(Translation of financial statements originally issued in Spanish)

Panama Canal Authority

Statement of Costs of Investments in Progress and Statement of Operating Expenses of the Panama Canal Expansion Program

September 30, 2011

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF PANAMA CANAL AUTHORITY

Translation of the Independent Auditors' Report originally issued in Spanish
(See explanation in the notes to the financial statements)

We have audited the accompanying schedule of the statement of cost of investments in progress as of September 30, 2011 and statement of operating expenses for the year then ended of the Panama Canal Expansion Program and a summary of significant accounting policies and other explanatory notes (together "the financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the schedules present fairly, in all material respects, the cost of investments in progress as of September 30, 2011, and the operating expenses for the year then ended in the Panama Canal Expansion Program in accordance with International Financial Reporting Standards.

Other matters

The accompanying schedule of the statements of cost of investments in progress as of September 30, 2010 and the statement of operating expenses for the year then ended in the Panama Canal Expansion Program, were audited by another auditors whose report dated November 26, 2010, expressed an unmodified opinion on those statements.

Ernst + Young

November 29, 2011
Panama, Republic of Panama

Panama Canal Authority
Statement of Costs of Investments in Progress
Canal Expansion Program
September 30, 2011
(In thousands of balboas B/.)

Notes			**2011**		2010
	Program management	**B/.**	**96,301**	B/.	72,788
9	Commission fees and other financing costs		**67,857**		26,924
	Construction of the new locks		**510,984**		179,836
	Construction of channels		**268,279**		148,470
	Navigational channel improvements		**492,257**		305,981
	Water supply improvements		**2,777**		598
4, 6		**B/.**	**1,438,455**	B/.	734,597

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

Panama Canal Authority
Statement of Operating Expenses
Canal Expansion Program
For the year ended September 30, 2011
(In thousands of balboas B/.)

Notes			**2011**		2010
	Contracted services and fees	**B/.**	**541**	B/.	464
	Materials and supplies		**460**		442
	Transportation and allowances		**86**		85
	Internal support		**647**		44
	Non-capitalized equipment		**120**		163
	Other expenses		**49**		73
7		**B/.**	**1,903**	B/.	1,271

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

(In thousands of balboas B/.)

Explanation Added for Translation into English

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

1. General Information

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

PCA, 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.

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

The main PCA offices are located at the Administration Building No. 101, Balboa, Republic of Panama.

2. General information of the project

Approval and estimated cost

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. Subsequently, 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 Program has an estimated cost of B/.5,250,000, detailed as follows:

Description		**Estimated amount**
Construction of the new locks	B/.	2,730,000
Water saving basins		620,000
Construction of channels		820,000
Improvements to navigational channels		290,000
Water supply improvements		260,000
Inflation during the construction period		530,000
Total	B/.	5,250,000

2. General information of the project (continuation)

The group of components described above was developed for the Canal Expansion Proposal submitted in April 2006. In order to optimize the execution of the Program, a more appropriate segregation was accomplished with the completion of the design, identification of the different implementation stages and definition of the different types of contracts that apply. As a result, components and estimates were adjusted as follows:

Description		**Estimated amount**
Construction of the new locks	B/.	3,564,875
Construction of channels		491,606
Navigational channel improvements		799,991
Water supply improvements		70,886
Program management		201,226
Program contingency		109,416
Operating expenses		12,000
Total	B/.	5,250,000

The objectives of the Canal Expansion Program are: (1) to achieve long-term sustainability and growth for the Canal's contributions to Panamanian society, through the payments PCA makes to the National Treasury; (2) to maintain the Canal's international competitiveness as well as the value added by Panama's maritime route to the national economy; (3) to increase the Canal's capacity to capture the growing tonnage demand with the appropriate levels of service for each market segment; and, (4) to make the Canal more productive, safe and efficient.

Execution of the Program includes the development of designs, models, specification and contracts, the pre-classification of the possible contractors and finally, contractor selection. Also part of this program includes the simultaneous construction of both locks facilities with their water recycling basins, dry excavation of the new Pacific access channel, deepening and widening of the Gatun Lake navigation channels, as the entrances from both seas and the deepening of Culebra cut channels.

3. Statement of compliance

The statement of costs of investments in progress and the statement of operating expenses in the Panama Canal Expansion Program have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

4. Basis of presentation of the financial statements

The financial statements have been prepared on a historical cost basis except for hedging instruments which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies are set out below.

