ANNUAL REPORT 2017

CANAL DE PANAMÁ

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MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

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

In 2017, the expanded Canal drew the attention of the maritime community, as it changed the structure of world trade and strengthened the competitiveness of the Panama Canal route. Increased Neopanamax locks demand confirms that we made the right decision and demonstrates the confidence of the maritime industry in the safe, reliable and efficient service provided by the Panama Canal.

The container vessel segment contributed to our exceeding the amount of tonnage estimated for this fiscal year. Consequently, this generated a considerable amount of merchandise for Latin America, and created strong competition between the different ports of the region.

Committed to the environment, the Board of Directors guarantees the responsibility granted by law to the Panama Canal Authority to manage, maintain, use and conserve the Canal watershed's water resources. This year, the Panama Canal together with other government entities, participated in the preparation of the National Water Security Plan 2015-2050 that will analyze new water sources for the population and the development of the country, while executing ACP risk management programs, monitoring and using early warning systems in the water reservoirs. Additionally, the Canal implements conservationist policies for responsible, affordable, and environmentally sustainable water use.

The Board of Directors approved the signing of a Mutual Cooperation Agreement between the Panama Canal Authority and Busan Port Authority (South Korea) to maintain a collaborative alliance aimed at generating new business by promoting the maritime route between the East Coast of the United States and Asia, through the Panama Canal and this important port.

Management of the services offered by the Panama Canal promotes other logistics integration projects in the rest of the country.

In this 2017, changes contained in the International Financial Reporting Standards (IFRS) were implemented and the standards contained in the Code of Best Corporate Governance Practices were maintained.

For the second consecutive year, the three most important credit rating agencies, Standard & Poor's (S & P) Global Rating, Fitch Ratings and Moody's, ratified our A rating above the Sovereign. Also, the criteria and guidelines applicable to liquidity investment were revised.

As part of what was established in the Organic Law of June 11, 1997, which organizes the Panama Canal Authority, the firefighters and marine engineer collective bargaining agreements were signed. These agreements contain the working conditions that were negotiated for both units.

The Canal's business model, based on a leading operation in global connectivity, will allow this commercial route to remain as one of the main pillars of the shipping industry, increasingly contributing to Panama's logistical efforts.

The challenges and commitments that lie ahead are significant; however, the Panama Canal will implement a series of operational measures to take full advantage of the Neopanamax locks capacity.

We reaffirm our commitment as a dynamic and profitable organization, driver of Panama's prosperity.

Board of Directors

Roberto R. Roy
Chairman of the Board of Directors

Marco A. Ameglio S.
Director

Ricardo Manuel Arango
Director

Henri M. Mizrachi K.
Director

Óscar Ramírez
Director

Elías A. Castillo G.
Director

Lourdes Del C. Castillo M.
Director

Nicolás Corcione
Director

Francisco Sierra Fábrega
Director

José A. Sosa A.
Director

Alberto Vallarino Clément
Director

MESSAGE FROM THE ADMINISTRATOR

Jorge L. Quijano
Administrator
Panama Canal

On behalf of the Panama Canal, it is a pleasure to present the annual report for the 2017 fiscal period. The most relevant aspects of the company's operational, financial, labor and socio-environmental performance are included in this report in a transparent and timely manner, complying with our commitment to accountability.

During fiscal year 2017, the first full year of operation of the expanded Canal, the Canal exceeded expectations and marked a series of far-reaching milestones and achievements, thanks to the unrestricted support, dedication and assurance of each of the employees that make up our workforce, as well as the trust that customers have placed in the Panama Canal brand.

Regarding the cargo, the Canal reached the record figure of 403.8 million PC/UMS tons (Panama Canal Universal Measurement System), which represents an increase of 22.2 percent with respect to the 330.4 million tons of fiscal year 2016. This was made possible because of the strong performance of the container, liquid bulk, dry bulk and passenger vessels segments, with increases in billable tons of 19 percent, 54.5 percent, 20.2 percent, and 13.3 percent, respectively. This was achieved while the market was influenced by purchases and acquisitions of shipping lines, new deals between operators, and by alliances between shipping companies, resulting in a change in the outlook of liner services that transit the Panama Canal.

The Neopanamax locks have allowed for customers to take advantage of the benefits of the economies of scale on the Panama route. This is reflected in the number and size of the ships that transit the Canal today. Currently, the daily transit average is around five vessels, a figure higher than the one estimated for fiscal year 2017, and which is expected to increase in the short term.

As a result, the Canal obtained total revenues of B/.2,886 million, B/.383 million more than the previous fiscal year. Total toll revenues were B/.2,707 million, electric power sales B/.84.6 million, potable water sales B/.28.4 million, and other income for a total of B/.33 million and interest earned by the order of B/.33 million. This performance also made it possible to reach a new record of B/.1,650 million in direct contributions to the State.

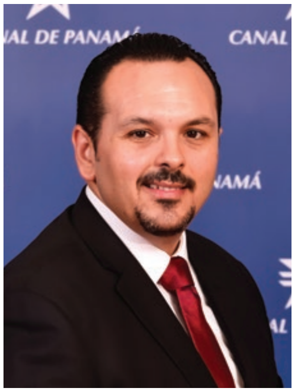
On the other hand, The Green Route of Panama has reinforced the Panama Canal's global environmental commitment by helping reduce an estimated 35 million tons of carbon dioxide (CO_2) during fiscal year 2017. Likewise, we recognized our customer's environmental performance through the "Green Connection Award" program, the "Environmental Premium Ranking" and we have made significant advances in the generation of renewable energies. In addition, the Canal complies with the mandate granted by law to ensure the availability in volume and quality of water for human consumption and its operations. In this sense, the Canal continued working actively in the development of its socio-environmental programs and participating in the development of the National Water Security Plan 2015-2050 as a member of the National Water Council. This year the National Government awarded the Panama Canal the execution of three contracts to carry out feasibility studies for multipurpose reservoirs in the basins of the Indio and Bayano rivers in the provinces of Panama, Colon and Cocle and in La Villa, Perales, Parita and Santa Maria rivers in the Azuero Peninsula and the Province of Veraguas.

As we look into the future, the Panama Canal reiterates its commitment to the country to maintain the competitiveness of the route in a sustainable manner, optimizing the activities of its core business and, at the same time, facing the challenge of reinforcing them with complementary activities that make it possible to maintain high levels of efficiency and excellence in the service demanded by the industry. The Panama Canal remains firm in its purpose of being a leader in global connectivity and a driver of the progress of our country.

Management Team

Jorge L. Quijano
Administrator

Oscar Bazán
Executive Vice President of Planning and Business Development



Agenor Correa
Vice President of General Counsel

Manuel E. Benítez
Deputy Administrator

Francisco J. Miguez P.
Executive Vice President of Administration and Finance

Esteban G. Sáenz
Executive Vice President of Operations

Abdiel Antonio Gutiérrez
Vice President of Corporate Communications

Francisco Loaiza B.
Executive Vice President of Human Resources

Ilya Espino de Marotta
Executive Vice President of Engineering and Program Management

Oscar Vallarino B.
Vice President of Corporate Affairs

Carlos Vargas
Executive Vice President of Environment, Water and Energy

Jacinto Wong
Executive Vice President of Information and Technology

CORPORATE STRATEGY

The Panama Canal advances with firm steps towards the achievement of its vision, leading different areas and aspects of national and international economic development such as maritime business, national and regional logistics development and environmental and water issues.

This year, under the leadership of the Board of Directors, the administration carried out a comprehensive strategic planning exercise through a series of workshops, whose purpose was to analyse and review the strategic objectives, planning horizons and lines of action of the Panama Canal, which lead to the approval of new objectives and an updated strategic plan.

As a result, significant improvements were made to the strategic planning process to ensure the alignment of the strategy and its main elements: vision, mission, values, plans and objectives, with the organization's budget. On the other hand, innovation focused on specific needs was promoted and the implementation of a comprehensive plan to enhance processes while increasing efficiencies in the organization's key processes was initiated.

The Panama Canal Authority looks to the future with optimism today, with a highly competitive expanded Canal, demonstrating with results that, thanks to transparency, planning, commitment and quality of work of Panamanians, great feats can be achieved.

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"

OBJECTIVES

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

2 Diversify revenues through related businesses.

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

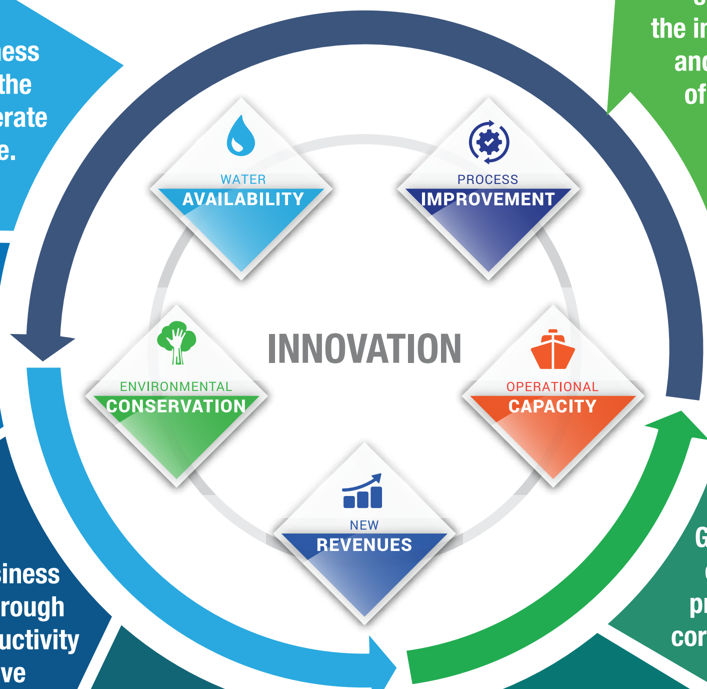
4 Strengthen customer relations and business intelligence.

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

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

7 Transform the organization by developing its capabilities and competencies.

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



VALUES

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

Innovation

Innovation is key to business sustainability. In a constantly changing world, with customers that have new needs and dynamic competitors, it is necessary to maintain an ongoing search for prompt and creative solutions that add elements of value.

