiting the Canal;

d) A fixed annuity of ten million United States dollars (US$10,000,000) million for public services.

During the twentieth century, the Canal marked many milestones that have filled us with glory and satisfaction, as its 100,000th transit in 1939, or when it reached the first billion tons of cargo in 1959, or when in 1985 and 1991, we reached accumulated contributions to the National Treasury for B/.500 million and B/.1,000 million, respectively.

History

FY 1914	Inauguration of the Panama Canal with the official transit of the S.S. Ancon.
FY 1918	Canal improvement Project begins: removal of materials under the Miraflores Locks, Canal widening and removal of a high land bank obstructing visibility at a point where north and southbound vessel cross, to the north of Pedro Miguel Locks.
FY 1936	The annuity that the United States Government should pay the Government of Panama was increased to four hundred and thirty thousand US dollars (US$430,000).
FY 1955	The annuity that the United States Government should pay the Government of Panama was increased to one million nine hundred and thirty thousand US dollars (US$1,930,000).
FY 1959	The Canal reached the first billion tons of cargo in revenues in the amount of US$941.7 million. A single pay scale was established regardless of the employee's nationality.
FY 1974	First toll increase since the Canal opened to world trade; increased its rates by 19.7 percent.
FY 1983	Permanent transit reservation system; additional 15 percent fee per gross ton or a minimum of B/.2,000.
FY 1988	The purchase of a comprehensive muti-peril insurance to protect the interoceanic waterway is authorized.

FY 1996	On-line Procurement Calendar System was established.
FY 1999	Implementation of the electronic payment system to employees, applying payment transactions via ACH (Automated Clearing House).
FY 2000	The Oracle Financial System was implemented, which has allowed a more effective management of Canal financial information.
FY 2002	Second phase of increase of new toll structure; average increase in their rates of 8 percent.
FY 2005	Third programmed increase in the toll structure of 4.5 percent. Tender Online System is implemented.
FY 2006	The prompt payment discount program is introduced.
FY 2007	The Panama Canal Expansion Program begins.
FY 2008	The Activity-based Costing System (ABC) was implemented. ACP breaks the record for the first time of B/.2,000 million in total revenue. Moody grants the ACP a prospective A2 investment rating, over the country's ceiling A3.
FY 2009	ACP signs a Common Terms Agreement with five multilateral lending agencies, in the amount of B/.2,300 million, with a term of 20 years, to partially finance the Expansion Program.
FY 2010	ACP executes an Interest Rate Swap.
FY 2011	Canal breaks record in number of transits with 14,685 transits.
FY 2012	The Panama Canal sets a new tonnage record of 333.7 million tons. Electronic payments to suppliers was introduced.
FY 2013	ACP joined the SWIFT network, a platform through which the financial world runs their business transactions with speed, safety and reliability.
FY 2014	The Canal breaks record in total revenues with B/.2,649 million.

Below are some of the important milestones of the ACP's financial management during these first hundred years:

Management and Risk Transfer

Pursuant to the provisions of the Torrijos-Carter Treaties of transferring the Canal to the Republic of Panama free of debts and liens, the administration of the former Canal Commission decided to request the United States Congress an exception to transfer to third parties part of the Canal's risks. Congress approved this proposal, and in 1987, it authorized the acquisition of a comprehensive multi-peril insurance that protected the interoceanic waterway against catastrophes that might have a significant impact on Canal revenues.

More recently, anticipating any issues that could interrupt all or part of Canal operations, the ACP handled the implementation of a Comprehensive Risk Assessment System and a Canal Business Continuity Plan.

Risk Rating and Financing

In 2008, the Panama Canal Authority received its first-ever prospective investment grade rating A2 by Moody´s Investor Services. This rating exceeds the A3 Country Risk Ceiling rating of the Republic of Panama (in local and foreign currency), and places the ACP in the investment grade category, taking into account the contracting of up to B/.2,300 million structured debt not guaranteed for the Expansion Program.

Then, at the beginning of fiscal year 2009, the Canal subscribed for the first time in its history, a Common Terms Agreement for two thousand three hundred million balboas (US$2,300 million) for a period of 20 years, including a 10-year grace period, to partially finance the Expansion Program, whose investment amounts to five thousand two hundred and fifty million balboas (B/.5,250 balboas). Financing was provided without guarantees or recourse to the Panamanian Government; nor is it subject to commitments to purchase goods and services from any particular source; creditors will not intervene in the management or operation of the Canal; and the loan will not affect the Canal contributions to the National Treasury. Once the negotiation of the partial financing of the works was concluded, in 2010 the Canal executed a hedging interest rate, with the purpose of mitigating the variability of the reference rate of this financing. It also hired the bidder with the lowest price to provide a hedge instrument for the price of light diesel, in

order to neutralize or mitigate the risks associated to the fluctuation of the fuel used in the operation of the Canal.

Electronic Transfer Systems

In the late 90s, the Canal became a pioneer in the implementation of the payment system to its employees through the Automated Clearing House (ACH). Currently 86 percent of its employees receive their salary payments through this means.

Giving a twist to best practices, in fiscal year 2013 the Canal joins the Swift network (Society for Worldwide Interbank Financial Telecommunication). This is a platform to transfer funds in a quick, safe and reliable manner. With this platform, the Canal consolidated and standardized the transfers of treasury funds, payroll payments and payments to suppliers, eliminating operational risk and was able to work with alternate banks at a lower cost. To date, it issues 98 percent of its payments electronically.

Similarly, the Canal implemented the prompt payment discount program at the beginning of 2006, and since its implementation has generated benefits for more than B/.2.5 million.

Implementation of the ACP Online Tender System

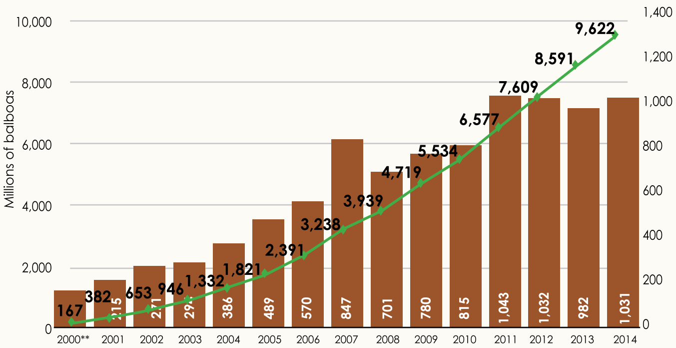
In fiscal year 2005, the Panama Canal launched its online tender system by means of which the Panama Canal posts in its website all tenders, automatically notifies offerors regarding tenders, and makes it possible to receive proposals online. The system issues and reports the status of the entire process until the contract is awarded, marking an important milestone in transparency of the Panama Canal.

Financial Results

Direct Contributions to the National Treasury

Since the Panama Canal Authority took over the operation of the waterway, the Canal has directly contributed with B/.9,621.6 to the State. During fiscal year 2014, the ACP gave the National Treasury B/.1,030.7 million[1], which represents 5 percent more than fiscal

Direct Contributions to the National Treasury



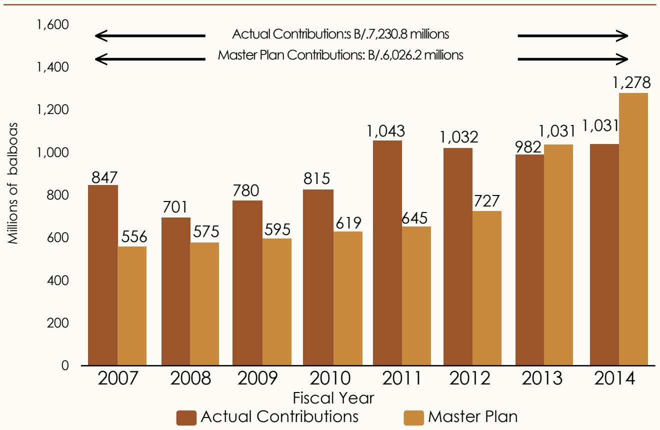
** Autoridad del Canal de Panamá - Nine Months

[1] *Direct contributions to the National Treasury has three components: surplus approved by the Boerad of Directors (B/.653.8 million); net PC/UMS that transited the waterway (B/.374.5 million); and public services rendered to the Canal and others (B/.2.4 million).*

year 2013. Since the beginning of the Panama Canal Expansion Program in 2007, total contributions added up to B/.7,230.8 million, some B/.1,204.6 million or 17 percent more than what was projected in the Panama Canal Master Plan.

Total Direct Contributions

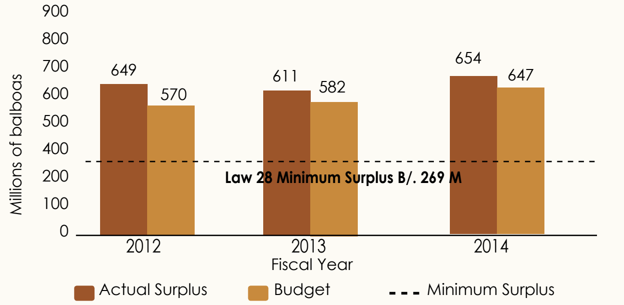
Actual vs Master Plan - FY 2007 to FY 2014



The Canal generated surplus for B/.653.8 million during fiscal year 2014, which represents a B/.7.2 million increment with relation to what was approved in the budget for fiscal year 2014, which was B/.646.6 million. This surplus exceeds by 143 percent the minimum established by Law 28 of July 17, 2006.

Surplus

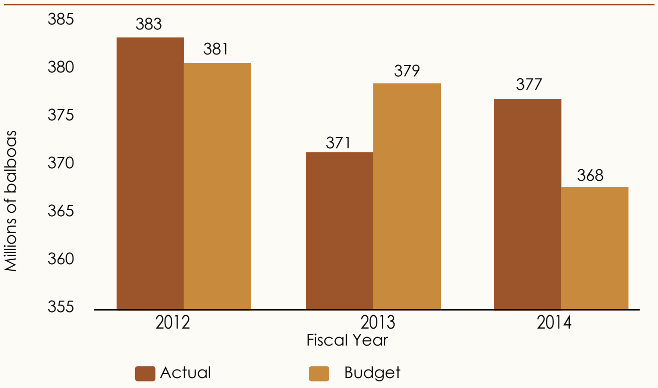
Actual vs Budget



Due to an increase in the demand, the total fee per PC/UMS tons was B/.374.5 and the rate for public services was B/.2.4 million, B/.9.2 million more 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 direct contributions, the Canal contributed indirectly to the State B/.169.4 million by means of income tax, social security, and educational insurance. Other contributions to the national economy include the payment of net wages in the order of B/.1,517.6 million and the procurement of goods and services from local suppliers.

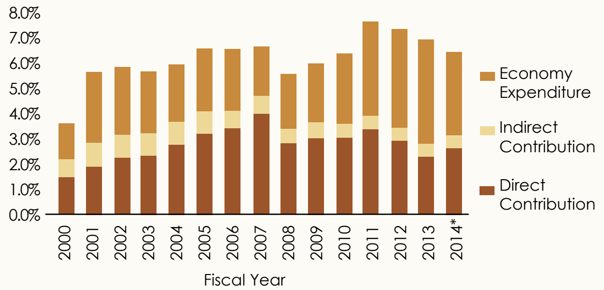
Indirect Contributions to the National Treasury	
Income Tax	B/.61.1
Social Security	97.8
Educational Insurance	10.5
Total	**B/.169.4**

Other Contributions to the Economy	
Net Salaries Paid to Panamanian Employees	B/. 370.8
Purchase of Goods and Services to Local Vendors	1,146.8
Total	**B/.1,517.6**

Impact
on the Economy

During the Panamanian administration, the Panama Canal directly and indirectly and by means of other expenses has contributed to the Panamanian economy more than B/.18,000 million. During fiscal year 2014, the Panama Canal contributed with B/.2,717.7 to the State, which represents close to 6 percent of the current gross domestic product (GDP).

