ANNUAL REPORT 2018

CANAL DE PANAMÁ

CONTENTS

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Roberto R. Roy
Minister for Canal Affairs and Chairman of the Board of Directors

In fiscal year 2018, the Panama Canal Authority (ACP) achieved positive operating and financial results, especially in the optimization of resources dedicated to the transit of vessels through the waterway. The implementation of measures such as tolls adjustments, the modification of the reservation system for Neopanamax vessels, guarantee the reliability of the maximum draft in the Neopanamax Locks, among others, exceeded the transit tonnage forecasts, reflected in an increase in income for this fiscal year.

After two years since the opening of the expanded Canal, figures demonstrate the Canal's efficient operation and the confidence of the maritime industry. As a result of the increase in the number of Neopanamax transits and to continue offering a world-class service, the procurement of 10 additional tugboats was approved to enhance the current fleet of 46.

As part of the National Water Security Plan, the Panama Canal is executing the contracts signed with the Ministry of the Environment (MiAMBIENTE, for its name in Spanish) for the studies and development of the conceptual designs for multipurpose reservoirs the Indio and Bayano rivers basins, in the Azuero Peninsula and in Veraguas Province. In keeping with its commitment to protect water resources for human consumption, granting the compatibility permit with Canal operations to the Gamboa, Chilibre, and Jose Rodriguez water treatment plants was approved. In addition, the construction and operation of power plants was also approved, which will benefit the population on the Atlantic zone and on the western area of the country.

Likewise, the permits for the operation activities of the ancillary maritime services and new cruise terminals in the Pacific side was approved, which will offer the needed maritime access to all the companies that provide services in areas surrounding Canal banks.

Front row from left to right: Lourdes Del C. Castillo M., Director; Roberto R. Roy, Chairman of the Board of Directors; Nicolás Corcione, Director. Second row from left to right: Henri M. Mizrachi K., Director; Elías A. Castillo G., Director; Alberto Vallarino Clément, Director; José A. Sosa A., Director. Third row from left to right: Óscar Ramírez, Director; Ricardo Manuel Arango, Director; Francisco Sierra Fábrega, Director.

The ACP managed alliances that made possible the opening of the first coffee processing plant by small coffee farmers in the Canal basin, expanding sustainability opportunities for coffee producers in the area, which is part of the objectives established in the environmental program.

Another milestone reached during this year was the main stitch of the Atlantic Bridge. With a 530-meter central span, the Atlantic Bridge will be the world's longest pre-stressed concrete cable stayed bridge once completed. The ACP also built a new bridge in Gamboa, which will allow safer and more expeditious vehicular traffic for the community, Canal employees and visitors.

The Board of Directors modified ACP's liquidity investment criteria and guidelines in order to comply with international regulations and ensure the best interests for the organization. It is important to point out that, for the third consecutive year, Fitch Ratings, S&P Global Ratings, and Moody's affirmed the ACP's investment grade rating of A, A- and A2, respectively.

A new organizational structure -approved by the Board of Directors as part of the Panama Canal's growth strategy- incorporates a vice presidency that will lead the efforts in managing complementary businesses and consolidates the organization to face new global challenges. Training of the Canal's labor force is included as part of the strategy to prepare the workforce to serve the business and technological change.

In other activities, the ACP is setting out the first Experience Center in Veraguas, a province of the Republic of Panama with a population of 247,000, to offer visitors museum-type exhibits related to the Panama Canal as well as other attractions. Additionally, a Tourism Plan allowing investment from the private sector in activities linked to Canal operation will be implemented.

In 2019, the ACP will face new challenges, but we are confident that the Panama Canal is prepared for the ever-increasing and competitive demands of the maritime sector. This requires maximum environmental security and responsible care of our most valuable resource – water.

MESSAGE FROM THE ADMINISTRATOR

Jorge L. Quijano
Administrator
Panama Canal

On behalf of all of us who work in the Panama Canal, it is a pleasure to present the annual report for the 2018 fiscal year, with detailed information on operational, financial, labor and socio-environmental management. In this way, we reaffirm our permanent commitment to transparency, honesty, responsibility and competitiveness.

After two years of operations of the Expanded Canal, results show the timely decision of increasing our maritime cargo service capacity through the waterway. Successful transit operations of Neopanamax vessels show that the challenges we overcame during the construction phase are now bearing fruit.

After the period ending fiscal year 2018, the Panama Canal recorded a record of 442.1 million PC/UMS[1], which represents an increase of 9.5 percent with respect to the 403.8 million PC/UMS of the previous fiscal year. In additions, transits increased by 247 vessels, a 1.8 percent more vessels. We also increased reliability by increasing to eight the number of daily reservation slots. All of this confirms that with teamwork, any challenge is surmountable.

The main users of the waterway were the United States, China, Mexico, Chile and Japan. In terms of cargo tonnage percentage, the main routes were between Asia and the East Coast of the United States, the East Coast of the United States and the West Coast of South America, the East Coast of the United States and West Coast of Central America, Europe and the West Coast of South America and between Asia and the East Coast of Central America.

As a result, the Canal collected B/.3.172 billion in revenues, B/.286 million more than the previous fiscal year, of which B/.2.970 billion correspond to tolls and transit services, B/.68 million to electric power sales, B/.34 million to potable water sales, B/.36 million to miscellaneous income, and B/.63 million to earned interest and others

[1] Panama Canal Universal Measurement System

From left to right: Francisco J. Miguez P., Executive Vicepresident of Administration and Finance; Manuel E. Benítez, Deputy Administrator; Jacinto Wong, Executive Vicepresident of Information and Technology; Agenor Correa, Vicepresident of General Counsel; Esteban G. Sáenz, Executive Vicepresident of Operations; Jorge L. Quijano, Administrator; Abdiel A. Gutiérrez G., Vicepresident of Corporate Communications; Oscar Vallarino B., Vicepresident of Corporate Affairs; Carlos Vargas, Executive Vicepresident of Environment, Water and Energy; Oscar Bazán, Executive Vicepresident of Planning and Business Development; Ilya Espino de Marotta, Executive Vicepresident of Engineering and Program Management; Francisco Loiza B.; Executive Vicepresident of Human Resources.

financial incomes. Total toll revenues were B/.1.818 billion, including fee per net ton, public utilities fees and depreciation, B/.41.6 million less than the budgeted figure. This performance made it possible to achieve a record of B/.1.703 billion in direct contributions to the National Treasury.

However, the Canal's reach goes far beyond transit and revenue statistics. Its interaction with the community is maintained through various social, communication and sustainability programs, which make it possible to expand the growth opportunities for the Republic of Panama. We have made progress in the execution of the environmental development strategy based on emission reduction targets. Likewise, the Panama Canal distinguishes customers who adopt high environmental efficiency standards in their vessels through the Green Connection Award and the Environmental Premium Ranking initiatives. In the Panama Canal Watershed, we have managed to provide more than 7,400 residents legal security over their lands and have implemented various conservation programs that have allowed us to maintain high water quality standards.

These achievements are a clear reflection of our workforce's effort and dedication, who with their work and customer-oriented service, contribute to the achievement of our vision: being a leader in global connectivity and driver of Panama's progress. The results also reiterate our commitment to maintain the route's competitiveness, to optimize the Canal's activities to generate higher revenues, increase its productivity and continue operating to lead our Canal to new horizons.

CORPORATE STRATEGY

The commitment of guaranteeing the uninterrupted, reliable and safe transit of ships through the Panama has been, since its beginning, the Canal's main focus. To achieve this, listening and getting acquainted with its customers, training its labor force, maintaining high quality standards, continually reviewing and improving its processes, and defining and implementing initiatives to maintain an optimal and updated infrastructure have been instrumental.

The Expanded Canal's performance has been positive in its two years of operation. It has overcome important challenges in the midst of a maritime industry that has been impacted by economic, political, technological and environmental factors, which further highlights not only the success achieved, but also future challenges. The Canal must continue managing its resources to exceed the expectations of its customers and, at the same time, control its expenses to generate significant higher contributions to the National Treasury.

In order to add value to its customers, the Canal advances its strategy of developing new services that complement cargo transit through Panama, among others, ports and logistics facilities, power generation, water and Canal tourism.

For the Canal, the conservation of natural resources is an essential part of its strategy. The strategy is aimed at guaranteeing the quantity and quality of water for consumption and for an efficient operation. In addition, the Canal is carrying out sustained efforts in the execution of an emission reduction and watershed protection plan, and encourages the participation of its customers in environmental programs with a high impact.

The Canal continues moving forward to respond to the needs of the market, effectively undertake strategic projects and remain a "global connectivity leader and driver of Panama's progress" for many generations to come. This is possible thanks to the discipline, perseverance and commitment of its workforce, who, aware of the responsibility to maintain a profitable and sustainable business, make the ACP's vision possible.

Panama Canal Administration Building

VISION

“Global connectivity leader and driver of Panama’s progress”

MISSION

“Contribute sustainably to Panama’s prosperity, through our valuable team, connecting production with the global markets, to bring value to our customers”

STRATEGIC OBJECTIVES

OBJECTIVE 1

Grow our business by increasing the tonnage to generate more revenue.

OBJECTIVE 2

Diversify revenues through related businesses.

OBJECTIVE 3

Maximize business profitability through efficiency, productivity and effective risk management.

OBJECTIVE 4

Strengthen customer relations and business intelligence.

OBJECTIVE 5

Ensure water volume and quality for human consumption and for Canal operations.

OBJECTIVE 6

Guarantee the use of best business practices and good corporate governance.

OBJECTIVE 7

Transform the organization by developing its capabilities and competencies.

OBJECTIVE 8

Proactively strengthen the image, respect and credibility of the Canal.

VALUES

- TRANSPARENCY
- RELIABILITY
- RESPONSIBILITY
- HONESTY
- LOYALTY
- COMPETITIVENESS

Innovation

Innovation is part of the Panama Canal's culture. New challenges, as well as the constant changes in the global economy, the implementation of new technologies and the commercial strategies of our clients, force us to break standards and look for new and different ways of doing things.

The objective of the Panama Canal Innovation Program is to manage and recognize the main innovation initiatives generated by our own workforce. For this, challenges are aligned annually to the strategy, the program is communicated, and ideas are evaluated and incubated through a process that guarantees the delivery of high-value proposals with the possibility of implementation.

Through an open registry system, 10,000 employees have the opportunity to register their ideas, after fulfilling the requirements established by the program. During fiscal year 2018, more than 7 percent were finalists. The process was demanding and required not only the participation not only of the employee that has the idea, but also the support of employees from different areas of the organization that contribute with their knowledge to improve the projects.

The proposals that have reached the end of the process will generate, once implemented, tangible benefits for the company. Approved proposals include: black box for critical equipment monitoring, pipes of recycled material for erosion control, dissipation of fog in the Culebra Cut using selective inverted sink (SIS) technology, tugboats propulsion unit protection and corporate process optimization using Robotic Process Automation (RPA) technology, among others.

At the Panama Canal we believe in the importance of constantly innovating and in the ability of our workforce to look for innovative solutions. The Innovation Program will continue to evolve, working internally and with other national and international innovative organizations, so that the Canal can keep moving forward and continue being a driver of the country's progress.

Winning team of the Innova Challenge 2018

Front row, from left to right: Admiral William J. Flanagan; William A. O'Neil, Chairman of the Advisory Board; Gerhard Kurz.
Second row, from left to right: Alberto Alemán Zubieta; Salvador Jurado; Flemming R. Jacobs; Philip Embiricos and Joe Reeder.

Advisory Board

In accordance with the National Constitution, and the Organic Law and its regulations, the ACP Advisory Board serves as a consultative body for the Canal organization with the main responsibility to provide guidance and recommendations to the Board of Directors and the Canal Administration. It is a forum of first-class leaders from the international community, who contribute their opinions and extensive experience to the design and improvement of the plans developed by the Administration to ensure a better future for the Canal.

It is made up of 18 distinguished advisers from the maritime and business world who meet at least once a year at the request of the ACP Board of Directors. Its members are the honorable: William A. O'Neil, Chairman of the Advisory Board; Alberto Alemán Zubieta; Philip A. Embiricos; Admiral William J. Flanagan; Dr. Ernst Frankel; Richard Gabrielson; Flemming R. Jacobs; Salvador A. Jurado; Gerhard E. Kurz; Andrónico M. Luksic; Mario F. Maffei; Dr. Hani Mahmassani; Albert Nahmad; Joe R. Reeder; Mikio Sasaki; Tommy Thomsen; Chee Chen Tung and Wan Min.

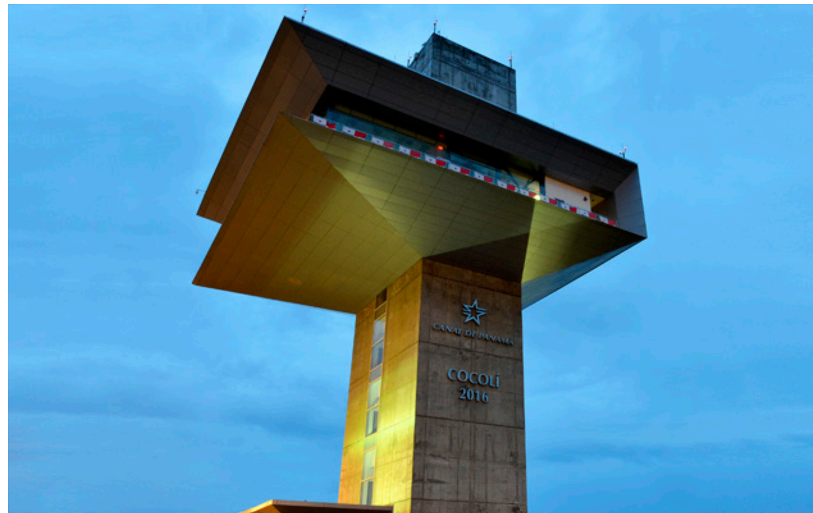
During fiscal year 2018, the XXIX Advisory Board Meeting with the Panama Canal Board of Directors was held from May 15 to 17 in Norfolk, Virginia, United States. Advisory Board members discussed the waterway's current operations and projects, industry trends which could impact its performance, planned growth, and the development of complementary and future business opportunities. In addition to expressing their comments and recommendations, the Advisory Board members also responded to questions from the ACP Board of Directors regarding the maritime industry and world trade. During their time in Virginia, the ACP Board of Directors visited the Port of Virginia, as well as several regional distribution centers, to observe and explore their process and see what would work best for the logistic park which is part of the ACP's complimentary business plan.

BUILDING THE FUTURE

Organizational Realignment

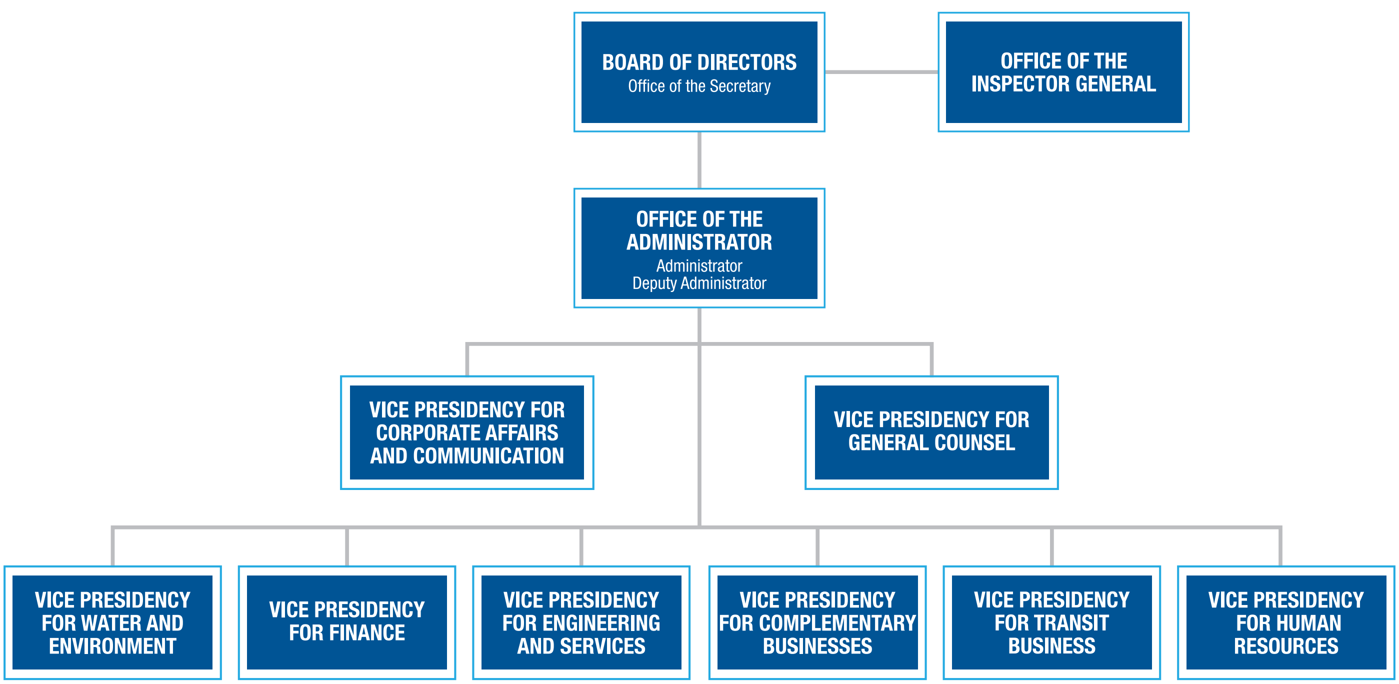
Organizations constantly evolve to respond to challenges and take advantage of opportunities in their environment. With the completion of the Expansion Program and the revision of its strategy, the Panama Canal carried out an organizational design study with the objective of aligning its structure to the Canal's new challenges in order to strengthen its growth.

The study consisted in evaluating processes and posts within the organization to promote efficiencies and encourage the adoption of best practices. With the Board of Directors' participation, several alternatives were analyzed to select the new structure, which was approved on January 22, 2018.



Cocoli Locks Control Tower

The implementation of the organizational realignment was carried out during the remainder of fiscal year 2018. This work required adjusting systems, change management sessions and extensive communication to facilitate the transition and implementation of a new structure which aims to add value to customers, ensure water availability, strengthen the route with complementary businesses and ensure business sustainability through continuous improvement. The structure was implemented on October 1, 2018.



CORE BUSINESS

MARKET

Liquefied natural gas vessel at Cocoli Locks

The Panama Canal PC/UMS net tonnage for fiscal year 2018 was 442.1 million tons, a 9.5 percent increase from the previous year. Tolls revenue amounted to B/.2.485 billion, an 11 percent increment from the previous fiscal year. There was also a 1.8 percent increase in transits from 13,548 in fiscal year 2017 to 13,795 in fiscal year 2018.

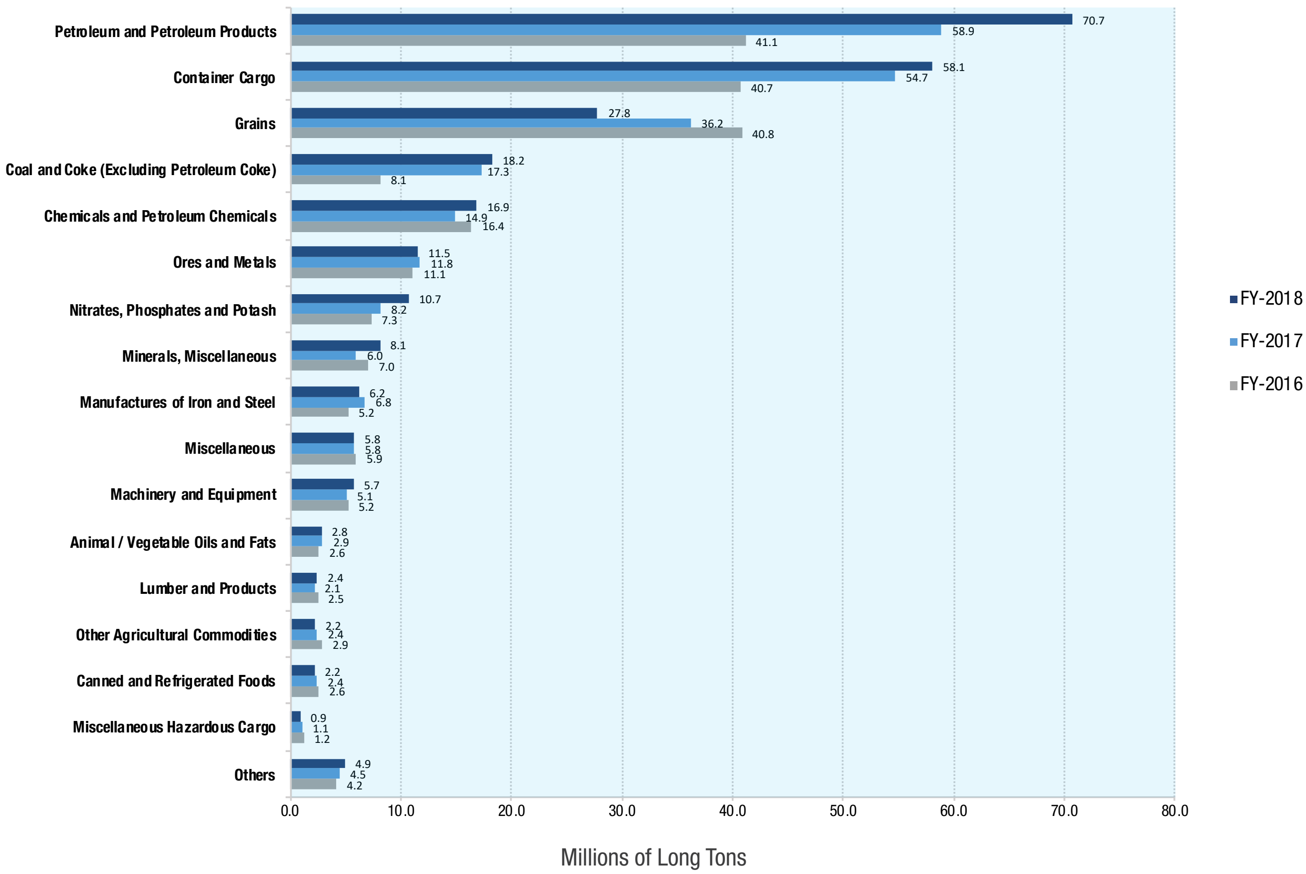
Overall global economic activity kept a healthy, but moderate, growth rate, supported by sustained growth in the United States, a very moderate pace in the Eurozone, a slower but still significant performance by China and a modest, but better than expected growth rate in Japan. The improved overall global economy trickled down into a much improved supply-demand balance in terms of maritime cargo, resulting in higher global demand and profits for the shipping industry in 2018. According to the United Nations Conference on Trade and Development (UNCTAD), this trend is expected to continue for the rest of 2018 and for the next five years.[2] At the same time, commodity prices such as metals and energy products have recovered – with a few exceptions – because of accelerated global growth, greater demand for raw materials and geopolitical factors.

Although 2018 was a year of positive global economic growth, significant headwinds for the world economy further materialized during the year due to increased protectionism, geopolitical conflicts and structural changes in the Chinese economy. In terms of trade policy, 2018 may go down in history as one of the worst years for free trade. For example, on March 22, 2018, the United States imposed steel and aluminum tariffs on several trading partners, provoking retaliation against U.S. products.

Furthermore, the United States and China are engaged in an escalating trade war involving agricultural products such as soybeans, industrial and technological inputs and a growing number of consumer goods. In the meantime, the United States pulled out of the Trans-Pacific Partnership Agreement (TPP) in early 2017, negotiated a new trade deal called United States-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA), and is negotiating new trade agreements with the European Union and Japan.

[2] Review of Maritime Transport, UNCTAD 2018, page 1.

Principal Commodities Through the Panama Canal

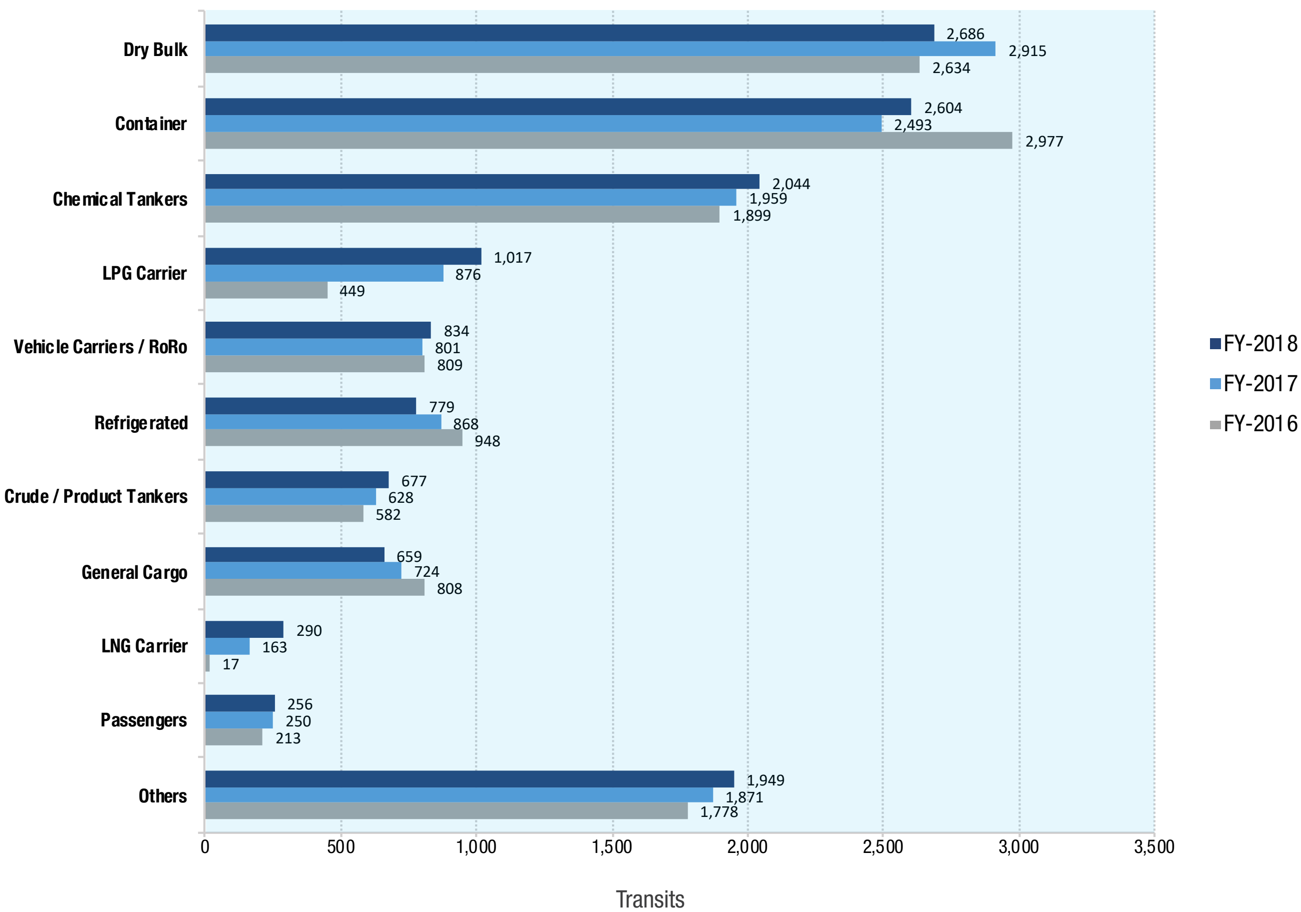


The U.S. economy remained robust throughout 2018 – namely 4.1 percent growth rate in the second quarter of 2018 – given high consumer confidence, growing business investment and the effects of new tax cuts, and greater public expenditure on infrastructure and the military driven by the Trump Administration.[3] These expansionary events underpinned low unemployment, higher wages and greater business earnings, prompting the Federal Reserve to increase interest rates to prevent inflation. On the other hand, the market is anticipating further short-term interest rate hikes and higher yields on long term U.S. Treasury bonds,[4] increasing the cost of debt to consumers and businesses.

The Eurozone grew at a very moderate pace during the year and surpassed expectations in the second quarter of 2018.[5] The overall growth rate is expected to be around 2 percent for 2018,[6] given the stronger demand from consumers and firms, improved labor market and expansionary fiscal and monetary policy.[7] During this year, potential trade conflicts with the United States emerged, but were subdued as the United States and the European Union agreed to open talks to eliminate trade barriers.[8] Other risks linger, such as the Brexit negotiation, uncertainties in Italy, turmoil in Turkey and business concerns about potential trade disputes.

[3] https://www.whitehouse.gov/wp-content/uploads/2018/02/budget-fy2019.pdf.
[4] https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield.
[5] https://ec.europa.eu/eurostat/documents/2995521/9105264/2-14082018-BP-EN.pdf/e28c60ea-1ad0-47fd-b7e1-668cdb9ba016.
[6] From Economist Intelligence Unit, OECD and IHS Global Insight.
[7] Global Economic Forecast Alert, IHS Markit, September 6 2018.
[8] Trump, European Union leaders pull back from trade war. Chicago Tribune, July 25 2018.

Transits by Market Segment



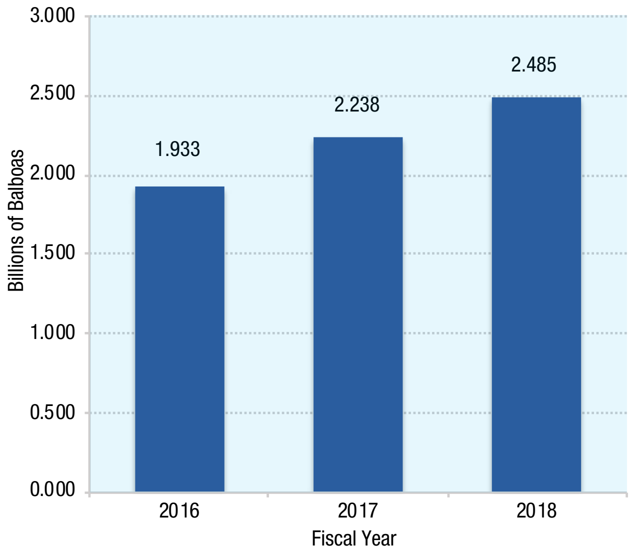
Economic growth in Asia remained moderate in 2018, but with downside potential. China's economy is expected to grow around 6.5 percent, lower than the 6.9 percent registered in 2017[9] because of China's restrictive monetary policy and the escalating trade conflict with the United States. Due to these conditions, the People's Bank of China is returning to an expansionary monetary policy to stimulate growth. Japan is expected to grow close to 1 percent in 2018 because of slight improvements in investment in machinery and equipment.[10]

Latin America and the Caribbean will grow at about 1.5 percent on average in an international context marked by uncertainty.[11] Factors such as growing protectionism, currency volatility in Argentina and the impact of increasing interest rates in the United States, do not bode well for investments in the region. In general, the region has benefited from better raw materials prices and relatively competitive exchange rates.

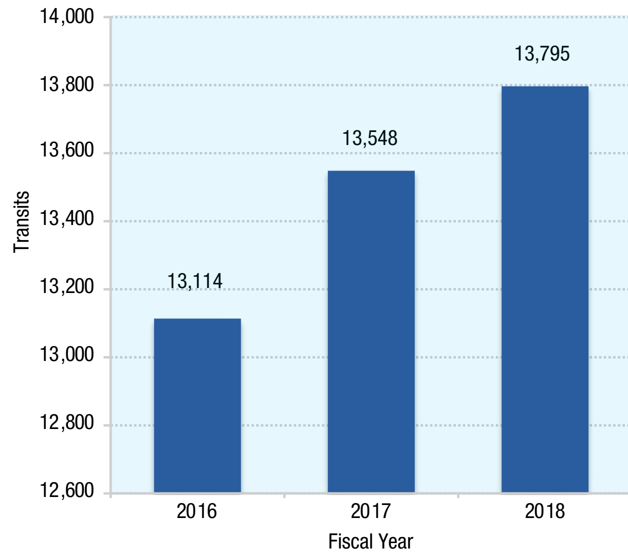
Throughout its history, the Panama Canal has operated in a very dynamic environment that includes both the maritime industry and global trade. The competitiveness of the Canal has been tested by various events such as fleet overcapacity, decrease in the demand of commodities and low fuel prices, and more recently, the confrontation between the United States and China concerning commercial exchange and tariffs.

[9] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG.
[10] Global Economic Forecast Alert, Ibid.
[11] https://www.cepal.org/en/pressreleases/latin-america-and-caribbean-holds-path-moderate-growth-and-its-economy-will-expand-15.

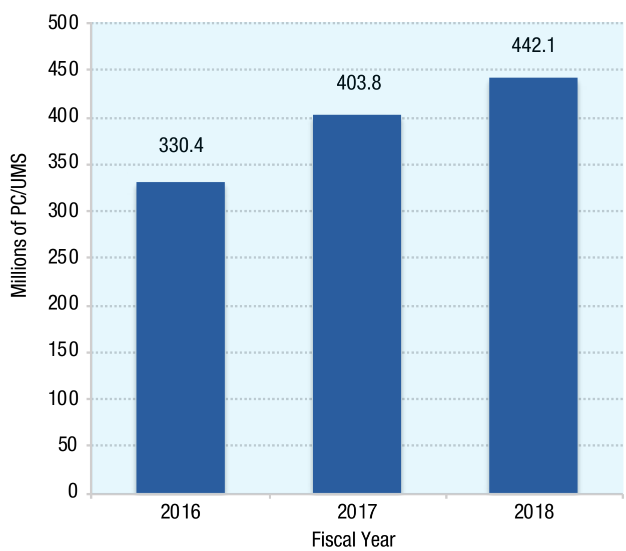
Toll Revenue



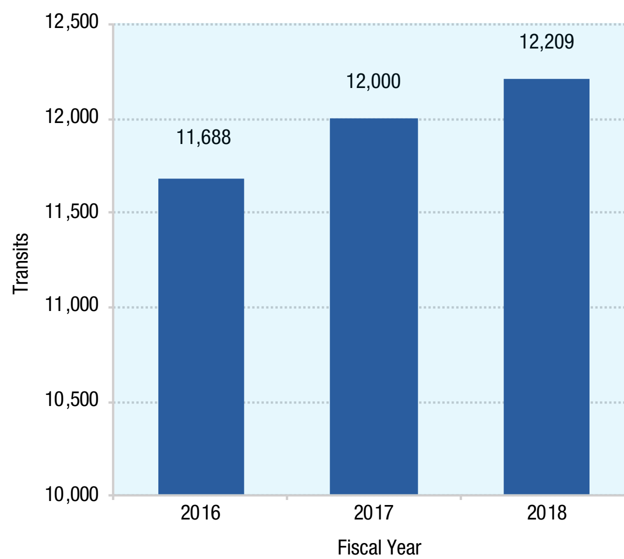
Transits Through the Panama Canal



Vessel Tonnage



Oceangoing Vessels Transits



The construction of the Neopanamax Locks was a great success, and it has allowed the Canal to redefine itself and offer the benefits of economies of scale to its customers. In fact, the capacity of vessels currently transiting has reached up to almost 15,000 TEUs[12]. At this moment, the Canal offers, under optimum conditions, up to 50 feet of draft and a transit daily average of around eight vessels in the Neopanamax Locks.

In order to maintain its competitiveness in a sustainable manner, the Panama Canal is always seeking to strengthen its core business, while diversifying its portfolio of commercial offers. For this last purpose, a Vice Presidency of Complementary Businesses was created as of fiscal year 2019.

[12] TEUs: Twenty-foot equivalent unit. The TEU volume is equivalent to 1,360 cubic feet.

Container Vessels Segment

Container vessel in tie-up operations at Cocoli Locks

The container vessels segment reported a total of 2,604 transits, 159 million PC/UMS tons, 16 million TEU capacity, 10.1 million TEU loaded transported through the Canal, and B/.1.165 billion in toll revenue. These numbers reflect an increase of 4.5 percent in transits, 11.5 percent in PC/UMS tonnage, 13.1 percent in TEU capacity, 14.3 percent in TEU loaded, and 11.1 percent in toll revenue compared to the previous fiscal year. Container vessel toll revenue accounted for 46.9 percent of the total Panama Canal toll revenue for fiscal year 2018. The Neopanamax Locks played a major role in the traffic statistics, registering 1,209 transits, and influenced significantly the remaining indicators with 70 percent of TEU capacity, 74 percent of TEU loaded and 70 percent of toll revenue.

During this fiscal year, operators continued to take advantage of economies of scale through the Panama route with the migration to larger and more efficient vessels in the liner services that serve the Asia to the U.S. East Coast and Gulf Coast route and the West Coast of South America to Europe route, showing greater interest in deploying mega vessels with a capacity of more than 10,000 TEUs.

Fiscal year 2018 started with 29 liner services transiting the Canal, of which 14 were Panamax-sized or smaller and 15 Neopanamax-sized. During the year there were service network restructuring and variations in vessel sizes deployed. Fiscal year 2018 closed with 28 liner services, of which 16 use Neopanamax vessels and 12 use Panamax or smaller vessels. Despite the decrease in the number of liner services, the final deployed annual capacity in both directions was 16 million TEUs, approximately 1 million TEUs more than at the outset.