Functional currency

The PCA maintains its accounting records in balboas (B/.), which is its monetary unit, and the statement of costs of investment in progress and the statement of operating expenses are stated in this currency. The balboa, monetary unit of the Republic of Panama, is at par and is free exchange with the U.S. dollar. The Republic of Panama does not issue paper currency and in its place utilizes the U.S. dollar as legal tender.

5. Significant accounting policies

Costs of investments in progress

Accumulated costs of investments in progress include all direct charges for materials, labor, studies, equipment, professional fees and indirect costs associated with the expansion works. After finishing these works, the construction value will become part of the properties, plant, and equipment and its depreciation will begin.

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs are recognized as expenses when incurred. Borrowing costs consist of interest and other costs incurred by PCA related to its financing.

Internal support

Internal support in the Canal Expansion Program includes: salaries and employment benefits, materials, supplies and use of equipment. The internal support directly related to investment projects in the Canal Expansion Program is capitalized. Internal support charged to operating expenses represents indirect costs that are not directly attributable to the construction of the facility. These expenses include internal resources dedicated mainly to cleaning, moving and maintenance tasks of buildings and equipment.

Operating expenses

Operating expenses comprise the expenditures that are not capitalized which primarily include service contracts and purchase of materials that do not meet capitalization criteria and which unit cost is equal to or less than B/.10.

(In thousands of balboas B/.)

6. Costs of investments in progress

At September 30, 2011, the accumulated costs of investments in progress of the Panama Canal Expansion Program totalled B/.1,438,455 (2010: B/.734,597). These costs are included in the audited financial statements of the PCA as of September 30, 2011 in Properties, Plant, and Equipment - Constructions in Progress for B/.1,569,299 (2010: B/.931,608).

The annual activity of costs of investments in progress is detailed as follows:

			Year ended September 30, 2011			
Costs of investments in progress		**Beginning Balance**		**Increase**		**Ending Balance**
Program management	B/.	72,788	B/.	23,513	B/.	96,301
Commission fee and other financing costs		26,924		40,934		67,858
Construction of the new locks		179,836		331,148		510,984
Construction of channels		148,470		119,808		268,278
Navigational channel improvements		305,981		186,276		492,257
Water supply improvements		598		2,179		2,777
	B/.	**734,597**	**B/.**	**703,858**	**B/.**	**1,438,455**

			Year ended September 30, 2010			
Costs of investments in progress		Beginning Balance		Increase		Ending Balance
Program management	B/.	48,779	B/.	24,009	B/.	72,788
Commission fee and other financing cost		14,930		11,994		26,924
Construction of the new locks		29,828		150,008		179,836
Construction of channels		88,785		59,685		148,470
Navigational channel improvements		179,843		126,138		305,981
Water supply improvements		234		364		598
	B/.	362,399	B/.	372,198	B/.	734,597

(In thousands of balboas B/.)

7. Operating expenses

Operating expenses of the Panama Canal Expansion Program for the year ended September 30, 2011, totalled B/.1,903 (2010: B/.1,271) as summarized in the statement of operating expenses are included in the income statement of the PCA's audited financial statements.

8. Total Costs and Expenses of the Panama Canal Expansion Program

Total costs and expenses of the Panama Canal Expansion Program as of September 30, 2011 are summarized as follows:

		2011		2010
Capitalized costs as of September 30, 2011	**B/.**	**1,438,455**	B/.	734,597
Expenses:				
2007		**821**		821
2008		**524**		524
2009		**1,971**		1,971
2010		**1,271**		1,271
2011		**1,903**		-
Total capitalized costs and expenses	**B/.**	**1,444,945**	B/.	739,184

9. Commission fees and other financing costs

The commission fees and other financing costs for the year ended September 30, 2011 are detailed as follows:

		2011		2010
Interest on loans	**B/.**	**12,613**	B/.	4,554
Commitment fees		**3,616**		4,267
Other expenses		**24,705**		3,173
Total interest expense for financial liabilities at amortized cost		**40,934**		11,994
Less: amount included in the cost of capitalized loans		**(40,934)**		(11,994)
	B/.	**-**	B/.	-

The accumulated commission fees and other financing costs totaled B/.67,857 as of September 30, 2011 (2010: B/.26,924).

(In thousands of balboas B/.)

10. Risk Management

Capital risk management

The PCA manages its capital to ensure that it will be able to continue as an ongoing concern, while it maximizes the return through the optimization of its debts and equity balances.

The PCA's capital structure consists of net debt (borrowings as detailed in note 11), compensated by cash and bank deposit balances, and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings).

Historically, the PCA has operated with its own resources due to its high levels of cash generated by its operations, however, on December 9, 2008, the PCA subscribed to a common term agreement with multilateral and bilateral agencies, which committed to grant borrowings with the purpose of partially financing the Canal’s Expansion Program (see note 11).