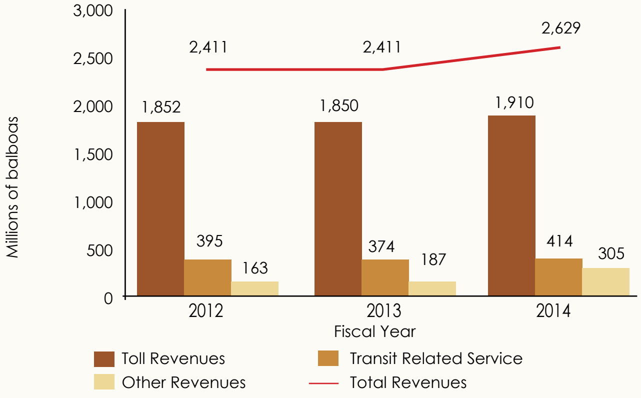
Canal Contribution
(Fiscal Year, as a Percentage of Current GDP)



* Estimated Value

Fiscal year 2014 was characterized by the relative improvement of the main economies of the world, which had an excellent impact on the Canal's operating and financial performance.

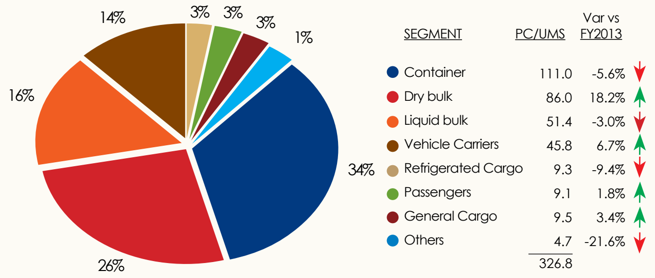
Revenues



The total tons transited increased 2 percent in comparison with fiscal year 2013, mainly due to an increment in the dry bulk segment (18.2 percent) and vehicle carriers (6.7 percent), compensating for the reduction mainly in the refrigerated cargo segment (9.4 percent, container vessels (5.6 percent) and others (21.6 percent).

Tons Distribution

PC/UMS by Vessel Segment



Revenues and Expenses

The budget for fiscal year 2014, from October 1, 2013 to September 30, 2014, projected 319.4 million PC/UMS tons (Panama Canal Universal Measurement System), with total income of B/.2,543.6 million, expenses for B/.835.6 million (excluding depreciation) and B/.1,014.3 million in total direct contributions.

During fiscal year 2014 a total of 326.8 million tons were recorded with total revenues of B/.2,629.2 million, expenses for B/.926.9 million and a total of B/.1,030.7 million in contributions.

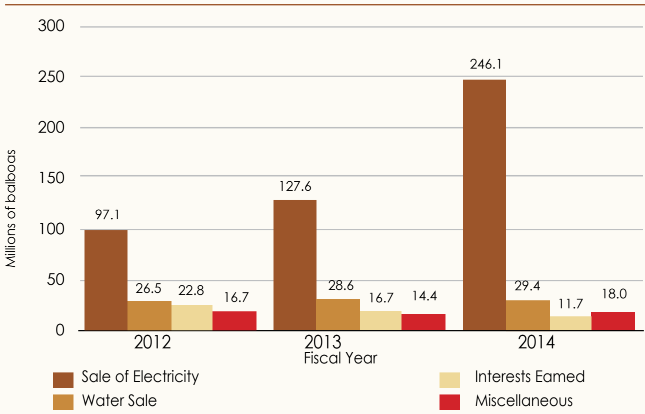
Total toll revenues were B/.1,910.2 million, B/.53.3 million or 2.9 percent more than the budgeted amount for fiscal year 2014, and 3.3 percent more than was invoiced during fiscal year 2013. This was offset by the cargo increase driven by the grain exports from the United States to Asia and South America and due to a relative improvement in the main world economies.

Revenue from transit related services represents 15.7 percent of the total revenue, B/.413.7 million for fiscal year 2014. This represents a 10.5 percent increase with respect to what was invoiced during fiscal year 2013. This was mainly the result of an increase in the number of transit reservations.

During fiscal year 2014, the Canal generated other revenue that is not related to the transiting of vessels for a total amount of B/.305.2 million, which represents a 62.9 percent increase with respect to the fiscal year 2013 budget. Revenues from the sale of surplus electric power reached B/.246.1 million, B/.118.5 million or 92.8 percent more than fiscal year 2013. As a result of the critical energy situation from January to May 2014, the Panama Canal increased its participation in the national electric grid generating electricity that is vital to the economy. On the other hand, the sale of potable water contributed B/.29.4 million, a 2.9 percent increase with respect to fiscal year 2013, due to an increment in the consumption in the cities of Panama and Colon as well as the western sector of Panama.

Other Revenius

Energy, Water, Interests, Misellaneous

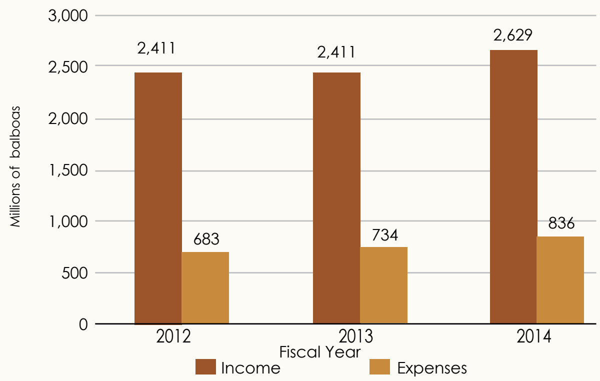


ACP's management of liquidity generated B/.11.7 million in interest earned on time deposits and investment on securities, B/.5 million or 30 percent less than fiscal year 2013. This is the result of the net effect of a B/.2.2 million increase in the average volume of liquidity and a B/.7.2 million decrease of the average yield rate. It is noteworthy that the international financial market experiences a downward trend during the year, mainly driven by the monetary policy stimulus of the U.S. Federal Reserve to support their modest economic growth, an economic slowdown in Europe and China, low oil prices and weak growth forecasts for the world economy.

Finally, miscellaneous income at the end of fiscal year 2014 totaled B/.18 million, which reflects a 24.9 percent increase as compared to the previous year. This income is generated by the visitors' centers, from the commercialization of the installed telecommunications capacity, the concession over land and space and from the sale of excess property, among others.

The Panama Canal ended fiscal year 2014 with total revenues of B/.2,629.2 million, a B/.217.9 million or 9 percent increase versus fiscal year 2013. Income held primarily by toll revenues and from the sale of surplus electricity to meet domestic demand.

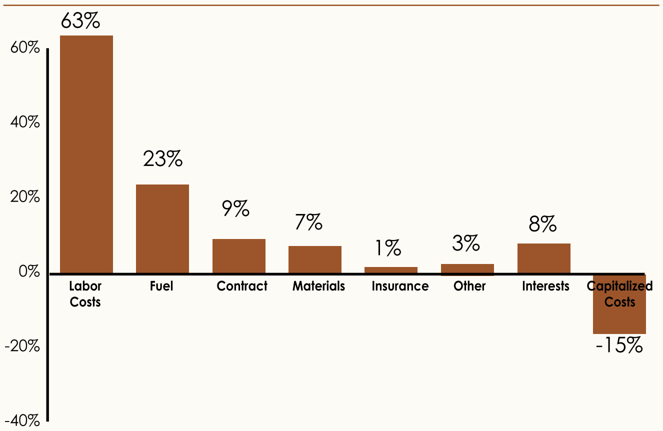
Income vs Expenses



Expenses

Total operating expenses for the fiscal year 2014 added up to B/.835.6 million (excluding depreciation), equal to 31.8 percent of the total income.

Distribution Operating Expenses
Fiscal Year 2014

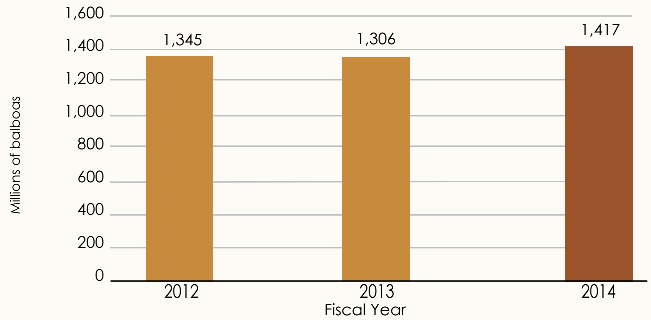


The B/.101.8 million increment of the total expenses, in comparison with fiscal year 2013, is mainly related with the increase in the fuel for power generation (B/.84.9 million), used for the Miraflores thermoelectric plant thermal units of to meet the country's demand.

Operating Profit

The profit before taxes, depreciation and amortization (EBITDA) for fiscal year 2014 was B/.1,416.7 million, B/.110.5 million or 8.5 percent more than fiscal year 2013.

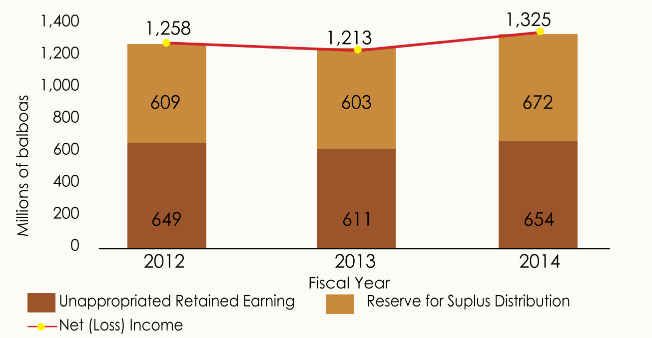
Profit Before Taxes, Depreciation and Amortization - EBITDA*



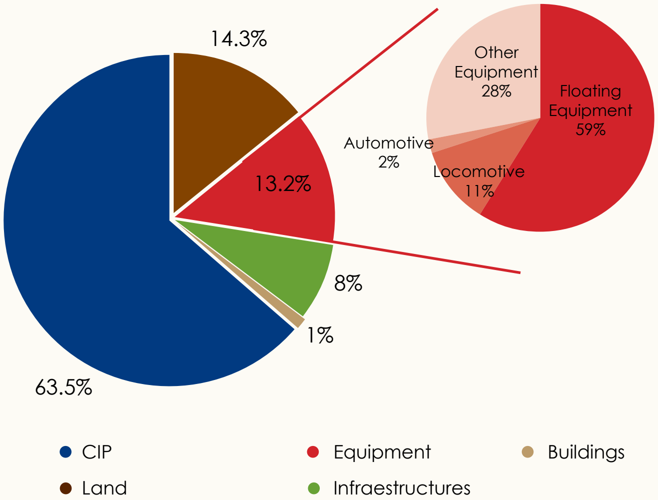
*Considering fees per net ton and public services as expenses.

The net profit of B/.1,325.4 million exceeded by B/.112 million or 9.2 percent that of fiscal year 2013. Based on this, and in compliance with provisions of the Panama Canal Authority Organic Law, the Board of Directors establishes the necessary reserves to fund the capital and equity reserves investment programs as well as the profit available for distribution (surplus) to the National Treasury.

Net Income



Fixed Assets Composition
Property, Plant and Equipment



Assets

As of September 30, 2014, the Canal closed its fiscal year with total assets of B/.11,207.2 million, distributed in: B/.2,790.9 million in current assets, or 25 percent of the total assets; and B/.8,416.3 million in non-current assets (fixed assets) out of which B/.7,165.1 million correspond to property, plant and equipment.

At the closing of fiscal year 2014, B/.4,547.7 million or (63.5 percent of the total property, plant and equipment) correspond to construction in process (CIP) associated with the Expansion Program works.

With regards to property, plant and equipment, 14.3 percent correspond to land, 8 percent to structures, 1 percent to buildings and 13.2 percent to Canal equipment; of which 59 percent correspond to floating equipment (dredges, towboats, floating cranes and launches), 11 percent to locomotives and the rest to automobiles, computer-related and other equipment.