The commercial exchange between Asia and the U.S East Coast was the most important trade lane for the Panama Canal during fiscal year 2018, with 43 percent of the number of transits, 54 percent of the volume of TEU capacity, 61 percent of TEU loaded, and 56 percent of segment toll revenue, for total of B/.648 million. A total of 14 liner services were deployed along this commercial route, 12 of which operated Neopanamax-sized vessels and 2 operated Panamax-sized or smaller vessels.

The Panama Canal route has remained an advantageous alternative for maritime operators, where 2,259 vessel transits benefitted from the loyalty program; in other words, 87 percent of the total transits obtained savings through this program. Another successful program during the fiscal year was the new tariff for loaded TEU transported on the southbound return voyage through the Panama Canal for Neopanamax vessels that meet predetermined conditions. This program encouraged not only the progressive increase in vessel sizes, but also the return of one Neopanamax liner service.

Container vessel at Miraflores Locks

Liquid Bulk Segment

Fiscal year 2018 was an outstanding year for the liquid bulk segment in terms of traffic through the Panama Canal, becoming the second most relevant segment only surpassed by the container vessels. The liquid bulk segment registered records in all traffic indicators, with increases of 9.2 percent in transits, 11.2 percent in billing tonnage and 10.2 percent in toll revenue.

During fiscal year 2018, the liquid bulk segment registered a record of 4,028 transits, surpassing the 3,966 transits mark established by the dry bulk segment 22 years ago, in fiscal year 1996. This performance was the result of the outstanding traffic of Panamax and Neopanamax vessels transporting crude oil, liquefied natural gas (LNG) and liquefied petroleum gas (LPG).

A total of 90 million long tons of cargo through the Panama Canal was reported during fiscal year 2018, 18.6 percent more than fiscal year 2017, driven mainly by an extraordinary growth in LNG cargo flows, which increased from 6.4 million long tons in fiscal year 2017 to 11.5 million long tons in fiscal year 2018, as well as the LPG cargo flows that went from 15.3 million long tons in fiscal year 2017 to 16.6 million long tons in fiscal year 2018.

Tanker vessels registered an increase of 6.5 percent in transits, 7.8 percent in billing tonnage and 7.5 percent in toll revenue, as a result of a growth in traffic through the Panamax and Neopanamax Locks. The Panamax Locks registered a 5 percent increase, driven by the traffic of Panamax vessels in the 100 to 107 feet beam range and the Neopanamax Locks registered a 66.1 percent increase, driven by the transits of vessels with a beam range of more than 140 feet, especially Suezmax vessels.

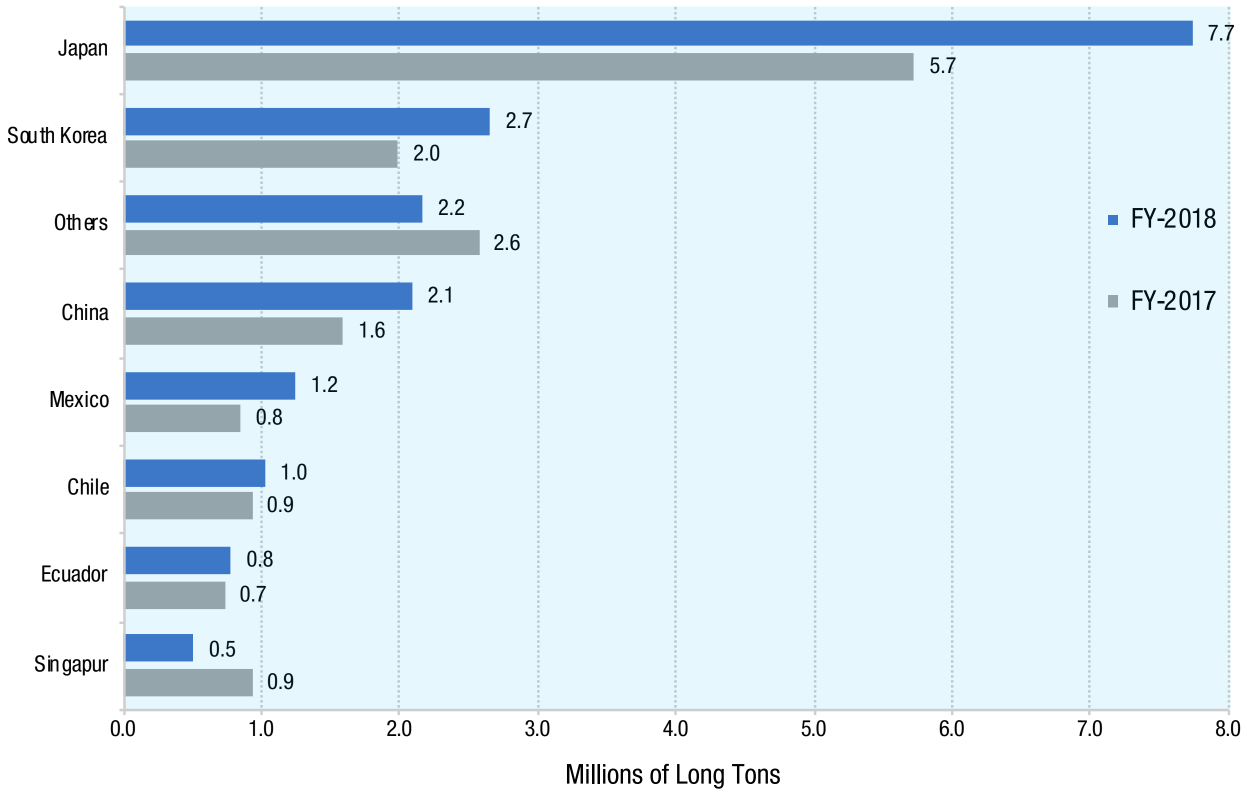
Aframax crude oil tanker transiting through Culebra Cut

Liquefied natural gas carrier (Moss Type) southbound at Agua Clara Locks

Tanker vessels total cargo recorded a significant increase of 6.1 million long tons, from 54.2 million long tons in fiscal year 2017 to 60.3 million long tons in fiscal year 2018. The greatest growth was recorded in crude oil cargo, which reported an additional 2.8 million long tons from the previous fiscal year, mainly from Colombia and Ecuador with destination to the U.S. West and East Coast.

Total gas carrier's cargo registered 18.2 million long tons in fiscal year 2018, an increase of 19 percent of the total accounted in fiscal year 2017, equivalent to 2.9 million long tons, where 91.2 percent of the transported cargo was propane, the most important cargo for the LPG carrier segment. The United States main LPG export terminals are located in the U.S. Gulf Coast, representing 97.7 percent of the total cargo transported through the Panama Canal to their destinations in Japan, South Korea, China, Ecuador, Chile, Singapore, Mexico, Guatemala, El Salvador and Australia.

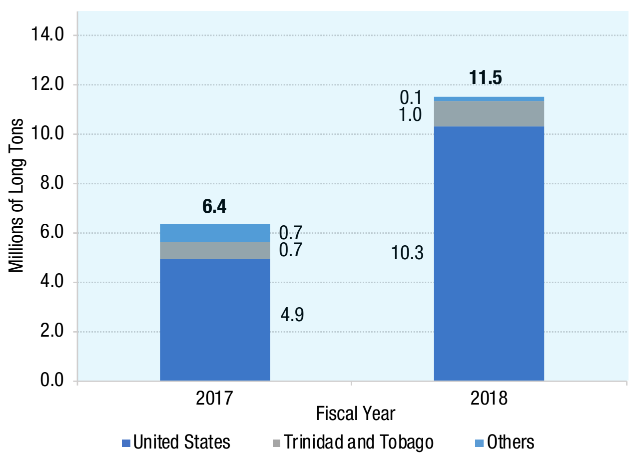
LPG Cargo Destinations Through the Panama Canal



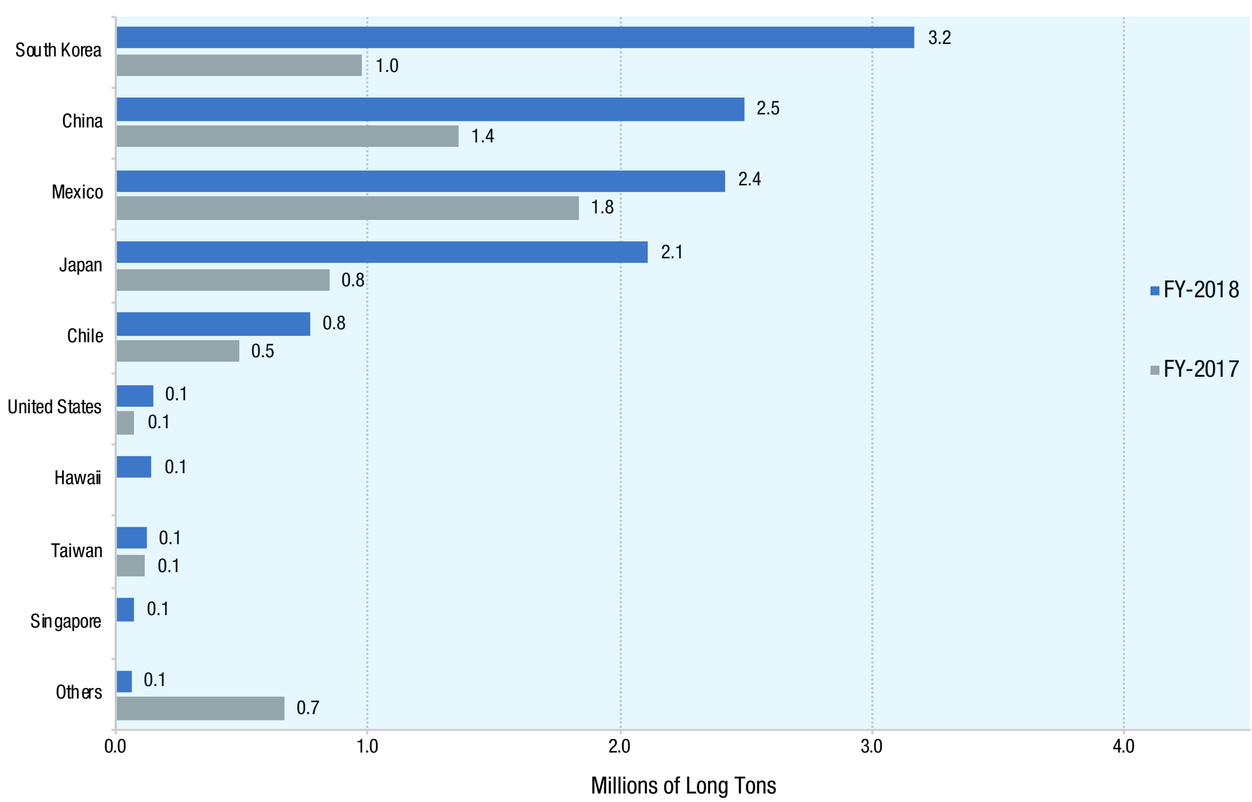
In fiscal year 2018, LNG vessels registered an increase of 11.5 percent in transits, 16.3 percent in billing tonnage and 16.9 percent in toll revenue, compared with the official budget. This upward trend was due to the 17.8 percent increase in the transit of vessels with beams greater than 140 feet.

Total cargo transported by LNG vessels registered 11.5 million long tons in fiscal year 2018, an increase of 80.9 percent against fiscal year 2017. The LNG transported through the Panama Canal in fiscal year 2018 had been dominated by the flows coming from the terminals in the United States, which accounts for 89.7 percent of the total LNG cargo, equivalent to 10.3 million long tons. The Sabine Pass terminal represents 90.2 percent of the total United States LNG exports transported through the waterway in fiscal year 2018 and on the demand side, 8.0 million long tons (69.8 percent) of LNG flows through the Canal were destined to Asia (South Korea, Japan, China and Taiwan), followed by 3.4 million long tons (29.6 percent) to the Americas (Mexico and Chile), and 0.06 million long tons (0.5 percent) to Europe.

Main Origins of Total LNG Cargo Through the Panama Canal



LNG Cargo Destinations Through the Panama Canal



Dry bulk vessel transiting through Culebra Cut

Dry Bulk Carrier Segment

During fiscal year 2018, the dry bulk carrier segment registered 2,686 transits, 73.7 million PC/UMS tons and B/.356 million in toll revenue. PC/UMS tonnage registered a 6.8 percent decrease as compared to fiscal year 2017. The competitiveness of this segment took a hit by moderate freight and fuel prices, which still favored the use of the Cape of Good Hope and the Magellan Strait as alternate routes. The dry bulk segment recorded a total of 92.7 million long tons, a decline of 3.1 percent or 3 million less than in fiscal year 2017.

The other dry bulk category registered the highest participation, 42.1 million long tons that represented 45.4 percent of the total cargo and an increase of 10.8 percent compared to fiscal year 2017. Increments were reflected in the movements of salt from Chile and the west coast of Mexico to the ports on the east coast of the United States and Canada. In addition, worth mentioning, are miscellaneous fertilizers and phosphates shipments from Peru to the U.S. East Coast. Equally important, were the zinc shipments from Peru, Chile, the U.S. West Coast and Mexico to Spain and Germany.

The grains category registered 27.4 million long tons, 29.5 percent of the total cargo, a decrease of 23.0 percent compared to fiscal year 2017. The fall was due to a decrease in the flows of soybeans, sorghum and corn from the United States ports located in the U.S. Gulf Coast to Asia. Freight rates and fuel prices have increased, but not to the extent necessary to discourage the use of the Cape of Good Hope route for shipments destined to Asia. Furthermore, alternative sources of grains such as Brazil and Argentina have increased market share in China, impacting traffic through the Panama Canal. The end of the fiscal year was marked by the trade war between the United States and China, which has taken a toll on grain volumes through the Panama Canal.

The coal and coke flows (including petroleum coke) accounted for 24.4 percent of the total cargo, an increase of 891.3 thousand long tons or 4.1 percent compared to the same period of fiscal year 2017. The increase in coal and coke is due to favorable flows from the U.S. East Coast (including the U.S. Gulf Coast) to the west coast of Mexico, Chile, China, Colombia and Guatemala, and from shipments out of the west coast of Canada to Poland, Germany and Sweden. However, there was a decrease in coal flows from the Caribbean coast of Colombia to Chile and Mexico.

The ships in ballast registered 367 transits, a decline of 20.4 percent compared to the same period of fiscal year 2017. The main decrease was on the route from Asia to the U.S. Gulf Coast.

Refrigerated Cargo Segment

During fiscal year 2018, the refrigerated cargo segment registered a total of 779 transits through the Panama Canal, 7.1 million PC/UMS tons, 80,231 on-deck TEU and B/.38 million in toll revenue. The results for fiscal year 2018, as compared to 2017, show a decrease of 89 transits, which caused billed tonnage and on-deck TEU to fall by 14.1 and 14.5 percent, respectively. This traffic decline resulted in lower than expected toll revenue of 13.6 percent or B/.6 million when compared to fiscal year 2017.

Bananas remain the main commodity transported by refrigerated cargo vessels through the Panama Canal and represents 49.4 percent of all commodities transported in this market segment. Nonetheless, bananas fell 16.5 percent compared to fiscal year 2017, mostly due to diminishing volumes of the fruit exported from Ecuador and Peru to European markets. The most relevant route still is from the west coast of South America to Europe, where 60.5 percent of cargo is transported in this market segment.

The downward trend in the refrigerated cargo segment during this fiscal year is the result of several factors. The most important is the continued high-rate migration of perishable cargo from specialized refrigerated cargo vessels to container vessels with high reefer capacity. This trend is evident by the increase in refrigerated capacity deployed in Neopanamax liner services that call ports on the most relevant trade lane for the segment, the west coast South America to Europe route.

Reefer vessel transiting at night

Passenger Vessels Segment

Passenger vessel Norwegian Bliss at Agua Clara Locks

During the 2017-2018 cruise season, the passenger ship traffic through the Panama Canal performed above expectations when compared to the previous period. The segment recorded 256 transits (204 full transits and 52 turnarounds), 6 additional transits over the previous fiscal year (190 full transits and 60 turnarounds). The total number of passengers was 299,363 or 23.8 percent more than the 241,843 registered during fiscal year 2017. Toll revenue amounted to B/.57 million representing a 22.7 percent increase over the B/.46 million in toll revenue from the previous fiscal year.

In fiscal year 2018, vessels charged by berth accounted for 79.5 percent of the total revenue for the segment. The Panama Canal registered 321,141 billable berths, which represented an increase of 33.8 percent or 81,086 berths compared to the previous fiscal year. On the other hand, vessels charged on a PC/UMS basis, which represented 20.5 percent of the total revenue for the segment and 52.7 percent of total transits, registered 2.5 million PC/UMS tons, an 11.2 percent decrease in tonnage compared to the previous cruise season.

During this season, cruise ships from Princess Cruises, Holland America Line, Royal Caribbean Cruises and Norwegian Cruise Line, among others, completed their journeys across the Canal, in either partial or full transits. Cruise ships departed mainly from ports in Miami, United States.

On May 14, 2018, the *Norwegian Bliss* cruise ship, the largest passenger ship that can transit through the Expanded Canal, made its inaugural transit through the Neopanamax Locks. This transit was part of its repositioning journey to the U.S. West Coast, to subsequently start its cruise season in Alaska.

Vehicle carrier at Panamax Locks

Vehicle Carriers and Ro-Ro Segment

The vehicle carriers / Ro-Ro market segment ended fiscal year 2018 with record tonnage and toll revenue, partly driven by exports of cars from Japan to the United States, which in the last eight months have experienced an accumulated 0.9 percent over the previous year.[13] On the other hand, construction machinery markets were very strong worldwide, with strong growth in imports to North America, Europe and Australia. In addition, the demand for mining equipment continued to strengthen, supported by the level of metal prices.[14]

At the close of fiscal year 2018, the segment recorded a total of 834 transits and 49.5 million PC/UMS tons, reflecting a 4.1 and 5.9 percent, respectively, compared to the previous fiscal year. Of the total number of transits registered in fiscal year 2018, 95.7 percent belonged to those with beam of 100 feet or more. On the other hand, tolls revenue were B/.209.5 million, a 5.8 percent increase over fiscal year 2017.

The amount of cargo transported through the Panama Canal increased when compared to fiscal year 2017. The segment registered 5.3 million long tons in fiscal year 2018, a 9.9 percent increase relative to the 4.8 million long tons registered in the previous fiscal year. The main commercial route for the Canal in this trade, Asia – U.S. East Coast, registered 1.7 million long tons of cargo, a 3.9 percent increase compared to the previous fiscal year. The route Europe (Germany / United Kingdom) – U.S. West Coast recorded 0.31 million long tons, a 2.9 percent increase compared to the same period of the previous fiscal year.

Although the performance recorded during this fiscal year, as compared to the same period of the previous fiscal year, was due to the increase in the volume of cargo in exports of heavy equipment and cars, it is important to consider that this trend may be transitory. During 2017 auto sales in the United States decreased 1.8 percent compared to the same period last year, registering 17.2 million vehicles sold, an indication that the automotive boom cycle of seven consecutive years has ended. On the

[13] Japan Export to the United States; JAMA, Data published as of July2018.
[14] Q2 and First Half 2018. Quarterly presentation. Wallenius Wilhelmsen, August 8, 2018.

other hand, the increase in the volume of cargo of heavy equipment through the Panama Canal, from Asia to the U.S. East Coast, might be of a non-recurring nature.

During this fiscal year, there were 41 Neopanamax transits under this segment from NYK Line, Wallenius Wilhelmsen Ocean, Mitsui O.S.K., Glovis and Hoegh shipping lines, including the transit of the *Hoegh Trotter*, of the Hoegh's Horizon class, which is considered the world's largest capacity carrier vessel capable of transporting 8,500 vehicles.

Customer Relations

During fiscal year 2018, the Panama Canal continued to strengthen ties with customers and shipping industry representatives to promote the Panama route, assess customer needs, and exchange market related information crucial for forecast planning.

In November 2017, the Panama Canal held its First Dialogue Meeting with representatives of the Japanese Shipowners Association (JSA). The delegation – composed by shipping line representatives of the JSA, as well as members of the Asian Shipowners Association, and the Ministry of Land, Infrastructure, Transport and Tourism of Japan – visited Panama to discuss topics related to the performance and operation of the Neopanamax Locks, traffic projections, transit reservation system and environmental protection measures. The delegation had the opportunity to visit the Miraflores and Cocoli Locks where they witnessed first-hand the operation and transit of Panamax and Neopanamax-sized vessels.

In March 2018, Panama Canal Administrator Jorge L. Quijano signed a Memorandum of Understanding in Cuiaba, Brazil, with the Association of Soybean and Corn Producers of Mato Grosso (Aprosoja) to promote the Panama Canal's position as a route for grain shipments from northern Brazilian ports to regions accessed in the Pacific Ocean – Japan, South Korea and China – in Panamax-sized vessels. The agreement allows the two groups to exchange information related to transportation costs with the objective of improving the competitiveness of the Panama Canal route for Brazilian grain shipments.

Signing of the Memorandum of Understanding between APROSOJA and the Panama Canal

Container vessel and the Atlantic Bridge, currently under construction

By mid-year, another cooperation alliance was established with Florida-based Panama City Port Authority to promote the transits of Panamax-sized vessels via the all-water route.

In April 2018, a delegation of Panama Canal representatives, headed by Administrator Quijano, visited Asia as part of the Panama Canal's Annual Customer Visits Program. The purpose of the visits was to gather information on customers' experience with the operation of the Neopanamax Locks, obtain feedback on future demand for transit services, and exchange information related to the shipping industry situation and expectations. During a two weeks, meetings were held with high-ranking officials of the main shipping companies, trading houses and shippers located in Tokyo in Japan, Shanghai and Beijing in China, and Seoul in South Korea. Special attention was given to customers of the LNG segment, which represents a new business for the Panama Canal.

The Japan visit centered on the energy-related sectors, including visits to companies such as Kansai Electric, Astomos Energy Corporation, Tokyo LNG Tanker and Mitsui & Co.

While in Japan, Administrator Quijano granted interviews to the Nikkei News, NHK (Japan Broadcasting Corporation), Reuters News and The Japan Times. Furthermore, a Second Dialogue Meeting between the Japanese Shipowners Association and Panama Canal officials resulted in fruitful discussions of mutual interest.

The China visit included a meeting with Cosco Shipping, a tour of Cosco Ports, and a field visit to the Pudong Industrial Center in Shanghai. The South Korea leg covered meetings with electronics conglomerates like LG Electronics/Pantos Logistics, Samsung Corporation, engineering firms, including Dohwa and Hyundai, and energy-related and transportation representatives from KOGAS, SK Shipping, Hyundai LNG Shipping and Korea Line.

In addition, the Panama Canal was present at international events that gathered ship owners, shipping lines and cargo owners. In February, Administrator Quijano participated in the Retail Industry Leaders Association Conference (RILA) held in Phoenix, Arizona, that gathered the main shippers of the United States that use the Panama route for cargo originating in Asia. Customer appreciation receptions were held at this event and at the Trans-Pacific Maritime Annual Conference (TPM) in Long Beach, California, in conjunction with the ports of Houston, Tampa and Mobile.

The Posidonia Exhibition 2018 was held from June 4-8 in Athens, Greece. For this event, an exhibition stand was installed along with the Panama Maritime Authority (AMP, for its acronym in Spanish), the Consulate of Panama in Greece and the Ministry of Commerce. Approximately 22,000 visitors from 92 countries attended Posidonia 2018 – which is considered the largest maritime event in Europe. The Panama Canal also had exhibition stands at the Connecticut Maritime Association (CMA) Shipping Conference and at the Intermodal Association of North America (IANA) Expo, both held in the United States.

This fiscal year, the Panama Canal became a partner of the Global Maritime Forum, an international platform for a community of high-level leaders from the maritime sector that seeks to influence positive changes in the industry, while facilitating collaborative projects and initiatives that can deliver long-term impact and sustainable change. Membership at this forum includes representatives of shipping lines, port operators and logistics and supply management service providers, among others.

During fiscal year 2018, 116 customer delegations and stakeholders from the maritime industry visited the Miraflores, Cocoli and Agua Clara Locks. Several of these delegations held private meetings with Panama Canal officials to discuss specific matters related to their line of business. The Neopanamax Locks continue to be the main topic of interest among users of the waterway.

Container vessel transiting Miraflores locks

Container vessels transiting Gatun Locks

Performance of Services Provided

During this period, 12,209 oceangoing vessels (not including small crafts) transited the Panama Canal. This represents an increase of 209 vessels, or 1.74 percent compared to fiscal year 2017.

Of these, 6,987 were supers (equal to or greater than 91 feet in beam), which represents a decrease of 382 transits (5.18 percent) compared with fiscal year 2017. A total of 2,734 were regular size vessels (less than 91 feet in beam), which represents a decrease of 69 transits (2.46 percent) compared with fiscal year 2017.

With regard to Panamax vessels (beam equal to or greater than 100 feet), there were 5,713 transits, a decrease of 320 transits (5.30 percent) compared with fiscal year 2017 (6,033 transits). The transit of Panamax vessels represented 46.79 percent of oceangoing vessel transits compared to 50.27 percent during fiscal year 2017.

Neopanamax vessels registered 2,444 transits and the remaining 44 transits consisted of Panamax-plus vessels. Small crafts had an increase of 38 transits (from 1,548 to 1,586) or 2.45 percent during fiscal year 2017. Total transits, including small crafts, increased by 247 (from 13,548 to 13,795) compared to fiscal year 2017.

A total of 442.1 million PC/UMS tons transited the Canal, 38.3 million more than in fiscal year 2017, with an operating cost per ton of B/.1.51, better than the established goal of B/.1.57. In addition, income from tolls and other maritime services was B/. 2,969 million, an increase of 9.7 percent compared to fiscal year 2017.

Operation of the Neopanamax Locks

During fiscal year 2018, 2,444 Neopanamax vessels transited the Neopanamax Locks, of which 1,209 were container vessels, 609 LPG carriers, 290 LNG carriers, 176 bulk carriers, 89 tankers, 41 car-carriers, 20 passenger ships, 4 chemical tankers and 6 from other market segments. In addition, 44 Panamax-plus and 142 Panamax vessels transited the Neopanamax Locks to the benefit of Canal operations. Of these, 69 Panamax vessels made complete transits of the Neopanamax Locks and 73 were mixed transits (34 through Gatun and Cocoli Locks and 39 through Miraflores, Pedro Miguel and Agua Clara Locks). A total of 190.9 million PC/UMS tons transited through the Neopanamax Locks, an increase of 51.9 million tons (37.3 percent) compared to fiscal year 2017.

Improvements to the fendering system on the lock chambers' walls and the gates' recesses of the Neopanamax Locks, paired with the experience acquired in the transit of Neopanamax vessels, resulted in an average reduction in transit times in Cocoli and Agua Clara Locks from 3.18 and 2.79 hours during fiscal year 2017 to 2.98 and 2.68 hours, respectively, during fiscal year 2018. In October 2017, the requirement to assign an escort tug to container vessels was modified from vessels greater than 120,000 metric tons to vessels greater than 130,000 metric tons in order to optimize the resources necessary for transit. In April 2018, the transit reservation system slots were increased to eight per day, and in June 2018, the maximum beam permitted for transiting vessels was increased to 51.25 meters (168.14 feet). In addition, adjustments were made throughout fiscal year 2018 to increase the maximum authorized draft to 50 feet, and during the year, 22 vessels with drafts ranging between 48 and 50 feet transited the Canal. As a result, during fiscal year 2018, an average of 6.7 Neopanamax vessels transited on a daily basis, compared to 4.9 vessels during fiscal year 2017, which represents a 37 percent increase.

Audits were conducted together with the Engineering Division on the fire-fighting systems, which identified opportunities to improve emergency response strategies.

Neopanamax container vessel in lockage operation

Canal Waters Times and In Transit Time Analysis

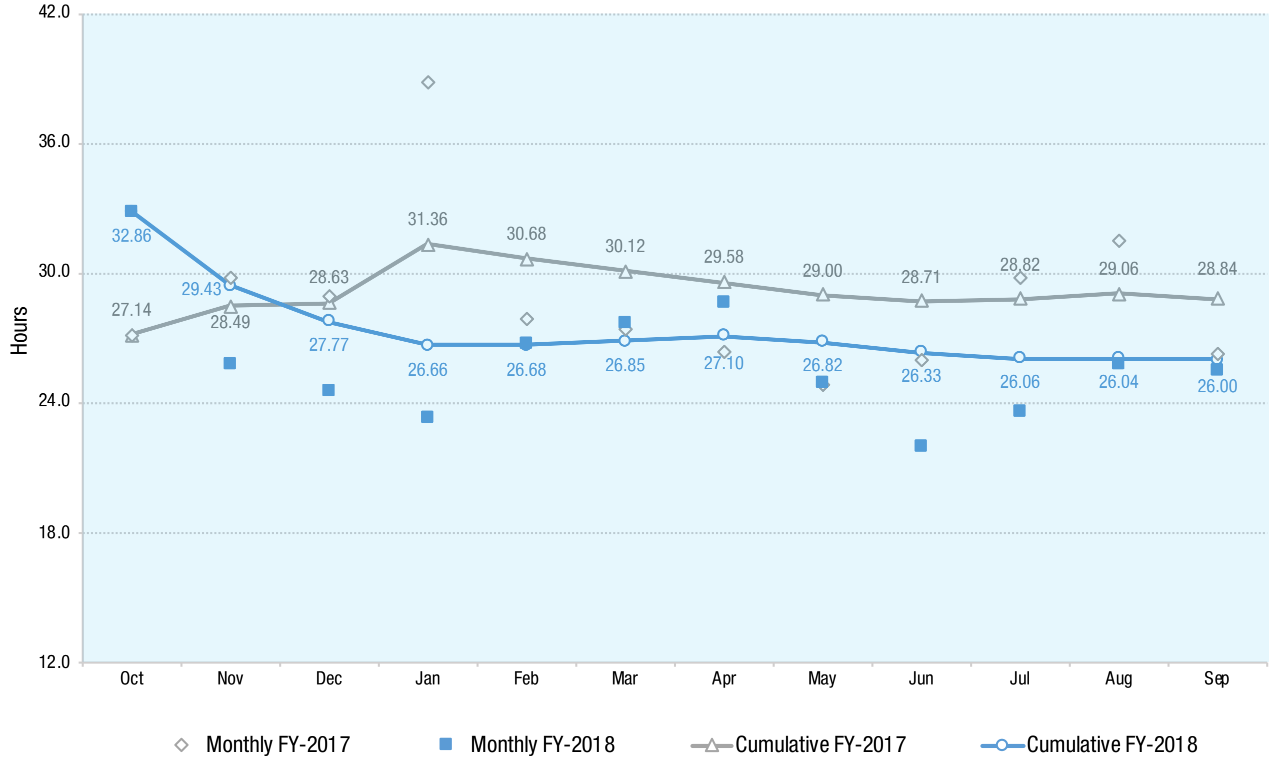
Operator of launches to transport personnel

Canal Waters Time (CWT), the time elapsed from the moment a vessel is declared ready for transit until it completes its transit, registered an average of 26.00 hours, 2.84 hours less than fiscal year 2017 average of 28.84 hours. Neopanamax vessels recorded an average CWT of 23.40 hours.

The average CWT for vessels with reservations was 15.73 hours, which is lower than the 16.48 hours for fiscal year 2017. The decrease in average CWT for fiscal year 2018 is due mainly to improvements in lockage times of Neopanamax vessels, a reduction in demand for Panamax vessels, and an increase in locks personnel assigned to Panamax vessels.

The percentage of PC/UMS tons that met the expected CWT for each market segment reached 83.63 percent, a

Canal Waters Time FY-2017 vs FY-2018



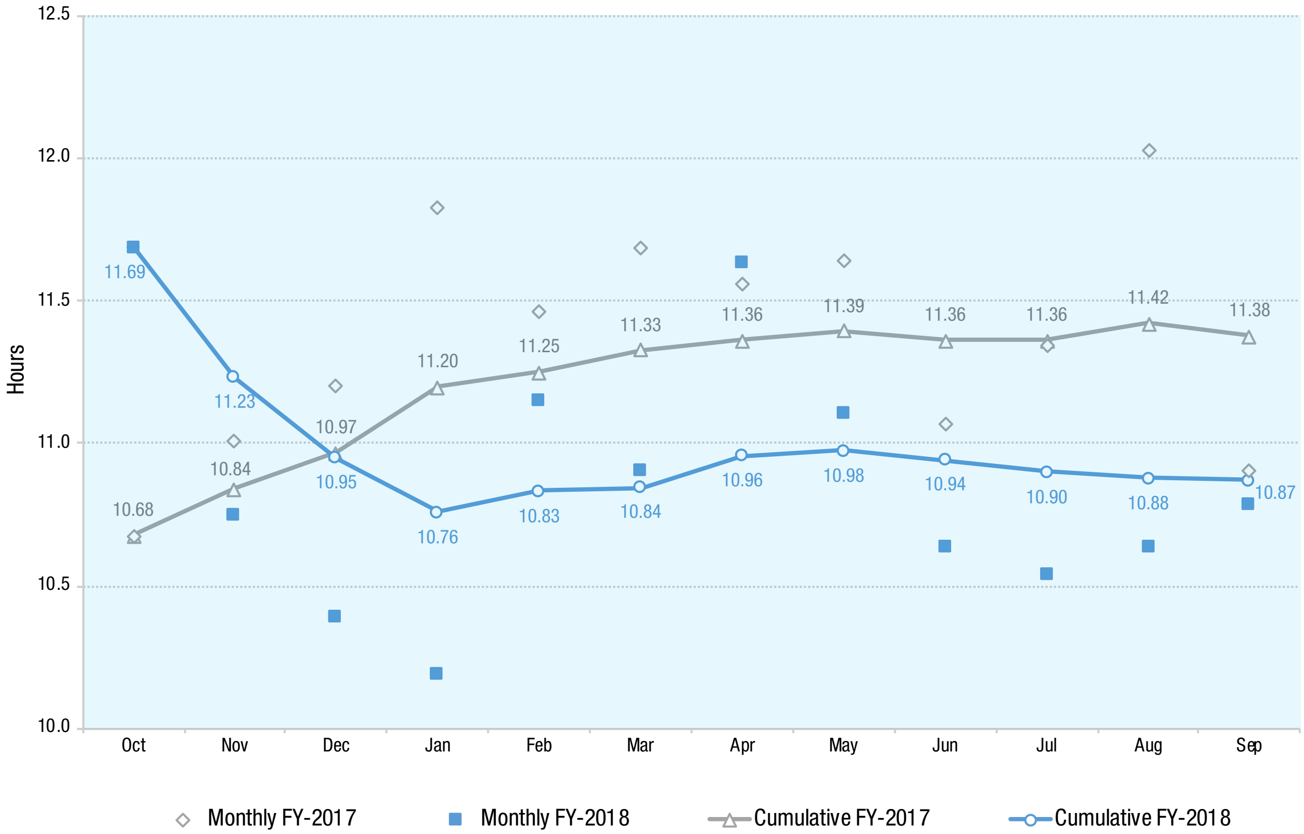
slight improvement to the 83.41 percent registered during fiscal year 2017.

In Transit Time (ITT), the time elapsed from the moment a vessel enters the first lock until it exits the last lock, recorded an average of 10.87 hours at the close of fiscal year 2018, 0.51 hours less than the 11.38 hours recorded in fiscal year 2017. Neopanamax vessels, for their part, recorded an average ITT of 14.03 hours.

The decrease to the average ITT for fiscal year 2018 is due mainly to improvements in lockage times in the Neopanamax Locks and improvements to navigation times in the Culebra Cut.