In response to this, the Canal established the Innova Canal Program in 2010 with the aim of obtaining proposals that create value for the organization while facilitating the achievement of its objectives. In fiscal year 2016, the Innova Challenge was launched. This initiative promotes the generation of ideas and recognizes and implements the best proposals, and addresses the following challenges:

- Guarantee the availability of water for human consumption and Canal operations.
- Implement related businesses that add value to the route through Panama.
- Guarantee the operational capacity to meet the demand.
- Protect the environment without affecting the business growth.
- Increase productivity by improving process efficiency.

The proposals go through a rigorous selection procedure that includes presentations and evaluations, to determine their technical and financial feasibility. Those proposals with the greatest impact are selected. All ideas receive recognition. The creators of the winning ideas receive an award and these must be fully developed to produce positive results after their implementation.

This year, the five selected proposals focused mainly on the challenges of water availability and operational capacity:

- Selective water transfer from the Cocoli Locks approach channel to the Miraflores Lake.
- Dissipation of fog in the Gaillard Cut.
- Micro-perforated PVC piping for a bubble barrier to control water quality during Canal operations.
- Tugboats propulsion unit protection.
- Water recirculating system in the Miraflores Thermoelectric Plant.

The Innova Challenge defies ingenuity, creativity and commitment of Canal employees, urging them to identify and develop high impact solutions, and expects to continue encouraging innovation in the Canal with the firm intention of contributing to the achievement of its vision of being a leader in global connectivity and driver of progress in Panama.

Advisory Board

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

The Advisory Board is the consultative body that assists the Board of Directors and the senior management of the Panama Canal Authority pertaining to the needs, requirements and improvement of the international public service provided by the Canal, in accordance with the Political Constitution of the Republic, the Organic Law and its regulations.

The Board is made up of 16 leaders of the maritime and business community who contribute with their opinions and experiences to the design and improvement of the plans developed by the Administration for the future of the Canal. 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, Flemming R. Jacobs, Salvador Jurado, Gerhard E. Kurz, Andrónico Luksic Craig, Koji Miyahara, Albert H. Nahmad, Joe Reeder, Mikio Sasaki, Tommy Thomsen, C. C. Tung and Wan Min.

The Advisory Board meets at least once a year, at the request of the Board of Directors. This year, two Advisory Board meetings were held; one in Shanghai, China, on March 27 and 28; and the other one in Panama, from September 29 to October 3. During the meetings, the Administrator, accompanied by the vice-presidents, made presentations to the Advisory Board on the performance of the Canal; the operation of the locks, both the Panamax locks and the Neopanamax locks; the studies carried out by the Administration to increase Canal capacity; the progress of the studies that are conducted to increase water storage capacity for the country and the Canal. The Administration also presented progress of the construction of the bridge over the Canal and the studies for a new landfill, both on the Atlantic, in addition to other projects scheduled in the short, medium and long term.

During the meeting in Panama, members of the Advisory Board visited Cocoli Locks where they held a meeting to review the Report presented by the Canal Administrator, and other topics of interest for the interoceanic waterway.

SATISFYING MARKET DEMAND

CANAL PERFORMANCE WITH THIRD SET OF LOCKS

As the Expanded Panama Canal reached its first 15 months of operation, statistics confirm the efficiency of Panamanian administration and offer a positive outlook for the Third Set of Locks, a project that redefined world trade routes.

Since its opening, more than 2,000 Neopanamax vessels have transited the new Cocoli Locks, on the Pacific side, and Agua Clara Locks, on the Atlantic. The container segment accounted for about 54 percent of these transits, while liquefied petroleum gas (LPG) and liquefied natural gas (LNG) vessels represented 29 and 9 percent, respectively. Bulk carriers, tankers, car carriers and passenger vessels also transited the Expanded Canal.

Other interesting elements were incorporated into the maritime scenario during this period. For example, the Panama Canal, with its expansion, registered a 22.2 percent increase in tonnage and a 15.3 percent increase in revenues, as compared with the previous fiscal year.

In addition, about 90 percent of the global LNG fleet can now transit the Canal, allowing LNG producers in the United States to ship their products to Asia at much more competitive prices.

The same applies to LPG traffic, which has grown to become the second largest traffic segment of the Neopanamax locks.

Likewise, 15 out of 29 liner services that use the Panama Canal were repositioned due to the expansion. The majority of these liner services connect ports in Asia and the U.S. East Coast.

The positive impact of the Expanded Canal – which was built with almost a 90 percent Panamanian workforce – has led countries, such as the United States, to invest in their ports and logistics facilities to boost their local economies.

The Environmental Contribution

The maritime industry recognizes the significant impact of the Expanded Canal for trade. However, benefits are not limited to this aspect. The Expanded Canal has consolidated the waterway as a Green Route.

In addition to reducing times and providing a shorter route, the Expanded Canal allows vessels to transit with greater cargo carrying capacity, thus reducing fuel consumption and greenhouse gas (GHG) emissions. Estimates show that during this period the Expanded Canal contributed to the reduction of 17 million tons of CO_2, as compared to other routes, which is equivalent to 60,000 hectares of rainforest.

These results confirm the Canal's environmental impact, which is reflected in strategies such as the establishment of the Green Connection Award and the Environmental Premium Ranking under the environmental recognition program, both aimed at highlighting the efforts of customers to implement good practices and invest in technology to reduce GHG emissions and environmental pollution.

Milestones

On June 26, 2016, nine years after the official launching of the Panama Canal Expansion Program in Paraiso Hill, Panamanians experienced the pride of inaugurating the Expanded Panama Canal.

Container ship *COSCO SHIPPING PANAMA*, originally named *ANDRONIKOS*, made the inaugural transit. The vessel set sail from the Greek Port of Piraeus carrying 9,472 TEUs[1]. It is 299.98 meters in length and 48.25 meters in beam.

Since then, other vessels has also marked milestones in the different segments.

FY-2016:

June 27, 2016
- *LYCASTE PEACE*, first-ever LPG vessel.

July 25, 2016
- *MARAN GAS APOLLONIA*, first-ever LNG vessel. This was the first vessel to receive the Green Connection Award.

August 14, 2016
- *HANJIN XIAMEN*, 100th container ship.

August 18, 2016
- *AEGEAN UNITY*, first-ever bulk carrier.

September 8, 2016
- *HOEGH TARGET*, the largest car carrier in the world. The Norwegian-flag vessel was built in 2015 and can carry up to 8,500 vehicles.

FY-2017:

December 14, 2016
- *YM UNITY*, 500th vessel.

December 20, 2016
- *VALPARAISO EXPRESS*, first-ever vessel to transit the new locks carrying more than 10,000 TEUs.

March 19, 2017
- *MSC ANZU*, 1,000th vessel.

April 29, 2017
- *DISNEY WONDER*, first-ever cruise ship. This Disney Cruise Line cruise ship has capacity for 2,713 passengers and underwent a refurbishment at the end of 2016, increasing its length to 299.92 meters.

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

FY-2017 (continued):

May 2, 2017

- *COSCO DEVELOPMENT*, first-ever vessel to transit the Expanded Canal carrying more than 13,000 TEUs.

June 20, 2017

- *COSCO GLORY*, 1,500th vessel.

June 26, 2017

On occasion of the expanded Canal first anniversary, five vessels were presented with commemorative plaques during their transits:

- *ALBERT III:* LPG vessel chartered by Petredec Services Limited.
- *EVER LOADING:* An 8,500 TEU capacity container ship owned by Evergreen.
- *VALPARAISO EXPRESS:* A 10,500 TEU capacity container ship owned by Hapag Lloyd, in its seventh transit.
- *YUHSHO:* LPG vessel chartered by ENEOS GLOBE Corporation.
- *CMA CGM MELISANDE:* An 8,700 TEU capacity container ship owned by CMA CGM.

August 22, 2017

- *CMA CGM THEODORE ROOSEVELT*, the largest capacity ship to ever transit the new expanded locks. The vessel carried 14,863 TEUs on its voyage from Asia to the U.S. East Coast.

The Panama Canal is known as a competitive route that allows time, cost and inventory savings. With the expansion, the Canal guarantees its customers that it will remain competitive to allow safe and reliable transits and with the environmental seal that distinguishes this great infrastructure project.

MARKET

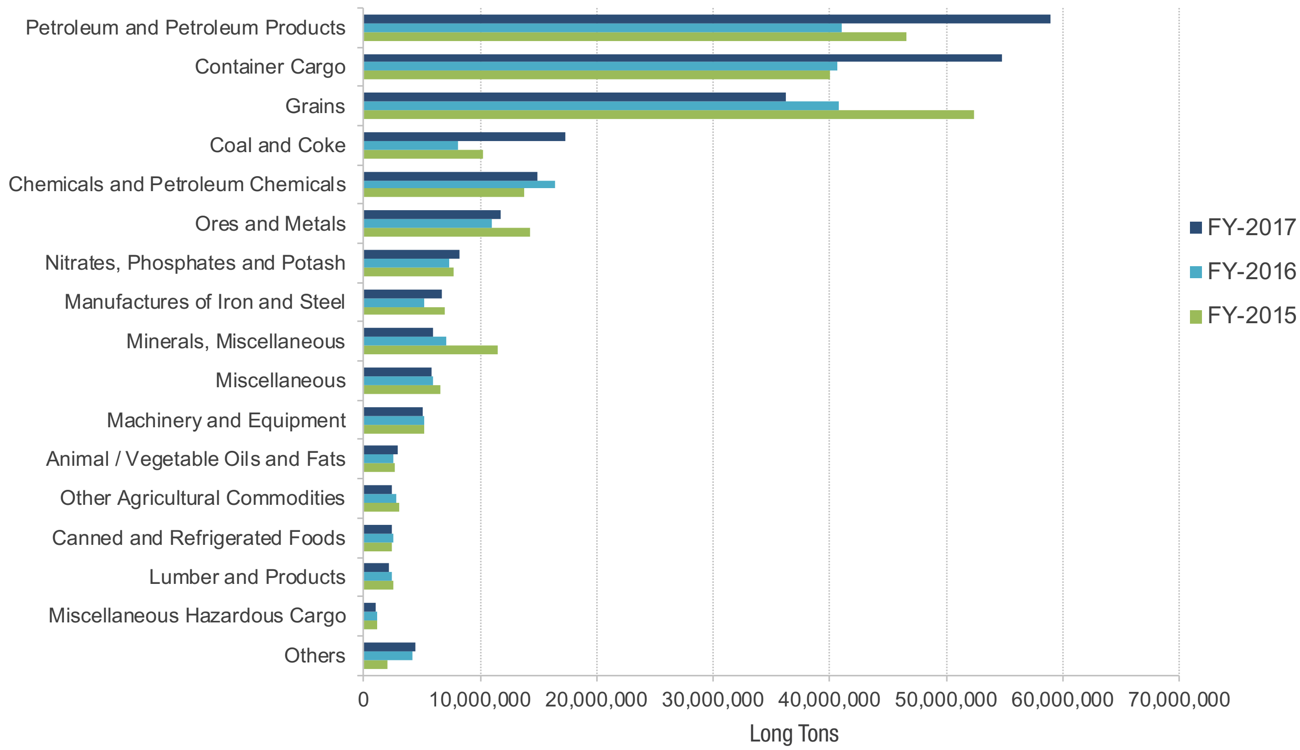
The Panama Canal registered a net tonnage of 403.8 million PC/UMS for fiscal year 2017, a 22.2 percent increase from the previous year.