Financial Indicators

The Panama Canal´s financial performance Indicators remain at adequate/robust levels. In fiscal year 2014, 50 cents of net profit were generated for each balboa of Income. This profit margin confirms the Canal´s wealth generating capacity, even under weak upturn of world trade and the substantial capital investment being made.

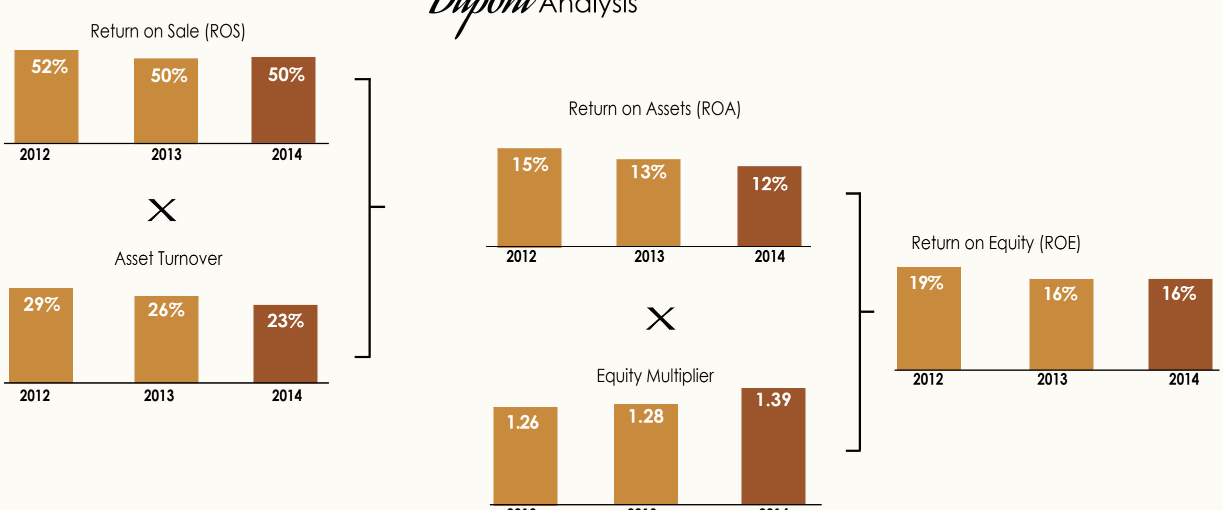
A 23 percent turnover on assets demonstrates a 3 percentage points in comparison with fiscal year 2014, mainly for the 23.8 percent increase of the fixed assets resulting from the construction works related to the Expansion Program.

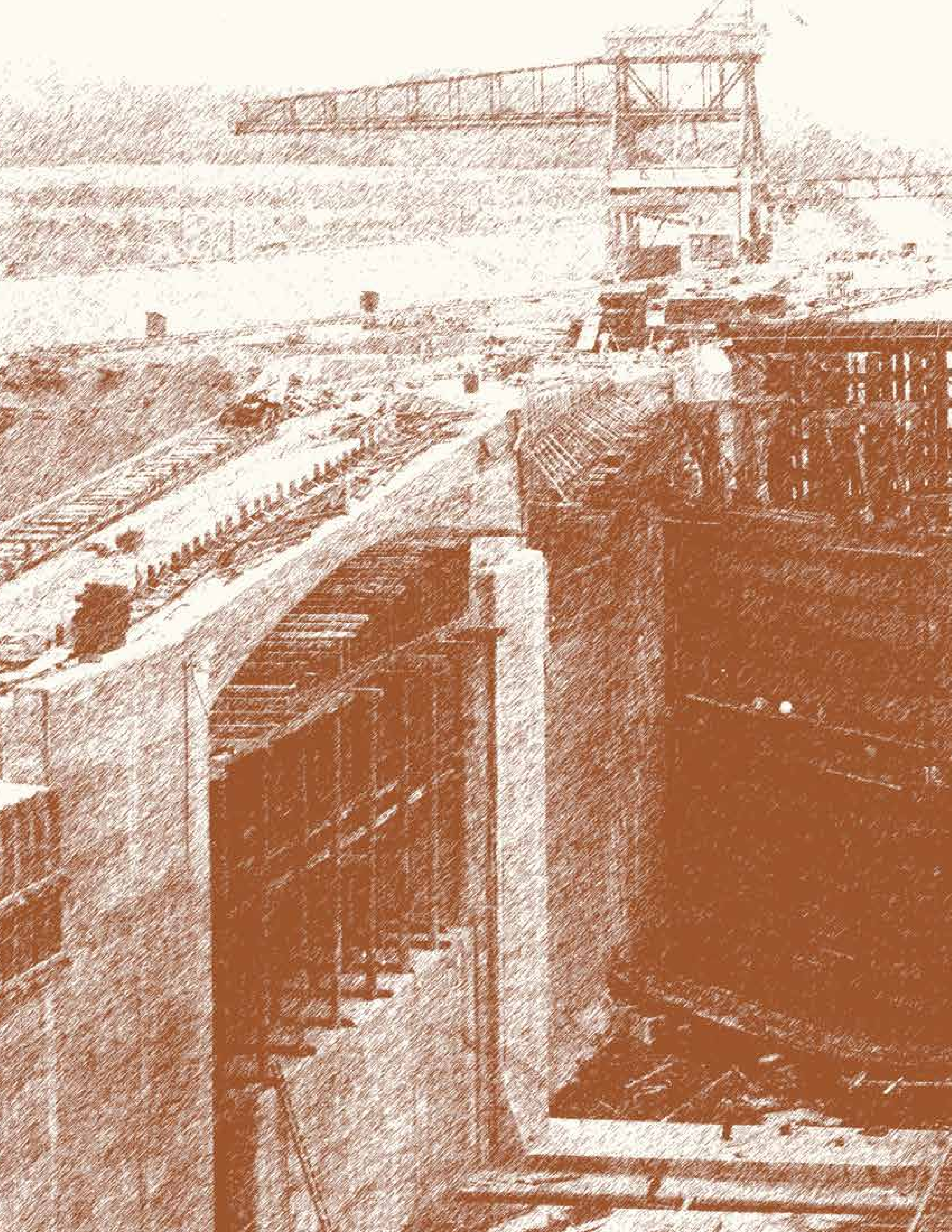
The return on total assets had a 1 percentage point reduction in fiscal year 2014, in line with the asset turnover drop. This result was expected during the construction of the Expansion Program.

The equity multiplier or assets leverage demonstrates the Canal's capacity of financing its investments, mainly with its own resources. For fiscal year 2014, you can observe an increase when compared with the previous year, as a result of the remaining B/.850 million disbursements for the financing of the Expansion Program.

A return on equity of 16 percent demonstrates the efficient administration of the Canal´s capital investment, validating its capacity to generate Income and value in a sustainable manner.

Dupont Analysis





Panama Canal

Financial Statements

Year ended September 30, 2014
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, 2014, 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 Autoridad del Canal de Panama as of September 30, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

November 24, 2014
Panama, Republic of Panama

Autoridad del Canal de Panama
Statement of Financial Position
September 30, 2014

(In thousands of balboas B/.)

Notes	Assets:	2014	2013
	Non-current assets:		
	Properties, plant, and equipment:		
12	Properties, plant, and equipment, net	**B/. 2,617,430**	B/. 2,648,483
5	Construction in progress	**4,547,682**	3,674,314
5	Total properties, plant, and equipment	**7,165,112**	6,322,797
6	Accounts receivable	**941,409**	810,567
23	Reimbursement right to ACP	**219,982**	-
7	Investment properties	**89,757**	-
	Total non-current assets	**8,416,260**	7,133,364
	Current assets:		
8	Inventories, net	**84,205**	80,222
6, 25	Trade and other receivables	**42,927**	34,657
9	Other financial assets	**743,161**	640,912
10	Accrued interest receivable and other assets	**12,961**	15,401
11	Cash and bank deposits	**1,907,690**	1,525,040
	Total current assets	**2,790,944**	2,296,232
	Total assets	**B/. 11,207,204**	B/. 9,429,596
	Equity and liabilities:		
	Equity:		
12	Contributed capital	**B/. 1,905,210**	B/. 1,905,223
13	Contributions	**4,811,774**	4,309,164
13	Reserves	**849,445**	684,250
14	Other equity accounts	**(137,325)**	(131,845)
15	Unappropriated retained earnings	**653,821**	610,537
	Total equity	**8,082,925**	7,377,329
	Non-current liabilities:		
16	Borrowings	**2,300,000**	1,450,000
23	Employee benefits	**227,748**	-
18, 25	Trade and other payables	**83,639**	62,319
17, 24	Other financial liabilities	**136,788**	131,845
	Total non-current liabilities	**2,748,175**	1,644,164
	Current liabilities:		
18, 25	Trade and other payables	**192,494**	247,952
19	Provision for marine accident claims	**12,864**	16,689
	Accrued salaries and vacation payable	**124,851**	121,468
17	Other financial liabilities	**13,324**	13,007
20	Other liabilities	**32,571**	8,987
	Total current liabilities	**376,104**	408,103
	Total equity and liabilities	**B/. 11,207,204**	B/. 9,429,596

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

Autoridad del Canal de Panama
Income Statement
For the year ended September 30, 2014

(In thousands of balboas B/.)

Notes		2014	2013
	Revenues:		
	Toll revenue	**B/. 1,910,231**	B/. 1,849,679
	Other Canal transit services	**413,700**	374,266
		2,323,931	2,223,945
	Other revenue:		
	Electric power sales	**246,123**	127,646
25	Potable water sales	**29,421**	28,597
	Interest earned	**11,680**	16,693
	Miscellaneous	**17,996**	14,404
	Total other revenue	**305,220**	187,340
	Total revenue	**2,629,151**	2,411,285
	Expenses:		
	Salaries and wages	**468,554**	474,099
25	Employee benefits	**61,649**	61,730
	Materials and supplies	**60,995**	59,573
	Fuel	**196,296**	115,093
	Transportation and allowances	**1,926**	2,317
	Contracted services and fees	**76,580**	69,502
	Insurance	**11,356**	10,505
19	Provision for marine accidents	**1,196**	391
8	Provision for obsolete inventory	**4,018**	144
5	Depreciation	**91,269**	92,817
	Other expenses	**14,112**	12,736
		987,951	898,907
21	Labor, materials, and other capitalized costs	**(61,036)**	(72,256)
	Total expenses	**926,915**	826,651
	Profit before fees	**1,702,236**	1,584,634
15,18,25	Fees per net ton	**(374,465)**	(369,003)
15,25	Panamanian Treasury - public service fees	**(2,378)**	(2,228)
	Profit for the year	**B/. 1,325,393**	B/. 1,213,403

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

(In thousands of balboas B/.)

Note		2014	2013
	Profit for the year	**B/. 1,325,393**	B/. 1,213,403
	Other comprehensive income		
	Other comprehensive income/(loss) to be reclassfied to profit or loss in subsequent periods:		
	Net (loss) gain in cash flow hedges - interest rate swap contracts	**(5,176)**	95,940
	Net gain (loss) on cash flow hedges - diesel prices swap contracts	**233**	(15)
	Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(4,943)**	95,925
	Other comprehensive income not to be reclassified to profit or loss of subsequent periods:		
	Remeasurement losses of defined benefit plans	**(537)**	-
	Net other comprehensive losses not to be reclassified to profit or loss of subsequent periods	**(537)**	-
14	**Other comprehensive income/(loss) for the year**	**(5,480)**	95,925
	Total comprehensive income for the year	**B/. 1,319,913**	B/. 1,309,328

This statement of comprehensive income is included in compliance with the revised IAS 1, which requires presenting what would have been the profit 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.

(In thousands of balboas B/.)