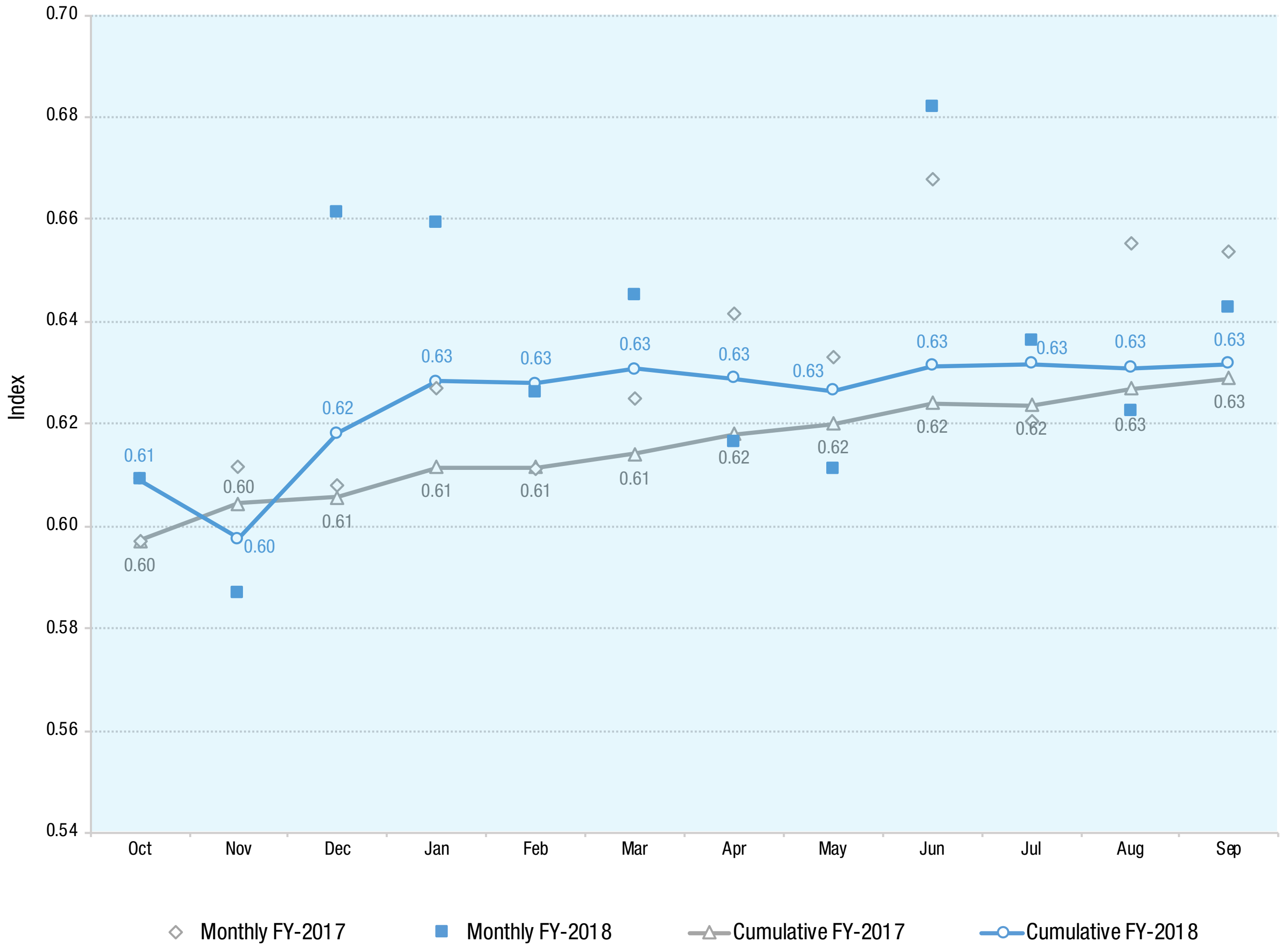
Tugboat assisting Neopanamax vessel in lockage operation

In Transit Time FY-2017 vs FY-2018



Customer Satisfaction

Index of Excellence in Customer Satisfaction FY-2017 vs FY-2018



Regarding customers feedback on services received, the Customer Service Satisfaction Index was 0.63, slightly exceeding the result of fiscal year 2017. A total of 2,901 surveys were received from 12,209 transits, of which 1,803 contained customer reviews. Of this total, 876 recognitions favorable to the Panama Canal were received, which represents 6.4 percent of the total number of transits. This year, during Customer Service Week, a number of activities were conducted to encourage the Canal labor force to provide excellent services.

The Canal continues to present Honorary Panama Canal Pilot licenses to all transiting vessel captains who reach retirement age. All vessels that transited the Panama Canal for the first time were presented with a commemorative plaque.

Dredging work to widen Gamboa Reach to 305 meters

Dredging Program

In November of 2017, two-way transits began in Gamboa Reach, which was widened to 305 meters, allowing the meeting of Neopanamax vessels. The dredging of the new Gamboa Mooring Station was also completed during this fiscal year, which will allow, once buoys are installed, the mooring of one Neopanamax and one Panamax vessel at this station.

The clearing of submerged logs in polygons 1, 2 and 3 at the Peña Blanca Anchorage was also completed, providing an anchorage area for six Neopanamax vessels and one Panamax vessel. In addition, as part of the program to maintain the navigation channels, accumulated sediments were removed from several reaches in Culebra Cut and the Pacific area.

Maintenance

As part of the Locks' Submerged Equipment Reconditioning Program, the three Panamax Locks experienced the following outages: 9 outages of 4 to 5 hours, 8 outages of 8 to 12 hours, 2 outages of 2.5 days, one outage of 8 days and another lasting 10 days. During these outages, 7 lock gates were removed and reinstalled; rubber seals were replaced in 6 gates; 4 pintle balls were removed and reinstalled; new steel plates were installed in 2 gates; yoke bushings and girders were installed in 4 gates; the regulator valves at the south end of Pedro Miguel were rehabilitated; and maintenance was provided to all cylinder valves on the main culvert of Pedro Miguel Locks.

Approval was obtained from the AMP, as governing entity of the Panamanian Registry, to modify the scheme of major overhauls (drydockings) of all Panama Canal floating equipment, which was extended from 5 to 10 years between drydockings for large equipment, and from 5 to 7 years for all other equipment that is less than 15 years old. This change generates substantial savings for the Panama Canal and provides flexibility to the Maintenance Program schedule.

Panamax Locks' submerged equipment reconditioning

Major overhauls for floating equipment

In order to guarantee the reliability of the equipment necessary for Canal operation, and due to the reduction from 90 to 45 days required to conduct major overhauls for floating equipment, overhauls for 10 tugboats, 9 launches and 6 dredges were carried out, as well as non-planned mechanical and structural work on 5 tugboats.

Furthermore, the programmed reconditioning of the Panamax Locks' gates and four on site perforations were executed. All the tugboats and launches programmed certifications were completed, as well as all the programmed intermediate inspections. In compliance with the tugboats and launches major maintenance program, 15 tugboat main engines were overhauled.

The reliability of Miraflores and Gatun spillways was also guaranteed with the timely execution of the maintenance programmed work and the repair of its machinery and infrastructure. A total of 3,643 work orders related to personnel transportation vehicles, emergency equipment, ambulances and the rest of the land vehicle fleet were completed, achieving a 91.5 percent availability for pilots' transportation vehicles and a 93.3 percent availability for emergency vehicles (fire trucks and ambulances).

Infrastructure Development, Equipment and Other Projects


Launches to transport pilots and linehandlers

As a result of the investment projects executed during fiscal year 2018, a series of equipment required for Canal operations and maintenance were replaced and procured. This included 73 vehicles from the Canal's regular fleet, 15 vehicles for the transportation of pilots, 11 vehicles for the transportation of the tugboat crews, a pilot launch, a platform elevator and a crane belonging to the Facilities and Civil Work Maintenance Section.

The Canal worked together with the AMP to implement the electronic consent and departure authorization, as part of the Panama Maritime Single Window System (VUMPA), aimed at expediting cargo transshipment in the country.

COMPLEMENTARY BUSINESSES

ENERGY

Sustainable Energy

The Panama Canal produces and supplies the energy necessary for its operation and dispatches and coordinates the exchange and sale of energy with the national electrical market. In order to do so, it provides a continuous and reliable service of the highest quality, as required by all the services it offers.

As part of its maintenance culture, the Panama Canal performed work on all the associated electrical infrastructure in its facilities, which includes transmission and distribution lines, substations, fiber optic communication networks, backup systems, as well as emergency generators in crucial facilities, among others.

The Panama Canal also improved the reliability of water pumps in water treatment plants and aqueducts of Mendoza, Gamboa and Balboa by replacing them to modern electromechanical equipment.

To ensure the efficient use of energy, the Panama Canal implemented the use of low-consumption LED technology. By doing so, the Canal is improving the use of its resources in generation plants in order to reduce operating costs and maintain its participation in the national electrical market.

Important projects are still underway to improve the transmission lines, such as the replacement of track-span towers with concrete poles and the reconditioning of corten steel towers. This decreases and facilitates the required maintenance and increases the electrical supply reliability.

Another important project executed this year is the pier to unload fuel with capacity to dock Panamax size vessels and to provide fuel to tugboats. The efficiency of the fuel acquisition process and the costs associated are improved with these facilities.

Operators of the two-stroke units at Miraflores Power Generation Plant

POTABLE WATER


Miraflores Water Treatment Plant

Potable Water Operations

The Panama Canal contributes to the country's economic development through the reliable and efficient operation of water treatment plants of Mount Hope (1914), Miraflores (1915) and Mendoza(2009). In 2018, these plants produced approximately 123 million gallons of potable water per day, supplying more than 500,000 residents of the districts of Arraijan, Colon, La Chorrera and Panama City, positively impacting their quality of life and health. The efficiency and reliability of the water filtration plants operations is achieved as a result of the efforts of a committed work force that plan, execute, monitor and verify the results of processes for renovations, maintenance and, operations which guarantee uninterrupted water filtration and distribution from these three plants.

Potable water production reached 45.1 billion gallons this year. The Miraflores Water Treatment Plant produced 40 percent, Mount Hope Water Treatment Plant produced 27 percent, and Mendoza Water Treatment Plant produced 33 percent, reporting a total revenue of B/.34 million in external sales, representing a 21 percent increase over fiscal year 2017.

In 2017, in order to ensure the maximum reliability of the drinking water supply for the users of these water treatment plants, the Panama Canal approved the multi-annual implementation of important projects to improve these plant's production system to guarantee their efficient operation. The purchase and installation of the new motor control center for the Mendoza raw water treatment facility, which represented an investment of B/.642 thousand, was successfully completed this fiscal year.

To ensure potable water sustainability and supply for the Watershed population, the Panama Canal conducted a water demand study for municipal and industrial consumption between 2020 and 2050. The study recommended the development of educational campaigns to promote the rational use of water resources.

TOURISM

Tourists at Agua Clara Visitor Center

Tourism in the Panama Canal is currently focused on the services offered in the Miraflores and Agua Clara Visitors Centers and in the Cocoli Pavilion, which include exhibition halls, ship observatories, guided tours and renting of spaces for private events. During fiscal year 2018, a total of 945,746 visitors were received, including the Pacific and the Atlantic areas, attracted by the operation and history of the Panama Canal. The visitors' centers represented an income of B/.10.8 million for ticketing, rental and concession services.

The starting point of the Panama Canal Tourism Master Plan during its first years of management is the approval and development of a multi-year project comprising five deliverables aimed at expanding the Miraflores, Agua Clara and Gatun Visitors Centers. This strategy proposes to launch the master plan, which is part of the Canal's complementary business portfolio, with initiatives that lead us to promote the concession of future tourism activities, within the established thematic axes, which include the development of entertainment areas immersed in industrial environments and in the nature surrounding the Canal, as is the case of the new Panama Canal IMAX theater.

Exhibition hall, Miraflores Visitor Center

LOGISTICS PROJECTS

Aerial view of Borinquen Road

The development of logistics businesses complements the transit of cargo through the Panama Canal, contributing in a sustainable manner to the waterway's success and adding value to the route through Panama. Given its importance, the Canal has identified through specialized studies, business opportunities that seek to strengthen the national logistics offer with a view towards the future.

In the short term, projects include the development of a container transshipment terminal in Corozal, a vehicle and heavy equipment terminal (Roll-on / Roll-off) in Velasquez, a LNG terminal on the Pacific side, a 55-hectare logistics and industrial park in Cocoli, and the exclusive access through Borinquen Road for cargo transportation.

Currently, the development in phases of a container transshipment terminal and a vehicle and heavy equipment terminal is being evaluated. This will reduce the initial investment in both projects. The first project is the concession of the development of a container terminal on the Pacific side, with two docks for Neopanamax vessels and with a capacity to move 1.5 million TEUs in its first phase. This concession will have an expansion option of up to 3.2 million TEUs on a total lot of 69 hectares. This new terminal offer will allow the establishment of new transshipment nodes in Panama.

The second project is the development of a terminal exclusively for vehicles and heavy equipment, to meet local demand and to attract part of the roll-on / roll-off cargo market of the Latin American Pacific, specifically Central and South America, through transshipment operations. This terminal has the potential to become a large hub for light vehicles, trucks, buses and heavy equipment including mining equipment.

Similarly, the suitable moment is being defined for the development of the LNG terminal on the Pacific side in order to store gas in a liquid state for regional distribution, marine fuel supply (bunkering), and to supply local electric generators (in the medium term).

The logistics and industrial park in Cocoli will allow the establishment of multiple companies to add value to the cargo. The Panama Canal plans the development of this logistics park tailored to meet the needs of perishable cargo, vehicle spare parts, telecommunications, dry cargo, and pharmaceutical, among other segments. For this, a logistics park is envisioned that will provide a mixed offer in terms of lot size, with class A warehouses, redundant energy supply, potable water and other first-level basic services.

Borinquen Road, with close to 10 kilometers, is a project that will improve land connectivity between the terminal and logistics areas of Panama. In turn, it plays an important role in the initial development of the logistics and industrial park of Cocoli. The road will be opened during the second quarter of fiscal year 2019, exclusively for cargo movements.

OUR TEAM

HUMAN CAPITAL

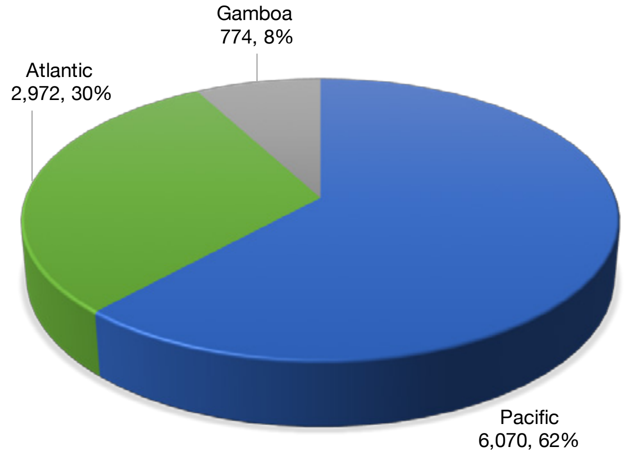
Having the most talented people in the country is the result of a comprehensive human capital management strategy that values, promotes and facilitates the training of its employees as a key driver in their personal and professional development. Two years after the opening of the Expanded Canal, ongoing challenges are still present. New market segments and vessel types arrive in Canal waters, thus increasing the challenges workers face in their daily tasks. Today, more than ever, their ingenuity and motivation are essential to guarantee the Canal's future.

The Panama Canal is committed to its growth as a high performance organization. Talent, culture and leadership are the main drivers for the development of human resources and the fulfillment of strategic objectives. During fiscal year 2018, human resources management has been a crucial part of the Canal's goals and challenges, focusing on the enhancement of its employees' technical capabilities and competencies, labor relations and leadership.

Putting the strategy into motion to manage the change that enabled the implementation of a new organizational structure on October 1, 2018, has been a key element. The new structure will allow the Canal's administration to assume a new dimension that allows the execution of better strategies to manage, lead and improve processes in the face of its commitment to provide sustained contributions to the country, while remaining at the forefront of world economy.

Working in the Locomotive Components Repair Facility

Labor Indicators



Employees by Location

The Panama Canal distributes its workforce in three geographical areas: 62 percent in the Pacific, 30 percent in the Atlantic and 8 percent in Gamboa.

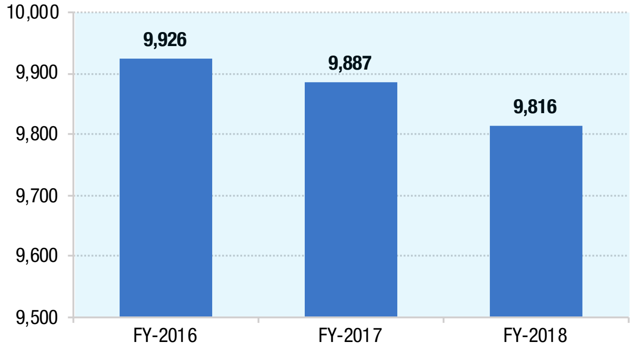
Linehandlers performing tie-up maneuvers during transit operations

Staffing

At the end of fiscal year 2018, the Panama Canal had a workforce of 9,816 employees, with an average age of 46 years, of which 1.31 percent is senior management. The 0.72 percent decrease in staffing with respect to fiscal year 2017 is mainly due to the company's voluntary retirement plan.

Regarding job stability, 75.5 percent of the total staff is permanent, thus confirming its commitment to sustainable labor policies.

Staffing FY-2016 to FY-2018

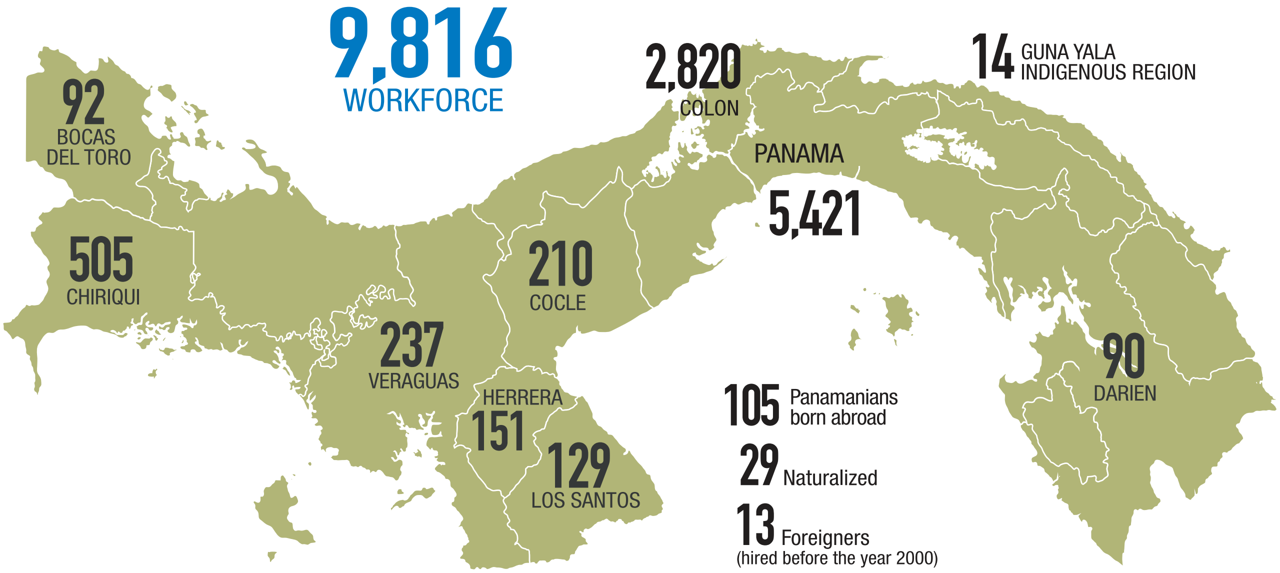



Welder repairing locomotive towtracks

Diversity Indicators

Cultural diversity in the workplace is a very important aspect in the Canal because it enriches the organization's culture and brings it closer to the country and society in general. Currently, Canal employees come from different provinces, including the Guna Yala indigenous region.

Employees by Province or Place of Origin

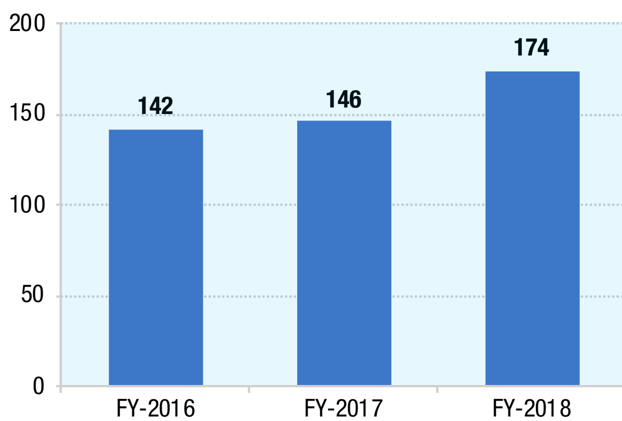


In 2018 there was a 19% increase of women occupying non-traditional positions

Staffing by Gender		
Period	**FY-2017**	**FY-2018**
Women	1,230	1,205 (12%)
Men	8,657	8,611 (88%)
Total	**9,887**	**9,816 (100%)**

With regard to female representation, 1,205 women worked in the Canal during fiscal year 2018, which represents 12 percent of the workforce. Of that number, there are a total of 146 women who hold leadership positions in the organization. The female labor force percentage decreased by two percent compared to fiscal year 2017. The participation of women in non-traditional positions showed an increase of 19 percent compared to 2017, as a result of the Canal's merit system that guarantees participation and gender equality for all career advancement opportunities.

Women in Non-Traditional Positions



A mixed workforce and equal working conditions is the result of the sustained actions that are carried out to ensure the infrastructure that is necessary to facilitate the composition of a mixed workforce, with optimal safety, hygiene and comfort conditions.

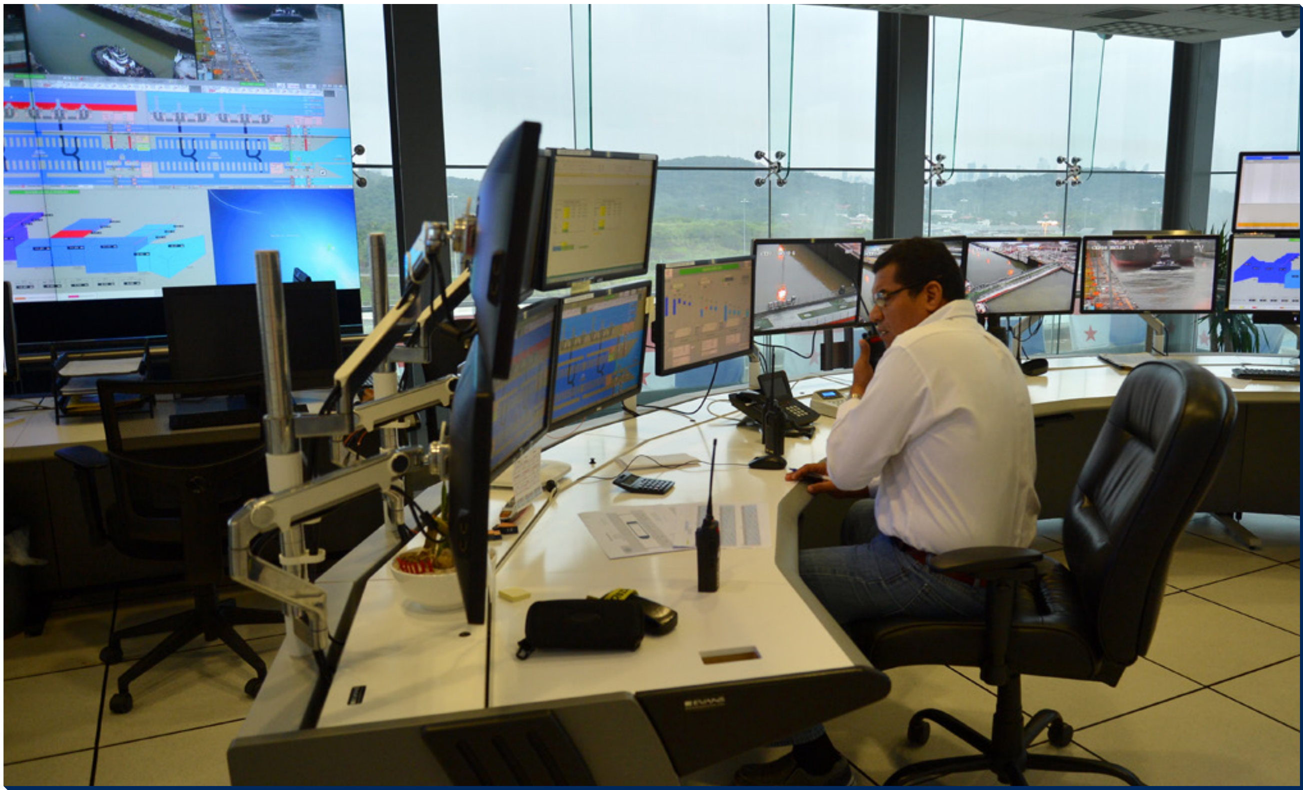
Safety and Occupational Health

In fiscal year 2018, the vision for managing safety and health focused on an intelligent prevention strategy through programs, tools and procedures available to the organization with a direct impact on the effective and efficient promotion of personnel initiatives that benefit employees' well-being. The actions were aimed at promoting a culture of health by reinforcing employees' commitment to issues related to being overweight, obesity, diabetes and hypertension.

Similarly, in the field of security, the Three is Zero Program focused on making employees take at least three minutes before starting a task to identify associated risks, in order to create the habit of identify risks they might face, as well as being able to take the necessary mitigation measures to avoid accidents.

Performance

In the Panama Canal, the performance of the employees is evaluated in order to achieve high management standards. Performance management is a process that is closely related to the alignment of workers' expected behavior with the goal of having a high performance organization and a culture of recognition for work well done.



Employee working in the Neopanamax Locks Control House Operations Center

Voluntary Pension Savings Program

The Panama Canal continues with the policy of motivating its employees to participate in the voluntary pension savings program, which allows them to improve future pension amounts to enjoy a better retirement. This financial supplement is undoubtedly an option for workers to be better prepared to assume the natural decline of their retirement income. At the end of fiscal year 2018, B/.6.7 million were registered as savings by those who voluntarily accepted this initiative.

Voluntary Retirement Program

Painter performing maintenance duties wearing his protective equipment

Fiscal year 2018 closed with a turnover rate of 0.5 percent over the previous year. This is directly related to the benefit that workers receive when they leave the organization upon reaching the age established by Panama's Social Security Fund to receive a retirement pension and qualify for the Voluntary Retirement Incentive (VRI).

During fiscal year 2018, 80% of the workers reaching the retirement age and 32% of those reaching the early retirement age decided to accept the VRI.

As mentioned, the acceptance of this incentive by workers impacts the trend of an increased turnover rate that has been observed in the Canal in the last five years. This year ended with a turnover rate of 5.1 percent, higher than the 4.6 percent at the end of fiscal year 2017.

Period	FY-2014	FY-2015	FY-2016	FY-2017	FY-2018
Turnover rate	3.80%	4.00%	4.00%	4.60%	5.10%

Training provided at the Panama Canal Ship Manned Model Training Center

Training and Development

The Panama Canal considers that the talent of its employees is its main asset and competitive advantage. Therefore, year after year, it develops multiple initiatives and programs targeted at helping and enhancing the personal and professional development of its labor force.

In fiscal year 2018, 25,856 trainings were registered, which on average equals 2.6 trainings per employee. An increase of 1,042 trainings was registered in the area of maritime training and 1,350 professional development. The first area is directly related to the needs resulting from the operation of the Expanded Canal. The second area is related to the talent management focused on a succession plan as a strategic process aimed at ensuring the availability of professionals capable of leading the Panama Canal to levels of excellence in its business performance.

Development Area	Training Instance* by Period				
	FY-2014	FY-2015	FY-2016	FY-2017	FY-2018
Maritime training	2,399	2,708	2,219	2,573	3,615
Industrial and safety training	10,295	7,594	12,613	11,713	9,989
Professional development training	11,533	10,945	10,723	10,902	12,252

* A training instance is counted each time one person fulfills the requirements of a training activity.

During fiscal year 2018, a follow-up of the individual development plans for the 175 participants of the Talent Management Program was completed. The emphasis of these plans included areas such as strategic thinking, planning and organization through results-based management, innovation and improvement of processes, review of the human resources processes and Canal identity modules, and adding value for our customers. Also, as part of the continuing training process, three rotations were made to other vice-presidencies, two rotations between internal management, three on-site and two abroad training sessions.

As a result of the initiatives of the participants attending this program, 28 projects were evaluated in the area of innovation and process improvement, of which more than half are in execution. A strategic approach is maintained in engaging and developing the present and future leadership that is needed to perform the key positions of the Canal, ensuring the company's sustainability.

The objective of the *Programa Destácate* (Stand-Out Program), is to continue the identification and development of talent through a competitive process, with emphasis on the strengthening of leadership skills and business knowledge. In fiscal year 2018, nine out of 14 applicants from the operation areas will continue in the program.

In the area of technical development for skilled workers, the organization is taking measures to search for candidates to further their development in technical trades in different fields of expertise required for the operation of the Panama Canal.

The *Programa Panamá Crece* (Panama Grows Program), Technical Skills Development and Upward Mobility Programs were designed to impact the improvement of productivity and technical excellence of the organization, as a result of the educational activities established with a educational sequence that includes classroom training and a greater emphasis on practical and field training.

Technical Development Programs			
Occupations	Grade	Number of Employees	
		FY-2017	FY-2018
Rigger	MG-10	2	4
Shipfitter	MG-10	7	
Shipwright	MG-10	2	
Port Entry Coordinator	NM-10	4	
Power System Dispatcher	PB-10	2	1
Electrician	MG-10	24	
Electromechanic	MG-11		14
Sheet Metal Mechanic	MG-10		2
Electronics Mechanic	MG-11	4	
Air Conditioning Equipment Mechanic	MG-10	1	
Industrial Equipment Mechanic	MG-10	22	
Instrument Mechanic	MG-11	3	
Machinist	MG-10	7	
Marine Machinist	MG-10	5	5
Hydro and Generating Station Operator	PB-07		6
Senior Hydro and Generating Station Operator (Hydro)	PB-08	2	
Senior Hydro and Generating Station Operator (Thermo)	PB-08	3	1
Locks Locomotive Operator	MG-09		20
Crane Operator	MG-11	3	3
Small Craft Operator	MG-09		10
Boiler Plant Operator	MG-10		4
Welder	MG-10		2
Fuel Distribution System Worker	MG-09		1
Rigging Worker	MG-08		2
Total		**91**	**75**

The Maritime Training Program *Panama Crece Maritimo* helps develop capacities for specialized jobs in the Canal

During fiscal year 2017, there was a limited supply of qualified persons in the country's labor market for linehandler positions, who fulfilled the requirements for the Panama Canal operation. In fiscal year 2018, 2,974 candidates were evaluated, and once the evaluation process was completed, 240 of these entered as participants in the *Panamá Crece Marítimo* Program. This is a significant number that allows to meet the needs in a key operation area of the Panama Canal. The *Panamá Crece Marítimo* Program has a duration of 18 weeks and at the end of fiscal year 2018, 10 groups of 40 participants each had started the program.

In relation to the other technical skilled worker development programs, 75 participants entered the programs in fiscal year 2018 and are being trained in different trades. The specific development needs have been identified in the areas of rigger, power systems dispatcher, electromechanic, sheetmetal mechanic, marine machinist, generating plant equipment operator, hydro and generating station operator, locks locomotive operator, crane operator, small craft operator, water treatment plant operator, welder, fuel distribution system worker and rigging worker.

Recognition and Success

There are always workers who are willing to make an extra effort that goes beyond their duty to achieve better results. To manage excellence – with an emphasis on strengths through the recognition of values, attitudes and behaviors – the Panama Canal has different reward programs for those employees who have outstanding performance, which goes beyond their daily work. During fiscal year 2018, 6,519 awards and recognitions were given.

Program	FY-2018
On-the Spot Award	3,389
Special act or services award	691
Safety Awards	900
Years of service awards	1,539
Total	**6,519**

Labor Relations

The 93% of the Panama Canal workforce is covered by a negotiating unit

Historically, 93 percent of the Panama Canal workforce is covered by one of the six bargaining units that exist in the organization. The management of labor relations reflects the importance and value of workers who have the right to be represented by these union organizations, as well as the respect for freedom of union membership.

During fiscal year 2018, labor strategies were developed for improvement based on best practices. Among the initiatives were the strengthening of knowledge of first line supervisors on labor issues so that the differences that may arise on a day-to-day basis can be resolved at lower levels.

Training sessions on different topics were coordinated, in order to prepare the employees who will be part of the negotiating teams for the collective bargaining agreement negotiations that will begin in fiscal year 2019.

Employees by Bargaining Unit (Permanent and Temporary)

	FY-2017	FY-2018
Firefighters	80	77
Captains and Deck Officers	220	225
Marine Engineers	212	212
Non-profesionals	8,177	8,151
Professionals	211	207
Pilots	267	282
Excluded*	720	662
Total	**9,887**	**9,816**

* Employees not covered by bargaining units.

Ethics and Transparency

Canal Workers Day Activities

The Panama Canal Administration is committed to a value-based management, respect for the law and good performance, under the highest standards of integrity and honesty.

Throughout its more than 100 years of existence, the Canal has forged an extraordinary trajectory and reputation, where transparency has always been a fundamental guide and axis of its management. Therefore, it accounts for each aspect of the administration and operation of the waterway with legitimacy and integrity.

During fiscal year 2018, several training and communication initiatives were carried out with the workforce as a fundamental part of the Panama Canal's Ethics and Values Program, whose goal is to strengthen the organizational culture and good relations with employees, customers, suppliers and the community in general.

The Ethics and Values Program has received external recognition by companies and government institutions that use it as benchmark for best practices in ethical principles and model to follow. During fiscal year 2018, best practices in ethics and values were shared with private companies and governmental organizations, which included lectures to its senior managers, employees, and ethics and compliance personnel.

The Panama Canal is aware that the respect and trust of all its stakeholders are not obtained alone. They have to be earned. Therefore, it firmly believes that the best way to gain that respect and trust is through a conduct based on total transparency and integrity.

SOCIAL CONTRIBUTION

ENVIRONMENTAL AND WATER MANAGEMENT

Guayacan trees in the Panama Canal Watershed

Both environmental management for conservation purposes and proper water management represent main challenges for the Panama Canal. The sustainability of the business depends on the ecosystems provided by nature, which allow to generate value to the country and well-being of the population.

Through nature and water conservation, the Canal has the necessary water resources to provide water for human consumption to 55 percent of the population, in addition to guaranteeing a continuos and reliable vessel transit operation. Therefore, the Panama Canal Watershed has strategic importance and is an important asset for the country that needs to be adequately protected and managed. Therefore, the inclusion of good environmental practices in the operation of the Canal and the investment in conservation programs to protect water resources is considered a fundamental aspect.

To guarantee environmental sustainability, the Panama Canal signed and adopted an environmental pact, a document that reflects the compliance and practice of the highest values of conservation, inspired by guiding principles of sustainability such as the integration of the environmental variable in all processes, the assurance of the application of environmental regulations, the sustainable use of natural resources, and the promotion of the Green Route for the reduction of greenhouse gases.

The Green Route

CMA CGM TANYA, recognized with the Green Connection Award

The Panama Canal focuses its commitment to sustainability moving to more efficient operations and to the reduction of greenhouse gas emissions, which cause global warming.

The main objective of our environmental strategy is to promote initiatives for the organization's development, based on an efficient management of natural resources and a sustainable development of the Panama Canal Watershed and areas under its responsibility.

With this vision, the Panama Canal completed a study for a low emissions development strategy (LEDS) based on emission reduction targets and established a short, medium and long-term reduction plan, which facilitates the implementation of an operational index to measure the carbon footprint in the Canal.

As part of the Green Connection Environmental Recognition Program, more than 100 vessels received the Green Connection Award and 660 applications were received to the Environmental Premium Ranking, an initiative that offers incentives to customers with high standards of environmental efficiency in their vessels. Of these, more than 60 vessels use LNG as fuel, with significant emissions reductions, such as: 85 percent nitrogen oxide (NO_x), 100 percent sulfur oxide (SO_x) and 25 percent carbon dioxide (CO_2). All of these reductions were obtained based on the cleaner fuels and the use Panama Canal Green Route, which is the shorter, all-water route, with fewer emissions.

The Panama Canal's Green Route was nominated to the 2018 Lloyd's List Americas Awards in the category "Environmental Company of the Year" and was recognized by the Organization for Economic Co-operation and Development's (OECD) International Transport Forum,[15] receiving international recognition.

[15] https://www.itf-oecd.org/sites/default/files/docs/reducing-shipping-greenhouse-gas-emissions.pdf.

Watershed Conservation

Cadaster and Land Titling

Land use planning is a priority to achieve sustainable development. Therefore, it is important to regularize cadaster and land titling.

This year, the Cadastre and Land Titling Program achieved important progress in the western region of the country, with 5,144 hectares registered, 1,611 properties and 400 property titles delivered in Capira, La Chorrera and Colon. This represents an increase of 75 percent in tenure regularization, with respect to the initial baseline of only 15 percent before the program's implementation in 2008.

Delivery of land property titles

Environmental Economic Incentives

For the Canal, protecting the water as an element and natural resource requires exhaustive planning, which allows to promote programs such as the Environmental Economic Incentives Program in the Panama Canal Watershed.

The Environmental Economic Incentives Program constitutes an unpublished model for the development of green businesses, due to its high conservation value, and social and productive transformation. This year, it reached a total of 150 reforested hectares in the sub-basin of the Los Hules-Tinajones and Cano Quebrado Rivers, in the silvopastoral modality, and benefited with incentives for the protection and forest surveillance of 99 residents of the Canal Watershed, which helped with the conservation of 700 hectares of rainforest in Ciri and Trinidad.

To ensure the success of the plantations, the Panama Canal monitors and maintains more than 1,400 reforested hectares in the Panama Canal Watershed used for different purposes: 720 commercial, 650 agrosilvopastoril and 100 conservation.

Panama Canal Watershed coffee producer during harvest

In coordination with government institutions, pest management was successful in 100 hectares of coffee crops located in Colon, Capira and La Chorrera districts. In addition, the Panama Canal trained 15 farmers in the sub-basin of Ciri and Trinidad Rivers, in topics related to roasting, grinding, coffee packaging and other administrative skills. Thanks to the effective management of plantations, certified by international standards as carbon fixation, 185 carbon credits from forestry projects part of the Environmental Economic Incentives Program were sold in international markets.

Forest Cover Monitoring

The activities at the Watershed's Environmental Information Center represent an internal service that supports environmental management in the Canal. In addition, externally, it works in collaboration with non-governmental organizations (NGOs), government entities, universities and research centers, among others. This year, the Panama Canal handled 238 requests for environmental information, more than 290 thematic map were printed, and 398 land use certifications were issued.