Tolls revenues amounted to B/.2,238 million, a 15.8 percent increment. Transits also rose by a 3.3 percent, from 13,114 in fiscal year 2016 to 13,548 in fiscal year 2017.

In the economic scenario, two main aspects characterized fiscal year 2017: a concern about protectionism and a relative improvement in the global economy supported by steady growth in the United States and an increasing relative recovery in the Eurozone.

Debates on the United States elections raised investors' uncertainty, especially because of the protectionist platform regarding the international trade and the possible impacts on the 2017 European elections.

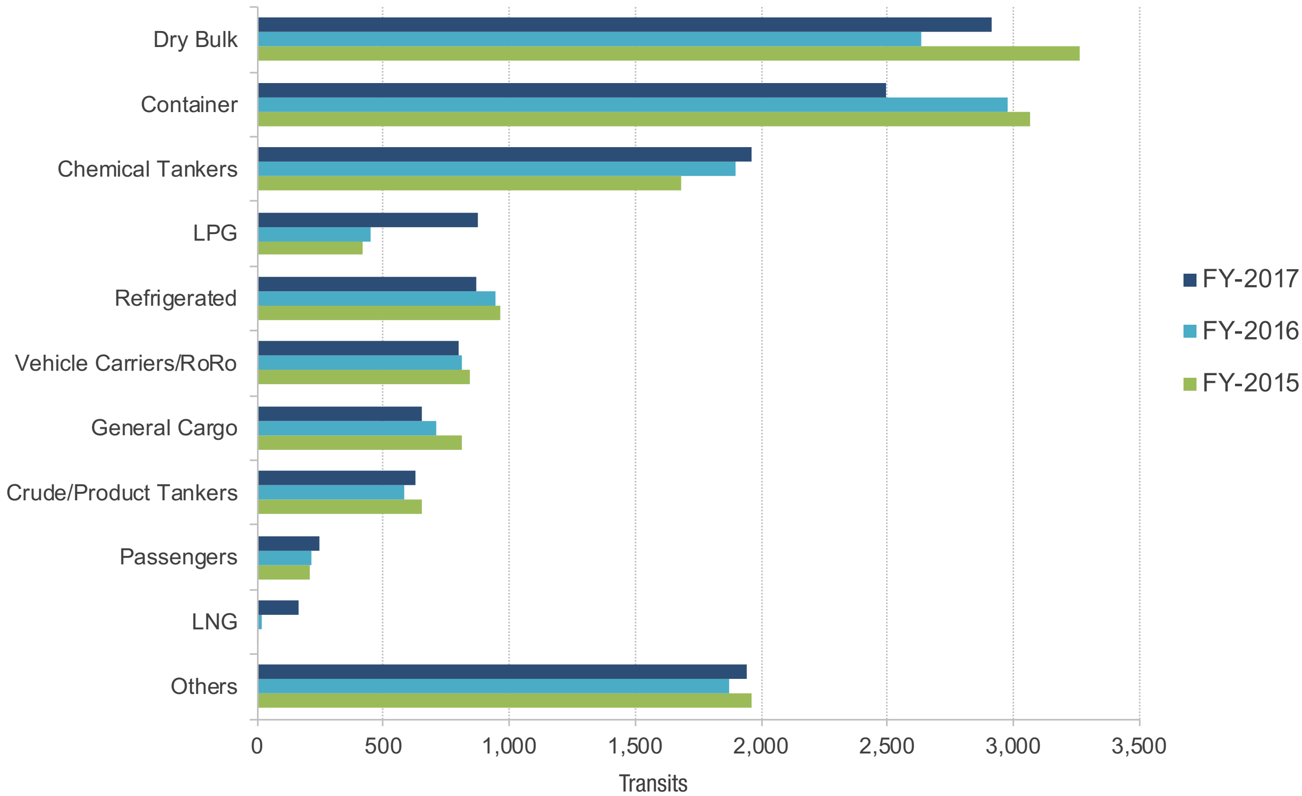
Principal Commodities Through the Panama Canal



However, by January 2017, there was a relative improvement in different economies, evidenced by a gradual reduction in the financial and economic risks experienced in previous years. This situation continued for the rest of the year and prompted forecasts from the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and other international organizations to maintain their upbeat expectations throughout the year. Significant events during the year included increases in the United States Federal Reserve's interest rate, a recovery of China's stock exchange, another reduction in oil production by the Organization of Petroleum Exporting Countries (OPEC), the removal of economic sanctions on Iran and the rise of the dollar against other currencies in these markets.

During the last quarter of 2016, the United States economy slowed down, mostly as a result of uncertainty created by the presidential elections, which curtailed consumption and investment during that period. However, the outlook changed by January 2017, improving consumers and investors' expectations due to possible tax reductions, elimination of regulations and repatriation of capital in a less costly manner. Even though President Trump has experienced difficulties implementing changes, the economy has continued to grow. For its part, the Federal Reserve has continued raising interest rates and has declared its intention to start phasing out the quantitative easing (QE) program, which consisted in buying long-term bonds to boost higher interest rates in the long term, instead of short term, to help financial institutions in times of crisis. Unemployment remained low, while foreign trade was active. Despite announcements of protectionist policies, the North American Free Trade Agreement (NAFTA) negotiations and trade discussions with China, the United States economy has remained robust.

Transits by Market Segment



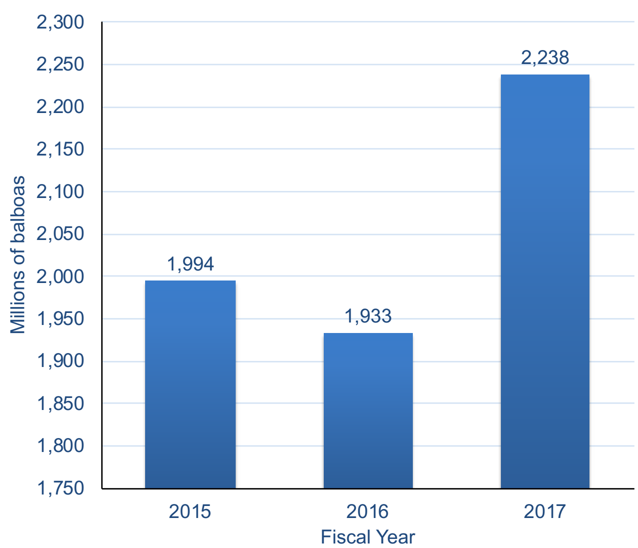
The Eurozone economy rebounded since the last quarter of 2016, surpassing the expectations of economic organizations. Progress in employment, personal consumption and investment are helping the Eurozone economy to become stable. Election results in France and Germany, reduced uncertainty about the possible rupture of the European Union. International organizations, including the IMF, confirmed a drop in financial risk, but were concerned about the implementation of Brexit (the United Kingdom leaving the European Union).

In Asia, economic growth remained moderate and there was an improvement in the region's international trade, which supported this rise. Greater economic stability in China combined with government fiscal and monetary stimulus, especially regarding the Silk Road initiative, served as drivers for the region. Although the United States threatened to limit trade with China, no protectionist measures against this country have been implemented so far.

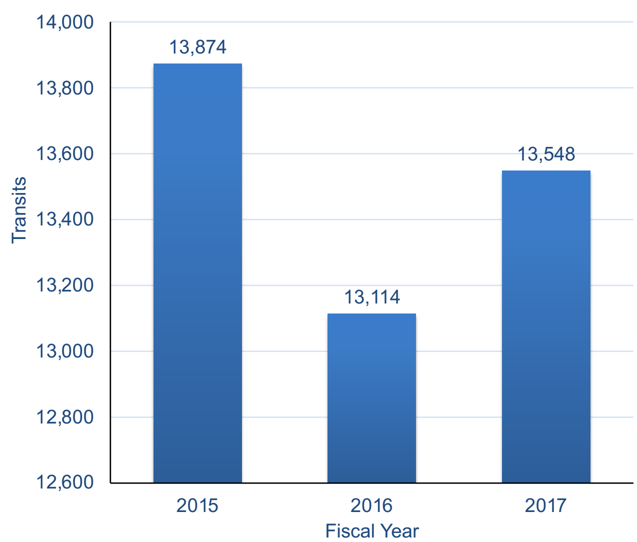
Japan's economy also recovered. The slow growth at the end of 2016, led to an improved 2017. After January, the Japanese economy continued to expand, reaching the second best results of the post-war period. This expansion was mainly driven by personal consumption and investment in business assets. Nonetheless, wages did not show significant growth, nor did exports.