Interest rate risk management

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

Interest rate swap contracts

Since March 2010, the PCA established interest rate swap contracts, without collateral, to fix the floating interest rate of the B/.800,000 loan. Of the B/.800,000, B/.200,000 were disbursed on March 1, 2010; B/.300,000 on October 29, 2010, and B/.300,000 on April 13, 2011. Biannual amortizations of B/.40,000 are programmed to start on May 15, 2019 until loan maturity. According to interest rate swap contracts, the PCA agrees to swap the difference between the fixed and floating interest rate amounts calculated on the agreed notional principal amounts. Such contracts allow the PCA to mitigate the risk of interest rate changes over the cash flow of the hedged debt agreed at a floating interest rate. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the curves at the end of the period in question and the inherent credit risk in the contract, as it is detailed further ahead.

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

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

Contracts with floating interest rates and outstanding fixed payment rates	**Average contracted fixed interest rate**		**Notional principal value**				**Fair Value**			
	2011	2010		**2011**		2010		**2011**		2010
5 years or more	**4.67%**	4.67%	**B/.**	**800,000**	B/.	800,000	**B/.**	**(215,714)**	B/.	(150,692)

10. Risk Management

Interest rate risk management (continuation)

Interest rate swap contracts (continuation)

The interest rate swaps are paid biannually. The floating rate on the interest rate swaps is at 6-month Libor rate. The PCA 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 PCA's cash flow exposure resulting from floating interest rates on borrowings.

Interest rate sensitivity analysis

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

As of September 30, 2011, for each basis point increase/decrease in the Libor rate curve through the remaining term of the contract, the unrealized loss on the interest rate swap contract would decrease/increase by B/.1,038.5. This amount was calculated based on the DV01 indicator generated by Bloomberg’s valuation model tool used in the valuation of interest rate swap contracts.

As of September 30, 2011, the PCA expects that the Libor would increase through the remaining term of the contract by 100 basis points during fiscal 2012, which would represent an increase of B/.103,849 in PCA´s equity.

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

As mentioned in Note 12, the PCA has different commitments related to the Canal Expansion Program. These commitments include adjustment clauses related to the main commodities that will be used during construction, such as: reinforced steel, cement, structural steel, and light diesel. The clauses use, as adjustment references, representative price indexes of the commodities’ fair value, a fixed reference price for each commodity, the quantities or maximum volume, and the target dates for adjustment calculations.

(In thousands of balboas B/.)

10. Risk Management (continuation)

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

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

Commodity	**Agreed volume (thousands)**	**Fixed reference price**	**Fair value reference index**
Reinforced steel	279.0 metric tons	B/.575 per metric ton	“Reinforcing Bar - Platts Steel Market Daily”
Structural steel	67.2 metric tons	B/.1,000 per metric ton	“Plate - Platts Steel Market Daily”
Cement	1,278.6 short tons	B/.100 per short ton	“Portland and Other Cements, Commodity Code 13220161” from the US Bureau of Labor Statistics
Light Diesel (Third Set of Locks contract)	60,000 gallons	B/.1.40 per gallon	US Gulf Coast Diesel No.2 Oil from Platts Latin American Wire
Light Diesel (Pacific access channel excavation contract)	2,054 gallons	B/.1.7580 per gallon	Diesel’s Import Parity Price from the Secretariat of Energy for Light Diesel

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

10. Risk Management (continuation)

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

The PCA´s internal policies allow to award hedging contracts with specialized institutions, in an effort to neutralize or mitigate the risks associated with price fluctuation of the commodities acquired by the PCA, in regards to the functioning, maintenance, operations, modernization, and expansion of the Canal.

Light Diesel

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

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

Reinforced steel, structural steel, and cement

For these commodities, under market conditions, it has not been feasible to obtain financial hedge services to allow the mitigation future cash flows risk due to price variability.

The following table shows the quantities established in the lock design and construction contract and the estimated adjustments at the beginning of fiscal year 2011:

Commodity	Unit	Quantity	Total (in thousands)
Reinforced steel	Metric Ton	47,077	B/. 5,623
Structural steel	Metric Ton	67,200	(B/. 1,778)

During fiscal year 2011, the scaling adjustment for structural steel resulted in a B/.983 credit in favor of the PCA, B/.795 less than estimated. As this year structural steel scaling clause was concluded, the PCA no longer has any future cash flow risk for this commodity. Regarding reinforced steel, the cumulative adjustment at the end of the fiscal year was B/.10,881, representing an increase of B/.5,258 over the estimate.