The Environmental Information Center also implements the Forests Coverage Monitoring Program in the Panama Canal Watershed. In terms of monitoring, seven overflights were carried out together with MiAMBIENTE in the Alto Chagres sector. This follow-up was due to the identification of nine infraction cases due to illegal felling of secondary forest. This represented a 40 percent reduction in cases, compared to fiscal year 2017, which is equal to 38 hectares protected due to the program's effectiveness. Due to the importance of the surveillance of the Canal river banks, patrolling was carried out for demarcations in levels 100 and 260 in Gatun and Alhajuela Lake, respectively. The competent authorities' generated evictions, as well as criminal and administrative proceedings, thanks to the permanent surveillance and complaints about unauthorized activities reported by the communities.

Environmental monitoring with drones

Canal Watershed Advisory Council Meeting

Social Participation and Environmental Education

Managing the use of water requires an orderly planning process that facilitates a balance between its use and consumers. This must begin with empowering the people. In this sense, the Panama Canal promotes informed social participation, strengthening local capacities, guiding the population towards a correct management of water resources and community development with an emphasis on conservation.

To achieve this, the six advisory councils – located in the six work regions that make up the Panama Canal Watershed – held 24 quarterly assemblies this year, in which more than 1,890 representatives from the socio-environmental, productive and technical sectors participated. In addition, 104 coordination meetings of local committees were held, with 1,560 participants empowered to manage the water resource in the Canal Watershed.


Environmental education in the Watershed

In addition, a comprehensive solid waste management plan was implemented in Chilibrillo River, which included cleanup days and active participation of residents of the area. A total of 70 tons of solid waste were collected, recycling stations were installed, and training was given on recycling and handling of home gardens, among other activities. To reinforce these conservation activities, more than 400 new students were trained in solid waste management in 15 schools in 14 communities located in the Canal Watershed.

In addition, as part of the initiative to carry the message of the Canal to key people in the communities, approximately 100 delegates of the advisory councils visited the Canal facilities, and were informed on the importance of preserving water resources to ensure the availability of water, necessary for the Canal's continuous operation and human consumption.

Other flagship environmental education programs were also developed in different areas, benefiting more than 14,136 students from 109 educational centers.

Programs such as, *Nuestro Canal y su Cuenca* (Our Canal and its Watershed), carried out in partnership with Junior Achievement, had a high impact on the educational community, providing training to approximately 1,540 students.

In order to ensure an adequate inclusion of the environmental aspect in the terms of reference for services contracts and during project execution, the Panama Canal trained 650 employees on issues of environmental responsibility and provided orientation to contractors who carry out activities in Canal operation areas.

Environmental education at schools

Coordination with Government Institutions

Part of the successful relation between the Panama Canal and government institutions depends on an effective coordination abiding by the legal mechanisms in place, in order to ensure that the compliance and enforcement of the laws and regulatory requirements are free from interpretations when the activities and initiatives in the Canal Watershed take place. This year, two workshops were conducted to standardize institutional guidance with the objective of reviewing the norms, regulations and decrees of the government institutions with competence in the Canal Watershed. During these workshops, the approval process of the projects and others initiatives that may have an impact on the water resources of the region was clearly defined.

Governmental and non-governmental institutions coordination meeting

Environmental education in the field

Environmental Awareness

Communicate in order to raise awareness among stakeholders inside and outside the Canal Watershed is a permanent task. In order to achieve this, more than 120 communication products, including national radio broadcast, print media publications, documentary films and television co-produced broadcasts were generated. These outlets emphasized the social, economic and environmental values of the Canal's conservation programs.

Environmental Performance

The Panama Canal constantly monitors the Watershed, specifically for activities such as, quarrying, pig farming, manufacturing and car shops, among others. A total of 91 inspections were conducted during this year to several business practicing these activities, of which, the 90 percent of the quarries that were visited showed environmental improvements and 60 percent of the mechanical workshops implemented mitigation measures satisfactorily.

Moreover, programs in the Canal operation areas have been strengthened through the development of environmental evaluation to projects and the implementation of instruments such as initial evaluation of environmental

Environmental inspection in operation areas

Emission control test on Canal vehicle

conditions, preliminary environmental evaluations and Category II environmental impact studies, approved by MiAMBIENTE. In addition, environmental specifications were included in 38 project tenders and more than 144 contract documents were reviewed.

Within the framework of environmental ethics and transparency, an external audit was contracted. The results showed a 100 percent compliance of environmental requirements in the application and efficiency of mitigation measures for the environmental impact study of the Third Set of Locks (Operational Phase, 2017-2018) and the verification of the implementation and efficiency of the mitigation measures of the Atlantic Bridge. To comply with the reforestation commitments for the construction of the Third Set of Locks, the Canal reforested approximately 515 hectares in Darien, Los Santos, Herrera and Panama Este Provinces.

The Emissions Control Program in the operations areas enabled the evaluation of 300 Canal-owned vehicles (gasoline and diesel), five tugboats, and five exhausts of the Miraflores Thermal Power Plant with satisfactory results.

In areas under Panama Canal responsibility, 1,027 inspections were conducted to evaluate environmental performance. This represented a 24 percent increase in comparison to the previous year. In areas of compatibility with Panama Canal's operations, there was a 35 percent increase on environmental follow-up inspections to projects classified as A and B, which include priority projects that generate significant impacts to Canal operations, the environment and the community.

New Water Options

The studies for the development of the conceptual design, feasibility and pre-feasibility studies for multipurpose reservoirs presented major advances in the three contracts signed with MiAMBIENTE in 2016. The pre-feasibility study for Azuero and province of Veraguas, presented four deliverables: water needs, sustainable agricultural development, hydrological studies, and analysis of alternatives, which reported a 20 percent progress.

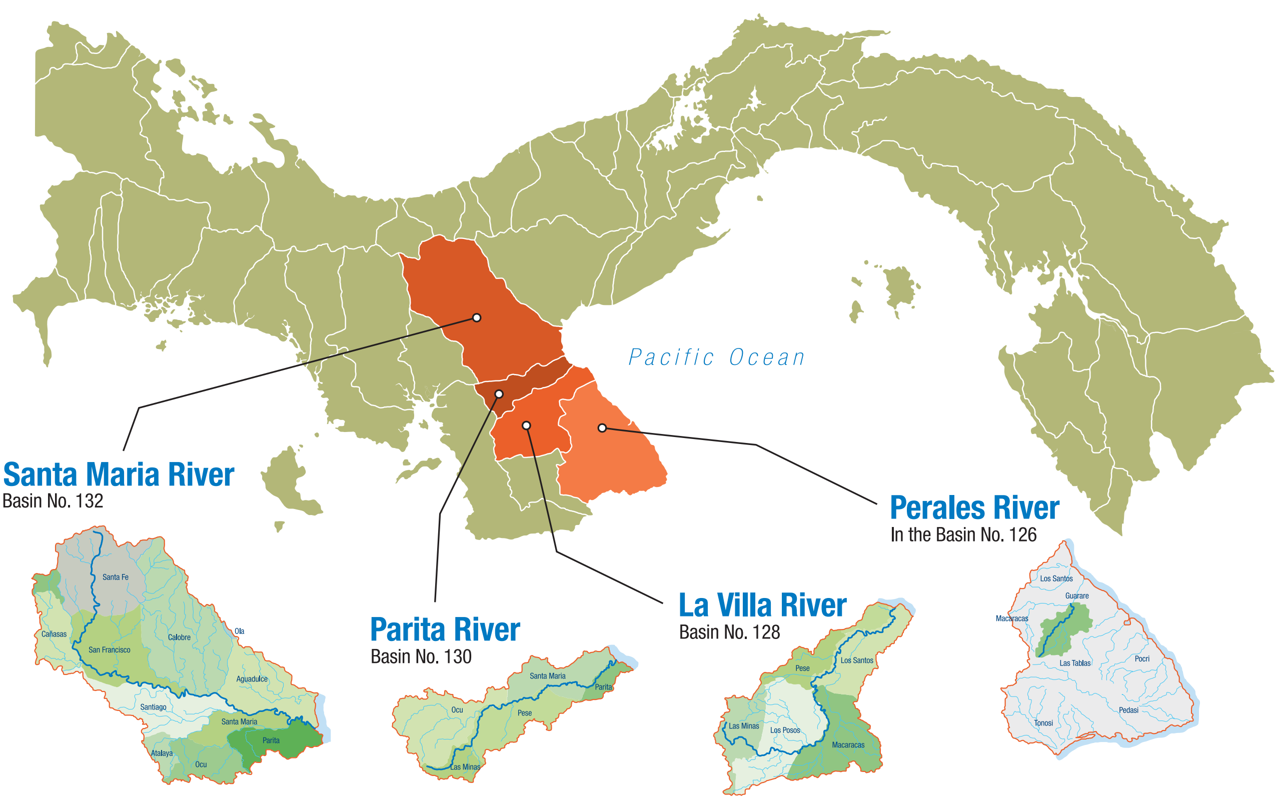
On the other hand, the Canal presented to MiAMBIENTE three studies of the Bayano river basin, which were presented to the Inter-institutional Evaluation Commission of the National Water Council (CONAGUA, for its acronym in Spanish), these studies are: pre-feasibility, which includes the final reports of the socio-environmental and hydrological studies; subsurface geological investigations and water quality studies; and the progress report of topographic and geotechnical studies in the field for the feasibility study. At the end of the fiscal year this contract reported 60 percent of progress.

The contract for the conceptual design and management projects of the Indio river basin, advanced in three key aspects. The conceptual design reached 45 percent progress in activities related to geotechnical studies, drilling, geophysical lines and excavations. The archaeological prospecting of the basin and the rescue of the site named Pn-60 in Boca de Uracillo was completed. In addition, the environmental baseline and general socioeconomic baseline studies were completed, four hydrological stations were rehabilitated, 50 hectares of silvopastoral systems were established, 100 hectares were reforested in restoration technique and 65 hectares in agroforestry crops with coffee.

Under this contract, four community relation offices remain in operation and this year more than 30 communication sessions were held, with participations of more than 2,300 residents and key stakeholders. Four thousand three hundred twenty one (4,321) hectares were measured, from 671 properties, as part of the Cadastral and Titling Program in the Indio river basin, benefiting 281 men, 142 women and 21 legal entities.

The Canal also presented 36 products under the contract in the Indio river basin, four quarterly reports and monthly progress presentations were made to CONAGUA.

Studies for Multipurpose Reservoirs in Azuero and Veraguas



Collection of samples for water quality tests

Water Quality and Quantity

Water Quality

To ensure the reliability of the data and records, the Panama Canal implemented a water quality model that provides information in real time of the results of weekly field measurements. These measurements correspond to water quality parameters of 75 monitoring stations, which includes about 10,800 measurements which generate 760,502 records. During the year, about 704 samples were collected for chloride analysis in the Gatun Reservoir and 163 in 12 water quality stations.

The Panama Canal Watershed's Water Quality Surveillance and Monitoring Program has 40 sampling sites in total, which are visited monthly. They include: 14 in the Gatun Reservoir, five in the Alhajuela, five in Miraflores Reservoir, seven in the main rivers (Chagres, Gatun, Boqueron, Trinidad, Ciri Grande, Indio and Pequeni), four in the middle section of the Chagres River, and five in the priority sub-basins (Los Hules, Tinajones, Caño Quebrado and Chilibre Rivers). A total of 24 different parameters area analyzed in river samples and between 24 and 27 parameters are analyzed in reservoir samples.

This year, 645 samples were collected, from which about 17,000 records of physical, chemical and microbiological parameters were obtained, as well as analytical information of the concentrations of nutrients, sediments, minerals and organic matter in the different bodies of water. With these data, the Water Quality Index (WQI) was calculated. The result was a value of 87 points on a scale of 0 to 100, which means very good water quality.

This indicator has the capacity to synthesize in a single number the results of nine different parameters that individually express varied and complex information. All the information produced has allowed the Panama Canal to characterize and know the condition and evolution of the characteristics of the water in the Canal Watershed.

The Drinking Water Sampling Program includes daily, monthly, quarterly and annual collection and analysis of samples of process and final product of the three water treatment plants managed by the Canal: Monte Esperanza, Miraflores and Mendoza. This program, approved and supervised by the National Authority of Public Services (ASEP, for its acronym in Spanish), includes analysis of physicochemical and bacteriological indicators, metals, organic compounds, pesticides, algae, cyanobacteria, cyanotoxins, protozoa and other chemical and biological indicators. During the year, samples were also collected and analyzed for the classification and monitoring of the different wastewater generated by Canal operations.

Wastewater Treatment

The Panama Canal is responsible for the operation and maintenance of wastewater treatment plants located both in the Pacific and Atlantic sectors. The system includes the new plants of the Cocoli and Agua Clara Locks, and those of the Atlantic Observation Center and the Miraflores Water Treatment Plant, among others. Soon, other plants currently under construction will be included in the system.

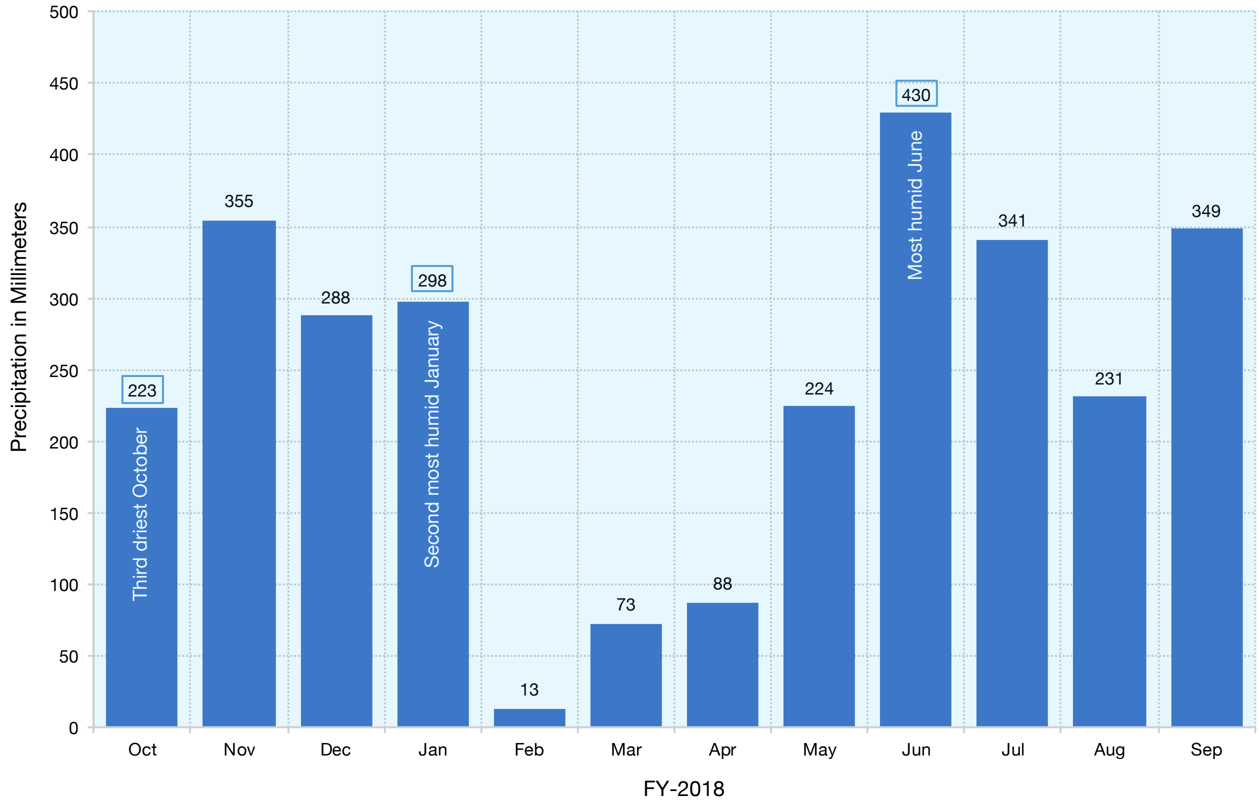
Wastewater Treatment Plant in Cocolí Locks

Water Quantity

As part of the modernization of the Hydrometeorological Information System, the Panama Canal acquired 58 remote stations for rainfall and water level monitoring of rivers and lakes, and three repeaters to replace the current telemetry system. In addition, the hydrometeorological records database was migrated to a new more efficient and reliable server. This database stores more than 100 years of records generated by the hydrometeorological stations from which periodic publications are produced, such as the hydrological and sediment yearbooks, the reports of river flow behavior and thematic maps.


Aerial view of the Panama Canal Watershed

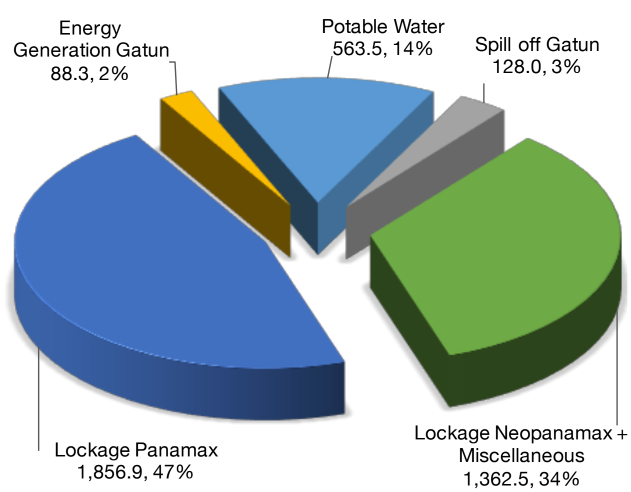
Monthly Precipitation in the Panama Canal Watershed



The monthly rainfall statistics in the Canal Watershed registered unusual behavior. Compared to records from the last 68 years, October 2017 was the third driest October, January 2018 was the second rainiest January, and June 2018 was the rainiest June.

The total net water volume[16] contribution (3,999 million cubic meters) for fiscal year 2018 in the Panama Canal Watershed, was 25.5 percent below the average of the last 20 years (5,366 million cubic meters). A total of 85 percent of these contributions, as recorded historically, are received from July to December. During the months of February, March and April the accumulated volume from direct evaporation from the reservoirs (446 million cubic meters) significantly exceeded the total contributions during this period and is equivalent to 9.5 percent of the total contributions, almost twice the stored volume.

Water Extracted from Gatun and Alhajuela Reservoirs According to Uses in FY-2018 in Millions of Cubic Meters (Mm^3)



[16] The difference between inputs (precipitation) and outputs (evapotranspiration, evaporation of reservoirs, infiltration and other losses) in the Canal Watershed is considered as a net contribution to the reservoirs, with respect to the variation in the volume of water stored.

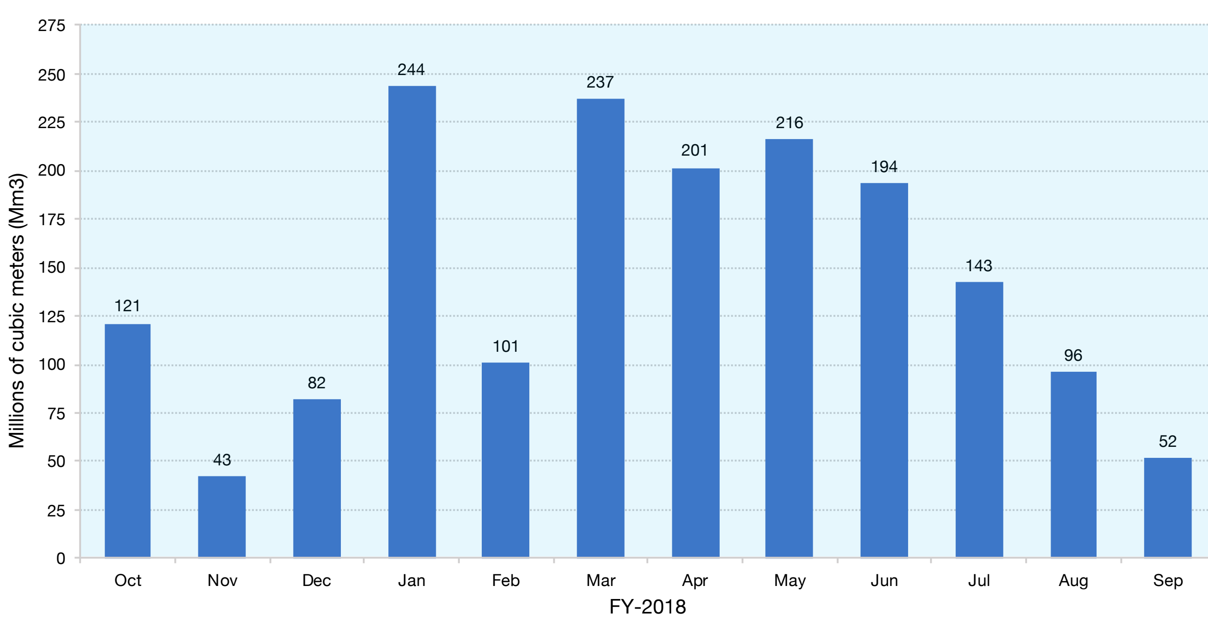

Preventive spillings in Gatun

The volume of water transferred (1,730 million cubic meters) from Alhajuela to Gatun Reservoir through hydropower generated by Madden Plant represents 43 percent of the total contributions and supported the continuous operation of the Canal without any restrictions.

The Flood Control Program was successfully executed. The program's objective is to safeguard the communities and properties adjacent to the reservoirs and to maintain uninterrupted Canal operations during extreme weather events. In January, there was a severe storm in the Canal Watershed that required spills from the Madden and Gatun Spillways to control the high levels reached by both reservoirs.

Also, the Government of Panama is planning the construction of new potable water treatment plants, which will required the extraction of approximately 225 million gallons per day of water from the Gatun Lake.

Panama Canal Watershed
Water Transferred from Alhajuela Reservoir (1,730 Mm3) to the Gatun Reservoir



CORPORATE SOCIAL RESPONSIBILITY

Summer painting workshop with Olga Sinclair Foundation

Fiscal year 2018 was filled with many achievements in the area of Corporate Social Responsibility (CSR).

All were guided by the ACP's vision and mission, as well as the 17 Sustainable Development Goals (SDG). During this fiscal year, worth noting is the alliances with the private sector especially the execution of the first project with the coffee producers of the Panama Canal Watershed, a very special interest group.

In terms of volunteering, fiscal year 2018 was an unprecedented year. We managed to reach the figure of 3,500 corporate volunteers and perform more than 17,917 hours of volunteer work this year, which adds to a total figure of more than 207,117 volunteer hours in 10 years of this corporate program. In addition, 63 volunteer days were held focused on five action areas of corporate volunteering: environment, integral well-being, culture, community development and education. Each of these volunteer events translates into the well-being and value created for each of the stakeholders they worked with this year, and impacted more than 60,000 people.

The following lists some of the initiatives completed in fiscal year 2018 as part of the volunteers' five action areas.

Environment

Volunteering contribute to environmental conservation through educational programs, as well as prevention, mitigation and environmental compensation.

In October 2017, our volunteers along with members of the Panama Federation of Garden Clubs planted guayacanes at the Panama Canal Ship Manned Model Training Center. The activity, called “Painting Panama Yellow,” was aimed at reforestation efforts, increased awareness regarding the importance of forest preservation in the Canal area, and helping to conserve the natural beauty in the area.

In March 2018, Earth Hour was held. This is a global event that calls to mobilize and act constructively as a symbol of commitment to the planet by turning off lights for one hour. This event was held jointly with the World Wildlife Fund youth singers from the University of Panama and 60 musicians from Panama’s Fire Department Band, who offered a concert during the one-hour blackout.

Also in March 2018, an electronic recycling day was held at the University of Panama, together with Telefonica Moviles Panama, Fundacion Natura and Renuevo Panama, to promote the collection of technological trash to prevent environmental contamination by mercury and the safe disposal of electronic waste.

Like every year, Panama Canal volunteers also participated with non-govermental organizations in several cleanup activities along beaches, coasts, rivers and submarine areas near natural resource areas in the country.


Reforestation with guayacanes, “Pintemos de Amarillo a Panamá”


Celebration of the Earth Hour

Volunteers during International Clean Up activity

Integral Well-being

Corporate volunteers supported the 2018 Relay for Life Walk of the Friends of Children's Leukemia and Cancer Foundation (FANLYC), inspired by the hero child Oscar Tejada. The Special Olympics Panama were also supported on several occasions, as well as the FUNDAYUDA foundation (in breast cancer awareness activities); Operation Smile Foundation (with its annual "Radioton" fundraiser to fund facial reconstructive surgeries for children), Teleton; and the Autism Waves Foundation (supporting sensory therapy for special needs children). Worth highlighting is the work of Canal volunteers on the Atlantic side, who offer training to children living in socially vulnerable communities, through basketball training at the Most Valuable Player Basketball School (MVP).

Canaleros in the relay for life annual event

Culture

As in previous years, corporate volunteers also offered their time at the annual Panama Canal Summer Festival, to assist and guide the attendees and offer them water and souvenirs. Most importantly, they spread their joy to children and adults during this three-day cultural program.

Additionally, the Panama Canal volunteers played a very significant role in the summer painting workshop with Olga Sinclair. During the day, the volunteers assisted with great dedication the more than 2,000 children and their families in El Prado Boulevard. They also coordinated the general logistics of the event and demonstrated their overwhelming support for the promotion of culture to Panamanian children.

Volunteers contribution to the Summer of the Canal days

Finally, the “Mi Familia Canalera” (My Canal Family) seminar was once again organized for Canal employees and their families to help strengthen family ties. Canal employees’ children and spouses can recognize the impact of the work carried out by his/her family member in the organization and how this influences the well-being of their families and the country. This reinforces family values and is a reflection of the Panama Canal’s corporate values.

Community Development

Panama Canal employees from different offices organized Christmas activities and participated in the Ambassadors of Illusion Program in 21 communities, mainly located in the Canal Watershed. These 15 activities benefited more than 2,000 people.

Volunteers also carried out community infrastructure improvement projects. As an example, the headquarters of the coffee growers, who are members of the Association of Coffee Growers of the Sub-basins of the Ciri Grande and Trinidad Rivers of the Panama Canal (ACACPA) were upgraded. These improvements allowed them to inaugurate the first robusta coffee processing plant in the area, managed by small local producers.

Repairs and modifications were also made to the house of a girl suffering from cancer, as well as to the sports areas of the community of Gamboa and facilities of the Santa Luisa Asylum in Colon Province.

Volunteers implement community improvement projects at the Panama Canal Watershed

Education

The Eleventh Children to Canal Camp was held. This is the most emblematic volunteering event of the year, aimed at contributing to integral education and promoting our values and national identity. More than 200 children from 10 delegations participated. With this year's camp, more than 2,400 children from the most remote communities in the country participated in this activity.

The activity included city tours, cultural events (such as a concert, theater and painting workshop), educational games (the Canal Historical Rally) and sports. In addition, participants took a ride on the Panama Transisthmian Railroad to Colon, and were able to experience first-hand the Expanded Canal from Agua Clara Visitor Center.

This event was a success thanks to the work of more than 400 corporate volunteers, who prepared with dedication many weeks in advance every detail, including decoration to shopping, reception, morning care, food and safety, medical check-ups, logistics and transportation, entertainment, crafts and recycling workshops, mini-Olympics, chaperones, general support and tour guides. The grateful faces and words of appreciation of all visiting delegations at the time of departure, reflected the extraordinary work done by our corporate volunteers.

In September 2018, the Canal partnered with the Foundation for the Promotion of Educational Excellence, and Canal volunteers supported the third edition of the National Contest for Educational Excellence. The Panama Canal was part of this initiative because it believes in the potential of youth and education as the key to the country's development and prosperity and of all Panamanians.

Transisthmian train tour as part of the Children to the Canal Camp

COMMUNICATION

Panamanian soccer team at the Panama Canal

Corporate communication is essential for the Panama Canal to ensure the proper management of information –both internally and externally– with the stakeholders, the media, strategic allies, as well as with the international community.

The Canal's relationship with the public was strengthened through various initiatives and different outlets. A variety of activities were organized to position the Panama Canal's corporate image, including: the Panama Canal Summer Festival, with a record attendance of 40,000 people during the three-day event in Panama City, the Panama Canal Summer Festival Tour, which reached 17 communities and 15,000 people, the Panama Canal Anniversary Tour "Panagol," which reached 15 communities in the countryside, and the Panama Canal Magical Nights at the Miraflores Visitors Center, with approximate 10,000 people in attendance.

During the 2018 World Cup, the Panama Canal promoted Panama's first-ever participation in this important sports event to reinforce principles such as excellence, perseverance, teamwork and national pride as values that bring together the Panama Canal and the Panamanian society.


Panama Canal Folklore Group

Attendees to the Panama Canal Summer Event

The Panama Canal has been present in the provinces of Bocas del Toro, Chiriqui, Veraguas, Herrera, Los Santos and Cocle through the information centers. During this year, more than 85,350 people visited the eight centers.

Tourists at the Miraflores Visitor Center

Another way to come in direct contact with the community was the Canal for All Program, which allowed 20,793 people to visit the Panama Canal. The program has already reached a total of 176,940 visitors.

The Panama Canal was present in national fairs and events, reaching 600,000 people, as well as six events at international level, reaching 65,000 people. In addition, 22 roadshows took place with the Panama Canal Informative Bus, reaching 22,000 people.

In Santiago City, the renovation project of the historic building selected to establish the Panama Canal Experience Center has an 85 percent progress and was awarded and initiated the contract for design, supply and installation of the center's museum content.

During fiscal year 2018, the Panama Canal sustained positive exchanges with national and international media. Through the *"Nos Encantan los Retos"* campaign, the Panama Canal announced the challenges it faces to strengthen the waterway's reputation through communication actions that resulted in 89 percent positive coverage in national media and 94.3 percent in international outlets.

Panama Canal Administrator at the Panamanian Association of Business Executives (APEDE) Conference

Taking into account the upcoming challenges and the need to attract young audiences, the Panama Canal designed and executed a new campaign for Canal TV, the corporate TV channel, aimed at creating awareness of the Panamanian community about the importance of water conservation, including the participation in fairs and social networks.

Important milestones, such as the second anniversary of the opening of the Neopanamax Locks, the Green Connection Environmental Recognition Program and the Expanded Canal's new LNG market, positioned the waterway at an international level, resulting in exposure in 35 international markets including Japan, United Kingdom, United States and Brazil. The Panama Canal participated in international fairs and conferences and more than 25 interviews were coordinated for Canal executives attending event abroad, which generated coverage in global media, including outlets such as Reuters, Lloyd's List, Platts and Bloomberg. Moreover, the Canal Connection monthly newsletter was sent in English and Spanish, reaching an audience of more than 900 people in the United States, Latin America, Europe and Asia.

The Panama Canal had a large audiovisual production for external and internal audiences. During fiscal year 2018, approximately 57.44 hours were programmed on general interest and Canal-related topics. Among the relevant productions, we can highlight the Let's Drive our Canal into the Future Forum, the 2018 Summer Nights and the live broadcast on social media of the transit of the Neopanamax cruise *Norwegian Bliss*.

To continue at the forefront of digital communication, the Panama Canal's social media outlets continued to share relevant content and corporate messages, reaching an audience of 6.2 million monthly users on average, with 89 percent positive interactions.


Carlos Vives closing the Panama Canal Summer Event

Aerial view of Atlantic Bridge

Atlantic Bridge

The Atlantic Bridge, built on the Panama Canal's entrance in Colon Province, consists on the design and construction of a vehicular pre-stressed concrete cable stayed bridge, its approach viaducts and access roads. It has a total length of 4,605 meters with four driving lanes, a main span of 530 meters, minimum air draft of 75 meters above the navigation channel, a total roadway width of 19.2 meters, and a 2.4 meter shoulder in each direction. It includes the road connections with Bolivar Avenue on the east side and the Gatun road on the west side, as well as improvements to the road leading to the Gatun Spillway, where a two-lane bridge over the Chagres River is being built.

An important milestone for the project was reached in fiscal year 2018, when the central stich of the cable-stayed section of the Atlantic Bridge was poured. In addition, the first asphalt layer was placed and the central barrier was installed in the sections of the roads towards the bridge viaducts, as well as the construction of paved ditches and placement of the base layer for the road shoulders. At the end of this year, the project registered a 92 percent progress.

Gamboa Bridge

The construction of the new Gamboa Bridge over the Chagres River was completed during fiscal year 2018. This bridge provides access to the 700 Canal employees working in that area, and to residents and visitors, contributing both to the Canal's efficiency and to the well-being of the Gamboa community.

New Gamboa Bridge over the Chagres River

FINANCIAL PERFORMANCE

FINANCE

Full-container vessel northbound leaving Agua Clara Locks

Financial Strength for the Canal's Sustainability

After 19 years of successful Panamanian Administration, the Panama Canal closed its fiscal year 2018 with new records in tonnage, revenue and profit. Fiscal year 2018 closed with greater market diversification, excellent operating margins and profitability, low financial leverage, and an increases in efficiency and productivity.

The robust financial performance and growth of the Panama Canal Authority is attributed to a conservative institutional framework aimed at transparent, autonomous and cautious governance and a long-term vision of sustainable returns.

The Panama Canal's long-term sustainability depends on keeping the all-water route reliable and safe, and safeguarding the Canal's capacity to periodically make profitable investments in water and energy infrastructure works and other assets that allow it to secure the necessary capacity to keep growing in a timely manner. Due to the business' nature, increasing the Canal's throughput is not achieved through gradual increments. It is accomplished with specific large-scale investments that far exceed the resources organically generated by the Canal. Therefore, from time to time, the Canal must access external financing to complement these investments.

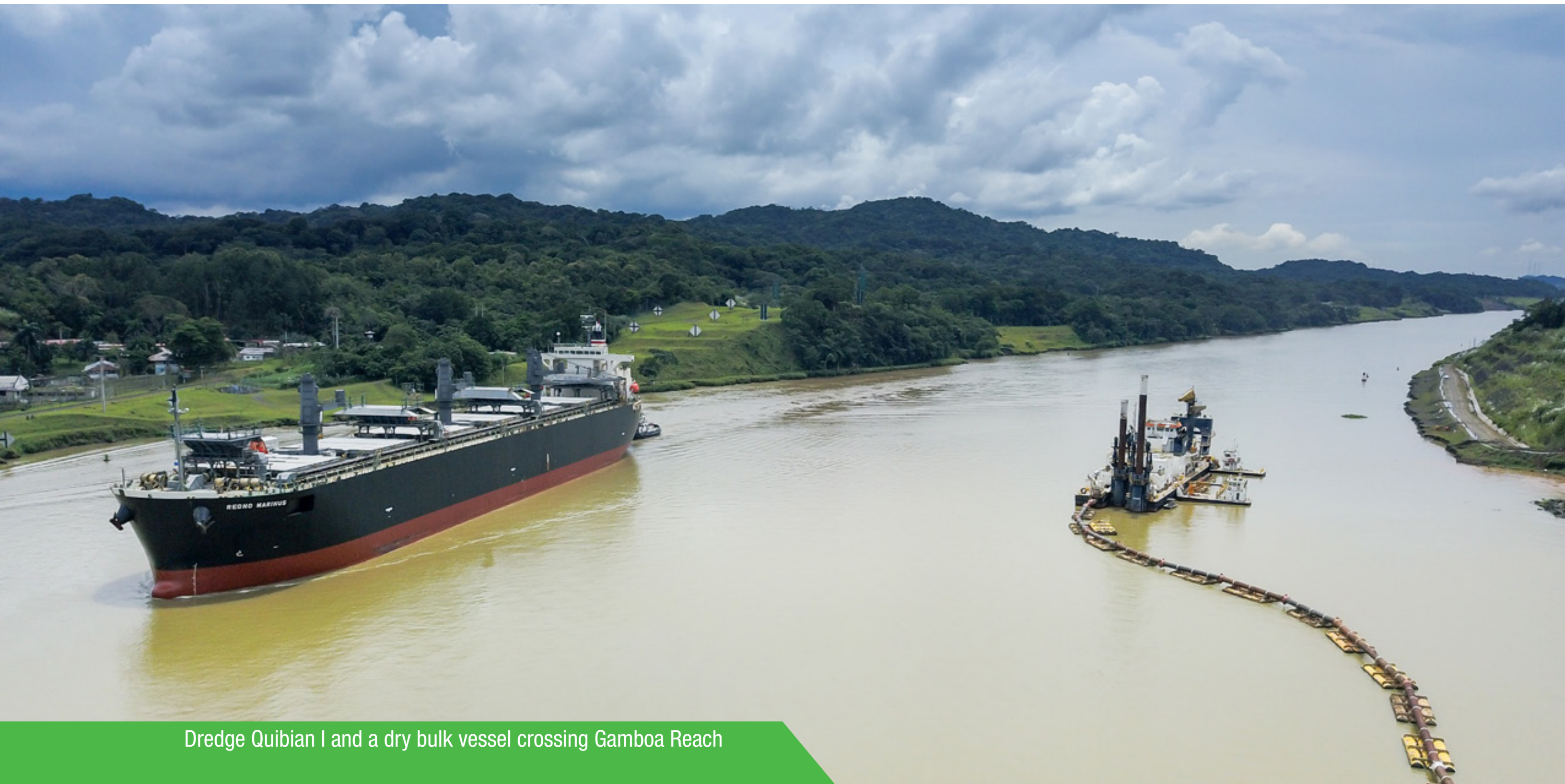
To maintain the financial strength necessary to periodically undertake these large investments, the Canal must secure a solid credit reputation, high credibility and transparent financial robustness. This is particularly important in the Canal because the ACP's legal framework establishes by law that the Canal is an inalienable asset of the Panamanian Nation, and as a consequence, it cannot place its assets, income or future cash flows to guarantee future finance facilities. The Canal can only access relevant financing at competitive rates if it maintains an excellent reputation and image of high trust, as well as real autonomy and independence. In other words, the Canal must maintain an flawless trajectory of governance, transparency and honesty in its daily operations.