Notes		capital	Contributions	Reserves	accounts	earnings	Total equity
	Balance as of September 30, 2012	**B/. 1,904,473**	**B/. 3,769,045**	**B/. 621,503**	**B/. (227,770)**	**B/. 648,991**	**B/. 6,716,242**
	Profit for the year	-	-	-	-	1,213,403	1,213,403
14	Other comprehensive income:						
	Cash flow hedges	-	-	-	95,925	-	95,925
	Total comprehensive income of the year	-	-	-	95,925	1,213,403	1,309,328
							-
15	Transfer to Panamanian Treasury	-	-	-	-	(648,991)	(648,991)
13	Contributions	-	540,119	-	-	(540,119)	-
13	Net increase in equity reserves	-	-	62,747	-	(62,747)	-
5	Properties transferred to ACP	750	-	-	-	-	750
	Balance as of September 30, 2013	**1,905,223**	**4,309,164**	**684,250**	**(131,845)**	**610,537**	**7,377,329**
	Profit for the year	-	-	-	-	1,325,393	1,325,393
14	Other comprehensive income:						
	Cash flow hedges	-	-	-	(4,943)	-	(4,943)
	Remeasurement of defined benefit plans actuarial loss	-	-	-	(537)	-	(537)
	Comprehensive income for the year	-	-	-	(5,480)	1,325,393	1,319,913
15	Transfer to Panamanian Treasury	-	-	-	-	(610,537)	(610,537)
23	Adjustment to the opening balance of retained earnings	-	-	-	-	(3,767)	(3,767)
13	Contributions	-	502,610	-	-	(502,610)	-
13	Net increase in equity reserves	-	-	165,195	-	(165,195)	-
5	Properties transferred to the Republic of Panama	(13)	-	-	-	-	(13)
	Balance as of September 30, 2014	**B/. 1,905,210**	**B/. 4,811,774**	**B/. 849,445**	**B/. (137,325)**	**B/. 653,821**	**B/. 8,082,925**

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

(In thousands of balboas B/.)

Notes		2014	2013
	Cash flows from operating activities:		
	Profit for the year	**B/. 1,325,393**	B/. 1,213,403
5	Depreciation	**88,708**	89,719
23	Movements in defined benefit plans, net of reimbursement right	**3,462**	-
5	Loss on disposal of fixed asset	**731**	481
8	Estimation of obsolete inventory	**4,018**	144
19	Provision for marine accidents	**1,196**	391
	Changes in working capital:		
	(Increase) decrease in trade and other receivables	**(8,270)**	8,334
	Increase in inventories	**(8,001)**	(7,365)
	Decrease in accrued interest receivable and other assets	**2,440**	125
	Decrease in trade and other payables	**(55,458)**	(55,117)
19	Payments of marine accident claims	**(5,021)**	(3,937)
	Increase in accrued salaries and vacation payable	**3,383**	7,514
	Increase in other current financial liabilities	**317**	931
	Increase (decrease) in other liabilities	**23,584**	(198)
	Net cash provided by operating activities	**1,376,482**	1,254,425
	Cash flows from investing activities:		
	Net increase in property, plant and equipment	**(1,021,524)**	(1,390,619)
	Increase in other financial assets	**(102,249)**	(217,469)
7	Increase in non-current assets, receivables	**(130,842)**	(211,938)
	(Increase) decrease in time deposits, over 90 days	**(12,511)**	585,310
	Net cash used in investment activities	**(1,267,126)**	(1,234,716)
	Cash flows from financing activities:		
16	Increase in long-term borrowings	**850,000**	450,000
	Increase in trade and other payables	**21,320**	29,863
15	Transfer to Panamanian Treasury	**(610,537)**	(648,991)
	Net cash provided by (used in) financing activities	**260,783**	(169,128)
	Net increase (decrease) in cash and cash equivalents	**370,139**	(149,419)
	Cash and cash equivalents at beginning of the year	**453,538**	602,957
11	Cash and cash equivalents at end of the year	**B/. 823,677**	B/. 453,538
	Investment activities that did not represent cash outflows:		
7	Reclassification from properties, plant, and equipment to investment properties	**B/. (89,757)**	B/. -
5, 21	Fixed assets - capitalized depreciation	**(2,561)**	(3,098)
5	Properties transferred to the Republic of Panama	**13**	-
5	Properties transferred to ACP	**-**	(750)
		B/. (92,305)	B/. (3,848)
	Interests:		
	Received	**B/. 41,742**	B/. 29,798
	Paid	**B/. 61,934**	B/. 53,865

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 autonomouslegal entity of public law established by Article 316 of Title XIV of the Constitution of the Republic of Panama and subject to special arrangements made by the provisions of that Title, of Law No. 19 of June 11, 1997 and regulations that dictatesthe Board of Directors as mandated by articles 319 and 323 of the same Title. This scheme provides, inter alia, that corresponds to the ACP exclusively the administration, operation, conservation, maintenance and modernization of the Canal de Panamá (the Canal)and its related activities, for which it establishes a special labor regime applicable to the ACP and its workforce, and provides it with its own patrimony and the right to its administration.

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 certain assets and liabilities measured at fair value, which are described in the significant accounting policies.

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 economic benefits will flow to the ACP and the revenue can be reliably measured, regardless of when the payment is being received. Specific recognition criteria described below must be met before revenue is recognized:

Toll revenue

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

Electric power sales revenue

Electricity sales revenue is recognized based on contractual and physical delivery of energy and installed capacity valued at

4. Significant accounting policies (continued)

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 Alcantarillados Nacionales (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 costs

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 on the cost values following a straight-line method over the estimated 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

Constructions in progress include 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.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from their 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.

Investment properties

Investment properties are measured at acquisition cost, including transaction costs. Subsequent to initial recognition, investment properties are stated by the ACP at its cost value, applying the same requirements as for properties, plant, and equipment.

Investment properties are derecognized either when they are disposed of or when no future benefits are expected from their use or disposal. Any gain or loss from the disposal of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment properties only when there is a change in use of the asset.

Depreciation is calculated on the cost values following a straight-line method over the estimated 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.

4. Significant accounting policies (continued)

Disbursements due to repairs and maintenance that do not meet the conditions for asset recognition, are recognized as expense when incurred.

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.

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 and the amount of the account receivable can be reliably measure.

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

In defined benefit plans for the voluntary retirement of employees, an actuarial liability is recognized not only for the legal obligation under the formal terms of the plan, but also for the implied projections of constructive naturearising from expectations created by informal practices as required under IAS 19. These actuarial projections, of constructive nature, do not constitute a legal obligation for the ACP.

4. Significant accounting policies (continued)

Voluntary retirement plans

The ACP provides two unfunded defined benefit plans for voluntary retirement of employees. The cost of providing these benefits is determined using the projected unit credit method. Actuarial gains and losses are fully recognized in the period they occur in the statement of comprehensive income. The liability for defined benefits comprises the present value of both, the actual and constructiveobligationsof defined benefits. Under IAS 19 (2011), the ACP determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into consideration any changes in the benefit liability during the period as a result of benefit payments.

Defined benefit contribution plan

Retirement benefits for employees are provided through a defined contribution plan through the Caja de Seguro Social which assumes responsibility for retirement. Contributions are made based on parameters set by the Organic Law of that institution. The ACP does not assume responsibility otherthan the payment determined by Law.

Reimbursementright to ACP

The reimbursement right to ACP is recognized at fair value as a separate asset when it is virtually certain that a third party will reimburse some or all of the disbursements required to settle a defined benefit obligation. Changes in the fair value of the right to reimbursement are disaggregated and recognized in the same way as for changes in the fair value of plan assets. The components of defined benefit cost are recognized net of the amounts relating to changes in the carrying amount of the right to reimbursement.

The fair value of the right to reimbursement to the ACP arising from an insurance policy that exactly matches the amount and timing of some or all defined benefits payable in terms of a defined benefit plan, is considered the present value of related obligation, subject to any reduction required if the reimbursement is not fully recoverable.

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.

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.

4. Significant accounting policies (continued)

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 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 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 the ACP 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.

4. Significant accounting policies (continued)

Changes in accounting policies

The accounting policies used in preparing the financial statements for the year ended September 30, 2014 are the same as those applied in the financial statements for the year ended September 30, 2013, except for the following standard which is applicable to periods beginning on or after January 1st, 2013:

IAS 19 Employee Benefits

The amendments to IAS 19 require that labor termination plans without a definite end date, such as the Voluntary Retirement Incentive (VRI) and the Labor Retirement Benefit (LRB) programs are classified as long-term defined retirement benefit plans due to the existence of an obligation,legal or constructive, and therefore an actuarial liability should be recognized.For defined benefit plans, the amendment eliminates the need to defer the recognition of actuarial adjustments as gains or losses in the income statement. The amounts to be recorded as gains or losses are limited to the cost of benefits (VRI and LRB) of current and past fiscal years and the interest costs of plan administration. All actuarial adjustments should be recognized as a change in the statement of comprehensive income. The amendment to IAS 19 was effective for accounting periods beginning on or after January 1st, 2013.The ACP concluded that it was impracticable to determine the effects arising from changes to IAS 19 on the comparative information for the years prior to September 30, 2013, therefore, the amendment was adopted by the ACP from 1 October of 2013.

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:

IFRS 9 Financial Instruments

On July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not mandatory. IFRS 9 is effective for annual periods beginning on or after January1st, 2018, with early adoption permitted. Early adoption of IFRS 9 is permitted if the application date is before February 1st, 2015.

The ACP is analyzing the changes and not expected to have a significant impact on its financial position.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1st, 2017 with early adoption permitted.

The ACP is assessing the impact on IFRS 15 and expects to implement it in its adoption date.

Improvements to IFRSs

IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1st, 2016, with early adoption permitted.

These amendments will have no impact on ACP since it does not use the revenue-based method to calculate its depreciation.

IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the

4. Significant accounting policies (continued)

periods of service. This amendment is effective for annual periods beginning on or after July 1st, 2014.

This amendment will have no impact on ACP since its defined benefit plans do not have contributions from employees or third parties.

IAS 32 Offsetting Financial Assets and Financial Liabilities

Amendment to IAS 32 clarifies that compensation can occur both during the normal course of business, as well as in the event of bankruptcy or insolvency of a counterparty to the contract,including the reporting entity. The amendment also clarifies that offsetting rights are not subject to future events. The amendment is applicable to annual periods beginning on or after January 1st, 2014.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendment

Amendment to IAS 36 clarifies the disclosure requirements in respect offair value less costs of disposal. The amendment eliminates the requirement to disclose therecoverable amount for each cash-generating unit.The amendment is applicable to annual periods beginning on or after January 1st, 2014.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting — Amendment

The amendments to IAS 39 exempt the requirement to discontinue hedge accounting in certain circumstances where derivatives are novated to a central counterparty entity, because of laws or regulations, or the introduction of laws or regulations. A novation indicates that the parties to a contract agree to replace its original counterparty with a new one. It requires entities to implement the amendments for annual periods beginning on or after January 1, 2014.

Annual improvements from the 2010-2012 and 2011-2013 Cycles

The following list of improvements to standards is effective from July 1, 2014:

IFRS 13 Fair Value Measurement. The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39, as applicable. This amendment has no impact on the ACP.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amount of the asset. This amendment has no impact on the ACP.

IAS 24 Related Party Disclosures. The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment has no impact on the ACP.

IAS 40 Investment Property. The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. This amendment has no impact on the ACP.

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 24), the estimated actuarial liability for the defined benefit plans for employee retirement (note 23), the right to reimbursement on these plans (note 23), and the estimates for the provision for marine accident claims and contingencies (notes 19 and 27, respectively).

(In thousands of balboas B/.)