As of September 30, 2011, the reinforced steel price (moving average as stipulated in the contract) was B/.805.65 per metric ton. If the average price remains unchanged for fiscal year 2012, and with an established consumption of 143,307 metric tons, the margin between the reference price and the current price would represent an adjustment for B/.33,054. For cement, the price as of September 30, 2011 was B/.90.39 per short ton, which with an established consumption of 788,253 short tons for fiscal year 2012, would represent a credit of B/.7,575.

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

(In thousands of balboas B/.)

10. Risk Management (continuation)

Liquidity risk management

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

Interest and liquidity risk tables

The following tables detail the remaining contractual maturity of the PCA financial liabilities, with their agreed reimbursement periods. The tables have been designed based on undiscounted cash flows of financial liabilities based on the date in which the PCA shall make the payments.

	Weighted average effective interest rate (%)	1 month or less	1 - 3 months	1 - 5 years	More than 5 years	Total
September 30, 2011						
Other financial liabilities		B/. 12,941	B/. -	B/. -	B/. 202,773	B/. 215,714
Borrowing at a floating interest rate	1.22191	-	-	-	800,000	800,000
Borrowing at a fixed rate	5.196	-	-	-	100,000	100,000
		B/. 12,941	B/. -	B/. -	B/. 1,102,773	B/. 1,115,714

The PCA has access to financing facilities, as described afterward, of which USD 1,400,000 were not utilized at the end of the 2011 period. The PCA expects to comply with its other obligations with the cash flows from the operations and from the maturity of financial assets.

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

(In thousands of balboas B/.)

10. Risk Management (continuation)

Financing facilities

Borrowing with available balances in the following facilities until 2014 that could be extended by mutual agreement:

		2011		2010
Amount used				
Japan Bank for International Cooperation (JBIC)	**B/.**	**800,000**	B/.	200,000
European Investment Bank (EIB)		**100,000**		100,000
Amount not used				
Japan Bank for International Cooperation (JBIC)		**-**		600,000
European Investment Bank (EIB)		**400,000**		400,000
Inter-American Development Bank (IADB)		**400,000**		400,000
International Finance Corporation (IFC)		**300,000**		300,000
Andean Development Corporation (ADC)		**300,000**		300,000
	B/.	**2,300,000**	B/.	2,300,000

11. Borrowings

Financing received for the Canal Expansion Investment Program, presented at amortized cost as of September 30, 2011, is detailed as follows:

		2011		2010
Japan Bank for International Cooperation (JBIC)	**B/.**	**800,000**	B/.	200,000
European Investment Bank (EIB)		**100,000**		100,000
Balance at the end of the year	**B/.**	**900,000**	B/.	300,000

Financing from JBIC was subscribed at a floating rate (6-month Libor plus margin), with equal semiannual payments to principal starting on May 15, 2019, and ending in November 2028. Financing from EIB was subscribed at a fixed rate with equal semiannual payments beginning on May 15, 2019, and ending in November 2028.

The PCA complies with the semiannual verification of the financial restrictions over this debt which consist of Total Debt to EBITDA Ratio and the Debt Service Coverage Ratio.

12. Commitments

Commitments as a result of construction in progress contracts and undelivered purchase orders totalled approximately B/.3,088,000 (2010: B/.3,647,000). Panama Canal Expansion Program contracts awarded during the fiscal year totalled B/.18,332 (2010: B/.406,997).

Contracts awarded during fiscal year 2011, include cleaning unexploded ordinances to Fattuto, S.A. for B/.2,248; range towers at San Pablo and Tabernilla reach to Sociedad Española de Montajes Industriales for B/.2,000; and drainage channels in Marietta and Cocoli to Grupo Howard S.A. for B/.1,588.

Contracts awarded during fiscal year 2010 include: Pacific Access Channel, Project No. PAC-4 to ICA-FCC-MECO for B/.269,861; north entrance dredging of the Pacific access channel for the new third set of locks complex on the Pacific side to JAN DE NUL N V for B/.54,551; and widening and deepening of the northern reaches of the Gatun Lake channel to Dredging International NV for B/.39,984.

Fiscal year 2011 balance includes the design-build contract for the Canal Expansion Program´s major component, the third set of locks, to Grupo Unidos por el Canal, S.A. (GUPCSA) of B/.2,823,744 (2010: B/.3,221,631).

13. Approval of financial statements

These financial statements for the period ended as of September 30, 2011, were approved by the Board of Directors and authorized for issuance on November 29, 2011.