The sustainable and productive profitability of the Canal is not only bolstered by consistently providing daily safe and reliable service. It also requires the Canal's daily performance to build trust and credibility with its customers, users, credit rating agencies, insurers, credit institutions, and above all, Panamanians, who give the Canal the needed moral license to continue serving daily.

The financial strength of the Canal is based on its constitutional and legal framework, together with a strict adherence to good corporate governance, and the ethical and transparent behavior of its management. The Canal attributed the records obtained during this fiscal year to its institutional autonomy, which is essential for its financial strength.

In order to offer greater flexibility and reliability to the customers of the Expanded Canal, coordinated efforts have been made to accommodate the needs of the market to favor greater operational efficiency. In fiscal year 2018, the Canal modified the transit restrictions to LNG vessels, a growing segment, as well as modifications to the reservation system, which included an additional slot for Neopanamax vessels. This contributed to the growth in revenues and tonnage of the Canal's main market segments, namely container and liquid bulk carriers.

With an emphasis on profitability and sustainable business growth, the Panama Canal maintains robust financial indicators, appropriate reserves, and an impeccable record of compliance with its financial obligations. Its financial management is recognized by the different interest groups, the international maritime community, the Canal bond holders, and in particular, the most important international credit rating agencies.



Dredge Quibian I and a dry bulk vessel crossing Gamboa Reach

Rating Agencies Affirm the Canal's Credit Ratings

In August 2018, Fitch Ratings reaffirmed the Canal's 'A' rating with a stable outlook for ACP long-term bonds. The credit rating agency highlighted "the stable performance in terms of cargo volume, solid competitive position as the main transshipment center in the region; and the well diversified cargo mix of the Canal, which makes the profile of the ACP exhibit high levels of resilience."

The report emphasized the importance of the Constitutional Title of the Panama Canal, which states that the ACP is in charge of the operation, management and modernization of the Canal. The Canal's incentives are focused on maintaining the profitability of the business, evidenced by the history of profitable operations through different administrations. According to Fitch Ratings, "the strength of the legal framework provides institutional and operational autonomy and financial independence in the management" of the Canal, which mitigates the risk of government interference. The rating reflects the expectations that the Canal will continue to be managed under the same legal framework.

Rating Agency	Rating	Outlook	Date
Fitch Ratings	A	Stable	Aug. 2018
S&P	A-	Positive	Jul. 2018
Moody´s	A2	Stable	Jan. 2018

In July 2018, S&P Global Ratings (S&P) reaffirmed the Canal's 'A-' rating, two steps above the sovereign rating, and improved ACP's outlook from stable to positive. In this regard, S&P highlighted "the exceptional competitive position of the Canal, being the most economical option in time and money for commercial routes between America, Asia and Europe." In addition, it emphasized that "ACP's services are strategic as seen in the stable and predictable growth of the transits and revenues collected, despite the economic cycles and external shocks that have affected world trade dynamics since the Canal's start of operations in 1914." The agency supports its rating on "all factors evaluated, combined with a favorable regulatory, legal and contractual framework (with clear mechanisms that regulate the way in which the Canal will cover its costs and recover its investments) support the excellent evaluation of the risk profile Credit of the Canal."

In January 2018, Moody's reaffirmed the A2 rating with a stable outlook on the US$450 million senior unsecured bonds used to partially finance the construction of the Atlantic Bridge. Moody's highlights in its report how "the expansion of the Canal has allowed to achieve record container volumes while new business segments have grown." In addition, it points out that "the robust institutional framework and corporate governance, under which the ACP operates, support its solid credit profile."

Vehicle carrier transiting the Panama Canal

Relevant Milestones Highlighting Financial Management

Revenue and profit records

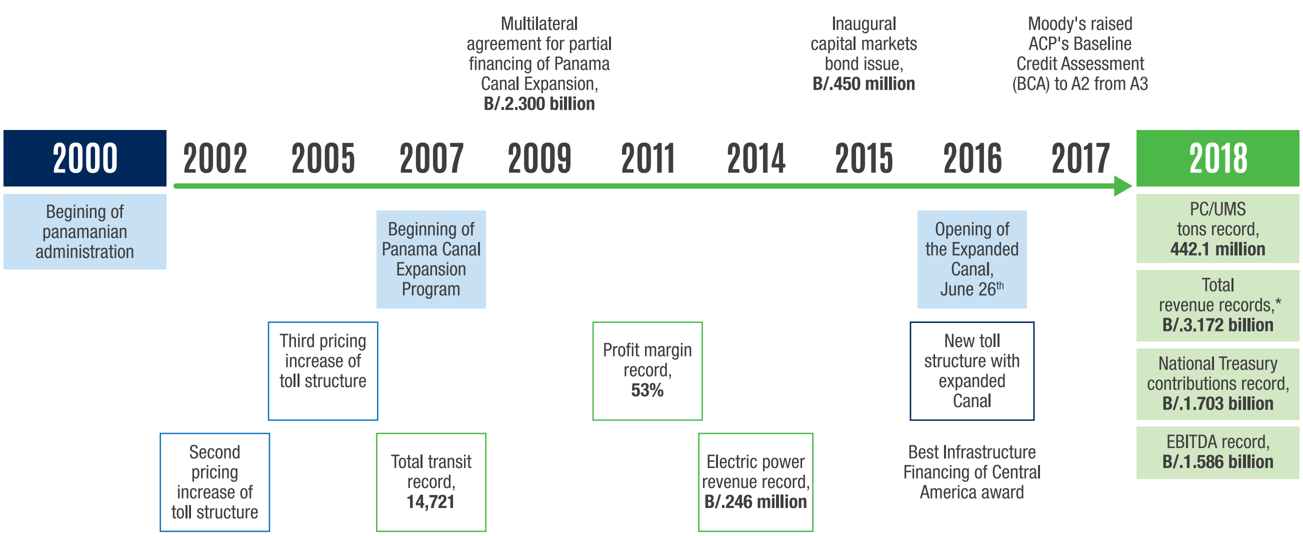
Continuous improvement in productivity and operational efficiency

Financial profitability and value creation indicators pick up

Growth of direct and indirect contributions

Canal achievements under Panamanian Administration include strategic milestones of financial nature, records in operating results with increasing contributions to the National Treasury, and the successful completion of the Expansion Program. This is the result of the institutional strength that characterizes the Panama Canal.

Relevant Milestones Highlighting Financial Management



* Total revenues includes financial income from: (i) earned interests and (ii) advance and other receivables to contractor.

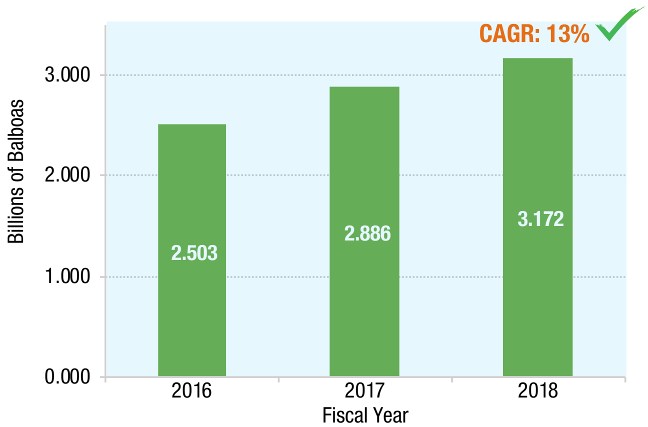
Revenue and Profit Records

The Panama Canal closed fiscal year 2018 with record revenues[17] of B/.3.172 billion, B/.286 million or 10 percent more than fiscal year 2017. This increase was mainly due to the growth in traffic revenues, driven by the increase in the transit of Neopanamax vessels. Canal revenues grew at a compound annual growth rate (CAGR) of 13 percent since the opening of the Expanded Canal.

In fiscal year 2018, a record of 442.1 million PC/UMS tons transited through the Canal, 38 million PC/UMS tons more compared to the previous year, for a total of B/.263 million more in transit revenue.

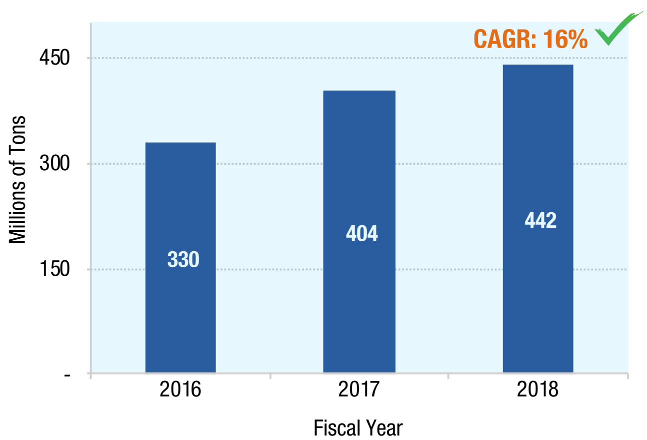
Transited tons have grown at a compound average growth rate of 16 percent since the opening of the Expanded Canal.

Revenues



Note: Total revenues includes financial income from: (i) earned interests and (ii) advance and other receivables to contractor.

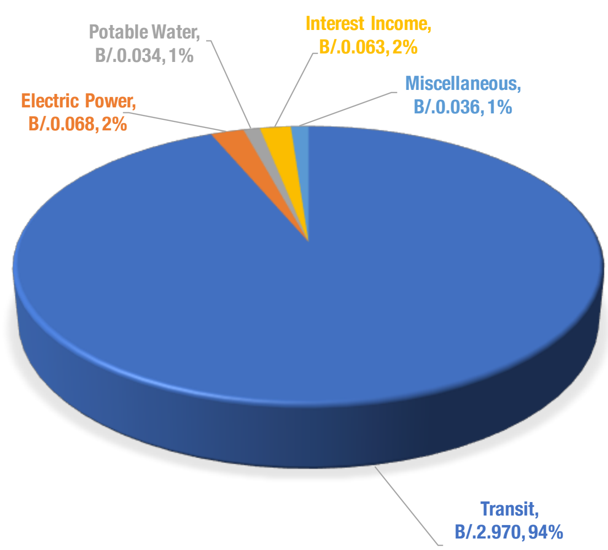
PC/UMS Tons



A total of B/. 2.970 billion (94 percent) of the annual income is relate to transit operations. In addition, B/.68 million (2 percent) come from energy sales, B/.63 million (2 percent) from interest earned by treasury management and amortization of financial instruments, B/.34 million (1 percent) from income from water sales, and another B/.36 million (1 percent) from miscellaneous income.

Income from transit operations, which accounted for B/.2.970 billion at the close of fiscal year 2018, is broken down into toll revenue and other transit-related services.

Revenue Distribution (in billions)



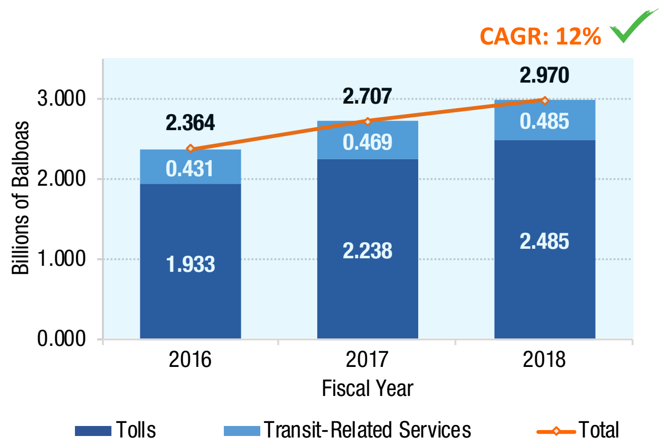
[17] Total revenues includes financial income from: (i) earned interests and (ii) advance and other receivables to contractor.

Toll revenue

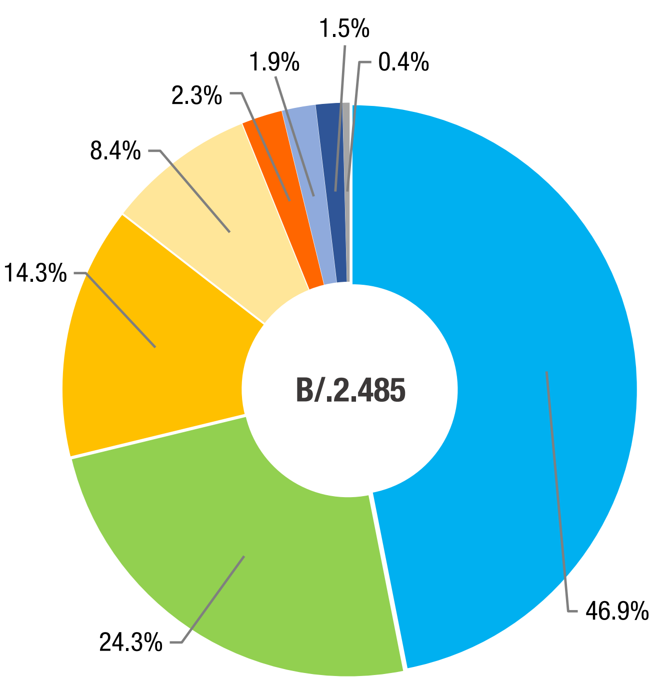
Tolls generate revenues from cargo traffic through the Canal. Tolls reached a record of B/.2.485 billion in fiscal year 2018, an 11 percent or B/.247 million increase compared to fiscal year 2017. In addition, the Panama Canal closed its fiscal year 2018 with a record tonnage of 442.1 million Panama Canal tons (PC/UMS), which represents a 9.5 percent increase from the previous year.

The container segment continued to serve as the leading market segment for tonnage through the Canal, accounting for 159 million PC/UMS tons of the total cargo The container segment generated revenues of B/.1.165 billion (46.9 percent) of the total revenues from tolls, representing an 11.2 percent increase from the previous year.

Transit Revenue



Toll Revenue Distribution per Market Segment



Segment	Revenue (billions of B/.)	Variation vs FY-2017
Container vessels	1.165	11.2% ↑
Liquid bulk carriers	0.603	31.9% ↑
Dry bulk carriers	0.356	-6.8% ↓
Vehicle carriers	0.209	5.6% ↑
Passengers vessels	0.057	23.9% ↑
General cargo	0.046	12.2% ↑
Reefer vessels	0.038	-13.6% ↓
Other	0.011	-50.0% ↓
	2.485	

The liquid bulk segment accounted for 130 million PC/UMS tons and contributed B/.603 million (24.3 percent) of the total revenues from tolls, which represents 31.9 percent increase compared to fiscal year 2017. The revenue increase is the result of the increase in the cargo volume of LPG and LNG Neopanamax vessels.

Other important segments for the Canal were bulk carriers, which contribute 14.3 percent to tolls, and car carriers, which contribute 8.4 percent in tolls. The remaining 6.1 percent included passenger vessels, general cargo, refrigerated cargo and others.

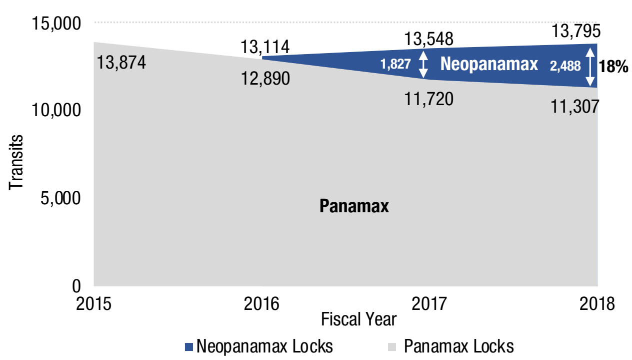
Neopanamax Capacity Continues To Drive the Transit Business

Undoubtedly, the Expanded Canal has allowed the waterway to maintain the competitiveness of the route, capturing new markets, and achieving records in tonnage and revenues, only possible through this capital expenditure.

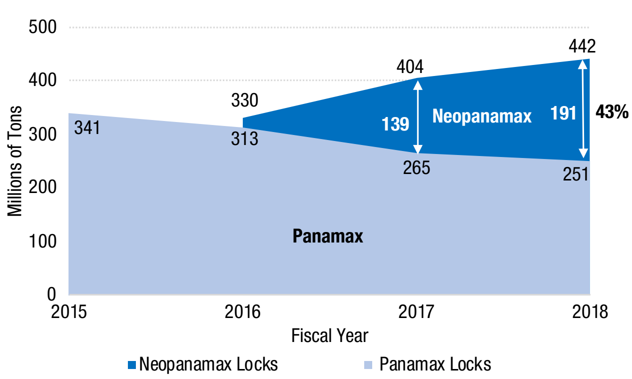
At the end of fiscal year 2018, figures show how the Neopanamax Locks enable the sustained growth of the transit business and accounted for a total of 2,488 transited vessels, an average of 6.8 vessels per day and 76.8 thousand PC/UMS tons per transit.

Neopanamax vessel generated 191 million tons during fiscal year 2018, representing 43 percent of the total tonnage. In turn, the tonnage volume from Neopanamax vessels generated B/.1.155 billion in toll revenues, which represents 46 percent of the total toll revenues for the fiscal year, with only 18 percent of total transits. The rest of the vessels were smaller than Neopanamax and generated a total revenue per toll of B/.1.330 billion, 53 percent of total toll revenues for fiscal year 2018.

Transits



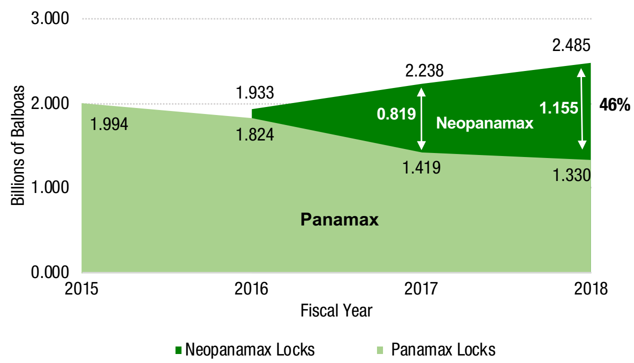
PC/UMS Tons



In fiscal year 2018, 70.2 percent of tolls revenue from the Neopanamax Locks came from the container vessels, accounting for 112.6 million PC/UMS tons. This segment is taking advantage of the economies of scale offered by the Expanded Canal, carrying more cargo per voyage by deploying larger vessels. A new toll record of B/.1.2 million was set by a 14,863 TEUs Neopanamax container carrier.

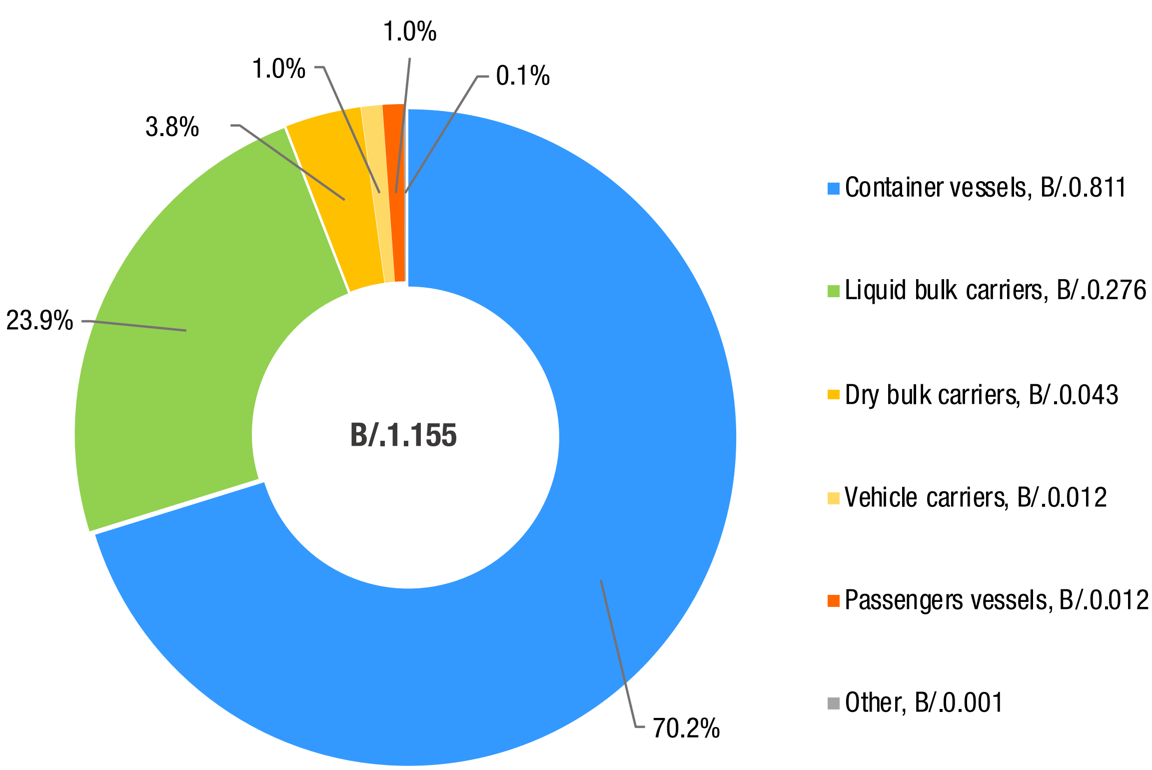
The liquid bulk segment is another segment of great importance for the Panama Canal, accounting for 23.9 percent of the total Neopanamax tolls. With the Expanded Canal, the route through Panama has captured 47 percent of U.S. LNG exports, contributing 5 percent of the total toll revenues and doubling the tolls paid in fiscal year 2017.

Toll Revenue



Only two years and three months after the inauguration of the Expanded Canal, Neopanamax toll revenues reached B/.2.083 billion, which is equal to 37 percent of the estimated cost of the Expansion.

Neopanamax Toll Revenue Distribution per Market Segment (in Billions of Balboas)



Changes in the reservation system to allow two reservation slots per day for LNG carriers and lifting certain navigation restrictions to LNG carriers (allowing meetings between opposing LNG vessels in Gatun Lake and transits during hours of darkness in certain areas of the Canal), the Canal ensures its ability to offer reliable and safe traffic to capture the growing demand of the LNG segment, mainly coming from the United States and other areas.

In fiscal year 2018, another significant milestone was achieved in the passenger segment, with the transit of the largest cruise ship ever to use the Neopanamax Locks, with a capacity of almost 6,000 passengers, contributing to record revenues for this segment. The Canal is prepared to receive more than 230 cruises during the 2018-2019 season, welcoming more than 237,000 passengers. Ten of these vessels will transit the Panama Canal for the first time.

Income from Transit-Related Services

The transit-related services are the complementary services provided by the Canal to the vessels for a safe, reliable and expeditious transit. At the end of fiscal year 2018, these services represented B/.485 million (16 percent) in revenue for the Canal. These complementary services maintain a continuous growth at a compound annual growth rate of 12 percent during the last three years.

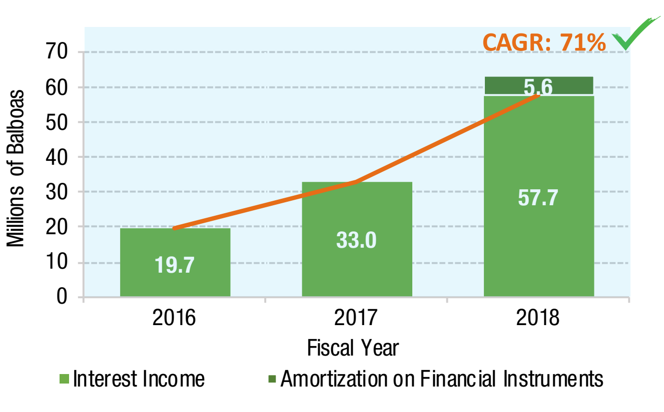
The reservation service for transit contributes 42 percent of the transit related revenues with B/.205 million, and the tugboat service contributes to 28 percent of the revenues in this category. Container carriers and liquid bulk carriers are the main users of these services. In response to the demand and needs of the market, the Canal modified the transit reservation system to increase its efficiency, positively influencing the availability and reliability of the route for all vessels transiting the Canal.

Earned interest income grows

At the end of fiscal year 2018, treasury management generated revenues of B/.57.7 million on time deposits and in short-term financial instruments, in addition to B/.5.6 million in advance and other receivables to contractor. Between fiscal year 2016 and 2018, interest income earned from the Panama Canal increased at a compound annual growth rate of 71 percent.

At the end of the fiscal year, the investment portfolio produced an average yield of 2.04 percent, as a result of an increase of B/.153 million in average liquidity, and 75.3 basis points in the average interest rate, compared to fiscal year 2017.

Interest Income

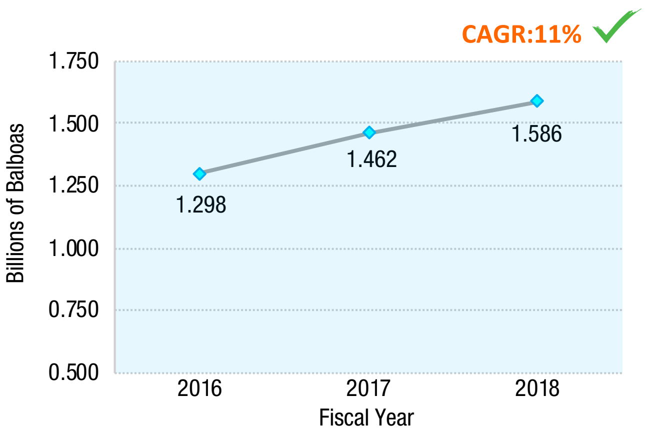


Financial Profitability and Value Creation Indicators Pick Up

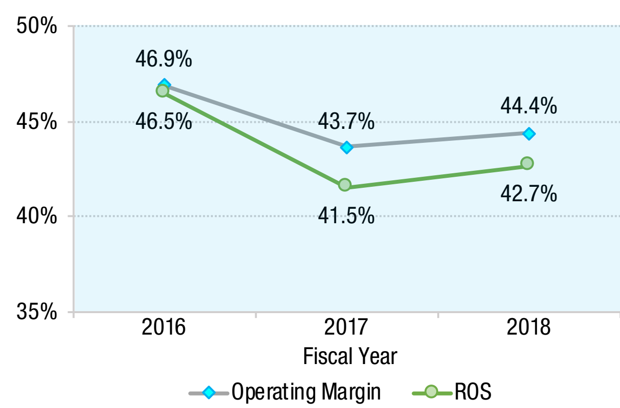
Fiscal year 2018 ended with a robust financial standing for the Canal, as evidenced by the main financial indicators of profitability, liquidity, indebtness and value creation. The performance in financial management is a reflection of the institutional autonomy of the Canal, supported by the Constitution that offers a solid legal and governance framework.

The Canal closed fiscal year 2018 with increased business profitability since the inauguration of the Expanded Canal. Earnings before interest, taxes, depreciation, and amortization (EBITDA) were B/.1.586 billion, which reflects a compound annual growth rate of 11 percent. The operating margin was 44.4 percent, the return on sales (ROS) 42.7 percent, the return on assets (ROA) 9.9 percent, and the return on equity (ROE) 13.4 percent, all surpassing the results of fiscal year 2017.

EBITDA

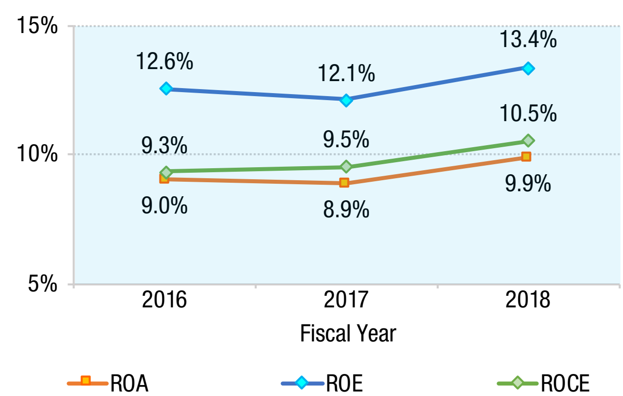


Operating Margin and ROS



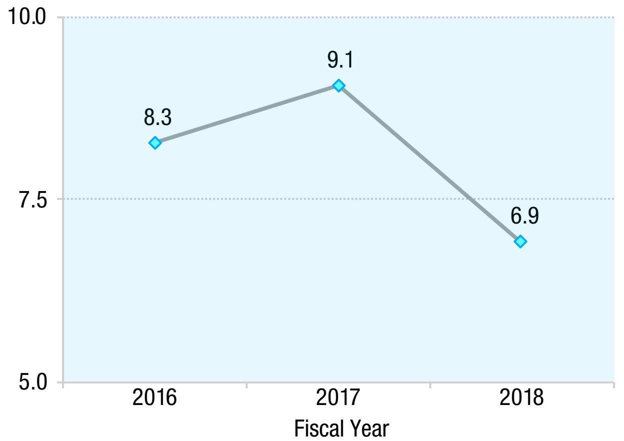
The return on capital employed (ROCE), an index that values the wealth generated by capital investments, increased from 9.5 percent to 10.5 percent compared to fiscal year 2017, mainly due to the increase in earnings before interest and taxes (EBIT), about 11 percent in the last two years.

ROA, ROE, ROCE

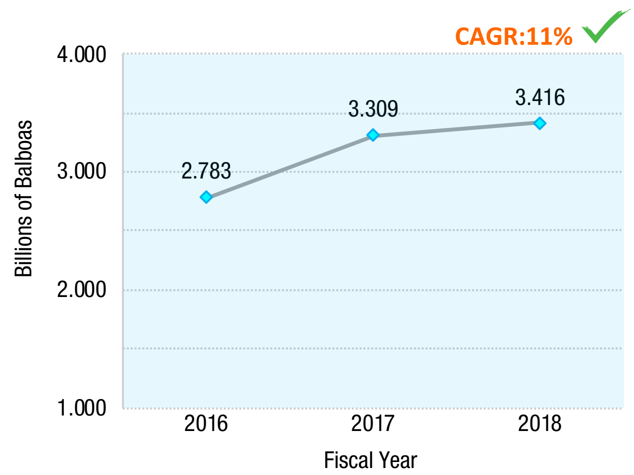


The Canal's current ratio closed at 6.9, which denotes a robust payment ability to honor short-term financial obligations, mainly due to its ability to generate cash and liquidity management. Working capital reached B/.3.416 billion, B/.107 million above fiscal year 2017, with a compound annual growth rate of 11 percent since fiscal year 2016.

Current Ratio (Current Assets / Current Liabilities)

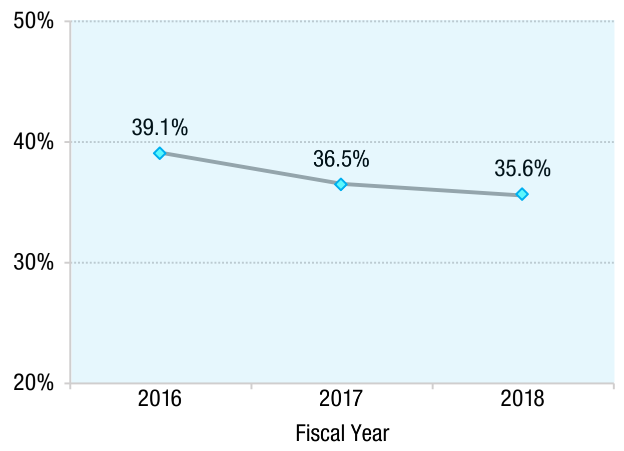


Working Capital (Current Assets - Current Liabilities)

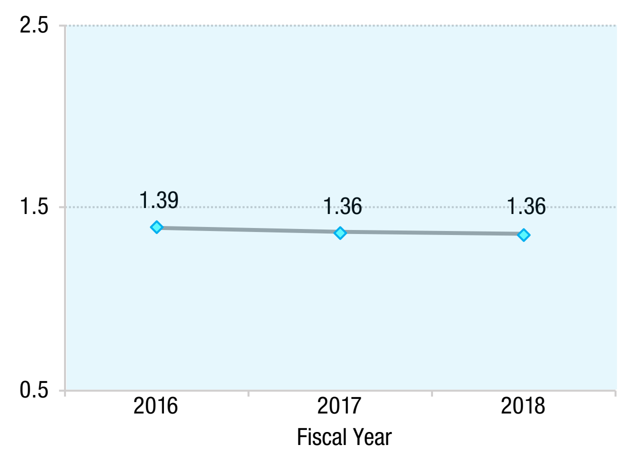


The debt ratio at the end of fiscal year 2018 was 35.6 percent and the asset leverage closed at 1.36, both showing a slight downward trend, in line with conservative debt levels of the Canal. The debt to EBITDA ratio maintains an adequate level at 1.76, well below the usual maximum level demanded by financial credit institutions.

Debt Ratio (Total Liabilities / Total Equity)

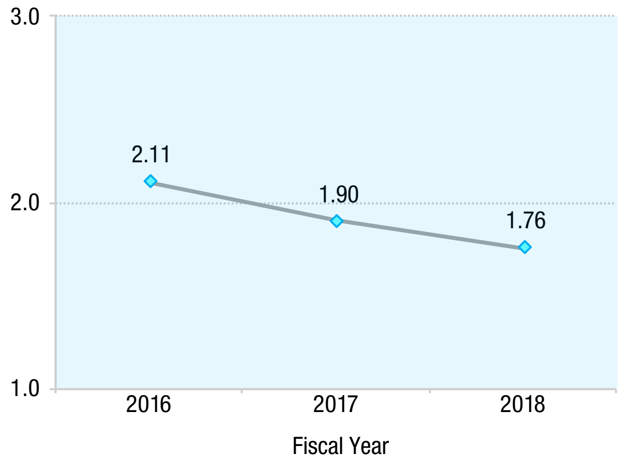


Asset Leverage (Total Asset / Total Equity)

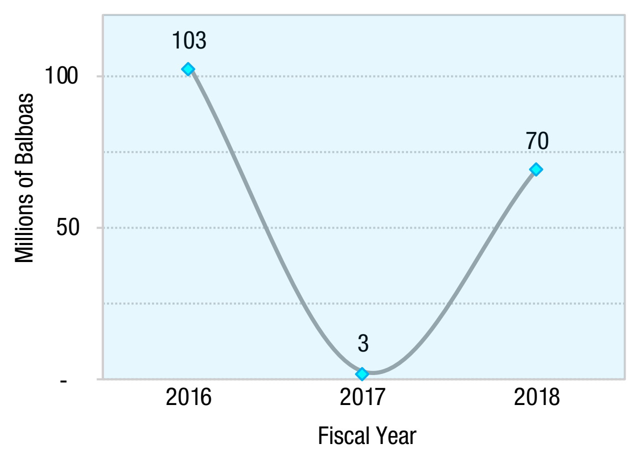


With an economic value added (EVA) of B/.70 million at the end of fiscal year 2018, the Canal demonstrates its ability to generate wealth, even facing volatility from the world economy. The economic benefit exceeded the results of the previous year by B/.67 million, with a ROCE greater than the weighted average cost of capital (WACC). This valuation and measurement of financial performance confirms how the Canal manages the increase in value of the company, generating the highest profit from capital invested in the the expansion.

Debt / EBITDA



EVA = Capital Employed x (ROCE - WACC)

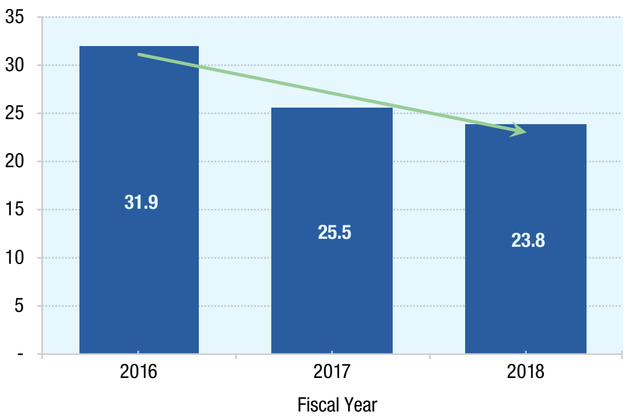


Chemical/oil tanker transiting the Panama Canal

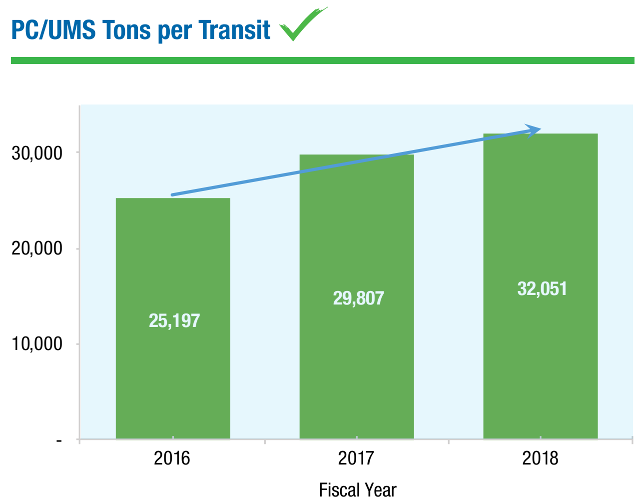
Ongoing Improvement in Productivity and Operational Efficiency

For the Panama Canal, innovation and continuous improvement are essential to the optimization of its processes, aimed at improving profitability and business efficiency.