Latin America showed significant improvements compared to 2016, including Argentina, Colombia, Brazil, Ecuador and Panama. The growth was driven mainly by price increases of some raw materials and improvements in international trade. Inflation continued to decline in South America but rose in Mexico. Most countries experienced great exchange rate stability helped by exports to the United States, the main trading partner of many of these economies. Progress in global economic growth, increased the optimism of many consumers and investors.

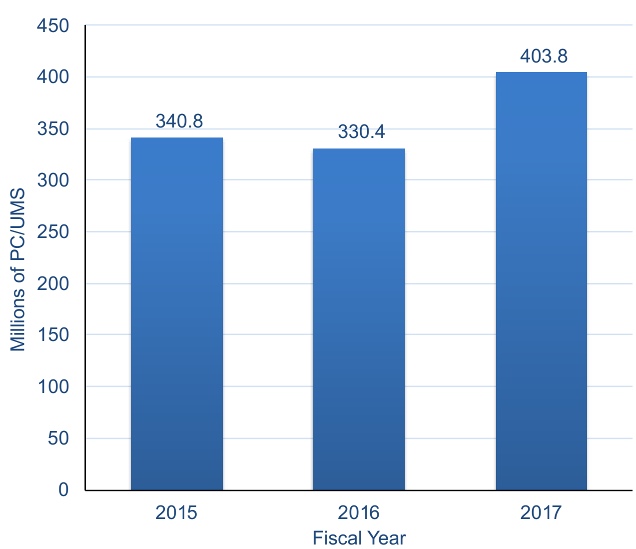
Toll Revenues



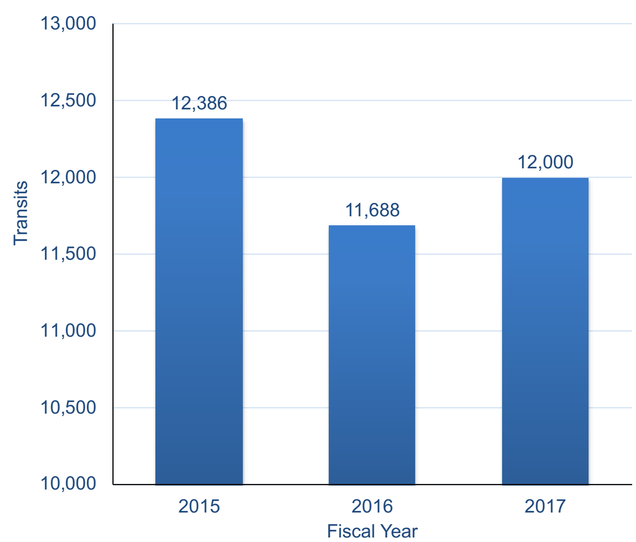
Transits Through the Panama Canal



Vessel Tonnage



Oceangoing Vessels Transits



Container Vessels Segment

The container vessels segment reported a total of 2,493 transits through the Canal, with a total of 142.6 million PC/UMS tons, 14.1 million TEU capacity and B/.1,048 million in toll revenues. These numbers show a 16.3 percent decrease in transits, but a 19 percent increase in PC/UMS tonnage, 14 percent in TEU capacity and 10.5 percent in toll revenues compared to the last fiscal year. Container vessel toll revenues comprised almost 46.8 percent of total Panama Canal revenues for fiscal year 2017. For the expanded Canal, this segment represented a 52.2 percent of transits and 77 percent of toll revenues.

The past twelve months were the first complete fiscal year of operations for the expanded Canal, in which a significant substitution of Panamax with Neopanamax liner service[2] vessels took place. The loyalty program was a success for clients; providing savings to 88.4 percent of transits.

This year was full of satisfactions and changes such as the deployment of larger vessels than expected, in order to take advantage of the economies of scale that the expanded waterway offers to the industry. An example was the record of the largest vessel ever to transit the Canal and call the Port of New York/New Jersey: the *CMA CGM THEODORE ROOSEVELT*, with a capacity of 14,863 TEUs. Other changes included the merge and acquisitions of shipping lines by larger ones and new deals between operators, such as the purchase of Hamburg Sud by Maersk Line, OOCL by the Chinese line COSCO, and the creation of the Ocean Network Express by the Japanese lines K-Line, MOL and NYK. Also, the reorganization of shipping alliances during this year into three mega alliances, changed the outlook of liner services that transit the Panama Canal.

[2] A liner service is defined as a regular service for the transportation of goods using vessels with established itineraries with fixed intervals or frequencies port calls.

Fiscal year 2017 started with 28 liner services deployed through the Canal, 20 of them Panamax-sized or smaller, and the rest, Neopanamax-sized. Variations took place during the year, such as the market consolidation into three large shipping alliances and some mergers and acquisitions. The year-end balance was 29 liner services, of which 15 use Neopanamax-sized vessels and 14 use Panamax-sized or smaller vessels.

Liquid Bulk Segment

In fiscal year 2017, the liquid bulk segment became the second most important segment surpassed only by the container segment. All segment indicators reached record numbers compared to fiscal year 2016, with 23, 54.5 and 46.2 percent growth, in transits, billing tonnage and toll revenues, respectively.

The upward trend in transits was due to traffic growth in the Neopanamax locks, plus the fact that it reflects the first full year of operations of these locks[3]. It is particularly noteworthy the increase in VLGC (very large gas carriers), followed by LNG (liquefied natural gas) carriers, and Neopanamax tankers.

In spite of fiscal year 2017 traffic record, certain factors had an adverse effect on the liquid bulk segment, like the operational draft restriction in the Neopanamax locks (having an impact on Neopanamax tankers) and natural disasters, such as Hurricane Harvey that affected the supply chain of oil, gas and its derivatives, mainly in the U.S. Gulf of Mexico.

A total of 75.9 million long tons were transported during fiscal year 2017, 26.2 percent more than the previous fiscal year, driven primarily by an extraordinary spur of liquefied petroleum gas (LPG), which increased from 6.2 million long tons in fiscal year 2016 to 15.3 million in fiscal year 2017, and by the LNG flow that went from 549.8 thousand long tons of cargo in fiscal year 2016 to 6.4 million long tons in fiscal year 2017.

[3] Fiscal year 2016 comprised three months of operations of the expanded Canal. Fiscal year 2017 was the first full year of operations of the Neopanamax locks.

Tanker vessels showed a positive performance when compared to fiscal year 2016, growing 4.3, 8.4 and 7.7 percent in the number of transits, billing tonnage and toll revenues, respectively, as a result of the traffic growth of Panamax vessels (laden and ballast).

Total tanker cargo showed a slight increase of 859.6 thousand long tons (1.6 per cent), compared to the 53.4 million long tons registered in fiscal year 2016. The most significant growth for tankers was reported in diesel transportation, which increased 2.1 million long tons compared with the previous fiscal year, mainly on routes originating in the U.S. Gulf of Mexico to the west coast of Mexico, Guatemala, Peru, Panama and Chile.

Gasoline was the second most significant commodity carried in tankers vessels through the Panama Canal during fiscal year 2017. This commodity registered a total of 9.2 million long tons, 25 thousand additional long tons compared to fiscal year 2016, in the route from the U.S. Gulf of Mexico to the west coast of Mexico. Gasoline exports from the United States to Mexico have increased as a result of low production in Mexico's refineries.

Chemical and petrochemical cargo increased 103 percent, a total of 1.1 million additional long tons over the previous fiscal year. Methanol shipments recorded their best performance during fiscal year 2017, increasing 104.6 percent compared to the previous fiscal year (103.4 thousand tons of additional cargo). The routes that showed the highest increase were those from the U.S. Gulf of Mexico to South Korea, Taiwan and the Port of Kitimat, on the west coast of Canada.

Along the same lines, gas carriers had an excellent performance, registering record numbers in transits, billing tonnage and toll revenues, surpassing fiscal year 2016. This remarkable performance was due to a traffic increase through the Neopanamax locks , mainly of laden and ballast vessels with beams between 120 and 140 feet.

The total cargo transported in gas vessels increased 145.7 percent, compared to fiscal year 2016, equivalent to 9.1 million long tons, of which 92.5 percent was propane and 6.8 percent was ammonia. Liquefied petroleum gas remains the most important cargo of this segment. The main export terminals transiting the Canal are located in the Gulf of Mexico, which represents a 97.4 percent of the total LPG cargo through the waterway towards its different destinations: Japan, China, South Korea, Singapore, Chile and Australia (listed in order of importance).

LPG exports from the United States have increased significantly in the last three years, positioning the country as the number one exporter worldwide because of its low production costs. The United States has captured a larger market share in countries like Japan, where exports have grown 48 percent, while exports from Algeria to Japan have declined 55 percent. This dynamic in the North American LPG export market has benefited the traffic of LPG vessels through the Panamax and Neopanamax locks.

LNG vessel traffic grew in fiscal year 2017 compared to the previous 12-month period, registering significant increases in transits, billing tonnage and toll revenues. This upward trend was mainly due to a greater LNG vessel traffic through the Canal and because during fiscal year 2016 (end of June), they started traversing the waterway.

Fiscal year 2017 registered a total of 163 LNG transits, representing 17.1 million billing tonnage and B/.54.1 million in toll revenues and a total of 6.4 million long tons of cargo.

LNG vessels have a special toll rate applied for ballast return voyages, provided that the same vessel transits through the Canal loaded and returns empty in less than 60 days. During fiscal year 2017, 67 ships transited in ballast, of which 60 percent or 40 transits, qualified for the round trip ballast rate.

In fiscal year 2017, the LNG market through the Panama Canal consisted mainly of flows originating in Sabine Pass terminal in the U.S. Gulf of Mexico with 5 million long tons of cargo (79.5 percent), followed by the Atlantic LNG terminal in Trinidad and Tobago with 716,002 (11.3 percent), then the Pampa Melchorita terminal in Peru with 455,246 (7.2 percent) and finally, from Equatorial Guinea and Nigeria with 64,295 and 63,378 thousand long tons of cargo, respectively, which represented 1 percent each.