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, 2012	B/. 94,064	B/. 771,531	B/. 1,236,900	B/. 1,022,228	B/. 2,695,222	B/. 5,819,945
Additions	20,051	91,892	212,924	89,757	979,092	1,393,716
Adjustments:						
Loss recognition on asset retirements	-	-	(261)	-	-	(261)
Retirements	(39)	(7)	(9,608)	-	-	(9,654)
Property transfers:						
From the Republic of Panama	82	-	668	-	-	750
Balance as of september 30, 2013	114,158	863,416	1,440,623	1,111,985	3,674,314	7,204,496
Additions	2,158	19,591	130,488	-	873,368	1,025,605
Adjustments:						
Other	-	-	(1,521)	(89,757)		(91,278)
Loss recognition on asset retirements	-	(80)	(66)	-	-	(146)
Retirements	(65)	(162)	(11,626)	-	-	(11,853)
Property transfers:						
To the Republic of Panama	-	-	(50)	-	-	(50)
Balance as of september 30, 2014	B/. 116,251	B/. 882,765	B/. 1,557,848	B/. 1,022,228	B/. 4,547,682	B/. 8,126,774

Accumulated Depreciation	Buildings	Structures	Equipment	Land	Construction in progress	Total
Balance as of october 1, 2012	B/. (35,384)	B/. (259,262)	B/. (503,671)	-	-	B/. (798,317)
Depreciation	(2,686)	(26,302)	(63,829)	-	-	(92,817)
Retirements	39	7	9,389	-	-	9,435
Balance as of september 30, 2013	(38,031)	(285,557)	(558,111)	-	-	(881,699)
Depreciation	(2,484)	(21,904)	(66,881)	-	-	(91,269)
Retirements	45	90	11,133	-	-	11,268
Property transfers:						
To the Republic of Panama	-	-	38	-	-	38
Balance as of september 30, 2014	B/. (40,470)	B/. (307,371)	B/. (613,821)	B/. -	B/. -	B/. (961,662)

Net Book Value	Buildings	Structures	Equipment	Land	Construction in progress	Total
Balance as of september 30, 2014	B/. 75,781	B/. 575,394	B/. 944,027	B/. 1,022,228	B/. 4,547,682	B/. 7,165,112
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

(In thousands of balboas B/.)

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, 2012	B/. 2,338,215	B/. 357,007	B/. 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	3,369,546	304,768	3,674,314
Net change	786,167	20,757	806,924
Interests, commissions and other financing expenses	66,444	-	66,444
Balance as of september 30, 2014	B/. 4,222,157	B/. 325,525	B/. 4,547,682

During fiscal year 2014, the ACP recorded losses of B/.731 (2013: B/.481) as a result of the derecognition of assets. Main assets derecognized included hydraulic shear, switches, concrete duct and alarm system. During 2013, main assets derecognized included infrared camera, boat, tractors, spectrometer, centralized security system and tugboats.

Depreciation ofB/.2,561(2013: B/.3,098) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

During fiscal year 2014, a land of B/.89,757 was transferred to investment properties (see note 7).

(In thousands of balboas B/.)

6. Accounts receivable

Non-current

Non-current accounts receivable are detailed as follows:

	2014	2013
Grupo Unidos Por El Canal, S.A. (GUPCSA)		
Mobilization	**B/. 247,959**	B/. 247,959
Plant	**300,000**	300,000
Reinforced steel	**-**	1,654
Suppliers of key project materials	**68,279**	68,279
Specific suppliers	**147,417**	148,903
Lock gates	**42,754**	19,132
Specified expenditures	**100,000**	-
Sub-total	**906,409**	785,927
Others:		
Miraflores thermal power plant	**-**	2,323
Construction of bridge over the Atlantic side of the Canal	**35,000**	22,317
Sub-total	**35,000**	24,640
	B/. 941,409	B/. 810,567

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

Mobilization and Plant:

Advance payment for mobilization for B/.247,959, with an original amount of B/.300,000, fully secured by an irrevocable letter of credit issued by a bank with a credit rating of A granted by Standard & Poor. According to the contract, this advance payment was originally to be repaid by withholdings of 10% from each payment certificate from the ACP to the contractor until 50% of the advance payment for mobilization has been repaid and then by withholdings of 15% from each payment certificate from the ACP to the contractor until the advance payment for mobilization has been repaid in full, commencing with the payment certificate 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 make a variation to the contract to provide for a temporary deferral of the repayment of the advance payment for mobilization and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on February 14, 2013, June 24, 2013 and December 20, 2013.

On August 1, 2014, it was agreed by the parties to make a variation to the contract to maintain the temporary deferral of the repayment of the advance payment for mobilization. This variation introduced various conditions with which GUPCSA must comply in order to ACP to extend the temporary deferral of the repayment of the advance payment for mobilization and provide that the advance payment for mobilization must be repaid in full by December 31, 2018, at the latest, 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 provided by GUPCSA must remain valid and enforceable until the advance payment for mobilization has been repaid in full. If the advance payment for mobilization has not been fully repaid 45 days prior to the specified expiry date of the letter of credit, which is currently December 31, 2015, no later than 30 days before such expiry date, GUPCSA 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 agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

As of September 30, 2014, the ACP has withheld to GUPCSA B/.52,041.

Advance payment for plant for B/.300,000, secured by two irrevocable letters of credit, one for B/.100,000 issued by a bank with credit rating of A granted by Standard & Poor and the other for B/.200,000 issued by a bank with credit rating of BBB- granted by Standard & Poor. According to the contract, this advance payment was originally to be repaid by withholdings of 19% from each payment certificate from the ACP to the contractor until the advance payment for plant would has been repaid in full, commencing with the payment certificate in which the aggregate of all certified interim payments would exceed 50% of the accepted contract amount.

On February 14, 2013 at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide for a temporary deferral of the repayment of the advance payment for plant and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on June 24, 2013 and December 20, 2013.

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for plant. This variation introduced various conditions with which GUPCSA must comply in order to extend the temporary deferral of the repayment of the advance payment for plant and provide that the advance payment for plant must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the letters of credit for the outstanding amount.

The contract provides that the letters of credit must remain valid and enforceable until the advance payment for plant has been repaid in full. If the advance payment for plant has not been repaid in full 45 days prior to the specified expiry date of the letters of credit, which is currently December 31, 2015, no later than 30 days before such expiry date, GUPCSA is obliged to extend the validity of the letters of credit for a period of not less than one year (or such lesser

6. Accounts receivable (continued)

period as may be agreedbetween GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

As of September 30, 2014, no amounts have been withheld by the ACP to GUPCSA.

Reinforced steel:

On July 26, 2012, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to allow an advance payment for increases in the price of reinforced steel in the amount of B/.19,632 (120.041 tm). According to the contract, this advance payment, would be repaid by GUPCSA to the ACP by withholding the amount that would otherwise have been payable to the contractor for the adjustment amount due in each period in respect of reinforcing steel from each payment certificate from the ACP to the contractor until the advanced would has been fully paid, commencing from the first adjustment date following July 26, 2012. This advance payment was fully guaranteed with a payment bond issued by Nacional de Seguros de Panama y Centroamerica, S.A.

As of September 30, 2014, this advance payment has been fully repaid by GUPCSA.

Key Suppliers:

On August 29, 2012, at the request of GUPCSA, the parties agreed a variation to the contract to enable the ACP to make advance payments to GUPCSA, to be used for payments of certain key suppliers for invoices dated between May 2012 and the contractor's application for interim payment of December 2012 up to a maximum amount of B/.82,500 or up to a cut-off date of December 23, 2013, whichever occurs earlier. As of September 30, 2014, the amount of the advance by ACP to GUPCSA was B/.68,279.

According to the contract, thisadvance payment was originally to be repaid by withholdings of 5% from each payment certificate from the ACP to the contractor, commencing with the payment certificate issued in response to the January 2013 interim application for payment until the advance payment was repaid in full. On November 23, 2012 at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide for a temporary deferral of the repayment of the advance payment for key suppliers and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on February 14, 2013, June 24, 2013, December 20, 2013, March 13, 2014 and June 16, 2014, on the condition of attainment by GUPCSA of various production targets and conditions in order to extend the temporary deferral of the repayment of the advances.

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for key suppliers. Thisvariation provided for a further temporary deferral of the repayment of the advance payment for key suppliers to December 31, 2015 and also introduced various conditions with which GUPCSA must comply in order to extend this further temporary deferral of the repayment of the advance payment for key suppliers beyond December 31, 2015. These conditions relate to the provision of security document(s) (the type or combination of which is at the discretion of GUPCSA) and the attainment of certain new agreed performance milestones and functional completion by GUPCSA, the concepts of which were also added to the contract by the variation on August 1, 2014. If GUPCSA complies with these conditions then the amendments provide that the advance payment for key suppliers must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the applicable security document(s) for the outstanding amount.

The contract provides that the security for the advance payment must remain valid and enforceable until the advance payment for key suppliers has been repaid in full. If the security provided consists of a letter of credit or a bond, and the advance payment for key suppliers has not been repaid in full 45 days prior to the specified expiry date of the letter of credit or the bond, as applicable, no later than 30 days before such applicable expiry date, GUPCSA is obliged to extend the validity of such security instrument for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

Specified suppliers:

On December 24, 2012, at the request of GUPCSA, the parties agreed a variation to the contract to enable the ACP to make advance payments to the contractor 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, 2014, the amount remitted by ACP to GUPCSA was B/.147,417.

According to the contract, the advance payment for specified suppliers was originally to be repaid by equal withholdings from each payment certificate from the ACP to the contractor, commencing with the payment certificate of January 2014 to be issued in February 2014. On June 24, 2013, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide provisions and timing for a temporary deferral of the repayment and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on June 28, 2013, March 13, 2014 and June 16, 2014.

6. Accounts receivable (continued)

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for specified suppliers. This variation provided for a further temporary deferral of the repayment of the advance payment for specified suppliers to December 31, 2015 and also introduced various conditions with which GUPCSA must comply in order to extend this further temporary deferral of the repayment of the advance beyond December 31, 2015. These conditions relate to the provision of security document(s) (the type or combination of which is at the discretion of GUPCSA) and the attainment of certain new agreed performance milestones and functional completion by GUPCSA, the concepts of which were also added to the contract by the variation on August 1, 2014. If GUPCSA complies with these conditions then the amendments provide that the advance payment for specified suppliers must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the applicable security document(s) for the outstanding amount.

The contract provides that the advance payment guarantees as well as the additional security documents required under the contract must remain valid and enforceable until the advance payment for specified suppliers has been repaid in full. If the security provided consists of a letter of credit or a bond, and the advance has not been repaid in full 45 days prior to the specified expiry date of the letter of credit or the bond, as applicable, no later than 30 days before such applicable expiry date, GUPCSA is obliged to extend the validity of such security instrument for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

Lock gates:

On June 28, 2013, at the request of GUPCSA, the parties agreed to a variation to the contract to enable the ACP to make advance payments to the contractor of the amounts to be paid by the contractor to the lock gates fabricator in the amount of B/.19,132, amount disbursed by the ACP to GUPCSA.

According to the contract, this advance was originally to be repaid by equal withholdings from each payment certificate from the ACP to the contractor, commencing with the payment certificate of December 2013 to be issued in January 2014, in order that the advance would be repaid in full by the payment certificate of May 2014 issued in June 2014. On May 15, 2014, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide provisions and timing for a temporary deferral of these advances. This advance is fully secured by a payment bond issued by Zurich American Insurance Company, Inc., known as the Plant and Material Security, until its expiry date which is February 28, 2015 and, from and after such expiry date, by the advance payment guarantee.

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for lock gates. This variation provided for a further temporary deferral of the repayment of the advance payment for lock gates to December 31, 2015 and also introduced various conditions with which GUPCSA must comply in order to extend this further temporary deferral of the repayment of these advances beyond December 31, 2015. These conditions relate to the provision of security document(s) (the type or combination of which is at the discretion of GUPCSA) and the attainment of certain new agreed performance milestones and functional completion by GUPCSA, the concepts of which were also added to the contract by the variation on August 1, 2014. If GUPCSA complies with these conditions then GUPCSA will have until December 31, 2018 to cancel the advance payment for lock gates, otherwise the ACP shall be entitled to claim under the applicable security document(s) for the outstanding amount.