Equivalent Man-Year per million PC/UMS tons



PC/UMS Tons per Transit



In this regard, the equivalent man-year indicator per million PC/UMS tons maintains a downward trend, transiting a greater volume of tons with existing resources. Compared to the fiscal year 2017, the indicator decreased 6.7 percent, to 23.8 from 25.8 equivalent man-year per million tons.

The tons per transit indicator is another business performance indicator established after the opening of the Expanded Canal. In fiscal year 2018, this indicator increased from 29.81 to 32.05 thousand tons per transit, 7.5 percent more than the fiscal year 2017, which confirms the growth in size of the average vessel transiting the Canal.

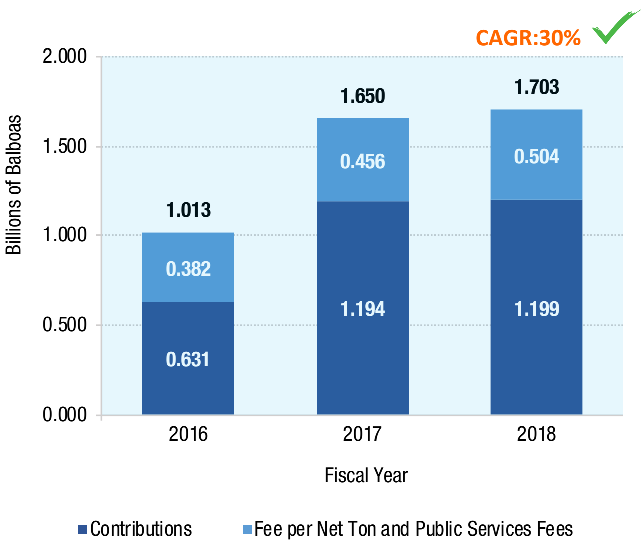
Linehandlers on board performing tie-up operations

Growth in direct contributions to the National Treasury

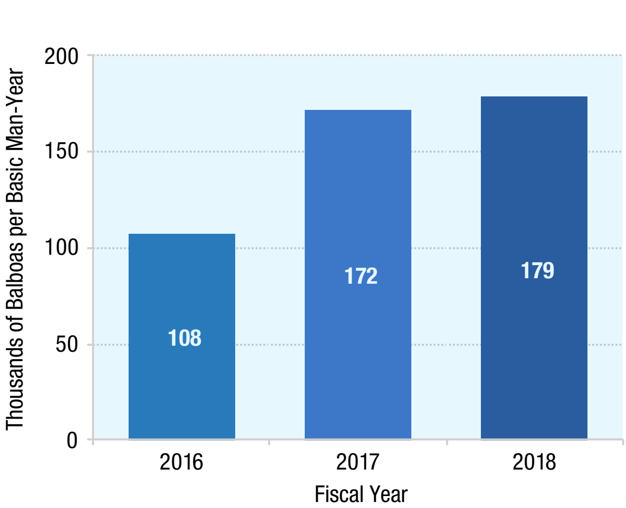
The direct contributions to the National Treasury reached the record high of B/.1.703 billion, which is B/.44 million above the estimated B/.1.659 billion for the fiscal year, and B/.53 million or 3.2 percent more than fiscal year 2017. This figure includes surplus payments of B/.1.199 billion, and per net ton and public services fees of B/.504 million. Contributions to the National Treasury have grown 30 percent between 2016 and 2018.

The direct contributions to the National Treasury for each basic man-years indicator increased B/.7,000 per basic man-year, 4 percent more than fiscal year 2017. This trend is in line with the growth in direct contributions to the National Treasury, and with higher productivity by basic man-year since the inauguration of the Expanded Canal.

Direct Contributions to the National Treasury



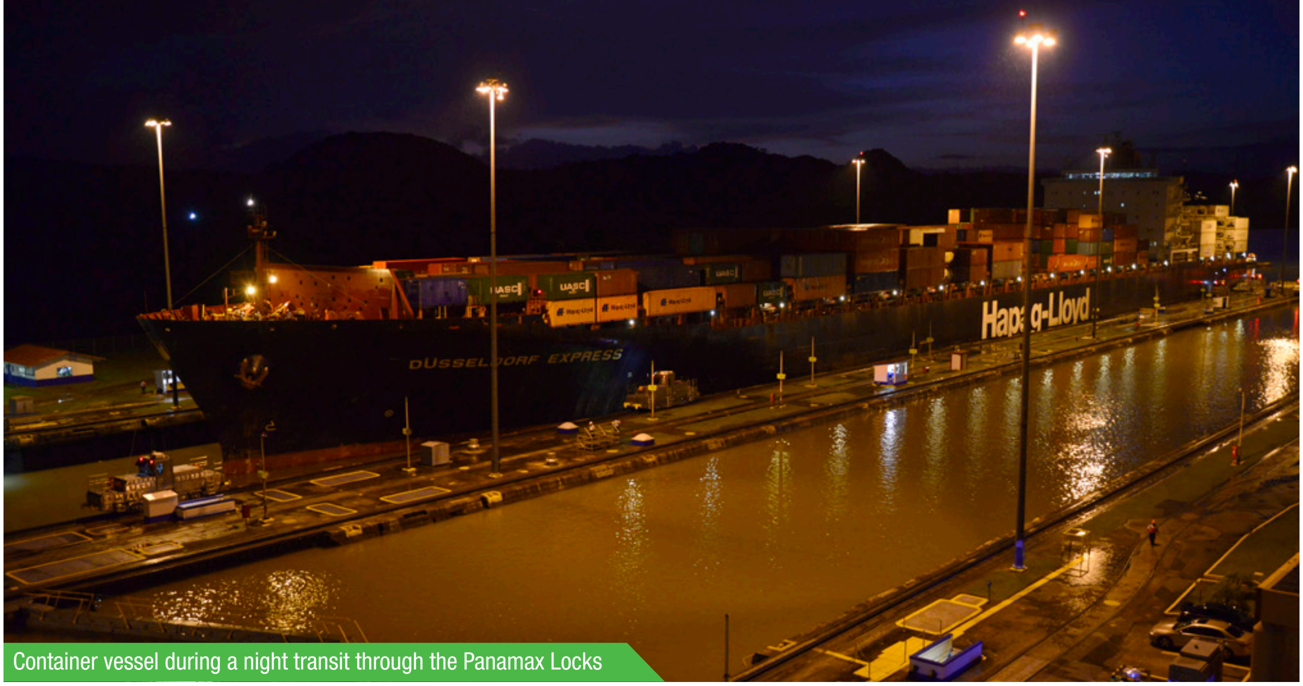
Direct Contributions to the National Treasury per Basic Man-Year



Increased Indirect Contributions to Government Entities

At the end of fiscal year 2018, indirect contributions to government entities reached B/.223 million. The figure increased B/.6.3 million compared to the fiscal year 2017. These contributions are mainly to social security for B/.120 million, income tax for B/.91 million, and education insurance for B/.12 million.

Container vessel transiting at Cocoli Locks



Container vessel during a night transit through the Panamax Locks

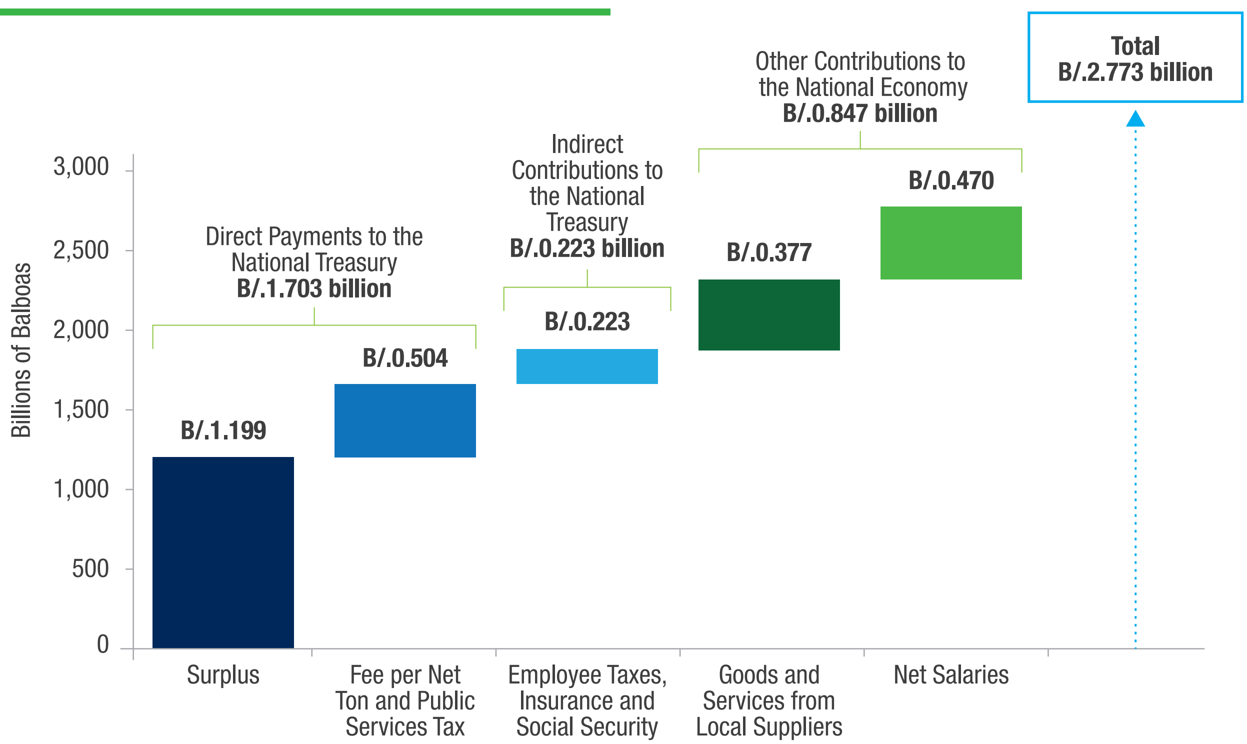
Other Indirect Contributions to the Economy

In fiscal year 2018, the Canal indirectly contributed B/.847 million to the economy, due to net salaries paid to Panamanian employees for B/.470 million, local purchases of goods and services for B/.377 million, and payment to local suppliers as part of the annual capital expenditures in equipment and infrastructure required by the Panama Canal.

Growth in Direct and Indirect Contributions

At the end of fiscal year 2018, the Canal boosted the national economy with a record in direct and indirect economic contributions of B/.2.773 billion.

Economic Impact to Panama



Risk Management and Good Corporate Governance Guarantee the Canal's Reliability

Risk management is key to accomplish the objectives, goals and strategic and operational initiatives of the Canal. Risks are identified, analyzed and managed considering impact probability from internal and external risks. This continuous process allows the Canal to anticipate situations of uncertainty, designs alternatives and coordinate control and mitigation actions against possible variations in the expected results.

To ensure the management of internal controls, the Canal applies the best self-assessment practices and reviews its main processes. In parallel, the external audit of the financial statements is also key for the Canal's control and risk prevention management.

With these good practices of corporate governance, the Canal guarantees high levels of reliability, gives continuity to those processes that work properly, and strengthens the organization's strategic capacity.

LNG carrier, membrane type, northbound in the Culebra Cut

AUDITED FINANCIAL STATEMENTS

Independent Auditors’ report and financial statements as of september 30, 2018

Content

Liquefied natural gas vessel at Agua Clara Lock

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Panama Canal Authority

Opinion

We have audited the financial statements of the Autoridad del Canal de Panamá, (the "ACP"), which comprise the statement of financial position as of September 30, 2018, the income statement, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ACP as of September 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the ACP in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Panama and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Advances and other account receivable from contractor, net. See Notes 3(p), 6 y 27 to the financial statements

The key audit matter	How the matter was addressed in our audit
The advances and other account receivable from contractor are considered as a significant issue, because the recoverability assessment and determination of the amount of advances and other account receivable includes a high level of judgment and estimation by the management. The advances and other account receivable from contractor, net have an amount of B/.840 millions.	Our procedures in this area included: • Evaluation of the process to determine the recoverability of advances and other accounts receivable from contractor. • Evaluation of the model, approach, and method used to determine the recoverable amount and guarantees. • Sending balance confirmations and evaluating the disclosures made.

Contingencies for contractor claims
See note 30 to the financial statements

The key audit matter	How the matter was addressed in our audit
The contingencies for contractor claims are considered as a significant issue, because the evaluation of provisions and contingencies, that requires important judgments and analysis by the management. The contingencies for contractor claims have an amount of B/.5,852 millions.	Our procedures in this area included: • We evaluate together with our legal specialists the conclusions reached by the management and its legal advisors. • We send confirmations to legal advisors and the internal lawyers of the ACP and we evaluate the disclosures made.

Other Matter

The financial statements of the ACP for the year ended September 30, 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on December 14, 2017.

Other Information

Management is responsible for the other information. The other information comprises the annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we concluded that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the ACP ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ACP or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ACP financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit 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 ACP internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ACP ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ACP to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit who has prepared this independent auditors' report is Ricardo A. Carvajal V.

KPMG

Panama, Republic of Panama
December 13, 2018

Panama Canal Authority

Statement of Financial Position

September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Assets:			
Non-current assets:			
Properties, plant and equipment:			
Properties, plant and equipment, net	4	8,313,110	8,420,016
Constructions in progress	4	629,354	558,595
Total properties, plant and equipment, net		8,942,464	8,978,611
Advances to contractors	5	0	7,828
Advances and other receivable to contractor, net	6	292,152	309,727
Reimbursement right to ACP	26	320,649	328,611
Investment properties	8	89,831	89,831
Inventories, net	9	68,991	63,531
Total non-current assets		9,714,087	9,778,139
Current assets:			
Inventories	9	11,914	9,198
Advances and other receivable to contractor, net	6	547,959	547,959
Trade and other receivables	7, 27, 28	54,227	49,213
Other financial assets	10, 27	3,278,760	2,562,817
Cash and cash equivalents	12, 27	60,283	528,293
Accrued interest receivable	11	39,519	21,734
Other assets		1,092	75
Total current assets		3,993,754	3,719,289
Total assets		13,707,841	13,497,428

The statement of financial position must be read in conjunction with the notes that are an integral part of the financial statements.

	Note	2018	2017
Equity and liabilities:			
Equity:			
Contributed capital	13	1,906,193	1,906,193
Investment programs contributions	14	5,952,757	5,985,835
Reserves	14	1,111,449	924,089
Other equity accounts	15	(56,959)	(118,449)
Earnings available to distribute	16, 32	1,199,101	1,193,809
Total equity		10,112,541	9,891,477
Non-current liabilities:			
Bonds payable		450,000	450,000
Less: discount and issuing costs		9,078	9,643
Bonds payable, net	18, 27	440,922	440,357
Borrowings	17, 27	2,185,000	2,300,000
Employee benefits	26	331,591	340,036
Other financial liabilities	19, 27	59,884	115,087
		3,017,397	3,195,480
Current liabilities:			
Trade and other payables	20, 27, 28	219,866	196,321
Borrowings	17, 27	115,000	0
Provision for marine accidents claims	21	20,402	14,045
Accrued salaries and vacation payable		138,403	135,748
Accrued interest payable	27	37,022	33,817
Other liabilities	22	47,210	30,540
Total current liabilities		577,903	410,471
Total equity and liabilities		13,707,841	13,497,428

Panama Canal Authority

Income Statement

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Revenues:			
Toll revenues		2,484,696	2,238,035
Other Canal transit services		484,858	468,811
		2,969,554	2,706,846
Other revenues:			
Sales of electricity		68,283	84,634
Sales of potable water	28	34,265	28,337
Miscellaneous	24	36,273	33,130
Total other revenues		138,821	146,101
Total revenues		3,108,375	2,852,947
Expenses:			
Salaries and wages	23	592,972	577,060
Employee benefits	23, 27	77,772	75,534
Materials and supplies	23	68,398	60,127
Fuel	23	70,806	74,585
Transportation and allowances		2,203	2,121
Contracted services and fees		160,648	109,287
Insurance		20,844	21,306
Provision for marine accidents	21	10,241	(3,425)
Provision for obsolete inventory		500	66
Depreciation	4, 23	208,949	202,828
Fees paid to the Panamanian Treasury	16, 20, 27	503,686	456,569
Other expenses	23	14,397	17,857
Total expenses		1,731,416	1,593,915
Results of operations		1,376,959	1,259,032
Finance income		57,714	33,045
Financial income (cost) in advance and other receivables to contractor	6	5,640	(13,159)
Finance costs	17	(86,930)	(80,304)
Finance costs, net		(23,576)	(60,418)
Profit for the year		1,353,383	1,198,614

The income statement must be read in conjunction with the notes that are an integral part of the financial statements.

Panama Canal Authority

Statement of Comprehensive Income

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Profit for the year		1,353,383	1,198,614
Other comprehensive income (loss):			
Items that will not be reclassified to income statement			
Net remeasurement of employee defined benefit plans			
actuarial income (loss)		566	(49)
Items that will not be reclassified to income statement		566	(49)
Items that are or may be reclassified to income statement			
Unrealized income (loss) on securities available for sale	10, 15	240	(1,220)
Net income in cash flow hedges - commodity price			
swap contract		2,078	0
Net income in cash flow hedges - interest rate swap contracts		58,606	58,413
Items that are or may be reclassified to income statement		60,924	57,193
Total other comprehensive income	15	61,490	57,144
Total comprehensive income		1,414,873	1,255,758

The statement of comprehensive income must be read in conjunction with the notes that are an integral part of the financial statements.

Panama Canal Authority

Statement of Changes in Equity

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	Contributed capital	Investment programs contributions	Reserves	Other equity accounts	Earnings available to distribute	Total equity
Balances as of September 30, 2016		1,906,193	6,000,030	905,089	(175,593)	630,765	9,266,484
Profit for the year		0	0	0	0	1,198,614	1,198,614
Other comprehensive income (loss):							
Securities available for sale		0	0	0	(1,220)	0	(1,220)
Cash flow hedges		0	0	0	58,413	0	58,413
Net measurement of employees defined benefit plans actuarial loss		0	0	0	(49)	0	(49)
Total other comprehensive income		0	0	0	57,144	0	57,144
Total comprehensive income of the year		0	0	0	57,144	1,198,614	1,255,758
Transfer to the Panamanian Treasury	16	0	0	0	0	(630,765)	(630,765)
Net decrease in contributions	14	0	(14,195)	0	0	14,195	0
Net increase in equity reserves	14	0	0	19,000	0	(19,000)	0
Balance as of September 30, 2017		1,906,193	5,985,835	924,089	(118,449)	1,193,809	9,891,477
Profit for the year		0	0	0	0	1,353,383	1,353,383
Other comprehensive income:							
Securities available for sale		0	0	0	240	0	240
Cash flow hedges		0	0	0	60,684	0	60,684
Net remeasurement of employee defined benefit plans actuarial income		0	0	0	566	0	566
Total other comprehensive income		0	0	0	61,490	0	61,490
Total comprehensive income of the year		0	0	0	61,490	1,353,383	1,414,873
Transfer to the Panamanian Treasury	16	0	0	0	0	(1,193,809)	(1,193,809)
Net decrease in contributions	14	0	(33,078)	0	0	33,078	0
Net increase in equity reserves	14	0	0	187,360	0	(187,360)	0
Balance as of September 30, 2018		1,906,193	5,952,757	1,111,449	(56,959)	1,199,101	10,112,541

The statement of changes in equity must be read in conjunction with the notes that are an integral part of the financial statements.

Panama Canal Authority

Statement of Cash Flows

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Cash flows from operating activities:			
Profit for the year		1,353,383	1,198,614
Depreciation		208,949	202,828
Loss on disposal and impairment adjustment of fixed assets		1,033	477
Provision (reversal) for marine accidents		10,241	(3,425)
Estimation for inventory obsolescence		500	66
Amortized discount in bonds payable		565	565
Finance costs, net		23,576	60,418
Changes in:			
Increase in trade and other receivable		(5,014)	(21,129)
Increase in fuel inventory		(2,716)	(1,336)
(Increase) decrease in other assets		(1,017)	158
Increase in trade and other payable		23,545	15,977
Payments of marine accidents claims		(3,883)	(2,584)
Increase in accrued salaries and vacation payable		2,655	7,456
Employee benefits plans		83	482
Increase in other liabilities		16,669	9,415
Cash provided by operating activities		1,628,569	1,467,982
Interest paid		(83,725)	(79,392)
Net cash provided by operating activities		1,544,844	1,388,590
Cash flows from investing activities:			
Purchases of properties, plant and equipment		(173,835)	(262,950)
Purchases of inventories		(5,961)	(1,512)
Purchase of other financial assets		(3,577,452)	(3,072,964)
Maturities of other financial assets		2,867,230	2,756,809
Advances and other receivable to contractor		31,043	8,408
Interest received		39,930	28,270
Net cash used in investing activities		(819,045)	(543,939)
Cash flows from financing activities:			
Transfer to Panamanian Treasury		(1,193,809)	(630,765)
Net cash used in financing activities		(1,193,809)	(630,765)
Net (decrease) increase in cash and cash equivalents		(468,010)	213,886
Cash and cash equivalents at the beginning of the year		528,293	314,407
Cash and cash equivalents at the end of the year	12	60,283	528,293

The statement of cash flows must be read in conjunction with the notes that are an integral part of the financial statements.

Panama Canal Authority
Notes to the Financial Statements
For the year ended September 30, 2018
(In thousands of balboas B/.)

1. General Information

The Autoridad del Canal de Panamá, (the "ACP") is an autonomous legal 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 dictates the 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 commercialization of water, energy and surplus goods, as well as tourism related activities in the Canal.

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

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

2. Basis of Preparation

a) *Statement of Compliance*
The financial statements of the ACP, for the year ended September 30, 2018, have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The financial statements of the ACP, for the year ended September 30, 2018, were approved by the Board of Directors and authorized to be issued December 13, 2018.

b) *Measurement Base*

The financial statements have been prepared on the basis of historical cost, except for the following items in the statement of financial position:

- Securities available for sale and hedging instruments
- Reimbursement right to ACP
- Employees benefits

c) *Functional and Presentation Currency*

These financial statements are presented in balboas (B/.), monetary unit of the Republic of Panama, which is at par and of free exchange with the U.S. dollar (USD $). The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal and functional tender.

3. Summary of Significant Accounting Policies

The ACP has consistently applied the following accounting policies to all the years presented in these financial statements:

a) *Fair Value Measurement*

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between the main market participants on the measurement date, or in its absence, in the most advantageous market to which the ACP has access at the time. The fair value of a liability reflects the effect of a default risk.

When applicable, the ACP measures the instrument´s fair value using a quoted price for that instrument in an active market. A market is considered as active, if the transactions of these assets or liabilities take place frequently and with sufficient volume, that provides information allowing fixing prices on a continuous basis.

When there is no quoted price in an active market, the ACP uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable input data. The chosen valuation technique incorporates all the factors that the market participants would take into account when setting the price of a transaction.

The best evidence of fair value is a quoted market price in an active market. In the event that the market for a financial instrument is not considered as active, a valuation technique is used. The decision as to whether a market is active can include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and sales. In markets that are not active, the guarantee to obtain that the transaction price provides evidence of fair value or to determine the adjustments to the transaction prices that are necessary to measure the instrument´s fair value, requires of additional work during the valuation process.

The fair value of a demand deposit is not less than the amount to be received when it becomes due, discounted from the first date in which payment may be required.

The ACP recognizes transfers between levels of the fair value hierarchy at the end of the period during which the change occurred.

b) *Transactions with Related Parties*
All transactions with related parties are disclosed based on the established criteria in the International Accounting Standard (IAS 24) - "Related Party Disclosures". The ACP considers as a related party, all Government entities and any individual or legal entity that could be significantly influenced by key ACP personnel or could significantly influence key ACP personnel that participate in operational or financial decisions, or have representation from the ACP in other decision-making bodies, which may affect the preparation and results of the ACP's financial statements. This definition includes and considers as a related party, members of the board of directors and ACP´s Administration key personnel, their relatives, dependents or close persons, which include the spouse, their children or children of the spouse, or persons of analogous relationship of affectivity.

c) *Revenue Recognition*
Revenues are recognized in the income statement to the extent that it is probable that economic benefits will flow to the ACP and revenues can be reliably measured, regardless of when the payment is being received. Specific recognition criteria described below must be met before the revenue is recognized:

Toll Revenue

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

Sale of Electric Energy

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

Sale of Water

Revenues from the sale of water 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

Interest earned on financial instruments measured at amortized cost and financial assets classified as available for sale are 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.

d) *Transfer to Panamanian Treasury*

Transfer to Panamanian Treasury corresponds to net profit minus the funds required for the contributions to investment programs and for other equity reserves approved by the Board of Directors according to the ACP Organic Law.

e) *Fees Paid to the Panamanian Treasury*

Fees paid to the Panamanian Treasury, which correspond to fees paid by the ACP in concept of per ton transit right, and public services fees, as mandated by the Panamanian Constitution, are recognized when incurred. By Constitutional mandate, the ACP is not subject to the payment of taxes, duties, tariffs, charges, rates or tribute of a national or municipal nature, with the exception of employer Panama Social Security payments, educational insurance, workmen's compensation of employees, public utilities, and the per ton transit right of the Canal.

f) *Borrowing and Bonds Issuance Costs*

Borrowing and bonds issuance costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time for their intended use are capitalized as part of the cost of the assets, until all or practically all activities necessary to prepare the asset for its use are completed. All other borrowing costs are recognized as expenses in the period they are incurred. Borrowing costs consist of interests and other costs that ACP incurs in connection with the borrowing contract.

g) *Properties, Plant and Equipment*

The Panama Canal as an entity defined by the Panamanian Constitution, which, according to Chapter I of Law No. 19 of 1997, is the inalienable patrimony of the Panamanian nation and includes (i) the waterway itself, (ii) its anchorages, berths, and entrances, (iii) lands and marine, river and lake waters, (iv) locks, (v) auxiliary dams, (vi) dikes and water control structures. The ACP owns Canal installations, buildings, structures and equipment that support the operation of the Panama Canal. In addition, pursuant to Article 49 of Law No. 19 of 1997, the ACP is entitled to dispose of these assets to the extent they are not necessary for the functioning of the Panama Canal. These assets include electrical power plants and water purification plants, piers and docks, dry docks, radio stations, telemetric and hydro meteorological stations, dredge spoil areas, spillways, lighthouses, buoys and navigation aids and pipelines.

Properties, plant, and equipment held for use, 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 that would have occurred.

Replacements and improvements of complete elements that increase the useful life of the asset or its economic capacity are accounted as 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 recognize in the income statement when incurred.

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 are used to calculate depreciation:

Years	Buildings	Structures	Equipments
3 – 15	-	Asphalt roads	Automobiles, trucks, personal computers, servers
20 – 50	Concrete, steel	Water tanks, floating piers, concrete streets	Locomotives, tugs, dredges, floating cranes
75	-	Concrete piers, bridges, range towers	Gates, cranes
100	-	Locks structures, dams, dry-dock	-

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

Items of properties, plant, and equipment are derecognized when no future economic benefits are expected from their use or disposal. Any gain or loss arising on de-recognition 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.

h) *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.

Transfers of investment properties to properties occupied by the owner or vice versa, are made only when there is a change in the use of the asset, which has been evidenced by:

- The start of the occupation by the ACP, in the case of a transfer of an investment property to properties, plant and equipment.
- The end of the occupation by ACP, in the case of transfer of properties, plant, and equipment to investment property.

Depreciation is calculated 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.

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

i) *Impairment of Non-Financial Assets*
The ACP assesses, at each reporting period date, whether there is an indication that a non-financial 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 as impaired 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 specific risks to the asset. Impairment losses are recognized in the income statement in the year they are determined.

j) *Cash and Cash Equivalent*
Cash and cash equivalents 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. For cash flows purposes, ACP presents the cash and cash equivalents net of overdrafts, if any.

k) *Inventories*
Inventories of supplies and materials for operations and fuel inventories are shown at the lower of cost between its acquisition cost and its 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 of supplies and materials.

The ACP classifies its inventories as non-current when expected to be used or consumed in the operation after more than twelve months.

l) *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 must be the best estimate of the disbursement required to settle the present obligation at the end of the reporting period considering 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 recovery of some or all of the economic benefits required to settle a provision is expected, an account receivable is recognized if it is virtually certain that the income will be received and the amount of the account receivable can be measured with certainty.

m) *Provision for marine accidents and other claims*

The ACP is responsible for recording the provision for marine accidents and for claims from counterparts as soon as an economic obligation with high probability derived from these events is known.

For marine accidents, when an accident occurs, the ACP makes a detailed investigation in order to know the causes of the accident. Once the causes are known and, if applicable, a provision is recorded based on the estimated cost of both permanent and temporary repairs and other related costs, which the Administration determines are the responsibility of the ACP. On each date of the statement of financial position, the amount of the provision is reviewed and, if necessary, adjusted to reflect the best estimate existing at that time.

In the case of contractors and other counterparts, when disputes arise due to the execution, interpretation or termination of a contract, it is first required that the contracting officer determine if the claim has merit and, if so, estimate the probable amount of the estimated obligation to try to reach an agreement with the counterparty. If an agreement is not given, the contracting officer documents the result of this attempt, recognizes a provision for the amount of the estimated obligation and the parties submit to the administrative dispute resolution process agreed in the contract. In some contracts, arbitration in law is established as the jurisdictional instance for the resolution of disputes.

The ACP will make the corresponding payment of the claims whose merit is duly supported and accepted by the Authority, in its administrative stage or in the judicial stage according to Article 69 of the Organic Law or in compliance with a final decision executed by the maritime courts. In those cases in which the ACP could be liable as a result of a claim for a contract, if it contains an arbitration clause, the claim will be resolved by the mechanism and Arbitration Center established in the respective contract. If there is no arbitration clause in the contract, the case will be resolved by the Third Chamber of the Panamanian Supreme Court of Justice.

n) *Employee Benefits*

Ninety two percent (92%) of the workforce in the ACP is represented by six bargaining units (unions) that have collective agreements that are negotiated and their terms are adjusted periodically. During fiscal year 2016, four collective agreements were settled, the Non-professionals and the Professionals, which will be in effect until year 2019, the Board of Captains and Officials, that will be in effect until year 2020, and the Pilots until the year 2021.

In fiscal year 2017, two collective agreements were settled: the firemen, in effect until year 2021, and the machine engineers, until year 2020.

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 nature arising 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, nor are they provisioned.

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 constructive obligations of defined benefits. Under IAS 19, 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 pay.

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 or obligation other than the payment determined by Law.

o) *Reimbursement Right to ACP*
The right to reimbursement to ACP is an insurance policy in which the indemnities return to the ACP to reimburse all the benefits paid to employees as an incentive for voluntary retirement. In accordance with IAS 19, it 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 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 constructive actuarial obligation, subject to any reduction required if the reimbursement is not fully recoverable.

p) *Financial Assets*
Financial assets are classified in the following specific categories: held-to-maturity investments, securities available for sale, trade accounts receivables, advances and other receivable to contractor, and hedging financial instruments recorded at fair value. Classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

- Trade and other receivable

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

- Advances to contractors and advances and other accounts receivable to contractors

Advances to contractors for the acquisition of physical assets, such as property, plant and equipment, are initially classified as a non-financial asset because the recovery is expected to be made through work and not with cash or another financial instrument. When these advances are expected to be settled in cash or through the execution of third-party guarantees, the ACP reclassifies the advance as a financial instrument to the advances and other receivable to contractor, adjusted to its fair value which is determined by using a discount rate representative of the currency in which the instrument is defined, the expected term for collection and the debtor's credit risk at the time of reclassification. This adjustment is recognized as a loss in financial costs and amortized to account financial income until the expected date of payment.

- Securities available for sale

Consist of securities acquired with the intention of keeping them for an indefinite period of time, which can be sold in response to liquidity needs or changes in interest rates. After their initial recognition, the securities available for sale are measured at their fair value. Gains or losses arising from changes in the fair value of the securities available for sale are directly recognized in equity until the financial assets have been written off or an impairment is being determined. At that time, the accumulated gain or loss, previously recognized in the equity, is recognized in the income statement. The fair value of an investment in securities is generally determined based on the quoted market price at the date of the statement of financial position. If a reliable quoted market price is not available, the fair value of the instrument is estimated using models for price calculation or discounted cash flows techniques.

- 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. 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, then it 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 statement of financial position 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 its estimated future cash flows.

- ***Recognition of financial instruments***

The ACP utilizes the trade date for the recognition of financial instruments transactions.

- ***Financial liabilities***

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

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

- ***Borrowings and bonds issued***

Borrowings and bonds issued 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. The amortized cost is calculated considering any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

- ***Trade and other payable***

Accounts payable do not earn interest and are booked at their face value.

- ***Other financial liabilities***

The ACP subscribes a variety of financial instruments to manage its exposure to the interest rate 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 a transaction previously seen as highly exposed to changes in cash flows either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted 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 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. 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 a 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 a financial liability when it expired, cancelled, or met ACP's obligations.

q) Comparative Information

Some figures for 2017 were reclassified to standardize their presentation with that of the 2018 financial statements, statement of financial position: inventories, net, fuel inventory, accrued interest receivable, other assets, trade and other payables and accrued interest payable and in cash flow: financial costs, net, fuel inventory, other assets, inventory, interests received and paid.

r) *New International Financial Reporting Standards (IFRS) and Interpretations not Adopted*

At the date of the financial statements there are standards that have not yet been applied in its preparation:

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard No.9 (IFRS 9) - Financial Instruments, which replaces the International Accounting Standard No. 39 (IAS 39).

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

- Implementation strategy

The process of implementing IFRS 9 by the ACP was overseen by an interdepartmental team whose members included representatives from the areas of Risk, Treasury, Finance, Accounting, Internal Control, Information and Technology, and Internal Audit. The interdepartmental team met during 2017 and 2018 to review and validate key assumptions, make decisions and monitor the progress of implementation.

The ACP has completed the preliminary evaluation of the impact and accounting analysis of IFRS 9, the design, development and execution of the models, systems and processes to establish the classification and measurement of financial assets, and generated the calculation of Expected Credit Losses (ECL), implementing a communication plan to update the top management and the Board of Directors regarding the process.

- Classification and measurement – financial assets

The new approach for the classification and measurement of financial assets is based on the business model and the contractual cash flow characteristics that apply to the corresponding assets. The model includes two classification categories for financial assets, namely:

- Amortized cost

A financial asset is measured at amortized cost and not at fair value through profit or loss if it complies with both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

- Fair value with changes in other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI only if it meets both of the following conditions:

- The asset is held within a business model whose objective is to collect the contractual cash flows and sell the financial assets; and

- The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

The IFRS 9 eliminates the existing categories of IAS 39, namely, investments held to maturity, loans and receivables and investments available for sale.

Evaluation of the business model

The ACP carried out an evaluation at the level of its portfolios and the objective of the business model that it applies to the financial instruments of said portfolios in order to document how they are managed. The information that was considered included the following:

- The policies and objectives identified for the portfolio and the operation of these policies including management's strategy to define:

  - the collection of contractual interest income
  - maintain a defined performance profile of interest
  - maintain a one year or less maturity period
  - be able to sell at any time due to liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration and defined objective.

- The way in which the behavior of different portfolios is reported to the top management and the Board of Directors of the ACP;
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which those risk are managed;
- The frequency and value of sales in previous periods, the reasons for those sales and expectations regarding future sales activities.

Assessment of whether the contractual cash flows are solely payments of principal and interest

For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the consideration of the time value of money and the credit risk associated with the amount of principal outstanding for a particular period of time and other basic risks of a loan agreement and other associated costs, as well as the profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the ACP focused on the instrument's contractual terms. This assessment considered the following characteristics, among others:

- Contingent events that could change the amount and / or timing of cash flows
- Leverage conditions
- Prepayment and extension terms
- Terms that limit the ACP's ability to collect cash flows from specific assets
- Features that modify considerations for the time value of money

Principal classifications due to changes of the IFRS 9

Based on the preliminary assessment of possible changes to the classification and measurement of financial assets held as of September 30, 2018, the preliminary results obtained are as follows:

- Time deposits with maturities greater than 90 days that are classified as loans and receivables and measured at amortized cost under IAS 39 will maintain this measurement under IFRS 9.
- Advances and other accounts receivable to contractors that are presented as non-current assets and are measured at amortized cost under IAS 39 will maintain this measurement under IFRS 9.
- Debt instruments classified as available for sale under IAS 39 will be classified as FVOCI under IFRS 9, unless their contractual cash flows are not solely payments of principal and interest in which case they will be sold immediately as part of the risk management policies.

- Impairment of financial assets

The IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The ACP developed adequate ECL models.

The new impairment model is applicable to the following financial assets:

- Bank deposits
- Debt instruments
- Advances and other accounts receivable

The assessment of whether credit risk of a financial asset has increased significantly is one of the critical judgments implemented in the impairment model.

Loss allowances are recognized for the amount equivalent to the 12-month ECL or for the residual maturity of the financial asset, whichever is the lower, in the following cases:

- Investments in debt instruments, demand deposits and time deposits that are determined to reflect low credit risk at the reporting date; and
- Advances and other accounts receivable to contractors over which the credit risk has not increased significantly since its initial recognition.

For all other cases, allowances are recognized at an amount equal to the assets' lifetime ECL.

The 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date.

Significant increase in credit risk

To determine whether the credit risk of a financial asset has increased significantly since its initial recognition, considers reasonable and sustainable information that is relevant and available without disproportionate cost or effort, including information and analysis of a quantitative and qualitative nature based on historical experience and the expert evaluation of credit including future projections.