With regards to the demand, LNG flows through the Canal bound for Asia (China, South Korea, Japan and Taiwan) with 3.5 million long tons (55.3 percent), followed by the Americas (Mexico and Chile) with 2.4 million long tons (37.5 percent) and finally, Europe (Spain and England) with 455.2 thousand long tons (7.2 percent).

Historically, the LNG industry has traded under long-term fixed destination contracts. However, in recent years, the proliferation of flexible destination contracts and the emergence of portfolio players[4] has allowed the growth of "non-long term" LNG trade, which was accelerated by demand shocks such like those resulting from the Fukushima crisis, or the growth of shale gas in the United States. Long-term contracts typically last 20 to 25 years and provide some degree of certainty in shipping schedules; however, sea transport and routes can constantly change in a spot market.

[4] Portfolio players: LNG portfolio operators/players. Source: The rise of the LNG portfolio player, Wood Mackenzie, August 2016.

In the United States, for example, the first two trains of the Sabine Pass export plant are supported by flexible destination contracts with LNG aggregators[5], and as a result, 68 percent of the volumes delivered in 2016 (1.9 million tons) were on the spot market. The Sabine Pass terminal has 3 export trains with a total capacity of 13.5 million tons; however, in trains 1 and 2, the sales contracts are backed by an LNG aggregator, such as Shell and Gas Natural Fenosa. The third train, on the other hand, is almost 80 percent long term contracted by KOGAS.

During fiscal year 2017, the Panama Canal has enabled LNG cargo from Sabine Pass trains (one and two), mainly sold in the spot market with flexible destination. This type of contracts along with low gas prices in Asia, had a negative effect on the results of fiscal year 2017. However, in mid-June 2017, the third train of Sabine Pass began its long term contracted mostly by KOGAS, thereby positioning the Panama Canal as the first option to transit LNG vessels.

Dry Bulk Carrier Segment

During fiscal year 2017, bulk carriers recorded a total of 2,915 transits, 79.1 million PC/UMS tons and B/.382 million in toll revenues. The PC/UMS tonnage increased 20.2 percent compared to fiscal year 2016.

This year industry overcapacity was one of the main reasons for low freight rates, which had an adverse effect on this segment. As a result of low fuel prices, some vessel operators were enticed to use alternative routes, such as the Cape of Good Hope and the Strait of Magellan, to reduce operating costs, which also affected the transits through the Canal. However, partly due to the operation of the Neopanamax locks, dry bulk transits loaded with coal and in ballast improved in fiscal year 2017 compared to fiscal year 2016, along with a slight increase in iron ore shipments. As a result, cargo tonnage increased 7.5 percent in fiscal year 2017, 6.7 million long tons more than in fiscal year 2016.

[5] LNG aggregator: Acts on behalf of a group of producers in order to collect the product, negotiate better prices and sell gas in mixed blocks to the end user. It also can be a company that negotiates on behalf of a large group of consumers in order to obtain the lowest possible price. (Source: LNG: a glossary of term, PricewaterhouseCoopers LLP, 2006.)

Grains, the leading commodity group transported in bulk carriers through the Panama Canal, which account for 37 percent of the total cargo in fiscal year 2017, decreased 7.1 percent compared to fiscal year 2016. This decline was due to less soybean, sorghum and corn flows from the United States ports in the Gulf of Mexico to northern Asia, especially China, Japan and South Korea, as a result of the increased competition from Brazil and Argentina as alternate sources of grains. At the same time, because of lower fuel costs, the deviation of Panamax vessels transporting grains through the Cape of Good Hope increased during fiscal year 2017.

On the other hand, coal and coke movements during this twelve-month period, -petroleum coke included-, increased 90.4 percent compared to fiscal year 2016, mainly due to greater flows of thermal coal from Puerto Nuevo, Colombia, -mostly in Capesize[6] vessels, to Lazaro Cardenas in Mexico's Pacific coast. There were also good flows of coal from various ports in the Caribbean coast of Colombia to Chile; movements from the United States export terminals in the Gulf of Mexico and the east coast of the United States to Japan and the west coast of Mexico; and shipments of metallurgical coal from the west coast of Canada to Europe and Egypt.

In general, because of the Canal's competitive toll rates, ballast transits increased 78.9 percent through the Panamax locks in fiscal year 2017 compared to fiscal year 2016. These ballast transits, -including the brand new ballast transits through the Neopanamax locks related to the coal trade from the Caribbean coast of Colombia to the western coast in Mexico-, also contributed to the good performance during the fiscal year. At the same time, there was a slight improvement in iron ore shipments, particularly from Chile and the Pacific coast of Mexico to terminals located in Europe and the United States East Coast, including the Gulf of Mexico.

[6] Largest dry bulk carriers. They are too large to transit through the Suez Canal or the Panama Canal.

Refrigerated Cargo Segment

During fiscal year 2017, the refrigerated cargo segment registered a total of 868 transits through the Panama Canal, 8.3 million PC/UMS tons, 93,830 TEUs capacity on deck, and B/.44 million in toll revenues. A comparison of these numbers with those in fiscal year 2016 shows a reduction of 80 transits, with a corresponding 6.5 percent decrease in billable tons. Despite the 3.7 percent increase in on deck TEUs, toll revenues were 2.2 percent less than last year.

Bananas continue to be the main refrigerated cargo transported through the Panama Canal, representing 54.5 percent of mobilized cargo for the segment. This cargo decreased 1.8 percent compared to last fiscal year, mainly due to diminishing levels of fruit cargo from Ecuador and Peru.

The West Coast of South America to Europe continues to be the segment's main route, which accounts for 62.5 percent of the refrigerated cargo.

The downward trend in the refrigerated cargo segment registered this year was due to several factors, such as the migration of perishable goods from conventional reefer vessels to container vessels with high reefer TEU capacities, which was evidenced by the increase in the refrigerated capacity deployed in Neopanamax liner services that serve the west coast of South America to Europe, the most important route of this segment. Another factor that had an impact on this drop, was that Ecuadorean banana producers were forced to curtail production between the months of July and August, due to the oversupply of the fruit coming from Colombia, Costa Rica, Honduras and Guatemala, which caused a fall in banana prices in the United States, European and Russian markets, Ecuador's main market.

Passenger Vessels Segment

During the 2016-2017 cruise season, the passenger vessel traffic through the Panama Canal exceeded the performance of the previous period. The segment recorded 250 transits (190 full transits and 60 turnarounds), 37 additional transits over the 213 transits of the previous fiscal year (169 full transits and 44 turnarounds). The total number of passengers was in the order of 241,843 or 15.9 percent more than the 208,703 registered during fiscal year 2016. Tolls revenue amounted to B/.46 million representing a 24.3 percent increase over the previous fiscal year.

During fiscal year 2017, vessels charged on a per berth basis accounted for 71.7 percent of the total revenue for the segment. The Panama Canal registered 240,055 billable berths, a 23.3 percent increase or 45,329 berths compared to the previous fiscal year. On the other hand, vessels charged on a PC/UMS basis, -28.3 percent of the total revenue for the segment and 58 percent of total transits- registered 2.8 million PC/UMS tons, an increase in tonnage from the previous cruise season in the order of 13 percent.

For this season, Princess Cruises, Holland America Line, Royal Caribbean Cruises and Norwegian Cruise Line, among others, completed their voyages through the Canal, on partial and full transits, departing mainly from ports in Florida, United States. In addition, three new ships transited the Canal for the very first time, the *SEVEN SEAS EXPLORER*, which transited on January 2, 2017, and the *EURODAM* and *HEBRIDEAN SKY*, both of which transited on April 17, 2017.

Regarding inaugural transits through the new locks, the *DISNEY WONDER*, operated by Disney Cruise Line, transited southbound on April 29, 2017. Its itinerary consisted of the departure from the Port of Cape Canaveral and sailing time lasted 17 days, having as final destination the Port of San Diego.

Vehicle Carriers and RoRo Segment

In general, the performance of the vehicle carriers / RoRo market segment in fiscal year 2017 was very similar to that of fiscal year 2015.

At the close of fiscal year 2017, this segment recorded 801 transits and 46.8 million PC/UMS tons. By comparison to fiscal year 2016, these figures showed a 1 percent decrease in transits and a 0.1 percent increase in PC/UMS tonnage. Vessels 100 feet and over in beam accounted for 94.7 percent of all transits. Toll revenues during fiscal year 2017 accounted for B/.198 million, a 0.5 percent growth compared to fiscal year 2016.

The amount of cargo transported by the Panama Canal increased compared to fiscal year 2016. Cargo tonnage totalized 4.83 million long tons, a 0.2 percent increase over fiscal year 2016 in which 4.82 million long tons were transported through the Panama Canal. The main trade route through the interoceanic waterway, Japan – to the East Coast of the United States, registered 1 million long tons of cargo, an 11 percent reduction from the previous fiscal year. Meanwhile, the route Europe (Germany / United Kingdom) to the West Coast of the United States recorded 246.7 thousand long tons, 69.6 thousand tons less than in the same period of the previous fiscal year.

The results for this fiscal year were due to a lower demand for cars by the North American consumers. Through September 2017 a 1.8 percent decline was registered, compared to 2016. It is important to note that budget prepared for the segment, considered a reduction in exports to the United States, because record levels achieved in that country in 2015 (17.4 million units) were not expected to be repeated.

It is also worth mentioning that 22 Neopanamax transits (by shipping lines NYK, WWL, Glovis and Hoegh) were recorded this year, two of which, the *HOEGH TRACER* and *HOEGH TRIGGER*, are considered the world's largest capacity vehicle carriers in terms of capacity.

OPERATIONS

New Locks Operation

During fiscal year 2017, 1,804 Neopanamax vessels transited the new locks, of which 954 were container ships, 539 LPG (liquefied petroleum gas), 159 LNG (liquefied natural gas), 105 bulk carriers, 22 vehicle carriers, 20 tankers and one passenger vessel. Furthermore, 24 Panamax extra vessels transited the new locks, and for Canal operations convenience, 83 Panamax vessels made a complete transit, while 114 made a mixed transit (64 through Gatun and Cocoli locks, and 50 through Miraflores, Pedro Miguel and Agua Clara locks).