The advance payment for lock gates may also be protected by a letter of credit or a bond. The contract provides that the Plant and Material Security or the Advance Payment Guarantees, as applicable, as well as the additional security documents required under the contract must remain valid and enforceable until the advance payment for lock gates has been repaid in full. If the security provided consists of a letter of credit or a bond, and the advance payment for lock gates has not been repaid in full 45 days prior to the specified expiry date of the letter of credit or the bond, as applicable, no later than 30 days before such applicable expiry date, GUPCSA is obliged to extend the validity of such security instrument for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

As of September 30, 2014, the ACP has withheld B/.6,378 (2013: B/.-).

Second advance payment for lock gates: On August 7, 2014, at the request of GUPCSA, the parties agreed to a variation to the contract to enable the ACP to make further advance payments to the contractor of amounts to be paid by the contractor to the lock gates fabricator on or after August 1, 2014 up to a maximum amount ofB/.30,000. As of September 30, 2014, the amount remitted by ACP to GUPCSA was B/.30,000. The secondadvance payment for lock gates is fully secured by a payment bond issued by Nacional de Seguros de Panama y Centroamerica, S.A., until its expiry date which is December 31, 2015.

According to the contract, the second advance payment for lock gates – is due to be repaid by withholdings of B/.2,000 from each payment certificate from the ACP to the contractor, commencing with the payment certificate of September 2014 to be issued in October 2014, in order that thesecond advance payment for lock gates – will be repaid in full by the payment certificate of November 2015 issued in December 2015, otherwise the ACP shall be entitled to claim under the payment bond for the outstanding amount.

As of September 30, 2014, no amounts have been withheld by the ACP.

(In thousands of balboas B/.)

6. Accounts receivable (continued)

Specified expenditures:

On March 13, 2014, at the request of GUPCSA, the parties agreed to a variation to the contract to enable each party to contribute B/.100,000 to allow GUPSA to pay amounts owned to suppliers and subcontractors. In this variation ACP agreed to make advance payments for B/.100,000 if GUPCSA also contributed B/.100,000 for this purpose. As of September 30, 2014, the amount remitted by ACP to GUPCSA was B/.100,000. On March 20, 2014, June 26, 2014 and August 1, 2014, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to amend the provisions relating to the advance payment for specified expenditures. The advance payment for specified expenditures is fully secured by the advance payment guarantees.

According to the contract, the advance payment for specified expenditures for B/.100,000 is due to be repaid to the ACP in the certificate of November 2015 issued in December 2015, otherwise the ACP shall be entitled to claim under the advance payment guarantees for the outstanding amount.

As of September 30, 2014, no amounts have been withheld by the ACP.

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/.114,859, which includes the incorporation of heat recovery system of the gas exhaust. The contract establishes the ACP to advance 20% of the contract original value, which represents B/.22,780 paid in August 2011. This receivable is guaranteed by an irrevocable letter of credit for 100% of the value of this advanced payment by the Korea Exchange Bank. This advance will be amortized through agreed deductions from payments to Hyundai Heavy Industries Co., Ltd. for work performed.

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. During the year 2014, the name of the contractor changed to Puente Atlántico, S.A. 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 subdivided into two sub-payments of B/.5,000 each and the third for B/.5,000. As of September 30, 2014, the ACP disbursed to the contractor B/.37,317 in concept of advances and cost of performance and payment bonds. The advance of B/.35,000 is secured by irrevocable letters of credit in effect for the full amount of the advance. In the event that advances have not been recovered by the ACP 45 days before the expiration of the corresponding irrevocable letters of credit, the contractor shall, at the latest 30 days prior to the expiration of the letters, extend thevalidity thereof for one period not less than one year or the ACP may request the bank payment of corresponding letters. According to the contract, this advance payment will be repaid by withholdings from each payments from the ACP to the contractor for work performed.

As of September 30, 2014, the amount withheld from payments to the contractor is B/.2,317 (2013: B/.-) for the payment of cost recovery of the aforementioned bonds, according to the contract. Once the construction progress of the project exceeds 10% of the contract,the withholdings related to the B/.35,000 advance payment will begin.

Trade and other receivables

Trade and other current receivables are detailed as follows:

	2014	2013
Transit-related services	**B/. 3,766**	B/. 6,853
Electric power sales	**29,516**	17,427
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**5,321**	5,457
Other government entities	**1,643**	1,366
Other services	**2,681**	3,554
	B/. 42,927	B/. 34,657

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

Aging of past due but not impaired receivables:

	2014	2013
60 - 90 days	**B/. 43**	B/. 10
90 - 180 days	**56**	79
	B/. 99	B/. 89

7. Investment properties

Investment property is a land with an area of 464,759.71 square meters, located in the extreme south (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities. The land was purchased a year ago by referencing independent appraisals, so itis considered that the fair value has not changed significantly. The following table presents details of investment properties at September 30, 2014:

	Beginning of the year	**Additions**	**Year end**
Cost:			
Land	B/. -	B/. 89,757	B/. 89,757
	B/. -	B/. 89,757	B/. 89,757

Initially, this area was recognized as part of property, plant, and equipment for the purpose of using the land to develop complementary business activities to Canal operations. Later, after multiple studies, was reclassified to investment property when it was authorized to develop on this land, a container transshipment port that would be operated by a concessionaire.

(In thousands of balboas B/.)

8. Inventories, net

Inventories are detailed as follows:

	2014	2013
Supplies and materials	**B/. 76,049**	B/. 73,308
Fuel	**15,456**	11,014
Provision for obsolete inventory	**(7,300)**	(4,100)
	B/. 84,205	B/. 80,222

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

	2014	2013
Balance at the beginning of the year	**B/. 4,100**	B/. 4,715
Increases	**4,018**	144
Write-off	**(818)**	(759)
Balance at the end of the year	**B/. 7,300**	B/. 4,100

The amount of material and supplies, recognized in the income statement during fiscal year 2014, was B/.34,540 (2013: B/.37,330).

The amount of fuel, recognized in the income statement during fiscal year 2014, was B/.184,858 (2013: B/.102,284).

9. Other financial assets

Other financial assets are detailed as follows:

	2014	2013
Financial assets measured at amortized cost		
Investments in securities	**B/. 743,161**	B/. 640,912

At September 30, 2014, securities' annual interest rate of return is 0.64% (2013: 0.89%) payable at the end of each term with a maximum maturity date of up to one year.

Securities 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.

10. Accrued interest receivable and other assets

Accrued interest receivable and other assets are detailed as follows:

	2014	2013
Interest receivable	**B/. 10,179**	B/. 12,548
Prepayments	**2,782**	2,853
	B/. 12,961	B/. 15,401

11. Cash and bank deposits

Cash and bank deposits are comprised of the following:

	2014	2013
Cash on hand	**B/. 40**	B/. 43
Deposits in current accounts	**92,382**	79,336
Deposits in saving accounts	**200,055**	260,070
Time deposits with original maturities under 90 days	**531,200**	114,089
Total cash and cash equivalents	**823,677**	453,538
Time deposits with original maturities over 90 days not exceeding one year	**1,084,013**	1,071,502
	B/. 1,907,690	B/. 1,525,040

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. At September 30, 2014, the investment of these resources has the priority to cover all ACP obligations and earns interest rates which vary between 0.1% and 1.0% (2013: 0.13% and 1.01%).

As of September 30, 2014 and 2013, there were no restrictions over the balance of cash and bank deposits.

12. 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.

(In thousands of balboas B/.)

13. Reserves and contributions for investment programs and inventories

Changes in reserves and contributions are detailed as follows:

	2014	Increase (decrease)	2013	Increase (decrease)	2012
Reserves:					
Canal expansion	**B/. 186,572**	**B/. -**	B/. 186,572	B/. 30,000	B/. 156,572
Catastrophic risks	**36,000**	**-**	36,000	-	36,000
Contingencies and working capital	**215,130**	**18,300**	196,830	540	196,290
Enterprise capitalization	**261,743**	**(3,105)**	264,848	32,207	232,641
Strategic for investment programs	**150,000**	**150,000**	-	-	-
	849,445	**165,195**	684,250	62,747	621,503
Contributions for:					
Investment programs	**4,801,774**	**492,610**	4,309,164	540,119	3,769,045
Inventories	**10,000**	**10,000**	-	-	-
	B/. 5,661,219	**B/. 667,805**	B/. 4,993,414	B/. 602,866	B/. 4,390,548

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 2014, this reserve had no changes while in 2013, the increase of this reserve was of B/.30,000.

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 2014, it was approved to increase this reserve by B/.18,300(2013: B/.540) for a total reserve of B/.215,130 (2013: B/.196,830).

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 2014, it was approved to decrease this reserve byB/.3,105and in 2013, it was approved to increase it by B/.32,207.

Strategic for investment programs

In fiscal year 2014, the ACP established an equity reserve for B/.150,000 to maintain strategic sustainability and competitiveness of the Canal, ahead ensuring the availability of funds to meet additional needs of existing investment projects and to take advantage of growth opportunities requiring the implementation of new investment projects.

(In thousands of balboas B/.)

13.Reserves and contributions for investment programs and inventories (continued)

Contributions for investment programs

At September 30, 2014, the ACP increased the funds of the investments programs by B/.492,610 (2013: B/.540,119) for a contributed total ofB/.1,551,859 (2013: B/.1,444,134) for the Investment program – others and B/.3,249,915(2013: B/.2,865,030)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.

Contributions for inventories

In fiscal year 2014, the ACP established a contribution for B/.10,000 to cover the increase in the value of inventory. This increase was caused by rising prices of commodities and higher volume of purchases.

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.

14. Other equity accounts – components of other comprehensive income

Other equity accounts are composed entirely by the unrealized gain (loss) for the evaluation of the cash flows hedging instruments and for the unrealized (loss) in actuarial valuations of the defined post-employment benefit plans.

Adjustments during the year to the other equity accounts - other comprehensive income are as follows:

	2014	2013
Balance as of Octubre 1	**B/. (131,845)**	B/. (227,770)
Cash flow hedges:		
Interest rate swap contracts:		
Reclassification of losses during the year to cost in progress	**35,005**	33,699
Net (loss)/gain of not-yet matured contracts	**(40,181)**	62,241
Diesel prices swap contracts:		
Net gain/(loss) of not-yet matured contracts	**233**	(15)
	(4,943)	95,925
Actuarial valuations:		
Net loss in actuarial valuations of defined post-employment benefit plans	**(537)**	-
Net (loss) gain arising during the year	**(5,480)**	95,925
Balance as of September 30	**B/. (137,325)**	B/. (131,845)

(In thousands of balboas B/.)

the Atlantic

Current
Non-current

15. Unappropriated retained earnings

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 13, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.653,821 to the Panamanian Treasury which corresponds to the year ended September 30, 2014 (2013: B/.610,537). (See note 28).

In compliance with Law 28 of July 17, 2006, during the construction period of the third set of locks, the payments to the Panamanian Treasury 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.

	2014	2013
Payments to the Panamanian Treasury:		
Unappropriated retained earnings (see note 28)	**B/. 653,821**	B/. 610,537
Fees per net ton	**374,465**	369,003
Public service fees	**2,378**	2,228
Total	**B/. 1,030,664**	B/. 981,768

16. Borrowings

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

	2014	2013
Japan Bank for International Cooperation (JBIC)	**B/. 800,000**	B/. 800,000
European Investment Bank (EIB)	**500,000**	200,000
Inter-American Development Bank (IADB)	**400,000**	400,000
CAF Development Bank of Latin America (CAF)	**300,000**	50,000
International Finance Corporation (IFC)	**300,000**	-
Balance at the end of the year	**B/. 2,300,000**	B/. 1,450,000

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

The ACP complies with reporting to the five development 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.