The ACP has determined as main indicators of a significant increase in risk the variations in the risk rating and the atypical increases in the credit margin or in the reference prices of the credit default swaps (CDS) of the financial instruments.

- Credit Risk Rating

The ACP only invests in short-term debt instruments and time deposits that have more than one short-term international investment quality credit risk rating not less than the following: A-3 by Standard & Poors, P-3 by Moody's Bank Deposit Ratings, or F-3 by Fitch Ratings.

With respect to advances and other accounts receivable to contractors, the credit risk ratings are inferred using a quantitative model for predicting default of payments that assigns a credit rating equivalent to that of Standard & Poors.

Changes in credit ratings are used to establish whether there is a significant increase in risk and in the calculation of the Probability of Default (PD).

Each exposure is assigned a credit risk rating at the time of initial recognition based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in the change to a different credit risk rating.

Determine of the credit risk has increased significantly

The ACP determined that an exposure to credit risk reflects a relevant increase since its initial recognition if the variation in credit ratings shows a decline of at least two levels or if the instrument loses the investment grade rating in two or more risk rating agencies.

On a monthly basis, the ACP follows up on the effectiveness of the criteria used to identify significant increases in credit risk through monthly reviews.

Definition of loss

The ACP considers a financial asset to be in default when it is unlikely a debtor will fully pay its credit obligations to the ACP without taking actions to repossess collateral (if available).

In assessing whether a debtor is in default, the ACP considers the following indicators:

- Quantitative – past due status greater than 90 days and non-payment of other obligations of the same issuer to the ACP; and
- Qualitative – breach of contractual clauses.

The inputs used in the assessment of whether financial instruments are in default are specific to the type of portfolio and its significance, which may vary over time to reflect changes in circumstances and trends.

Measurement of the ECL

The ECL is a probability-weighted estimate of credit loss which is measured according to the following items:

- Financial assets that are not credit-impaired at the reporting date: the present value of all arrears of contractual cash payments (eg, the difference between the cash flows owed and the cash flows that the ACP expects to receive);
- Financial assets that are impaired at the reporting date: the difference between the book value and the present value of the estimated future cash flows.

Term structure of the probability of default (PD)

The PD of investments in debt instruments, bank deposits and advances and other accounts receivable to contractors was estimated using approximate liquid markets based on the international risk rating and the industry relating to the investment or deposit.

Inputs in the measurement of the ECL

The following variables are key inputs used in measuring ECL:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

In investments in debt instruments, bank deposits, and advances and accounts receivable to contractors the PCE is obtained from the probability of default implicit in the CDS obtained from Bloomberg system, which is used as an approximate for each bond or deposit based on its international credit rating and industry and the residual maturity of each instrument. The ACP does not expect to see migrations between rating categories because all of its investments are placed within 12 months or less.

The ACP also uses the LGD implicit in the CDS as approximate, based on the credit rating of each issuer and the residual maturity of each instrument.

In all cases, the EAD is equivalent to the outstanding principal balance of the contracts, including the principal and its interests.

- Classification of financial liabilities

The IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as FVTPL (fair value through profit or loss) are recognized in profit or loss, whereas under the new IFRS 9 these fair value changes are generally presented as follows:

- The change in fair value that is attributable to changes in credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of the change in fair value is presented in profit or loss.

The ACP has not designated any liabilities at FVTPL and does not have the intention to do so.

- Hedge accounting

The ACP has chosen to apply the new requirements of IFRS 9. IFRS 9 requires the ACP to ensure that hedge accounting relationships are aligned with the Authority´s risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

The types of hedge accounting relationships that the ACP currently designates meet the requirements of IFRS 9 and are aligned with the Authority´s risk management strategy and objectives.

- Transition

The ACP will retrospectively apply the changes in the accounting policies resulting from the adoption of the IFRS 9, generally they will apply, with the exception of the following:

The ACP plans to take advantage of the exemption that allows it not to restate the comparative information of previous periods with respect to classification and measurement changes (including impairment). The differences in the carrying amounts of the financial assets and liabilities resulting from the adoption of the IFRS 9 will be recognized in the retained earnings and reserves as of October 1, 2018.

- Disclosure

The IFRS 9 will require new disclosures in particular with respect to hedge accounting, credit risk and expected credit losses.

- Preliminary impact evaluation

The most significant impact in the ACP's financial statements caused by the implementation of IFRS 9 are the new requirements for impairment reserves. The ACP's preliminary assessment as of September 30, 2018 indicates the application of IFRS 9, will result in an estimated allowance requirement between B/.1,800 and B/.2,000.

IFRS15 – Revenue from Contracts with Customers

IFRS 15, published in May 2014 and amended in April 2016, has as its basic principle that an entity recognizes revenue from ordinary activities in a way that represents the transfer of promised goods or services to customers in exchange for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

This new standard will supersede IAS 11 Construction Contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmers; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC 31 Revenue - Barter Transactions Involving Advertising Services. It requires a total retroactive or partial retroactive application for the exercises that begin on January 1, 2018 or later.

IFRS 15 establishes a new five-step model that applies to the accounting of income from contracts with customers:

- Identify the contract (or contracts) with the client; that it is approved by the parties; the rights of each party and the payment terms can be identified; that has commercial substance; and that it is probable that the entity collects the consideration to which it will be entitled.
- Identify performance obligations in the contract. The standard requires identifying differentiated obligations within a contract, to which part of the price of the contract must be assigned and for which the imputation to income will be determined separately.
- Determine the price of the transaction. The price of the transaction must be estimated taking into account the effect of variable considerations, the time value of money, non-monetary considerations, and other considerations to be paid to the client.
- Allocate the transaction price among the performance obligations of the contract. If there are differentiated obligations, the transaction price should be distributed among the different obligations proportionally to the corresponding independent selling prices.
- Recognize the revenue from ordinary activities when (or as) the entity satisfies a performance obligation. This obligation becomes effective when the customer of a good or service is able to direct its use and receive the benefits derived from it.

The internal revenue recognition policies for the different types of contracts with customers have been analyzed:

Tolls

Although there is no written contract, the transit service is considered as implicit in the traditional business practices of the Autoridad del Canal de Panamá (ACP), in accordance with the general provisions of the regulation for the pricing of tolls, fees and charges for transit through the canal, related services and complementary activities. The transit service is the performance obligation; the price of the transaction is clearly defined by published rates and varies depending on the segment to which the vessel belongs and the resources used for transit; and, the revenue is recognized once the vessel finishes its transit.

Sale of electric energy

There are contracts approved and signed between the ACP as generator and the different distribution companies which is backed by a bank guarantee. The performance obligation is to provide firm contracted power and energy volumes associated with a predetermined price which is calculated by a formula that considers fluctuations in fuel prices. The ACP also sells energy in the occasional market valued at the costs prevailing in the market. The income is recognized based on the physical and contractual delivery of energy to the contracted prices.

Sale of water

Covered by written contracts between the ACP and the Intituto de Acueductos y Alcantarillados Nacionales (IDAAN), it maintains as payment guarantee the application of the collection procedure established in the "Agreement of compensation of credits and debits and contribution of the State to the capitalization (IDAAN´s contributed capital)" authorized by Cabinet Decree No. 36 of December 28, 2005. The supply of potable water in the volumes agreed in the contract is the performance obligation; and the price of the transaction is based on rates negotiated between the ACP and IDAAN; and approved by the Autoridad Nacional de los Servicios Publicos (ASEP). Revenue is recognized when the delivery of potable water is made.

Other services

They include those of concessions, extraction of raw water, among others. These are written contracts and approved by ACP and its respective counterpart; with explicit obligations; with probability of collection either for payment guarantees (private entities) or deducting from the payments that ACP must be made to the National Treasury (public entities). Prices are based on established and periodically revised rates; and the income is recognized at the time the service is given.

In general, the performance obligations, the transaction price and their allocation could be identified, in order to detect possible differences with the revenue recognition model of the new standard, without finding significant differences between them nor compliance obligations that give rise to the recognition of liabilities for contracts with customers. Although ACP continues to evaluate the new standard, it does not consider that the adoption of IFRS 15 has a material impact on the financial statements.

IFRS 16 Leases

A lease is defined as a contract or part of a contract that entails the right to use an asset for a period of time in exchange for remuneration. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

Amendments to IAS 40 - Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight.

Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

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, but are not limited to the:

- determination of the useful life of fixed assets (note 4);
- recoverability of advances made and the related accounting and disclosure for claims to and from ACP's main contractors. Such amounts are mostly secured by bank guarantees (notes 5, 6 and 27);
- recoverability of property, plant, and equipment, including construction in progress balances (note 4);
- fair value of financial instruments (note 27);
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (note 26); and
- estimates for the provision for marine accident claims and contingent liabilities (notes 21 and 30, respectively).

4. Properties, Plant and Equipment

Property, plant, and equipment are detailed as follows:

Cost	Buildings	Structures	Equipment	Land	Construction in progress	Total
At the beginning of fiscal year 2017	202,356	5,421,287	2,908,263	1,023,137	532,208	10,087,251
Additions and other adjustment	7,374	193,802	38,388	0	26,387	265,951
Retirements	(2,929)	(1)	(15,032)	0	0	(17,962)
At the end of fiscal year 2017	206,801	5,615,088	2,931,619	1,023,137	558,595	10,335,240
Additions and other adjustment	418	71,245	32,722	0	70,759	175,144
Retirements	(226)	(1,064)	(16,437)	0	0	(17,727)
At the end of fiscal year 2018	206,993	5,685,269	2,947,904	1,023,137	629,354	10,492,657

Accumulated depreciation	Buildings	Structures	Equipment	Land	Construction in progress	Total
At the beginning of fiscal year 2017	(45,241)	(379,566)	(743,477)	0	0	(1,168,284)
Depreciation	(4,001)	(93,076)	(109,003)	0	0	(206,080)
Retirements	2,839	1	14,895	0	0	17,735
At the end of fiscal year 2017	(46,403)	(472,641)	(837,585)	0	0	(1,356,629)
Depreciation	(4,260)	(95,061)	(111,392)	0	0	(210,713)
Retirements	158	984	16,007	0	0	17,149
At the end of fiscal year 2018	(50,505)	(566,718)	(932,970)	0	0	(1,550,193)
Net book value						
At the end of fiscal year 2018	156,488	5,118,551	2,014,934	1,023,137	629,354	8,942,464
At the end of fiscal year 2017	160,398	5,142,447	2,094,034	1,023,137	558,595	8,978,611

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Other	Construction in Progress Total
Balance as of October 1, 2016	38,058	494,150	532,208
Additions	18,332	226,107	244,439
Transfers to property, plant and equipment	(50,709)	(189,106)	(239,815)
Interests, commissions and other financing expenses	0	21,763	21,763
Balance as of September 30, 2017	5,681	552,914	558,595
Additions	3,884	149,036	152,920
Transfers to property, plant and equipment	(4,659)	(100,182)	(104,841)
Interests, commissions and other financing expenses	0	22,680	22,680
Balance as of September 30, 2018	4,906	624,448	629,354

In compliance with Law 28 of July 17, 2006, issued by the Executive Branch, the proposal for the construction of the Panama Canal third set of locks was approved. On October 22, 2006, the people of Panama approved the Canal Expansion Program (the Program) through a national referendum in accordance with the constitutional requirement. The project for the Design and Construction of the Third Set of Locks was the main component of the Program.

The ACP started commercial operations of the third set of locks in the third quarter of 2016. During 2018, the Panama Canal Expansion Program capitalized B/.4,659 (2017: B/.50,709). The assets of the program were composed as follows: B/.76,551 for 102 buildings; B/.4,377,794 for 100 structures and B/.1,277,307 for 358 equipment. Additionally, during the construction period and previous Fiscal year 2016, costs from this program in the amount of B/.3,517 were capitalized in 32 assets of common use in ACP. In total, an amount of B/.5.735,169 was capitalized in 592 assets.

The ACP keeps in effect a Payment Bond of B/.50,000 issued by an insurance company which guarantees payment from GUPCSA, of labor, materials and equipment used for the execution of the contract for Design and Construction of the Third Set of Locks. Also, a Performance and Defects Guarantee for a total of B/.200,000, consisting of a Bond B/.50,000 issued by an insurer, and joint and several corporate guarantees for a total of B/.150,000. Both insurers have international investment grade granted by Standard & Poors.

As of September 30, 2018, the total amount of construction in progress for the Investment Program – Others was B/.624,448 standing out the project for the design and construction of the bridge in the Atlantic side of the Canal with an amount of B/.456,438.

During 2018, the ACP recorded derecognition of assets B/.577 (2017: B/.226) that included Illumination for the Gaillard Cut, trucks and medium voltage motor control center (2017: main assets retired included patrol boat, hydrometric station and power transformer).

During 2018, the ACP recorded losses for impairment in equipment for an amount of B/.456 (2017: B/.251).

Depreciation of September 30, 2018 B/.1,765 (2017: B/.3,252) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

5. Advances to Contractors

	2017
Grupo Unidos por el Canal, S. A.	847,630
Puente Atlántico, S. A.	7,828
	855,458
Loss: reclassification	(847,630)
	7,828

Puente Atlántico, S.A. is the contractor company for the construction of a bridge across the Canal at the Atlantic side. According to the contract, the ACP paid to the contractor advances for an amount of B/.35,000 that were programmed in three payments; the first for B/.20,000, a second for B/.10,000 subdivided into two sub-payments of B/.5,000 each, and the third for B/.5,000. According to the contract, the recovery of this advance payment was by withholdings from each payments from the ACP to the contractor for work performed. As of September 30, 2018, the total advance payment amount of B/.35,000 (2017: B/.27,172) had been repaid by the contractor).

Change in advances to contractor is as follows:

	2018	2017
Balance at the beginning of the year	7,828	887,081
Amortizations	(7,828)	(31,623)
Reclassification	0	(847,630)
Balance at the end of the year	0	7,828

As of September 30, 2017, the ACP reclassified the advances granted to the contractor GUPCSA to the account advances and other receivable to contractor as it is expected that these advances will be recovered with other financial instruments. The ACP is pursing to recover the portion of the advance secured by corporate guarantees through actions in the English Courts.

6. Advances and Other Receivable to Contractor, Net

	2018	2017
Advances with bank guarantees:		
Mobilization	247,959	247,959
Plant	300,000	300,000
	547,959	547,959
Advances with corporate guarantees:		
Specified suppliers	66,979	66,979
Lock gates	12,754	12,754
Specified expenditures	99,995	99,995
Subcontractors and suppliers	119,943	119,943
	299,671	299,671
Plus: reimbursement for legal expenditures	0	23,215
	847,630	870,845
Less: financial adjustment to amortized	7,519	13,159
Total for advances and other receivable to contractor, net	840,111	857,686

The ACP maintains as non-current assets the portion of the advances guaranteed by corporate guarantees, which it is seeking to recover through actions in the English Courts. As of September 30, 2017, the ACP recognized a loss in the recoverable value of these advances for B/.13,159 due to an adjustment for the time value of money. Starting on October 1, 2017, the ACP began the amortization of this discount as a financial income until the expected date of repayment. During the year 2018, B/.5,640 was amortized.

The expected maturity of the advances and other receivable to contractor is as follows:

	2018	2017
Current assets	547,959	547,959
Non-current	292,152	309,727
	840,111	857,686

GUPCSA is the contractor project company which is responsible of the contract for the Design and construction of the third set of locks of the Panama Canal, and its shareholders are Sacyr Vallehermoso, S.A., Jan de Nul N.V., Salini-Impregilo S.p.A, and Constructora Urbana, S.A. (CUSA).

The Third Set of Locks Project has started operations since June 26, 2016. Several disputes related to the works are currently subject to dispute resolution procedures. The parties can raise additional disputes only if they are related to the maintenance works that the Contractor is currently performing or in regards to any notification of defects and minor works that are in the process of being completed by the contractor. In accordance with the terms of the Contract, 50% of the amounts arising from dispute decisions issued in favor of GUPCSA are mandatorily applied under the Contract for the payment of the advances that are covered by corporate guarantees and that are: advances for specified suppliers, lock gates, and for subcontractors and suppliers, in that order. Once these Advances have been payed, any remaining amount of 50% of these amounts arising from dispute decisions issued in favor of the contractor, may be applied, at the option of GUPCSA, for the repayment of the amounts pending payment of the Other Advances (which are the advances that are secured by letters of credit: Mobilization and Plant).

In addition to any specific security instruments identified in the following summary, the ACP holds Joint and Several Guarantees issued by Sacyr, Impregilo, Jan De Nul and CUSA; and, a Parent Company Guarantee signed by SOFIDRA, which is the parent company of Jan De Nul (such companies, collectively, the “Guarantors”), which were submitted to the ACP in compliance with the contractual requirements for ACP to grant its consent for the assignment of the contract from the consortium Grupo Unidos por el Canal (GUPC) to their project company GUPCSA (current contractor).

Under these joint and several guarantees, the guarantors, are jointly and severally liable for the compliance of GUPCSA with all the terms and conditions of the contract, including the repayment in full of all of the advances discussed in this Note.

The following is the detail of the advances:

Movilization:

The advance payment for mobilization was made for the amount of B/.300,000, and as of September 30, 2018, has an outstanding amount of B/.247,959. The repayment of this advance is secured by an irrevocable letter of credit issued by a bank with a credit rating of A+ granted by Standard & Poors. The due date of this advance is June 1, 2018. However, GUPCSA filed an Arbitration on the interpretation of the repayment date of the advances, arguing that they are not yet due and/or payable. In such arbitration, the ACP has been ordered to refrain from making any demand on the letters of credit until December 16, 2018, the date on which the decision of the Arbitral Tribunal is expected.

Plant:

The advance payment for plant was made for the amount of B/.300,000 and its repayment is secured by two irrevocable letters of credit, one for B/.100,000 issued by a bank with investment grade A+ of Standard & Poors and the other one for B/.200,000 issued by a bank with investment grade of BBB- of Standard & Poors. The outstanding amount of this advance is B/.300,000 and the due date for the repayment of this advance is June 1, 2018. However, GUPCSA filed an Arbitration on the interpretation of the repayment date of the advances, arguing that they are not yet due and/or payable. In such arbitration, the ACP has been ordered to refrain from making any demand on the letters of credit until December 16, 2018, the date on which the decision of the Arbitral Tribunal is expected.

Specified suppliers:

The advance payment for specified suppliers was made originally for a maximum amount of B/.150,000 or until a cut-off date of April 30, 2013, whichever occurs first. As of September 30, 2018, the outstanding amount of this advance is B/.66,979. This advance is secured by joint and several corporate guarantees issued by the guarantors, including an Other Existing Advances Joint and Several Guarantee, governed by English law and subject to the jurisdiction of the English Courts. This advance came due for repayment in full on December 31, 2016 and has not been repaid. ACP is pursuing collection of this advance through actions in the English Courts.

Lock gates:

The advance payment for lock gates was made for the Contractor to pay outstanding amounts payable to the lock gates fabricator. Its original maximum amount was B/.19,132. As of September 30, 2018, the outstanding amount of this Advance Payment is B/.12,754. This advance is secured by Other Existing Advances Joint and Several Guarantee governed by English law and subject to the jurisdiction of the English Courts, as well as a bond issued by Nacional de Seguros de Panama y Centroamerica (NASE) in respect to B/.12,000 of the outstanding amount. This advance came due for repayment in full on December 31, 2016 and has not been repaid. NASE declined the bond payment and the ACP commenced an arbitration resulting in an arbitration award directing NASE to pay the ACP the amount secured by the bond, plus the interest of ten percent (10%) per annum until the date of settlement, together with legal costs and expenses in relation to the process. The ACP is working out the actions that in law assist in the effective collection of this advance.

Specified expenditures:

The advance payment for specified expenditures was made for the maximum amount of B/.100,000. As of September 30, 2018, the outstanding amount of this Advance Payment is B/.99,995. The repayment of this advance is secured by joint and several corporate guarantees issued by the Guarantors, including the Advance Payment for Specified Expenditures Joint and Several Guarantee, governed by the English law and subject to the jurisdiction of the English Courts. This Advance came due for repayment in full on December 31, 2016 and has not been repaid. ACP is pursuing collection of the Advance through actions in the English Courts.

Subcontractors and suppliers (Suppliers – VO 149)

Advance payment for subcontractors and suppliers was made up to a maximum amount of B/.120,000. As of September 30, 2018, the outstanding amount of this Advance Payment is B/.119,943. This Advance is secured by joint and several corporate guarantees issued by the Guarantors, including the Joint and Several Guarantee governed by English law and subject to the jurisdiction of the English Courts. This Advance came due for repayment in full on December 31, 2016 and has not been repaid. ACP is pursuing collection of the advance through actions in the English Courts.

7. Trade and other Receivables

Trade and other current receivables are detailed as follows:

	2018	2017
Transits	28,108	19,726
Sale of electricity	5,809	10,046
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,545	6,332
Other government entities	8,789	8,386
Other services	3,976	4,723
	54,227	49,213

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

Aging of past due but not impaired receivables:

	2018	2017
60 – 90 days	86	19
90 – 180 days	2	226
	88	245

8. Investment Properties

The following table presents details of investment properties at September 30, 2018:

	2018	2017
Lands and buildings	89,831	89,831
Total	89,831	89,831

As of September 30, 2018, ACP investment properties presented no changes compared to fiscal year 2017. They are composed of:

- An area of 180,345 square meters of land, water surface and underwater background, granted in concession to the PSA Panama International Terminal, S.A. for a period of 20 years (with option of extension for the same period subject to ACP determination) to develop, build, operate and manage a container yard and two docks with a total length of 797 linear meters, with a book value of B/.52 and fair value of B/.51,494. Upon termination of the contract, all facilities such as docks, buildings and other improvements constructed within the port will be property of the ACP free of any debt and lien. The ACP may terminate this concession contract early, if it determines that the use or activity is no longer compatible with the operation of the Canal, or the area is required for the operation or expansion of the Canal. Upon termination of the contract under these circumstances, the ACP will be obliged to pay the Concessionaire a compensation limited to the total amount of the cost of design and construction of the installations and dredging works made in the area of the concession, which has been previously authorized by the ACP. To the amount of the cost of the facilities built and dredging works made, the ACP will deduct a proportional depreciation leading to zero the value of the compensation, within a period not to exceed twenty (20) years from the start of operations of the container terminal.

- An area of 1,499.95 square meters granted in concession to Large Screen Cinema Corp., for the construction of a large format cinema, for a period of 10 years, renewable for another 10 years period with a book value of B/.22 and fair value of B/.6,000. The concessionaire will transfer to the ACP both, the building and the additional assets, upon completing the construction phase of the theater. The concessionaire is responsible for the design, construction, operation and maintenance of a large-format film theater that will be located at the adjacent area of the Miraflores Visitor Center.

- A land with an area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP, with a book value of B/.89,757 and fair value of B/.90,628. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities.

During fiscal year 2017, twenty-five buildings, which ACP is currently renting, were transferred from property, plant and equipment to investment properties. These buildings are fully depreciated and have a fair value of B/.24,965, which was estimated based on the operating cash flow analysis discounted at a representative rate for this type of business.

The fair value of land given in concession is calculated using a discounted cash flow analysis performed on the contractual cash flow of the concession with a discount rate derived from the internal rate of return expected for similar concessions.

9. Inventories, Net

Inventories are detailed as follows:

	2018	2017
Supplies and materials	73,075	67,531
Fuel	11,914	9,198
Provision for inventory obsolescence	(4,084)	(4,000)
	80,905	72,729
Current	11,914	9,198
Non-current	68,991	63,531
	80,905	72,729

The change of obsolescence estimation for supplies and materials inventory is as follows:

	2018	2017
Balance at the beginning of the year	4,000	4,500
Increase	500	66
Write-off	(416)	(566)
Balance at the end of the year	4,084	4,000

The amount of material and supplies recognized during fiscal year 2018 in the income statement was B/.37,445 (2017: B/.36,290).

The amount of fuel recognized during fiscal year 2018 in the income statement was B/.70,806 (2017:B/.74,585).

The ACP classified their inventories as non-current when it is expected to be used or consumed in the operation in one period of more than twelve months.

10. Other Financial Assets

Other financial assets are detailed as follows:

	2018		2017	
	Book value	Fair value	Book value	Fair value
Investments held to maturity, measured at amortized cost:				
Time deposits over 90 days	1,230,000	1,230,000	1,105,000	1,105,000
Securities available for sale, measured at fair value:				
Investment grade corporate bonds	2,042,558	2,042,558	1,457,096	1,457,096
Financial instruments designated as hedge instruments mesured as fair value:				
Interest rate swap	4,124	4,124	721	721
Commodity price swap contract	2,078	2,078	0	0
	3,278,760	3,278,760	2,562,817	2,562,817

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 financial instruments issued by Panamanian or foreign public or private entities, neither to grant loans to said entities nor to the National Government.

During fiscal year 2017, the ACP reclassified the portion of the portfolio of securities held to maturity, made up of bonds listed on the stock exchange, to the portfolio of securities available for sale, generating an unrealized loss of B/.1,220 that was recognized in other comprehensive income. During fiscal year 2018, generated an unrealized income of B/.240 (see Statement of Comprehensive Income and note 15).

Investments in securities and time deposits are performed and recorded in US dollars. All the ACP's investments were placed in instruments with an investment grade and have a short-term maturity.

At September 30, 2018, the annual interest rate of return of others instruments (excluding current and saving accounts) was 2.10% (September 30, 2017: 1.47%) paid at the end of each term and with a maximum maturity of a year.

Financial instruments designated as hedge instruments:
With the objective of transferring the risk of variability of future cash flows attributable to the volatility of interest rates applied to the financing of the Canal Expansion Program, the ACP subscribed an interest rate swap contract where it pays a fixed rate and receives a variable rate.

11. Accrued Interest Receivable

Accrued interest receivable and other assets are detailed as follows:

	2018	2017
Interest receivable	39,519	21,734
	39,519	21,734

12. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	2018	2017
Cash on hand	46	37
Deposits in current accounts	5,182	155,633
Deposits in saving accounts	55,055	222,623
Time deposits with original maturities under 90 days	0	150,000
Total cash and cash equivalents	60,283	528,293

Cash deposit in bank accounts earns interest based on daily rates determined by correspondent banks. At September 30, 2018, the investment of these resources has the priority to cover all ACP obligations and earns interest rates which vary between 0.1% and 2% (September 30, 2017: 0.1% and 1.4%).

As of September 30, 2018 and 2017, there were no restrictions over the balance of cash and cash equivalents.

13. Contributed Capital

Article 316 of the Political Constitution of the Republic of Panama states that the ACP has its own patrimony and the right to manage it. Upon the transfer of the Canal to the Republic of Panama at noon on December 31, 1999, the ACP became the administrator of all goods and real estate property identified in the Organic Law of the ACP as the required patrimony 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.

14. Reserves and Contributions for Investment Programs

Changes in investment programs contributions and reserves as of September 30, 2018 are detailed as follows:

	2018	Increase (decrease)	2017	Increase (decrease)	2016
Contributions:					
Investment programs	5,952,757	(33,078)	5,985,835	(14,195)	6,000,030
	5,952,757	(33,078)	5,985,835	(14,195)	6,000,030
Reserves:					
Catastrofic risks	36,000	0	36,000	0	36,000
Contingencies and working capital	255,480	32,360	223,120	19,000	204,120
Enterprise capitalization	274,969	0	274,969	0	274,969
Strategic for investment programs	545,000	155,000	390,000	0	390,000
	1,111,449	187,360	924,089	19,000	905,089
Total	7,064,206	154,282	6,909,924	4,805	6,905,119

Investment programs

At September 30, 2018, the ACP decreased the funds of the investments programs by B/.33,078 (2017:- B/.14,195) for a contributed total of B/.1,692,382 (2017: B/.1,725,460) for the Investment program – Others and B/.4,260,375 (2017: B/.4,260,375) for the Investment program – Canal expansion. This contribution includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period.

Catastrophic Risks

The ACP maintains an equity reserve to cover the deductibles of the catastrophic risks insurance policies 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 2018, it was approved to increase this reserve by B/.32,360 (2017: B/.19,000) for a total reserve of B/.255,480 (2017: B/.223,120).

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 2018 and fiscal year 2017, this reserve was not adjusted so it keeps a total reserved of B/.274,969.

Strategic for investment programs

The ACP established an equity reserve 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. During fiscal year 2018, it was approved to increase this reserve by B/.155,000 (2017: no adjustment was made to the reserve), for a total reserve of B/.545,000 (2017: B/.390,000).

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.

15. 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:

	2018	2017
Balance at the beginning of the year	(118,449)	(175,593)
Actuarial valuations:		
Net remeasurement gains (losses) of employee defined benefit plans	566	(49)
Other comprehensive income not to be reclassified to profit or loss	566	(49)
Securities available for sale:		
Net unrealized gain (loss)	240	(1,220)
Commodity Price swap contract:		
Net income of non-yet matured contracts	2,078	0
Cash flow hedges:		
Interest rate swap contracts:		
Reclassification of gains to income statement	16,655	23,656
Net income of non-yet matured contracts	41,951	34,757
Other comprehensive income to be reclassified to profit or loss	60,924	57,193
Income during the year	61,490	57,144
Balance at the end of the year	(56,959)	(118,449)

16. 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/.1,199,101 to the Panamanian Treasury which corresponds to the year ended September 30, 2018 (2017: B/.1,193,809). (See note 31).

Detail of payments to the Panamanian Treasury is as follows:

	2018	2017
Payments to the Panamanian Treasury:		
Fees per net ton	501,548	454,558
Public service fees	2,138	2,011
Sub-total	503,686	456,569
Unappropriated retained earnings (see note 31)	1,199,101	1,193,809
Total	1,702,787	1,650,378

17. Borrowings

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

Credit Facilities	Interest Rate %	Maturity Date	2018	2017
European Investment Bank (BEI)	Libor 6 months + 0.811	15-Nov-28	100,000	100,000
European Investment Bank (BEI)	Libor 6 months + 0.824	15-Nov-28	300,000	300,000
European Investment Bank (BEI)	5.196	15-Nov-28	100,000	100,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.20	15-Nov-28	150,000	150,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.40	15-Nov-28	150,000	150,000
International Finance Corporation (IFC)	Libor 6 months + 1.30	15-Nov-28	300,000	300,000
Inter-American Development Bank (BID)	Libor 6 months + 1.05	15-Nov-28	400,000	400,000
Japan Bank for International Cooperation (JBIC)	Libor 6 months + 0.75	15-Nov-28	800,000	800,000
			2,300,000	2,300,000

These credit facilities were subscribed under the Common Terms Agreement, which financed part of the Canal Expansion Program. These borrowings will have semi-annual payments to principal of B/.115,000 beginning on May 15, 2019, due in November 2028.

	2018	2017
Current borrowings	115,000	0
Non-current borrowings	2,185,000	2,300,000
Total	2,300,000	2,300,000

The ACP complies with the obligation to report annually to the five multilateral agencies that gave loans, the situation of the following two financial ratios: Total Debt to EBITDA and the Debt Service Coverage.

	2018	2017
Total debt to EBITDA Ratio	1.8	1.9
Debt Service Coverage Ratio	10.6	57.3

- Before the completion of the Expansion Program, the total debt to EBITDA ratio should maintain as of the end of every semi-annual fiscal period of the ACP, a ratio of less than 3.0 for such measurement period.

  Total debt to EBITDA ratio, after completion of the Expansion Program, should maintain, as of the end of every semi-annual fiscal period of the ACP, a ratio less than 2.5 for such measurement period.

- Before the completion of the Expansion Program, the debt service coverage ratio should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 5.0 for such measurement period.

  Debt service coverage ratio, after completion of the Expansion Program, should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 3.0 for such measurement period.

Debt service means, for any period or at any time, as the context may require, the sum of regularly scheduled interest payable on and amortization of debt discount in respect of all debt for borrowed money, plus regularly scheduled principal amounts of all debt for borrowed money payable.

As of September 30, 2018, the ACP was in compliance with the aforementioned restrictive financial covenants.

The interests, cash flow hedges and other financing costs for the year ended September 30, 2018, are detailed as follows:

	2018	2017
Interest on loans	92,222	77,668
Cash flow hedges	16,655	23,656
Other expenses	733	743
Total interests, cash flow hedges and other financing costs	109,610	102,067
Less: amount of capitalized financing costs	(22,680)	(21,763)
Net financing costs	86,930	80,304

18. Bonds Payable

On September 24, 2015, the ACP issued bonds to partially finance the construction of a new bridge on the Atlantic side of the Canal, with trading date October 1, 2015.

	Interest Rate %	Maturity Date	2018	2017
Bond 2035	4.95	29-Jul-35	450,000	450,000
Less: discount and issuing costs			9,078	9,643
Total			440,922	440,357

These bonds were issued under rule 144 A of Regulation S of the U.S. Securities and Exchange Commission, with a fixed annual rate of 4.95%, payable in four semi-annual installment payments to principal of B/.112,500, from January 29, 2034, and maturing on July 29, 2035. The effective interest rate is 5.17%.

As part of the obligations of the issuance, the ACP presents audited financial statements for each fiscal year and unaudited financial statements at the end of the first, second, and third quarter of each fiscal year.

19. Other Financial Liabilities

Other financial liabilities are detailed as follows:

	2018	2017
Financial instruments designated as hedging instruments carried at fair value:		
Interest rate swaps	59,884	115,087
	59,884	115,087

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.

20. Trade and Other Payables

Trade and other payables are as follows:

	2018	2017
Panamanian Treasury	42,786	37,873
Suppliers and others	177,080	158,448
	219,866	196,321

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, 2018, the total of such fees amounted to B/.501,548 (2017: B/.454,558).

21. Provision for Marine Accidents Claims

The provision for marine accident claims represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the ACP expects to be liable.

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

	2018	2017
Balance at beginning of the year	14,045	20,054
Provision (reversion) for the year	10,240	(3,425)
Payments made	(3,883)	(2,584)
Balance at the end of the year	20,402	14,045

The increase (reversion) in the provision is included as an expense of the current period under Provision for marine accidents.

22. Other Liabilities

Other liabilities are detailed as follows:

	2018	2017
Inventories – in transit	8,219	5,331
Miscellaneous claims	4,800	1,876
Advance payment of Ministerio de Obras Públicas (MOP)	30,297	20,198
Others	3,894	3,135
	47,210	30,540

During 2017, the ACP subscribed an agreement with the MOP for the transfer of particular buildings and other facilities used in the operation of the Canal, totally depreciated, which are required for the construction of the fourth bridge over the Panama Canal. In exchange, the MOP promised to pay the ACP B/.33,663, of which B/.30,297 has already been advanced. As soon as the ACP transfers the control of the facilities to the MOP, these facilities will be derecognized of the property, plant and equipment account and the corresponding profit will be recognized in the results of the year. According to the agreement, the ACP will maintain control and ownership of the land on which these facilities, which will be transferred to the MOP, are built.

23. Labor, Materials and Other Capitalized Costs

The investments programs have been executed partially or totally with ACP own resources and equipment. The operating costs that apply to investments programs are capitalized. Detail of the operating expenses and capitalized costs are as follows:

	2018		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	618,077	25,105	592,972
Employee benefits	78,545	773	77,772
Materials and supplies	73,626	5,228	68,398
Fuel	73,624	2,818	70,806
Depreciation	210,714	1,765	208,949
Other expenses	14,397	0	14,397
	1,068,983	35,689	1,033,294

	2017		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	610,793	33,733	577,060
Employee benefits	77,237	1,703	75,534
Materials and supplies	66,886	6,759	60,127
Fuel	79,840	5,255	74,585
Depreciation	206,080	3,252	202,828
Other expenses	17,962	105	17,857
	1,058,798	50,807	1,007,991

24. Other Miscellaneous Revenues

Other miscellaneous revenues are detailed as follows:

	2018	2017
Ticket office	9,884	10,148
Government of Panama:		
Bayano Agreement-Mi ambiente	1,273	245
Rio Indio Agreement-Mi ambiente	4,244	2,766
Leasing to Ministerios de Gobierno, Police, VUMPA, among others	5,501	2,679
Other revenues:		
Panamá International Terminal, S.A	2,928	3,183
Sales of excess properties	1,852	1,573
Telecommunications	4,185	4,053
Others	6,406	8,483
Total of other miscellaneous revenues	36,273	33,130

25. 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.

26. Employee Benefits

The constructive and formal liability of the employee benefit programs was as follows:

	2018	2017
Benefit for employment retirement	331,591	340,036

In July 2012, the ACP established the Voluntary Retirement Incentive program (VRI) at the required retirement age for permanent employees and managers of the ACP. Before the establishment of the VRI, there was another 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, however, 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 Seguro Social (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 complies with 10 years of service and retires at the required age (early or regular) as may be he or she established by the Caja del Seguro Social, 2) be not less than 10 years working in the Canal; 3) the employee accepts the IRV offer, 4) the employee terminates work no later than 60 calendar days after completing the required age, 5) files the termination of employment form through voluntary resignation, and 6) the employee has no investigation initiated against him for the alleged commission of serious offenses against the ACP regulations that could result in his dismissal.

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 September 30, 2018. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for age average of personnel, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate, in accordance with IFRS, the present value of the liability for both retirement plans.

During the actuarial study, the fair value of the liability was calculated as required by the IFRS at different interest rates and at different case scenarios which included historical data provided by the ACP to the independent actuary at September 30, 2018 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).