In order to improve the lockage process, the activity of securing vessels was expedited by optimizing the number of linehandlers (both at the locks and on deck) involved, and by relocating capstans and variating their operation speed. Likewise, important improvements were implemented in activities such as sea gates opening, the filling and emptying of chambers, and on the fendering system of chamber walls and gate recesses.

These improvements, along with the accelerated increase in the learning curve for transiting Neopanamax vessels, resulted in a significant reduction of lockage time, from 3 hours and 45 minutes at the beginning of the expanded Canal operations, to an average 2 hours and 45 minutes. As a result, the Administration reached a sustained average daily transit capacity of six Neopanamax vessels and transit number 2,000 for Neopanamax vessels, only four days before the end of the fiscal year.

High operations safety standards were also maintained, having registered only three accidents that required formal investigation in the new locks.

The new locks were equipped with fire and spill control response resources, such as, high expansion foam generators, and mobile units with equipment for chemical powder extinguishing and for the containment, recovery and storage of spills. New vigil protocols were also established to escort LNG vessels.

These actions allowed for the inclusion of vessels classified as TIER 4 and TIER 5 in the Panama Canal Shipboard Oil Pollution Emergency Plan (PCSOPEP) tariffs.

Service Level Performance

During this period, 12,000 oceangoing vessels (excluding small vessels) transited the Panama Canal. This represents an increase of 312 vessels or 2.7 percent when compared to fiscal year 2016. Of these 12,000 vessels, 7,369 were super-size (beam greater or equal to 91 feet), which, compared to fiscal year 2016, represents a decrease of 953 transits (11.5 percent); whereas 2,803 were regular size vessels (beam less than 91 feet), a decrease of 339 transits (10.8 percent) when compared to fiscal year 2016. Neopanamax vessels registered 1,804 transits, and Panamax extra vessels the remaining 24 transits. Small vessels had an increase of 122 transits (from 1,426 to 1,548) or 8.6 percent when compared to fiscal year 2016. Total transits, including small vessels, increased by 434 (from 13,114 to 13,548) when compared to fiscal year 2016.

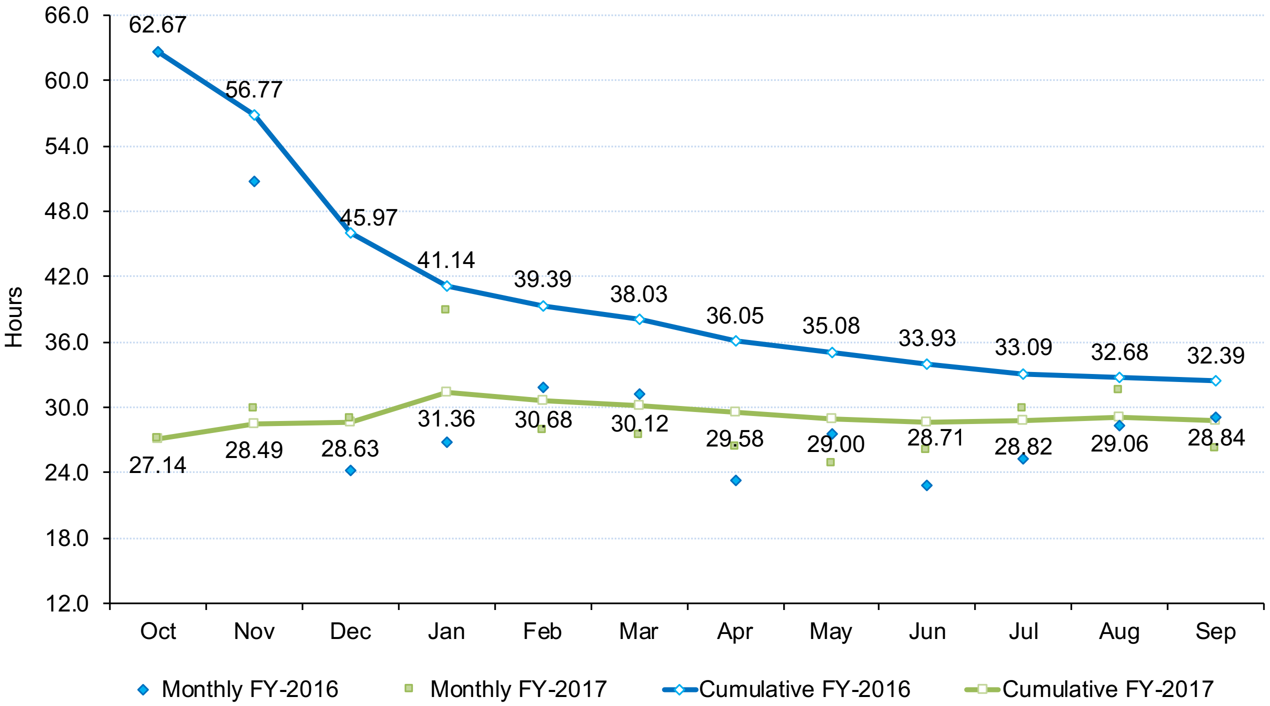
Panamax vessels (beam greater or equal to 100 feet) registered 6,033 transits, a decrease of 987 transits (14.1 percent) when compared to fiscal year 2016 (7,020). Panamax transits represented 50.3 percent of all oceangoing transits, compared to 60.1 percent in fiscal year 2016.

A total of 403.8 million of PC/UMS tons transited through the Canal, 73.4 million more than fiscal year 2016, with an operative cost per ton of B/.1.53, an improvement over the established goal of B/.1.55 and of the B/.1.59 of last year. Furthermore, toll and other marine services revenues amounted B/.2,707 million, a 14.5 percent increase when compared to fiscal year 2016. The determinant factor for this difference was the operation of the expanded Canal for the complete fiscal year.

The percentage of PC/UMS tons that complied with the expected Canal waters time (CWT) for each market segment, reached 86.49 percent, an improvement over the 83.35 percent observed in fiscal year 2016.

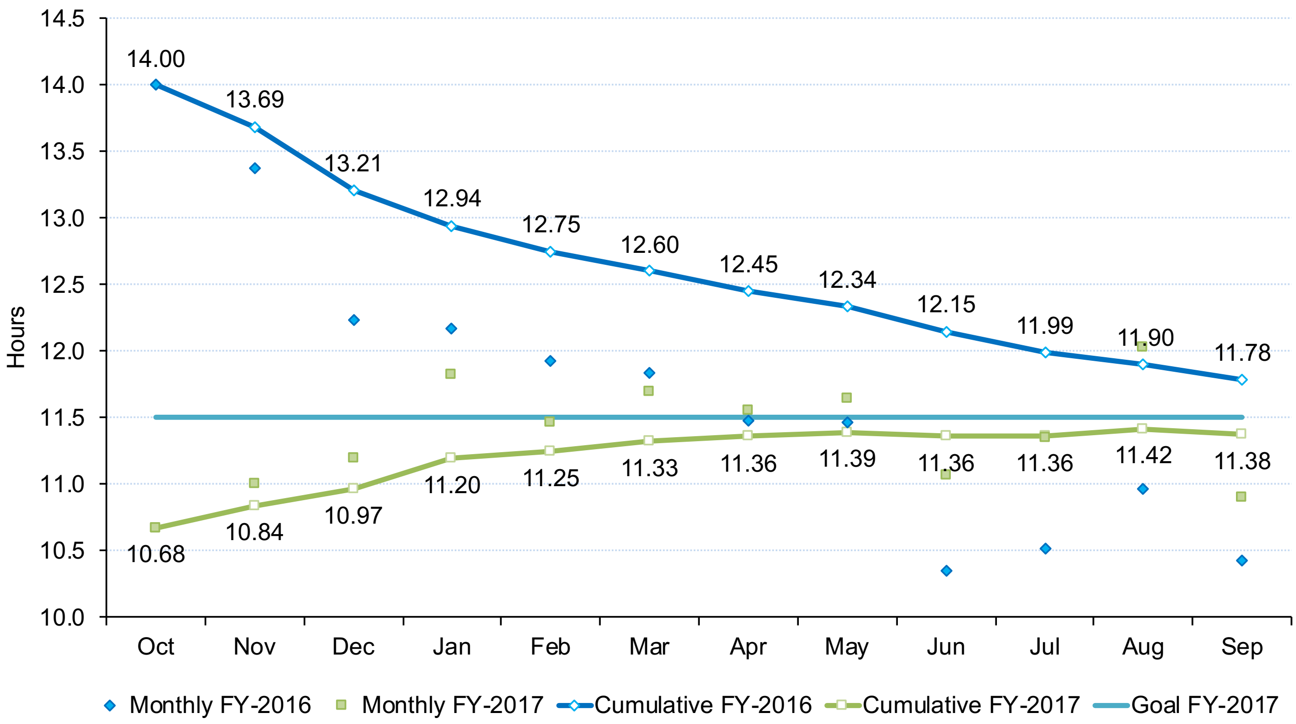
Canal Waters Time and In Transit Time Analysis

Canal Waters Time
FY-2016 vs FY-2017



Canal waters time (CWT), the elapsed time since a vessel reports readiness to transit until it ends its transit, registered an average of 28.84 hours, 3.55 hours less than the fiscal year 2016 average (32.39 hours). Meanwhile, Neopanamax vessels registered an average CWT of 20.67 hours. The average CWT for vessels holding reservations was 16.48 hours, slightly over the 16.35 hours registered in fiscal year 2016. The fiscal year 2017 average CWT was mainly affected by the long queues observed during the months of January, February and August due to an increase in the demand and as a result of locks' scheduled maintenance.