17. Other financial liabilities

Other financial liabilities are detailed as follows:

	2014	2013
Financial instruments designated as hedging instruments carried at fair value		
Interest rate swaps	B/. 150,066	B/. 144,573
Commodities swap- Locks	-	279
Commodities swap-bridge over the Atlantic	46	-
	B/. 150,112	B/. 144,852
Current	B/. 13,324	B/. 13,007
Non-current	136,788	131,845
	B/. 150,112	B/. 144,852

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.

On November 21, 2013, the ACP subscribed a hedge contract with J.Aron& Co. (Goldman Sachs) for 674,208 gallons of light diesel used in the Canal operations. The hedge was contracted to transfer the risk of variability of future cash flows attributable to variability in the diesel price index from December 11, 2013 to December 10, 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.

18. Trade and other payables

Trade and other payables are as follows:

	2014	2013
Panamanian Treasury	**B/. 32,314**	B/. 31,336
Suppliers and others	**243,819**	278,935
	B/. 276,133	B/. 310,271
Current	**B/. 192,494**	B/. 247,952
Non current	**83,639**	62,319
	B/. 276,133	B/. 310,271

(In thousands of balboas B/.)

18. Trade and other payables (continued)

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, 2014, the total of such fees amounted to B/.374,465 (2013: B/.369,003).

19. Provision for marine accident claims

The provision for marine accident claimsrepresents 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:

	2014	2013
Balance at beginning of the year	**B/. 16,689**	B/. 20,235
Provision for the year	**1,196**	391
Payments made	**(5,021)**	(3,937)
Balance at end of the year	**B/. 12,864**	B/. 16,689

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

20. Other liabilities

Other liabilities are detailed as follows:

	2014	2013
Inventories – in transit	**B/. 14,973**	B/. 4,010
Miscellaneous claims	**2,421**	2,594
Outstanding checks and others	**14,573**	1,929
Instituto de Acueductos y Alcantarillados Nacionales	**604**	454
	B/. 32,571	B/. 8,987

(In thousands of balboas B/.)

21. Labor, materials and other capitalized costs

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

		2014		2013
Investment Program				
Widening and straightening of the Gaillard (Culebra) Cut	**B/.**	**17,021**	B/.	23,936
Assets administration system		**-**		324
Bridge over the Canal in the Atlantic		**1,800**		852
Expansion of the thermoelectric plant at Miraflores		**-**		3,319
Complementary projects of dredging at the entrance of the Canal		**432**		4,395
Sewer treatment project at ACP		**845**		1,093
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		**5,818**		759
Management system demand for transit services		**1,162**		-
Financial system's budget and strategic planning		**386**		-
Enterprise architecture of the ACP (RENOVA)- design and implementation		**326**		-
Relocation of North Overhaul and Ground transportation facilities to Mount Hope dockyard		**176**		-
Platform of the middle layer (SOA) and data switches		**143**		-
Replace and repair plumbing line for potable water		**-**		438
Replace of RMC dredge for new hydraulic backhoe dredge		**-**		319
Other various projects		**1,572**		1,610
		29,681		38,162
Investment Program - Canal Expansion				
Dredging of Gatun Lake		**26,224**		27,041
Dredging at the Pacific entrance		**-**		1,203
Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen's dam		**1,300**		1,304
Program administration		**844**		857
Increase of maximum operational level of Gatun Lake		**983**		1,530
Design and construction of post-panamax locks		**1,974**		1,985
Environmental administration		**30**		51
Disposal site studies in the Atlantic Side		**-**		123
Other various projects		**-**		-
		31,355		34,094
	B/.	**61,036**	B/.	72,256

(In thousands of balboas B/.)

22. 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.

23. Employees benefits

At September 30, 2014, the constructive and formal liability of the employee benefit programs was as follows:

	2014
Benefit for employment retirement	**B/. 227,748**

In July 2012, the ACP established theVoluntary Retirement Incentive program (VRI) at the required retirement age for permanent employees and managers of the ACP. Before theestablishment of the VRI, there wasanother program named the 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, even though, the probability that the employees choose the LRB is very low since the benefits provided by VRI are higher.

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 agreement from the moment in which they complies with the required retirement age, according to the standards of the Caja de SeguroSocial (regular and early retirement). Temporary employees, officials or permanent employees covered 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 "Termination of Employment Relationship Form" 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 employee 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) accepts the offer of VRI, 4) terminates work no later than 60 calendar days after completing the required age, and 5) files the termination of employment formthrough voluntary resignation.

From fiscal 2014, the ACP changed its accounting policy for recognition of its liability to employees for post-employment benefits following the implementation of the amendment to IAS 19. The change was adopted prospectively and not retrospectively since it was not practicable to estimate the ACP economic and financial impact of adopting this amendment retrospectively. Therefore, the adoption of the new policy was applied prospectively and its net impact was recorded in the retained earnings initial balance of fiscal period 2014 for B/.3,737.

The ACP contracted independent actuarial services in order to estimate the present value of the total cash flow expected to be paid by the ACP in the event that the plan is maintained through the years and to determine the accrued liability at October 1, 2013 and September 30, 2014. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for average age of staff, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate the present value of the liability, in accordance with IFRS, for both retirement plans.

During the actuarial study, the fair value of the liability was calculated at different interest rates and at different case scenarios which included historical data provided by the ACP to the independent actuary at October 1, 2013 and September 30, 2014 using a discount rate equal to the yield curve for corporate bonds for investment grade securities issued by companies in the United States of America (AAA, AA, A). This study produced a result of B/.193,435 and B/.227,748, respectively.

The components recognized in the statement of financial position, the income statement and statement of comprehensive income, for both retirement plans, are detailed as follows:

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	Oct. 1, 2013	**Benefits costs**	**Net interest**	**Benefits paid**	**Actuarial adjustments**	**Sept. 30, 2014**
Fair value of the benefits	B/.193,435	B/. 28,647	B/. 5,620	B/. 15,699	B/. 15,745	B/. 227,748

(In thousands of balboas B/.)

23. Employees benefits (continued)

The principal actuarial assumptions used are shown below:

	Age	2014
		%
Discount rate		**3.5**
Salary increase		**1.5**
Mortality		
Female	57 years old	**2.8**
Male	62 years old	**5.9**
Disability		
Female	57 years old	**1.2**
Male	62 years old	**1.9**

Following are the projected disbursements of voluntary retirement benefits expected in future years:

	2014
Maturity of the obligation	
From 0 to 1 year	**B/. 19,934**
From 1 to 5 years	**71,545**
From 5 to 10 years	**176,243**
From 10 to 25 years	**323,988**
Beyond 25 years	**45,907**

At September 30, 2014, the average duration of the obligation for the defined benefit plans post-employment (VRI/LRB) is approximately 6.3 years at a discount rate of 3.5%.

A quantitative sensitivity analysis for significant assumptions as of September 30, 2014 is as follows:

Assumption	**Discount rate**		**Cost of Salaries**	
	Increase	**Decrease**	**Increase**	**Decrease**
Sensitivity level	**25 pbs**	**25 pbs**	**25 pbs**	**25 pbs**
Impact on defined benefit obligation	(B/.3,356)	B/.3,491	B/.4,912	(B/.4,768)

At the end of fiscal year 2014, the ACP contracted the issuance of a reimbursement policy, in accordance with IAS 19, to cover the defined benefit plans for voluntary retirement of employees.

The policy ensures the ACP reimbursement of all payments made by the ACP in respect of defined benefit plans for voluntary retirement of employees during the term of the plan as long as the ACP makes annual installments to the insurance company as a guarantee deposit equal to the probable amount that the ACP would pay during the year for the retirement benefit plans. In addition, the reimbursement policy provides protection in each year of its term against the risk that the ACP suffers any financially incapacitating event to meet payment of obligations to its employees, for any reason, including illiquidity, if occurred during the term of the policy,as long as the ACP is current in the payments of the premium and the defined benefit plans for voluntary retirement are in effect. The policy does not cover the risk of default of the ACP that could arise from internal fraud, catastrophic physical risks, nuclear war, terrorism, and epidemics.

24. Risk management

Financial risk management

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

The ACP's capital structure consists of net debt (borrowings as detailed in note 16), compensated by cash and bank deposit balances (note 11) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 12, 13, 14 and 15, 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 development agencies, which committed to grant borrowings totaling B/.2,300 with the purpose of partially finance the Canal Expansion Program (see note 16).

Categories of financial instruments

	2014	2013
Financial assets		
Cash and bank deposits (Note 11)	**B/. 1,907,690**	B/. 1,525,040
Amortized cost:		
Trade and other receivables (Note 6)	**42,927**	34,657
Other financial assets at amortized cost (Note 9)	**743,161**	640,912
	B/. 2,693,778	B/. 2,200,609
Financial liabilities		
Financial liabilities designated as hedging instruments (Note 18)	**B/. 150,112**	B/. 144,852
Amortized cost:		
Trade and other payables (Note 18)	**276,133**	310,271
Borrowings (Note 16)	**2,300,000**	1,450,000
	B/. 2,726,245	B/. 1,905,123

24. Risk management (continued)

Financial risk management objectives

ACP's main 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 are 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 their 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 risk hedging 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 Office of Inspector General periodically audits treasury operations and reports to the Board of Directors.

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 and the contract of the construction of a bridge across the Canal at the Atlantic side.
- 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.

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, 2014 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:

(In thousands of balboas B/.)

24. Risk management (continued)

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	
	2014	2013	**2014**	2013	**2014**	2013
5 years or more	**4.67%**	4.67%	**B/. 800,000**	B/. 800,000	**B/. (150,055)**	B/. (144,573)

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, 2014, 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/.768.3. 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, 2014, the ACP expects that the Libor rate would increase its value by 30 basis points through the remaining term of the contract during fiscal year 2015, representing an equity increase of B/.23,048.

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

Annually the ACP uses approximately 10 to 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, period that was considered significant for the implementation of appropriate commercial policies. The risk management is is performed through specific hedging transactions that covers approximately 80% of the estimated volume.

For fiscal year 2014, the ACP purchased a hedge instrument (cap) establishing a maximum price of B/.3.22 per gallon for 9,130 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations, of which 11.31 million gallons were consumed by September 2014.

Energy generation

Power generation is related to the consumption of the Canal operations, while excess capacity is sold in the domestic electricity market. Until September 2014, the ACP consumed 13% of the energy produced, while the remaining 87% was sold to the electricity market. Hydroelectric plants produced 12% of the energy and thermal plants 88%.

(In thousands of balboas B/.)

24. Risk management (continued)

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, 2014, the current price index for light diesel purchases made by the ACP was B/.3.09 per gallon. With an estimated consumption for fiscal year 2015 of 12.35 million gallons, assuming an upward variation trend that increases diesel prices to B/.3.19 per gallon during fiscal year 2015, fuel expenses would show an increase of approximately B/.4.4 million. Up to date an exercise price of the hedging instrument for the 2015 fiscal year has not been established.

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

As mentioned in Note 26, the ACP had different commitments related to the Canal Expansion Program. These commitments included adjustment clauses related to the main commodities that were 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.

The maximum quantities the ACP was exposed to at the signature of the contracts were:

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/.1.40 per gallon	US Gulf Coast Diesel No.2 Oil from Platts Latin American Wire Due date July 2014
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

24. Risk management (continued)

During the life of the project, the ACP determined 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 was 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 allow the purchase of 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.

The variation of light diesel prices did not affect the ACP's income statement or its equity, as it was capitalized as part of the Expansion Program.

Reinforced steel and cement

For these commodities, under market conditions, it hadnot 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 was 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 2014:

Commodity	Unit	Quantity	Total ajustment (in thousands)
Reinforcedsteel	Metric Ton	5,726	B/.1,288
Cement	Short Ton	34,597	B/.(256)

Reinforced Steel

During fiscal year 2014, the scaling adjustment for reinforced steel totaled B/.691, representing B/.597 less than the estimate at the beginning of fiscal year 2014. In the same fiscal year the contract's escalation period ended, and for this reason there is no exposure to price variations of reinforced steel for the remaining execution of the contract for the design and construction of the locks.