Expenses related to the employee benefits plan are recorded in the bonus account for voluntary separation, mutual agreement or voluntary retirement, within the personal services category.

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
	October 1, 2017	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2018
Fair value of the benefits	340,036	25,868	9,506	26,678	17,141	331,591

The principal actuarial assumptions used are shown below:

	Age	2018	2017
		%	%
Discount rate		4.1	3.7
Salary increase		3.75	3.5
Mortality			
Female	57 years	2.8	2.8
Male	62 years	5.9	5.9
Disability			
Female	57 years	1.2	1.2
Male	62 years	1.9	1.9

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

	2018
Maturity of the obligation:	
From 0 to 1 year	26,420
From 1 to 5 years	98,641
From 5 to 10 years	195,067
From 10 to 25 years	367,696
Beyond 25 years	92,737

At September 30, 2018, the average duration of the obligation for the defined benefit plans for voluntary retirement of employees (VRI/LRB) is approximately 7.78 years (2017: 8.07 years) at a discount rate of 4.1% (2017: 3.7%).

A quantitative sensitivity analysis for significant assumptions as of September 30, 2018 is as follows:

Assumption	Discount rate		Increase of salary of 25 pbs	Decrease of salary of 25 pbs
	Increase 25 pbs	Decrease 25 pbs		
Sensitivity level				
Impact on defined benefit obligation	(6,638)	7,075	6,736	(6,543)

Reiumbursement right to ACP

The ACP contracted 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, which has been estimated at 3.30% of the total insured amount.

Changes in the reimbursement right to ACP during fiscal year 2018 are detailed as follows:

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2017	Reimbursement right cost of the year	Net interest	Reimbursements during the year	Actuarial adjustments	September 30, 2018
Reimbursement right to ACP	328,611	26,400	9,192	26,979	(16,575)	320,649

At September 30, 2018, the ACP paid the insurer B/.27,350 (2017: B/.24,300) in premiums of the reimbursement policy.

27. 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 and bonds as detailed in notes 17 and 18), compensated by cash and bank deposit balances, other financial assets (See note 10) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 13, 14, 15 and 16, respectively).

Historically, the ACP has operated with its own resources due to the high cash levels generated by its operations, enabling it to afford its costs of operation, investment, functioning, maintenance and modernization. On December 2008 it subscribed a common term financing agreement with five development agencies, which committed to grant financings totaling B/.2,300,000 in order to partially finance the Canal Expansion Program. More recently, on September 2015, it issued bonds on the international market totaling B/.450,000 in order to partially finance the building of the bridge on the Atlantic side of the Canal. (See note 18).

Categories of financial instruments

	2018	2017
Financial assets		
Cash and cash equivalents (note 12)	60,283	528,293
Advances and other receivables to contractor, net (note 6)	840,111	857,686
Trade and other receivables (note 7)	54,227	49,213
Other financial assets (note 10)	3,278,760	2,562,817
	4,233,381	3,998,009
Financial liabilities		
Financial instruments designated as hedging instruments (note 19)	59,884	115,087
Trade and other payables (note 20)	219,866	196,321
Borrowings (note 17)	2,300,000	2,300,000
Bonds payable (note 18)	440,922	440,357
	3,020,672	3,051,765

Accounting classification and fair values

The following table shows the book value and the fair value of financial assets and liabilities, including their fair value hierarchy levels. This table does not include the fair value information of financial assets and liabilities not measured at fair value if their book value reasonably approximates their fair value.

2018	Fair value				Book value
(In thousands of B/.)	**Level 1**	**Level 2**	**Level 3**	**Total**	
Financial assets measure at fair value:					
Other financial assets:					
Securities available for sale:					
Corporate debt securities	1,577,164	465,394	0	2,042,558	2,042,558
Instruments designated in cash flow hedging relationship:					
Interest rate swaps	0	4,124	0	4,124	4,124
Diesel swap contracts	0	2,078	0	2,078	2,078
	1,577,164	471,596	0	2,048,760	2,048,760
Financial assets not measured at fair value:					
Other financial assets:					
Investments held to maturity:					
Time deposits, more than 90 days	0	1,230,000	0	1,230,000	1,230,000
Cash and cash equivalents	0	0	60,283	60,283	60,283
Accounts receivable and others	0	0	54,227	54,227	54,227
Advances and other receivables to contractor	0	0	831,869	831,869	840,111
	0	1,230,000	946,379	2,176,379	2,184,621
Financial liabilities measured at fair value:					
Other financial liabilities:					
Hedge instruments – interest rate swaps	0	59,884	0	59,884	59,884
Financial liabilities not measured at fair value:					
Bonds payable	0	0	467,114	467,114	440,922
Borrowings	0	0	2,355,208	2,355,208	2,300,000
Trade and other payable	0	0	219,866	219,866	219,866
	0	0	3,042,188	3,042,188	2,960,788

2017	Fair value				Book value
(In thousands of B/.)	Level 1	Level 2	Level 3	Total	
Financial assets measure at fair value:					
Other financial assets:					
Securities available for sale:					
Corporate debt securities	1,457,096	0	0	1,457,096	1,457,096
Instruments designated in cash flow hedging relationship:					
Interest rate swaps	0	721	0	721	721
	1,457,096	721	0	1,457,817	1,457,817
Financial assets not measured at fair value:					
Other financial assets:					
Investments held to maturity:					
Time deposits, more than 90 days	0	1,105,000	0	1,105,000	1,105,000
Cash and cash equivalents	0	0	528,293	528,293	528,293
Accounts receivable and others	0	0	49,213	49,213	49,213
Advances and other receivables to contractor	0	0	857,686	857,686	857,686
	0	1,105,000	1,435,192	2,540,192	2,540,192
Financial liabilities measured at fair value:					
Other financial liabilities:					
Hedge instruments – interest rate swaps	0	115,087	0	115,087	115,087
Financial liabilities not measured at fair value:					
Bonds payable	0	0	501,840	501,840	440,357
Borrowings	0	0	2,341,771	2,341,771	2,300,000
Trade and other payable	0	0	196,321	196,321	196,321
	0	0	3,039,932	3,039,932	2,936,678

On this table, the ACP presents the fair value of each type of financial assets and liabilities in order to compare the information with their corresponding book values. In addition, it reconciles assets and liabilities with the different financial instrument categories as defined by the IAS 39 – Financial Instruments: Recognition and Measurement.

The ACP does not present fair value for financial instruments such as short-term accounts receivables/payables because their book value reasonably approximates their fair value.

Hedging instruments such as interest rate swaps are registered at clean price, and the interests are registered as interest payable.

Fair value measurement

i. Valuation techniques and unobservable significant inputs

The following table shows the valuation techniques used to measure the Level 2 and Level 3 fair value for financials instruments measure at fair value on the statement of financial position, as well as unobservable significant inputs. The valuation process is described on Note 3.

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Interest rate swap contracts	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable rate curves based on quoted swap rates, future prices and interbank rates. Future cash flow are discounted using a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing interest rate swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated based on credit margins derived from credit default swaps or bond prices.	None	None
Diesel Price swaps	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable diesel prices are based on swap rates, future prices and interbank rates. Future cash flow are discounted with a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing diesel swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated based on credit margins derived from credit default swaps or bond prices.	None	None
Corporate debt securities	*Market comparison.* Fair value is estimated considering recent or current quotes prices for identical instruments on an inactive market.	None	None

Financial instruments not measured at fair value	
Bonds payable, borrowing and trade and other payables	Discounted future flows

During 2018, the corporate bonds available for sale presented a transfer from Level 1 to Level 2 due to the observable reference prices in an active market where the input data are directly or indirectly observable.

Financial risk management objectives

ACP's main financial liability consists of borrowings, bonds payable and trade accounts payable. The main purpose of these financial liabilities is to finance the Canal Expansion Program and the new bridge at the Atlantic side of the Canal. The ACP also has cash, bank deposits, operations with settlement in progress, trade and other receivables, and funds invested in short term debt instruments held until maturity. The ACP also contracts hedging instruments.

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

ACP's administration monitors and manages these risks. ACP's Treasury coordinates the access to international financial markets, monitors and manages the financial risks related to ACP's operations through internal risk reports, which analyze the exposures depending on their degree and magnitude. These risks include market risk (exchange risk and price risk), credit risk, liquidity risk, and interest rate risk. Teams of specialists with the appropriate knowledge, experience and supervision perform all the activities related to risk hedging.

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 liquidity investment. The Office of the Inspector General 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 the implemented policies to mitigate risk exposure. The Office of the 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 exposed primarily to financial risks due to variations of currency exchange, interest rates, and commodity prices out of its control. With the purpose of managing these risks exposures, the ACP subscribes a variety of hedge financial instruments approved by its Board of Directors based on the recommendations of the Liquidity and Hedging Committee, including:

- Interest rate swaps to mitigate the risk of increases in interest rates.

- Diesel price swaps to mitigate the risk of fluctuations in the price of this commodity, which is required for 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. The ACP only accepts payments in dollars of the United States of America and the investment criteria and applicable guidelines require that all deposits and investments in banks shall be in the dollars of the United States of America, or in other currencies authorized by the Board of Directors.

As of September 30, 2018 and 2017, the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Cash flow and fair value interest rate risk

The interest rate risk of the cash flow and fair value are the fluctuation risk on the future cash flows and on the instrument's due to changes on market interest rate.

ACP's net financial cost can fluctuate as a result to unanticipated movements on interest rates.

The following table resumes ACP's exposure based on the interest repricing gaps on its financial assets and liabilities:

	2018					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and term deposits	90,000	10,000	1,190,237	0	0	1,290,237
Securities available for sale	144,563	817,922	1,080,073	0	0	2,042,558
	234,563	827,922	2,270,310	0	0	3,322,795
Liabilities						
Borrowings	2,200,000	0	0	0	100,000	2,300,000
Bonds payable	0	0	0	0	450,000	450,000
	2,200,000	0	0	0	550,000	2,750,000
Interest rate swap hedges	(2,200,000)	0	110,000	1,650,000	440,000	0
Total interest rate sensitivity	234,563	827,922	2,160,310	(1,650,000)	(990,000)	582,795

	2017					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and term deposits	20,000	0	1,613,256	0	0	1,633,256
Securities available for sale	75,469	465,220	916,407	0	0	1,457,096
	95,469	465,220	2,529,663	0	0	3,090,352
Liabilities						
Borrowings	2,200,000	0	0	0	100,000	2,300,000
Bonds payable	0	0	0	0	450,000	450,000
	2,200,000	0	0	0	550,000	2,750,000
Interest rate swap hedges	(800,000)	0	0	280,000	520,000	0
Total interest rate sensitivity	(1,304,531)	465,220	2,529,663	(280,000)	(1,070,000)	340,352

The ACP manages its interest rate risk exposure partially by purchasing fixed rate securities and by contracting variable rate financing, and uses interest rate swaps to hedge cash flow variability attributable to interest rate risk.

The ACP does not account for any of its financial instruments, whether assets or liabilities, at fair value through profit or loss. Nor does it designate derivative instruments as fair value hedges. Therefore, a change in interest rate on the reporting date would not affect net income.

The ACP administration performs simulations on its financial assets and liabilities in order to evaluate interest rate risk and its impact in the fair value of financial instruments. In order to manage interest rate risk, it has defined an interval on the limits to monitor the sensitivity on its financial assets and liabilities. The interest rate impact estimation by category assumes a 100 basis point (bp) increase or reduction on the financial assets and liabilities. The following table reflects the impact of applying those interest rate variations:

	Net interest income sensitivity			
	100pb increment		100pb reduction	
	2018	2017	2018	2017
At the end of the year	20,554	9,631	(20,554)	(9,631)

	Other comprehensive income sensitivity			
	100pb increment		100pb reduction	
	2018	2017	2018	2017
At the end of the year	60,953	47,964	(60,965)	(47,968)

Interest rate risk management

The ACP is exposed to interest rate risk because it borrowed funds through borrowing and bond issuances at both fixed and floating interest rates. The ACP manages this risk with interest rate swap contracts. Given market conditions, hedging activities are evaluated regularly in order to consider interest rate volatility and risk tolerance, ensuring that the most conservative hedging strategies are applied.

Interest rate swap contracts

Starting on March 2010 the ACP established interest rate swap contracts without collateral to fix the interest rate on B/.800,000 variable rate loans. The notional amount and principal amortizations on the swap instruments coincide with the dates, disbursements and amortizations of the underlying loans: B/.200,000 were disbursed on March 1, 2010, B/.300,000 on October 29, 2010, and B/.300,000 on April 13, 2011. Semi-annual amortizations for B/.40,000 are programmed to begin on May 15, 2019 until their maturity on November 15, 2028.

On June 2017 the ACP contracted an additional interest rate swap contract without collateral to fix the interest rate on B/.1,400,000 variable rate loans, even though this transaction became effective starting on November 15, 2017, up to November 15, 2018. Principal amortizations are for B/.70,000 semi-annually starting on May 15, 2019 until the swap maturity on November 15, 2028.

Finally, on March 2018 the ACP contracted interest rate swap contracts without collateral, to protect the fiscal year 2019 budget in two B/.700,000 tranches, a total of B/.1,400,000, effective as of November 15, 2018 up to November 15, 2019. These two interest rate hedge contracts totaling B/.1,400,000 consider the B/.70,000 semiannual principal amortizations starting on May 15, 2019 up to the swap maturity on November 15, 2019.

According to interest rate swap contracts, the ACP agreed 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 in the cash flow of part of the hedged floating rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the yield curves at the end of the period in question and the inherent credit risk in the contract.

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:

Notional	Effective date	Maturity date
800,000	17-May-2010	15-Nov-2028
1,400,000	15-Nov-2017	15-Nov-2028
700,000	15-Nov-2018	15-Nov-2019
700,000	15-Nov-2018	15-Nov-2019

Floting rate contracts and outstanding fixed rate payments	Average contracted fixed interest rate		Notional principal value		Fair value	
	2018	2017	2018	2017	2018	2017
Less than 1 year	1.62%	1.03%	1,400,000	1,400,000	1,584	721
More than 1 year and less than 5 years	2.71%	na	700,000	na	1,415	na
More than 1 year and less than 5 years	2.75%	na	700,000	na	1,125	na
5 years or more	4.67%	4.67%	800,000	800,000	(59,884)	(115,087)

Interest rate swaps are liquidated semi-annually. The floating rate on the interest rate swaps is the 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.

The interest rate swap contracts subscribed with ACP's counterparties stipulate that ACP will not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

Asset and liability derivative instruments designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, as well as the book value of the hedge instruments.

	2018					2017				
		Expected cash flow					Expected cash flow			
(In thousands of B/.)	Book value	Total	1-6 months	6-12 months	More than 1 year	Book value	Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	4,124	9,034	6,415	166	2,454	721	2,904	2,904	0	0
Liabilities	(59,884)	(73,116)	(8,802)	(7,695)	(56,618)	(115,087)	(133,667)	(13,200)	(12,360)	(108,107)
Diesel price swaps										
Assets	2,078	2,315	1,027	1,288	0	0	0	0	0	0
	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)	(114,366)	(130,763)	(10,296)	(12,360)	(108,107)

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected impact net income or losses, as well as the book value of the hedge instruments:

(In thousands of B/.)	2018					2017				
	Book value	Expected impact				Book value	Expected impact			
		Total	1-6 months	6-12 months	More than 1 year		Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	4,124	9,034	6,415	166	2,454	721	2,904	2,904	0	0
Liabilities	(59,884)	(73,116)	(8,802)	(7,695)	(56,618)	(115,087)	(133,667)	(13,200)	(12,360)	(108,107)
Diesel price swaps										
Assets	2,078	2,315	1,027	1,288	0	0	0	0	0	0
	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)	(114,366)	(130,763)	(10,296)	(12,360)	(108,107)

Liquidity risk management

The ACP manages the liquidity risk through continuous monitoring its forecasted and actual cash flows, reconciling the asset and liability maturity profiles.

Historically, the cash generated by the ACP's operations has been enough to cover its operations and its investment program's requirements, while generating adequate returns. However, on December 2008 the ACP obtained financing in order to complement the necessities of the Canal Expansion Program. Subsequently, on September 2015 the ACP issued bonds in the capital markets to finance partially the new bridge across the Canal on the Atlantic Side. The credit facilities used in order to reduce the liquidity risk are detailed ahead.

Liquidity risk tables

The following table details ACP's financial assets and liabilities grouped by their remaining maturities with respect to their contractual maturity dates:

	September 30, 2018						
	Book value	Input (output) of not discounted cash flows	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets							
Cash and cash equivalents	60,283	61,656	61,656	0	0	0	0
Investment held to maturity	1,230,000	1,246,693	1,029,601	116,758	100,334	0	0
Securities available for sale	2,042,558	2,094,170	247,324	782,487	1,064,359	0	0
Trade and other receivable	54,227	54,227	54,227	0	0	0	0
Advances and other receivables to contractor, net	840,111	840,111	547,959	0	0	292,152	0
	4,227,179	4,296,857	1,940,767	899,245	1,164,693	292,152	0
Liabilities							
Borrowings	2,300,000	(2,821,312)	(10,450)	0	(158,768)	(1,223,819)	(1,428,275)
Bonds payable	440,922	(811,969)	0	(11,138)	(11,138)	(89,100)	(700,594)
Accounts payable	219,866	(219,866)	(219,866)	0	0	0	0
	2,960,788	(3,853,147)	(230,316)	(11,138)	(169,905)	(1,312,919)	(2,128,869)
Diesel Price swap, fixed payment and variable receipt, net	2,078	2,315	409	618	1,288	0	0
Interest rate swap, fixed payment and variable receipt, net	(55,760)	(64,082)	(2,387)	0	(7,530)	(34,831)	(19,334)
Net position	(53,682)	(61,767)	(1,978)	618	(6,242)	(34,831)	(19,334)

	September 30, 2017						
	Book value	Input (output) of not discounted cash flows	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Assets							
Cash and cash equivalents	528,293	530,026	530,026	0	0	0	0
Investment held to maturity	1,105,000	1,111,339	676,979	414,348	20,012	0	0
Securities available for sale	1,457,096	1,483,823	389,885	511,685	582,253	0	0
Trade and other receivable	49,213	49,213	49,213	0	0	0	0
Advances and other receivables to contractor, net	857,686	857,686	547,959	0	0	309,727	0
	3,997,288	4,032,087	2,194,062	926,033	602,265	309,727	0
Liabilities							
Borrowings	2,300,000	(2,794,831)	(7,426)	0	(30,941)	(1,064,657)	(1,691,807)
Bonds payable	440,357	(834,244)	0	(11,138)	(11,138)	(89,100)	(722,869)
Accounts payable	196,321	(196,321)	(196,321)	0	0	0	0
	2,936,678	(3,825,396)	(203,747)	(11,138)	(42,079)	(1,153,757)	(2,414,676)
Interest rate swap, fixed payment and variable receipt, net	(114,366)	(130,763)	(10,297)	0	(12,359)	(71,228)	(36,879)

In order to finance the Canal Expansion Program for a total of B/.2,300,000, the ACP entered a Common Terms Agreement with five multilaterals agencies. Currently 4.3% of the debt has a fixed effective rate of 5.31%, and while the remaining 95.7% has a moving average effective rate of 2.92%. The effective rate for the financing is 3.02%.

For the financing of the new bridge across the Atlantic Side of the Canal, bonds were issued at a fixed rate of 4.95% (effective rate of 5.14%) payable semi-annually in January and July of each year. The interest rate swap contracts subscribed with ACP's counterparties stipulate that the ACP will not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

The following table groups the financing sources according to their respective terms:

	Weighted average effective interest rate (%)	1 month or less	1-3 months	3-12 months	1-5 years	More than 5 years	Total
September 30, 2018							
Variable interest rate loans	2.92%	0	0	110,000	1,100,000	990,000	2,200,000
Fixed interest rate loans	5.31%	0	0	5,000	50,000	45,000	100,000
Fixed interest rate Bonds	5.14%	0	0	0	0	450,000	450,000
		0	0	115,000	1,150,000	1,485,000	2,750,000

The ACP used all of the credit facility totaling B/.2,300,000 on the Canal Expansion Program. Funds from the bond issuance totaling B/.450,000 were used in the construction of the bridge on the Atlantic side of the Canal.

Fuel price risk

The ACP is exposed to commodity price fluctuation risk, mainly on the fuel used in its transit and dredging operations, as in its power generation activities and the sale of surplus energy to Panama's National Grid ("Sistema Integrado Nacional"), to the extent that such variations cannot be transferred to ACP's customers.

Maritime operations

The ACP uses approximately between 10 and 12 million gallons of light diesel on its vessel transit operations. Since October 20, 2009, risk management for diesel price fluctuations is performed mainly within the fiscal year, period that is considered representative for the implementation of appropriate commercial policies. In order to manage the risk the ACP performs specific hedging transactions covering approximately 80% of the expected volume.

For fiscal year 2018, the ACP purchased a hedge instrument (cap) establishing a maximum annual price of B/.1.47 per gallon for 9.25 million gallons in order to hedge its operational diesel price fluctuation risk. As at June 30, 2018 the accumulated fuel consumption totaling 13.69 million of gallons was registered during the current fiscal year.

Energy generation

The ACP generates power for the consumption of the Canal's operations, while excess capacity is sold in the domestic electricity market. Until September 2018, the ACP consumed 23% of the power generated, while the remaining 77% was sold to the electric market. Power generated by hydroelectric and thermal plants was 22% and 78%, respectively.

Thermal plant generation is exposed to fuel price volatility risk. 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 statements when energy is not sold under contracts, namely, in the spot market.

Operational fuel price risk sensitivity analysis

As of September 30, 2018, the current price index for light diesel purchases made by the ACP was B/.2.08 per gallon. Fuel expenses registered an increase of B/.6.07 million. On August 2018, the ACP established a diesel price swap to protect its fiscal 2019 operational diesel budget totaling 11.1 million gallons.

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 set limits by industry and by issuer as a result of the categorization of the Risk Assessment System adopted by the ACP, which includes the following factors: external international short-term risk rating, capital/leverage coverage, country risk, liquidity index, impairment index, performance and credit risk. In the case of sovereign issuers, the country risk factor is the only one considered.

Counterparty risk refers to the risk of a counterparty defaulting in the payment of a security purchase transaction. 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. To address this risk, ACP's policies only allow depositing funds in banking institutions and financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-2 by Standard & Poors, P-2 by Moody's Bank Deposit Ratings, or F-2 by Fitch Ratings. Additionally, these policies allow for a total investment of up to seven percent of the portfolio in financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-3 by Standard & Poors, P-3 by Moody's Bank Deposit Ratings, or F-3 by Fitch Ratings.

Investment credit quality

Financial instruments available for sale were classified according to their international credit rating assigned by the rating firms.

	2018		
	Fair Value	Amortized Cost	Unrealized gain or loss
Aaa to Aa3	67,676	67,729	(53)
A1 to A3	398,240	398,367	(127)
Baa1	545,606	543,798	1,808
Baa2	715,082	715,589	(508)
Baa3	315,954	318,054	(2,100)
	2,042,558	2,043,538	(980)

Credit risk concentration

The ACP monitors credit risk concentration by industry sector according to the "Bloomberg Industry Classification Standard".

	2018
Basic materials	130,668
Communications	152,012
Consumer, cyclical	170,145
Consumer, non-cyclical	399,295
Energy	108,181
Financials	725,698
Government	21,659
Industry	145,643
Technology	60,994
Services	128,263
Total	2,042,558

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 Banco Nacional 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 "Risk Assessment System for Banking Institutions and Financial Instruments". As of September 30, 2018 and 2017, the entire corporate debt security´s portfolio is concentrated in titles issued in the United States of America.

The maximum limits for credit exposure in financial instruments by bank institution or issuer are assigned considering the assessment of the following weighted factors:

1. International credit risk rating
2. Capital/leverage coverage
3. Country risk
4. Liquidity index
5. Impairment
6. Performance
7. Credit risk

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

A. Up to B/.100,000
B. Up to B/.80,000
C. Up to B/.60,000

If the issuer of the financial instrument is a sovereign entity, the country risk is the only factor to be used, except in the case where the issuer is the government of the United States of America, in which case the total investment amount cannot exceed 50% of the total liquidity.

In addition to the credit risk of the treasury portfolio, the ACP maintains credit risk from advanced payments and other receivables made to GUPCSA under the Contract for the Design and Construction of the Third Set of Locks, as explained in note 6, for a total amount of B/.840,111, net of financial instrument losses for B/.7,519. ACP has bank and insurance guarantees totaling B/.547,959, which account for 65% of the exposure. The remaining unsecured balance is covered under a joint and several guarantee issued by each of the four companies in the consortium for B/.292,152, which make these companies accountable and obliges each of them for the outstanding advanced balances as if they were acquired on an individual basis.

Furthermore, the ACP holds a Joint and Several Guarantee issued by Sacyr, Impregilo, Jan De Nul and CUSA and a Parent Company Guarantee signed by SOFIDRA, parent company of Jan De Nul, which were submitted to the ACP as part of the requirements to give its consent for the assignment of the Contract for the Design and Construction of the Third Set of Locks to GUPCSA (current contractor). Under these guarantees, the companies mentioned above each undertakes before ACP the joint and several liability, as main debtor, to guarantee to the ACP the compliance of all obligations, guarantees and commitments assumed by the Contractor (GUPCSA) in accordance with the terms and conditions of the contract. 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.

28. Related Party Transactions

Commercial transactions

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

	Sale of goods and services		Purchase of goods and services	
	Year ended		Year ended	
	2018	2017	2018	2017
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	34,265	28,337	0	0
Other government entities	15,514	20,103	0	0
Caja de Seguro Social	0	0	78,545	77,237
Fees paid to Panamanian Treasury	0	0	503,686	456,569
	49,779	48,440	582,231	533,806

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

	Amounts owned by the Republic of Panama		Amounts owned to the Republic of Panama	
	2018	2017	2018	2017
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,545	6,332	0	0
Other government entities	9,079	8,486	3,855	640
Advance payment from Ministerio de Obras Públicas (MOP)	0	0	30,297	20,198
Caja de Seguro Social	0	0	31,123	29,907
Public service fees	0	0	175	157
Panamanian Treasury – fees per net ton	0	0	42,786	37,873
	16,624	14,818	108,236	88,775

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

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

The outstanding amounts are unsecured and will be settled in cash. No guarantees 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 as of September 30, 2018 a total of B/.3,391 (2017: B/.3,068) for remuneration and benefits to its key management personnel. The Board of Directors compensation add a total of B/.459 (2017:B/.383). 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.

29. Commitments

The commitments for construction contracts in process and purchase orders pending delivery amount approximately to September 30, 2018 to B/.230,485 (2017: B/.271,659), as follows:

	2018	2017
Investment program:		
Canal expansion	11,584	28,136
Others	150,812	173,300
Sub-total	162,396	201,436
Operations	68,089	70,223
	230,485	271,659

The commitments of the expansion program include the contracts awarded during the twelve months ending on September 30, 2018 for B/.17,314 (2017: B/.5,479).

This balance also includes the Vinson & Elkins Rllp contract for legal advice on contracts for the expansion and jurisdictional representation program for B/.17,000 (2017: B/.0).

Commitments of the investment program – others includes: Puente Atlántico, S.A. for construction of a bridge through the canal on the Atlantic side for B/.40,084 (2017: B/.79,897); Copisa-Cocige-Puentes Consortium for the rehabilitation of the Gatun highway; parking lots and bridge over the Colon landfill for B/.29,335 (2017: B/.31,000); and Derivados del Petróleo, S.A. by the east intersection of the bridge over the Canal in the Atlantic for B/.4,890 (2017: B/.0).

The commitments of operations include contracts awarded: for purchases of inventory for B/.24,148 (2017: B/.30,403), to Willis Limited for the multi-year insurance policy for three years for B/.13,082 (2017: B/.13,013), to Ingenieros Consultores Civiles y Electricos, S.A. for the feasibility study, other studies and designs of multi-purpose water deposit in Azuero rivers for B/.3,444 (2017: B/.0), and Bauer Foundations Panama, S.A. for the execution of the erosion control project north of the Pedro Miguel locks for B/.3,428 (2017: B/.0).

Bond:

The ACP subscribes the following contracts for the purchase of energy, which are guaranteed with a bond of compliance issued by a bank with investment grade A+ of Standards & Poors: ACP and Gas Natural Fenosa for B/.3,285, ACP and ENSA for B/.2,503, and ACP and ETESA for B/.288.

30. Contingent Liabilities

As of September 30, 2018, GUPCSA has filed 119 Claims (117 formal claim notifications), of which 41 have been resolved or canceled. According to the latest revision of the Statement at Completion and recent updates, the total amount sought is B/.5,852,446. Out of this total, the ACP has paid a total of B/.378,263 to date. As of September 30, 2017, the contingent liability of the ACP resulting from the claims of GUPCSA, in relation to the Third Set of Locks, is B/.5,197,491. This contingent liability does not have provisioned funds. Claims presented have been submitted to arbitration. Below, general information about the status of these claims is described:

The Cofferdam Arbitration
GUPCSA has filed seven arbitration proceedings against the ACP, all governed by the Arbitration Rules of the International Chamber of Commerce (ICC) and seated in Miami, United States.

The first arbitration identified as CCI 19962/ASM, was filed in December 2013, and was related to the temporary cofferdam on the Pacific side. Claims filed against the ACP, subject to this arbitration, were analyzed and denied by the Dispute Adjudication Board (DAB). GUPCSA filed a Notice of Dissatisfaction and, then, a request for arbitration in December 2013. The amount in dispute was B/.194,067 and GUPCSA also requested 246 days of extension to the date of termination of the contract. The arbitration hearing was held in July 2016 and the final hearing, scheduled by the arbitral tribunal, was held in January 2017. The arbitral tribunal issued its final award on July 31, 2017, rejecting all of GUPCSA's claims and ordering GUPCSA to pay more than B/.22,544 for legal expenses and B/.900 for reimbursement of expenses paid by the ACP to the ICC.

The Concrete Arbitration
Two of the claims, on concrete mixtures and aggregates, were denied by the ACP and subsequently submitted by GUPCSA to the Dispute Adjudication Board (DAB), which, in deciding the case in December 2014, ordered the ACP to pay B/.233,234 plus interest, out of the B/.463,935 sought by GUPCSA (updated at the time of the decision). The ACP paid this amount, and subsequently paid B/.10,827 for additional costs incurred by GUPCSA after September 2014 until the concrete works were completed, in conformity with DAB No. 11 decision. Both sides have referred this dispute to arbitration in March 2015, in two separate arbitration proceedings, which resulted in a consolidated arbitration Case CCI No. 20910/ASM//JPA (C-20911/ASM//JPA). GUPCSA requested the inclusion, in this second arbitration, of Dispute 13A for B/.99,000, previously decided and rejected in its entirety in favor of the ACP by the DAB. GUPCSA expects to recover from the ACP a total of B/.347,079 and the ACP, is in turn calling for the return of the amount that was paid pursuant to DAB decision in Dispute 11 for B/.244,061, Dispute 10 for B/.14,823 and Dispute 14B for B/.6,415. The Jurisdiction Award on this case was delivered on May 22, 2017. The merits hearing is set for January 2019.

In Arbitration 20910/ASM//JPA (C-20911/ASM), the ACP claims compliance with Subclause 8.7 of the delay damages in the amount of B/.54,600 corresponding to 182 days. GUPCSA filed objections alleging that the claim is premature, inadmissible and beyond the jurisdiction of the arbitral tribunal, stating that the date of delivery of the works depends on the confirmation of the requests for extension of time presented in the other arbitrations and that any determination of the arbitral tribunal would be provisional.

The arbitral tribunal rejected GUPCSA's jurisdictional objections, declaring that it does have jurisdiction to resolve the ACP's claims in relation to the delay damages and, therefore, the arbitral tribunal will decide the merits of this claim in the respective phase.

The Lock Gate Arbitration
In December 2016, GUPCSA submitted the arbitration ICC No.22465/ASM//JPA, which included DAB references 15, 6 and 13C regarding the design of gates and labor cost adjustments. In July 2017, GUPCSA submitted the arbitration ICC No. 22966/JPA on exactly the same claims.

Subsequently, both arbitrations were consolidated in the arbitration ICC No. 22465/ASM//JPA (C-22966/JPA), which is pending the appointment of the president of the arbitral tribunal to begin the process. The amount of this dispute was estimated by the ACP using the amounts presented by GUPCSA in its Statement at Completion and subsequent updates, in B/. 506,907.

The Disruption and other claims arbitration
In December 2016, GUPCSA submitted the arbitration ICC No. 22466/ASM//JPA that includes all of GUPCSA's claims that have not already been included in arbitration, among which is the claim for disruption (Claim 78) and some new claims that had not been announced or decided by the ACP and that have not been decided by the DAB. In July 2017, GUPCSA submitted the arbitration ICC No. 22967/JPA related exactly to the same claims.

Subsequently, in both arbitrations, the same arbitral tribunal was constituted and since both dealt with the same claims were consolidated, the arbitration ICC Case No. 22967 / JPA was consolidated in the arbitration ICC No. 22466/ ASM//JPA. The Conduct of Procedural Conference was held on August 28, 2018 and it is estimated that the jurisdiction hearing would be held in the first week of May 2019.

The amount of this dispute was estimated by the ACP using the amounts presented by GUPCSA in its Statement at Completion and subsequent updates, in B/.4,344,000.

The Arbitration of Advance Payments
Subsequently, GUPCSA filed the arbitration ICC No. 22588/ASM//JPA, requesting that the Tribunal declare that the Advances are not due, so they are not liquid or enforceable yet. In this arbitration the ACP has been ordered to refrain from making any demand on the Letters of Credit until December 16, 2018, date by which the arbitral tribunal´s decision on this dispute is expected.

By virtue of the foregoing, in the fiscal period 2018, the claims maintained by GUPCSA against the ACP are for an estimated amount of B/.5,852,446. This amount does not include legal expenses.

In the opinion of the Administration and its legal advisors, the determination of said conditions will not have significant negative effects on the financial position of the ACP.

Others:

The ACP has claims related to construction contracts, in the amount of B/.39,466. It is worth mentioning that the above does not include a demand for B/.17, which was rejected by the Supreme Court in June 2018, culminating with the claim of the Contractor.

Also, there are eight claims related to the Contract for the Construction of a Bridge over the Canal on the Atlantic side of which six are compiled in a single arbitration process for an amount of B/.215,352 that includes costs of the process, ACP has effected payments for B/.3,413 related to the claim 3. Additionally, maintains another arbitration process that involves a single claim, for an amount of B/.6,070, and a claim that was resolved in the administrative stage for an amount of B/.1,772 making a total of B/.223,195 the amount claimed for this project.

On November 18, 2016, the ACP learned that a bailiff of the Republic of France had ordered a cautionary measure on a time deposit of approximately B/.49,356 owned by the ACP, deposited in the New York branch, of a bank whose head office is in the United Kingdom. The measure imposed was based on an arbitration award issued on January 27, 2005 in favor of a French individual against the Transit and Land Transportation Authority of Panama and the Republic of Panama. The individual alleges in his claim that the ACP was jointly and severally liable with the Republic of Panama for this obligation. The ACP, which is an autonomous legal entity with its own assets, as established by the Political Constitution of the Republic of Panama, is not part of the controversy that originated this award, nor in solidarity with the Republic of Panama, for which it rejected the legitimacy of the precautionary measure and filed a request to lift it and the dissociation of the process to not be part of the dispute. On April 26, 2017, a judge of first instance issued his decision ordering the lifting of the cautionary measure, so that all of the funds subject to the injunction were released and transferred to the ACP. This decision was confirmed by the Court of Appeal of Paris, by judgment issued on May 24, 2018. Notwithstanding the foregoing, the decision of the court of appeals is pending to be formally notified to the plaintiff, which could give him the option of file an extraordinary cassation appeal before the Supreme Court of France.

The notes contained herein relate to claims against the ACP and cannot, nor should not, be considered as support or proof of acceptance of responsibility on the part of the ACP. In the opinion of the Administration and its legal counsel, the determination of these matters will not have adverse effects of a significant nature on the financial position of the ACP.

31. Events that Occurred after the Reporting Period

- On November 29, 2018, the ACP received the repayment of B/.12,000 from the B/.12,754 outstanding related to Lock Gates advance payments. Also, interests and reimbursement of legal expenses incurred in this process, that the Arbitral Tribunal ordered the Nacional de Seguros de Panamá y Centroamérica, S. A. (NASE) to pay ACP and that were already consigned to the Circuit Court of Panama, should be delivered to the ACP in the short term. The ACP continues to exercise all legal actions that assists for the effective repayment of B/.754 that are still pending on this payment advance on Lock Gates.

- On December 12, 2018, the ACP was notified of the decision of the arbitration tribunal with respect to the advances that GUPCSA and its shareholders had filed against the ACP.

  In that award, the Arbitral Tribunal determined that GUPCSA and its shareholders shall repay the ACP payment advances for B/.847,630 plus (i) B/.13,187 in interest, and (ii) B/.395 in expenses incurred related to tribunal costs and administrative expenses of the International Chamber of Commerce, and (iii) B/.5,444 to reimburse for legal expenses.

  Also, the Arbitration Tribunal determined that the ACP should pay GUPCSA maintenance services that had been withheld.

- The Board of Directors approved at its meeting on December 13, 2018, the transfer to the National Treasury of the operating and functioning economic surplus corresponding to fiscal year 2018 by the amount of B/.1,199,101. (See note 16).

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