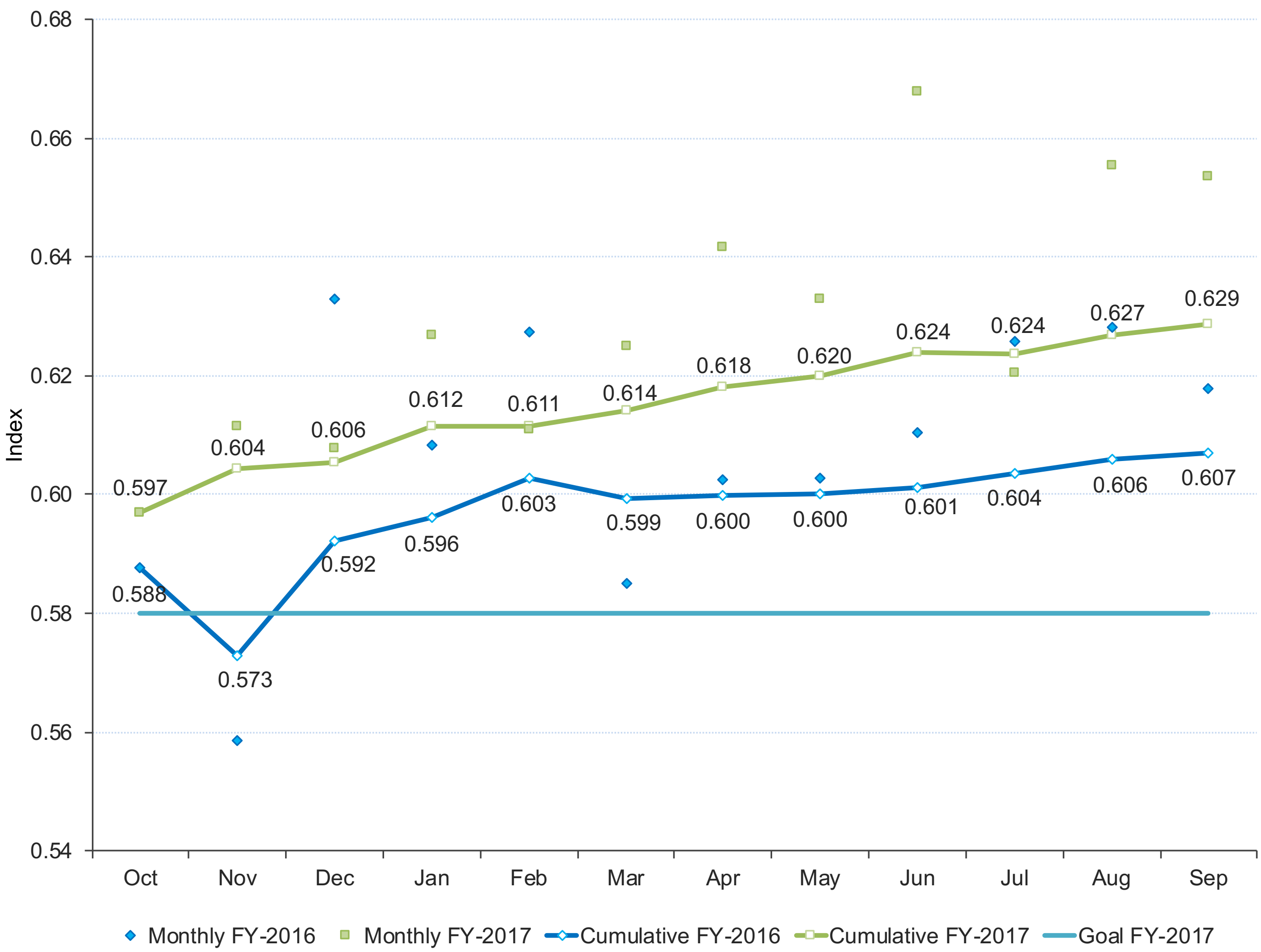
In Transit Time
FY-2016 vs FY-2017



In transit time (ITT), the elapsed time since a vessel enters the first lock until it exits the last one, registered an average of 11.38 hours at the end of fiscal year 2017, 0.40 hours less than the 11.78 hours registered in fiscal year 2016. Meanwhile, Neopanamax vessels registered an average ITT of 13.71 hours.

Customer Satisfaction

Index of Excellence in Customer Satisfaction FY-2016 vs FY-2017



The Index of Excellence in Customer Satisfaction for Transit Services final result of 0.63 exceeded the goal of 0.58, established at the beginning of fiscal year 2017. Of 13,548 transits, 6,259 surveys were received, of which 3,528 contained customers comments, a 49.5 percent increase when compared to the previous fiscal year. Of these comments, 1,822 were recognitions to the Panama Canal, which represents a 13.4 percent of total transits and a 66.8 percent increase when compared to previous fiscal year results.

This year we emphasized the importance of human talent for the organizations that provide service as a product, carrying out activities in the week following the first year of the expanded Canal inauguration, in order to motivate our personnel to provide services of excellence. Additionally, a motivational conference was delivered to promote commitment with excellence and to celebrate the expanded Canal first year of operations.

In addition, two workshops were held with senior executives of agencies and shipping lines to exchange ideas, clarify doubts, and discuss issues specifically related to the operation of the new locks.

Vessels' masters reaching their retirement age continued to be presented with honorary pilot licenses and all vessels on their maiden Panama Canal transit were presented with a commemorative plaque.

The Panama Canal worked in conjunction with the Panama Maritime Authority (AMP) in the implementation of the Single Maritime Window project. It's main purpose is to establish a single general vessel inspection collecting all the information required by government entities, thereby expediting freight transshipment in the country.

Dredging Services

Dredging of 6.26 of the 7.74 kilometers included in the Widening to 305 meters the Gamboa Reach Project was completed. This, complemented by the installation of buoys and new range towers, scheduled to be completed in the first quarter of fiscal year 2018, will allow the safe passage and encounters of Neopanamax vessels at this section of the Canal.

Dredging in the north area of the Peña Blanca anchorage was also completed, enabling an anchorage area for six Neopanamax vessels and one Panamax, which will be available for use as soon as the clearing of submerged stumps is completed. As part of the navigational channel maintenance, removal of sediments was also accomplished in Gamboa, Mamey, Juan Grande and San Pablo reaches.

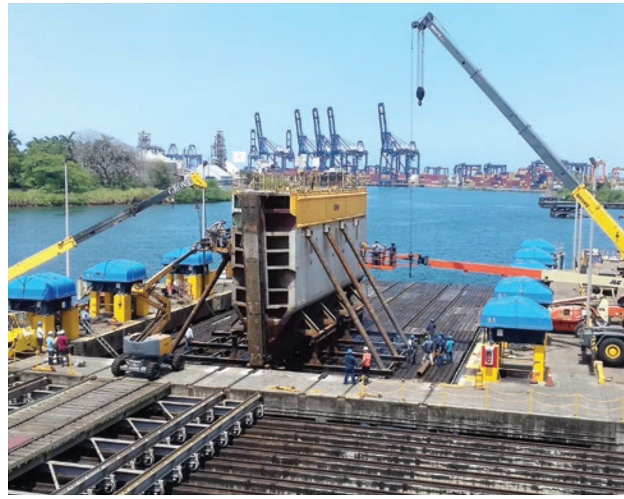
Maintenance

As part of the original locks' submerged equipment overhaul program, two lane outages of four hours or less duration, 21 of four to 12 hours duration, and three of one to 11 days duration, were carried out. During these locks shutdowns, eight gates were removed and 10 installed, rubber seals were replaced in four gates, four lower pintles were removed and reinstalled, new stainless steel wall plates were installed in four gate walls, yoke and upper jaw bushings were replaced in four gates, the frame and rolling surfaces of two vehicular bridges were replaced, 10 cylindrical valves were replaced, and five rising stem valves were repaired.

In order to keep high availability of the equipment necessary for Canal operations, eight tugboats, 12 launches and six floating equipment were reconditioned (dry-docked), and seven tugboats with structural and mechanical damages were repaired. Programed reconditioning of original locks' gates was performed, in addition to six on site drilling and repair works to floating gate (caisson) No. 2. Programed certifications of tugboats and launches were successfully completed, as well as the programed intermediate inspections of 2.5 years. To comply with tugboats and launches service schedules, 66 main engines and 27 tugboat auxiliary motors were overhauled.

For the first time in over a hundred years and only with internal resources, the Cristobal dry dock's caisson was overhauled. The Miraflores Spillway programed maintenance was performed, along with the inspection and overhauling of the Miraflores and Gatun spillways.

A total of 4,002 maintenance work orders were performed on pilot transportation vehicles, emergency equipment, ambulances, and the rest of the vehicles fleet, achieving a pilot transportation vehicles availability of 94.83 percent, and an emergency response equipment (fire trucks and ambulances) availability of 93 percent.



Infrastructure Development

As a result of investment projects implemented during fiscal year 2017, a series of equipment necessary for Canal operation and maintenance were replaced and added. The most relevant are: 2 launches for transporting operations personnel, 2 launches for pilots boarding, 16 vehicles for pilots transportation, 11 vehicles for transportation of tugboat crews, 3 platform elevators, 1 asphalt truck, 3 cranes for the Installations Maintenance and Civil Works Section, and 119 vehicles for the regular Canal fleet.

Furthermore, construction of new facilities for personnel assigned to Mount Hope was completed. These facilities have all the infrastructure required to perform maintenance works and to provide transportation services for pilots in an efficient, reliable, and safe manner.

GLOBAL CONNECTIVITY

COMPETITIVENESS OF THE ROUTE

Over the years, the Canal has adapted to a very dynamic and changing market, in order to keep pace with the maritime industry needs, as seen with the segmentation of markets and pricing adjustments determined by the behavior of each commodity sector and client needs. Subsequently, the Canal undertook a challenging project to upgrade the level of competitiveness.

Started in 2007 and inaugurated on June 26, 2016, Canal expansion aimed to provide a new product to the maritime industry, allowing the transit of vessels that could not be served due to the size limitation of the panamax locks. In addition, the Canal's competitiveness in all market segments was threatened by other key drivers such as the oversupply of vessels, diminished demand for goods and reduction of fuel prices, making the Canal less competitive against alternate routes.

To date, the Neopanamax locks are mostly transited by container vessels, along with other market segments vessels such as liquefied petroleum gas (LPG), liquefied natural gas (LNG), dry bulk carriers and vehicle carriers, among others, for a total of more than 2,000 vessels.