Cement

During fiscal year 2014, the scaling adjustment for cement resulted in a credit totaling B/. 153 in favor of ACP, B/.103 less than the amount estimated at the beginning of fiscal year. In the same fiscal year the escalation period agreed under the contract was culminated, and for this reason there is no exposure to price variations of cement for the remaining execution of the contract for the design and construction of the locks.

Diesel

During fiscal year 2014 the ACP was exposed to changes in the price of diesel under the terms established in the contract to build the bridge over the Canal in the Atlantic, thereby assuming the risk of rising prices as well as the benefit of the fall in prices.

The following table shows the quantities established in such construction contract and the accumulated adjustments during the fiscal year 2014:

Commodity	Unit	Quantity	Total adjustment (in thousands)
Low sulphur diesel	Gallons	716,810	B/. (162.22)

At the end of fiscal year 2014 the monthly average price for diesel was B/.2.73 per gallon, which is B/.0.42 less than the contract's reference price. If the same price is maintained during fiscal year 2015, it would represent a credit in favor to the ACP for B/.299,942.

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.

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

(In thousands of balboas B/.)

24. Risk management (continued)

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 financial instruments when one of its ratings is lower than what is indicated herein, except for the BancoNacional de Panamá (National Bank of Panama). ACP's exposure and the credit ratings of its counterparties are reviewed continuously. 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. External rating
2. Capital coverage
3. Country risk
4. Liquidity index
5. Deterioration index
6. Performance index
7. Credit risk

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

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

In addition to the credit risk of thetreasury portfolio, the ACP maintains a credit risk from advances made to GUPCSA under the Contract for the Design and Construction of the Third Set of Locks, as explained in note 6. On the B/.906,409 advance payment receivable from GUPCSA,ACP has bank and insurance guarantees, as well as withholding applied to the work in progress for approximately 75%. The unsecured balance is covered under a joint and several guarantee by each of the four companies in the consortium for B/.250,000, which make them accountable and obliges each them for the outstanding advanced balance as if they were acquired on an individual basis. The fundamental analysis applied to the four companies in the consortium indicated that one or more of these companies are able to repay the total of this obligation.

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 development financial institutions. Currently 4.35% of the debt is contracted at fixed effective rate of 5.31%, and the remaining 95.7% shows a moving average effective rate of 3.10%. The effective rate for the financing is 3.20%.

	Weighted average effective interest rate (%)	1 month or less	1 - 3 months	1 - 5 years	More than 5 years	Total
September 30, 2014						
Variable interest loan	3.10%	B/. -	B/. -	B/. 110,000	B/. 2,090,000	B/. 2,200,000
Fixed interest loan	5.31%	-	-	5,000	95,000	100,000
		B/. -	B/. -	B/. 115,000	B/. 2,185,000	B/. 2,300,000

(In thousands of balboas B/.)

24. Risk management (continued)

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

2014

	Up to 1 month	1 - 3 month	3 months - 1 year	1 - 5 years	More than 5 years	Total
Time deposits	B/. 355,600	B/. 175,600	B/. 1,084,013	B/. -	B/. -	B/. 1,615,213
Securities						
Held-to maturity	-	4,627	738,534	-	-	743,161
	B/. 355,600	B/. 180,227	B/. 1,822,547	B/. -	B/. -	B/. 2,358,374

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
Securities						
Held-to maturity	-	-	640,912	-	-	640,912
	B/. 35,000	B/. 79,088	B/. 1,712,415	B/. -	B/. -	B/. 1,826,503

The ACP has used all the creditors financing for the Canal Expansion Program. The ACP expects to comply with its obligations with the cash flows from future operations.

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 a 12 months	1 - 5 years	More than 5 years
September 30, 2014				
Trade and other payables	B/. 192,494	B/. -	B/. 83,639	B/. -
Other financing liabilities	13,324	-	-	136,789
Borrowings	-	-	115,000	2,185,000
	B/. 205,818	B/. -	B/. 198,639	B/. 2,321,789
September 30, 2013				
Trade and other payables	B/. 247,952	B/. -	B/. 62,319	B/. -
Other financing liabilities	13,007	-	-	131,845
Borrowings	-	-	-	1,450,000
	B/. 260,959	B/. -	B/. 62,319	B/. 1,581,845

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.

(In thousands of balboas B/.)

24. Risk management (continued)

Financing structure

Financing disbursed and available:

		2014		2013
Amount disbursed				
Japan Bank for International Cooperation (JBIC)	**B/.**	**800,000**	B/.	800,000
European Investment Bank (EIB)		**500,000**		200,000
Inter-American Development Bank (IADB)		**400,000**		400,000
CAF Development Bank of Latin America (CAF)		**300,000**		50,000
International Finance Corporation (IFC)		**300,000**		-
		2,300,000		1,450,000
Available amount				
European Investment Bank (EIB)		**-**		300,000
International Finance Corporation (IFC)		**-**		300,000
CAF Development Bank of Latin America (CAF)		**-**		250,000
		-		850,000
	B/.	**2,300,000**	B/.	2,300,000

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:

	2014		2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Financial assets measured at amortized cost:				
Investment in securities	**B/. 743,161**	**B/. 742,777**	B/. 640,912	B/. 640,930
Financial liabilities				
Financial liabilities measured at amortized cost:				
Floating rate borrowings	**B/. 2,200,000**	**B/. 2,204,051**	B/. 1,350,000	B/. 1,297,414
Fixed rate borrowings	**100,000**	**114,975**	100,000	109,713
	B/. 2,300,000	**B/. 2,319,026**	B/. 1,450,000	B/. 1,407,127

24. Risk management (continued)

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.

Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequently 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).

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
LIABILITIES:				
Financial liabilities at fair value with changes in other comprehensive				
Hedged financial instruments	**B/. -**	**B/. 150,112**	**B/. -**	**B/. 150,112**

	2013			
	Level 1	Level 2	Level 3	Total
LIABILITIES:				
Financial liabilities at fair value with changes in other comprehensive				
Hedged financial instruments	B/. -	B/. 144,852	B/. -	B/. 144,852

(In thousands of balboas B/.)

25. 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	
	2014	2013	**2014**	2013
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**B/. 29,421**	B/. 28,597	**B/. -**	B/. -
Other government entities	**3,030**	2,807	**-**	-
Employee benefits	**-**	-	**61,649**	61,730
Purchase of land to Ministerio de Economía y Finanzas	**-**	-	**-**	89,757
Public service fees	**-**	-	**2,378**	2,228
Panamanian Treasury - fees per net ton	**-**	-	**374,465**	369,003
	B/. 32,451	B/. 31,404	**B/. 438,492**	B/. 522,718

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	
	2014	2013	**2014**	2013
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**B/. 5,321**	B/. 5,457	**B/. -**	B/. -
Other government entities	**1,643**	1,366	**-**	-
Employee benefits	**-**	-	**12,726**	-
Public service fees	**-**	-	**198**	177
Panamanian Treasury - fees per net ton	**-**	-	**32,314**	31,336
	B/. 6,964	B/. 6,823	**B/. 45,238**	B/. 31,513

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.

(In thousands of balboas B/.)

25. Related party transactions (continued)

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 executives

The ACP paid a total of B/.3,280 (2013: B/.3,352) for remuneration and benefits to its key management personnel. It is the responsibility of the Administration 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.

26. Commitments

Commitments as a result of incomplete construction contracts and undelivered purchase orders amounted to approximately B/.1,363,187 (2013: B/.2,018,000), as follows:

	2014	2013
Investment programs:		
Canal Expansion	B/. 941,744	B/. 1,525,000
Others	385,266	463,000
Sub-total	1,327,010	1,988,000
Operations	36,177	30,000
	B/. 1,363,187	B/. 2,018,000

Total commitments include the Panama Canal expansion program contracts awarded during the fiscal year totaling B/.21,015 (2013: B/.22,343).

Contracts awarded during fiscal year 2014, include extension of insurance period coverage for Third Set of Locks granted to insurance broker Willis Limited for B/.1,807, cleaning of unexploded ordenance (UXO) at Cerro Valdes Borrow site on the west side of the Canal to Fatutto for B/.2,433 and legal services for Canal Expansion Program to Mayer Brown LLP for B/.11,114.

Contracts awarded during fiscal year 2013, include miter gate hydraulic cylinders to IHC Vremac Cylinders BV 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 Lakes to Ingenieria Continental, S.A. for B/.6,455.

Fiscal year 2014 balance includes the design-build contract for the Canal Expansion Program´s major component, the third set of locks, to GrupoUnidospor el Canal, S.A. (GUPCSA) of B/.830,277(2013: B/.1,408,126).

27. Contingent liabilities

At September 30, 2014, the ACP has received claims from GUPCSA for a total of B/.1,690,000. 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. Two of these claims concerning concrete mix designs and aggregates were denied by the ACP. As at September 30, 2014, GUPCSA had referred these claims for B/.464,000 to the Dispute Adjudication Board (DAB) for their resolution. Consequently, hearings were scheduled between the end of September and the beginning of October 2014 from which it is expected to have a DAB decision by the end of 2014. The ACP has also received another claim for the amount of B/.898,000 due to the alleged disruption and delay, as a result of various circumstances, which is still under valuation by the ACP after additional information and evidence submitted by GUPCSA. GUPCSA also submitted other claims for an aggregate amount of B/.92,000 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/.138,000 which were rejected entirely by the DAB. GUPCSA has submitted a notice of dissatisfaction before the DAB following the denial of its claim concerning the Pacific temporary cofferdam. That claim has now been referred to the International Court of Arbitration of the International Chamber of Commerce in December 2013 for an amount of B/.180,000 which its final hearing has been programed for December 2015.

ACP has received claims related to other investment projects for an aggregate amount of B/.36,000 which are at different stages and have been rejected in their entirety by the ACP; others are pending of a resolution by the Contracting Officer of 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.

28. Events that occurred after the reporting period

On November 24, 2014 meeting, the Board of Directors approved the transfer to the Treasury of the operating and functioning economic surplus corresponding to fiscal year 2014 in the amount of B/.653,821. (See note 15).

28. Events that occurred after the reporting period (continued)

Panama Canal Expansion Program was scheduled to begin operations in late 2014. The project of the Design and Construction of the Third Set of Locks, the main component of the Program, whose contractual completion date should be completed byearly November of the current year, has a gap that has delayed the completion of the works until early 2016. Consequently, on November 13, 2014, the ACP gave the contractor GUPCSA, a formal notice of claim regarding the completion of the works after the contractual period, therefore the Contractor shall pay to the ACP the sum of B/.300 for each day that elapses between the contractual date of completion of the work and the date specified in the certificate of acceptance of the work, up to a maximum of B/.54.600. In that same notice of claim, the ACP clarifies that because the parties agreed by a variation to the Contract under the "Delay Damages Dispute Procedure", that the contractor will not be deducted these amounts until an arbitration decision, under procedures of the International Chamber of Commerce (ICC), exist. However, the ACP will maintain the right to claim the full amounts for damages and/or delay damages to which it is entitled to.

29. Reclassifications

Some items in the statement of cash flows for the year ended September 30, 2013 have been reclassified to conform to the 2014 presentation.

30. Approval of financial statements

The financial statements of the AutoridaddelCanal Panama for the period ended as of September 30, 2014, were approved by the Board of Directors and authorized for issuance on November 24, 2014.

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Para mayor información sobre el Canal de Panamá, visite la Oficina de información en el Edificio de la Administración, en Balboa, o llamé al (507) 272-7602 ó (507) 272-7677.
El Centro de Visitantes de las Esclusas de Miraflores está abierto de 9 a.m. a 5 p.m. todos los días. Usuarios de Internet pueden acceder la pagina de la ACP www. pancanal.com o enviar un correo electrónico a info@pancanal.com

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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.
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