The Neopanamax locks have redefined global trade routes and customers benefits from economies of scale. This is evidenced by the growth in the size of vessels that transit the Canal today and significant milestones such as the passage of close to 15,000 TEU capacity vessels.

The daily average of transits is currently five vessels, higher than the estimated for fiscal year 2017, and it is expected to increase in the short term.

Looking ahead, the Panama Canal must focus on a new challenge, maintaining the competitiveness of the route in a sustainable way, while optimizing and reinforcing its core business. It is a task that involves the entire logistics cluster of Panama to offer, besides the transit of cargo, the benefits of related services in a centralized hub, which means savings in time and the availability of information to meet additional needs.

Hence, the Canal has embarked on a complementary business strategy in areas related to the local maritime cluster. In this regard, a number of studies have been conducted to assess the feasibility of some of these complementary businesses, completely aligned with the Canal's strategic objectives, and designed to increase the benefits to the country.

RELATED BUSINESSES

Developing business opportunities that can add value to the route and generate additional revenue is part of the main strategic objectives of the Panama Canal. The organization seeks to promote commercial development of areas located along the banks of the waterway that are part of its patrimony through concession models for ports, logistics complexes and value-added services to the cargo, that will position Panama as a global logistics hub with maritime and air connectivity.

Promoting the development of a modern infrastructure will be an additional attraction for companies to consider Panama as an ideal place for storage, service operations and redistribution for the region. Adequate implementation of plans will allow companies to specialize their supply chains to the maximum extent using Panama's logistics platform. Following are the commercial opportunities identified by the Canal:

Corozal Container Terminal

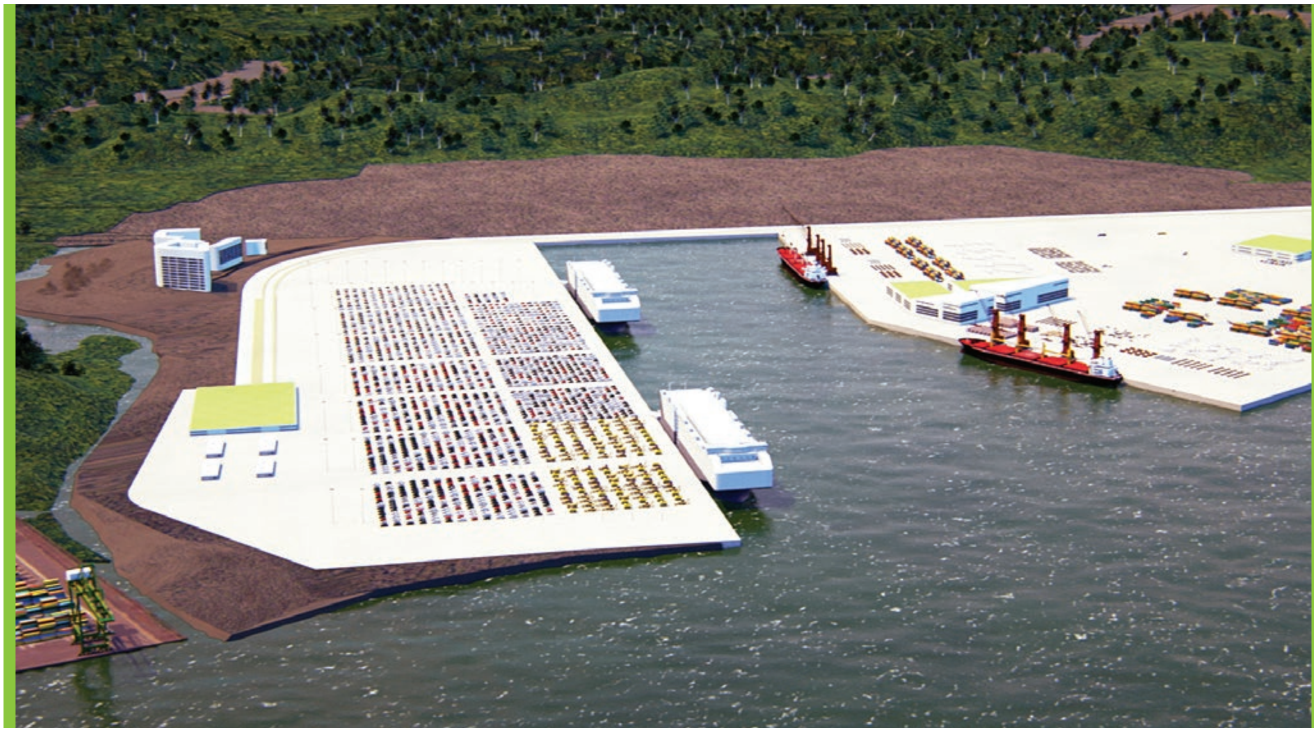
This project arises from the need to have greater cargo transshipment capacity in the Pacific area. Approximately 80 percent of the container ships that transit also use port facilities in Panama. During fiscal year 2016, the Panama Canal Board of Directors authorized the prequalification process for the Corozal Container Terminal, where four port operators were prequalified: APM Terminals B. V. (The Netherlands), Terminal Link (France); PSA International Pte. Ltd. (Singapore), and Terminal Investment Limited, S. A. (The Netherlands). Then, in September 2016, the Board of Directors approved the bid specifications for the design, construction, operation and maintenance of the Corozal Container Terminal.

Proposals were expected to be received in March 2017, however, none of the prequalified proponents presented their bids, so the tender process was cancelled. At present, options are being evaluated by the Panama Canal to relaunch the project at a later date.

Roll-On/Roll-Off Terminal in the Area of Velasquez

This project satisfies the industry's need to have an exclusive terminal for handling vehicles and heavy equipment in Panama, which will offer a better service without customers competing with the containerized cargo in the existing ports in the Pacific. This terminal would have capacity to handle roll-on/roll-off cargo such as cars, trucks, buses and heavy equipment.

During fiscal year 2017, the Panama Canal began the supplementary studies to define the business model, the project dimension, and the environmental impact. Meanwhile, the documents required for the public tender process are being prepared.



1,200-Hectare Master Plan

During fiscal year 2017, the Panama Canal continued with the analyses required for the logistics and industrial development of the 1,200 hectares located on the west bank of the Pacific entrance of the Canal. In order to identify the best development model for the area and its operation, these analyses include strategic and financial advice by experts in the field.

The project seeks to add value to the land through the development of commercial activities such as distribution centers, warehouses, processing centers, light assembly, specialized barge or roll-on/roll-off terminals, energy generation and business parks, all within an integrated complex and developed in a sustainable way.

Interoceanic Zone Transportation Infrastructure and Cargo Logistics Master Plan

In June 2017, the final presentation of the master plan for transportation infrastructure and cargo logistics for the interoceanic zone was delivered to the Logistics Office. This plan has among its objectives to consider investments, initiatives and projects in transportation infrastructure and potential logistics uses in the Interoceanic Zone, with short, medium and long-term recommendations and to promote the development of value-added logistics services, capitalizing on Panama's competitive advantages.

Likewise, it recommends ways in which existing logistics assets can be enhanced and their interconnectivity improved, so that they can generate important synergies throughout the logistics conglomerate.

LNG Terminal on the Pacific Side of the Panama Canal

On June 15, 2015, the United States Trade and Development Agency (USTDA) signed a technical cooperation agreement with the Panama Canal Authority in order to support the execution of a feasibility study for a liquefied natural gas (LNG) terminal. This project intends to fulfill important needs in the industry such as supplying LNG to vessels in compliance with the upcoming implementation of the protocol on the reduction of sulphur emissions mandated by the International Maritime Organization (IMO) by the year 2020. The feasibility study was conducted during fiscal year 2017 and several options, as well as combinations of potential project sites, concept designs, functional and operational requirements, were analyzed in order to develop an initial projection of viable alternatives for an LNG terminal in the Pacific area of the Panama Canal.

CREATING VALUE

HUMAN CAPITAL

In a complicated year for the Panama Canal, our workforce made it possible to achieve new and difficult short-term goals, while facing the challenge of operating the expanded Canal in compliance with the responsibility assumed before the nation and the world.

During fiscal year 2017, the greatest challenge was to have a workforce with the necessary skills and competencies for the optimal operation of the expanded Canal. In an ever changing world, in the Panama Canal we work every day to reconcile opposites and build a competitive, highly productive, and fully human institution for the benefit of the entire country.

PEOPLE MANAGEMENT STRATEGIC LINES

PRODUCTIVITY	GOVERNANCE	TRANSFORMATION
• Strengthen the organization's leadership to face the challenges of the new environment. • Ensure human capital and its development to meet the needs of the organization. • Manage business knowledge. • Optimize processes, services, and programs.	• Collective bargaining. • Strengthen programs that contribute to the improvement of the work environment.	• Consolidate the Canal with competitive work opportunities to attract and retain the best. • Adequateness of the organizational culture facing the challenges of the new environment.

Collective Bargaining

During fiscal year 2017, negotiations concluded with the International Association of Firefighters, Local 13, the Firefighters Exclusive Representative of the Negotiating Unit and the Union of Marine Engineers (UIM), the Marine Engineers Exclusive Representative of the Negotiating Unit. These collective agreements will be valid for four and three years, respectively.

Negotiations with the International Association of Firefighters, Local 13, started in May 2016 and ended with the signing of the collective agreement in June 2017, with validity until June 2021. The Panama Canal Firefighters is a workforce of approximately 80 employees who guarantee the effective response to emergencies in Canal operational areas, on its floating equipment and on vessels that are in its waters.

Negotiations with the UIM Exclusive Representative began in May 2015, and the agreement was signed in September 2017. This collective agreement is valid until the end of 2020. The Canal's marine engineers are a workforce of 212 employees who contribute to the proper functioning and availability of tugboats, dredges, barges, and other floating equipment.

Satisfactory agreements were reached for both Collective Bargaining Agreements, in compliance with the mission and vision of the Panama Canal.

Succession Management

After institutionalizing the talent management process in the Panama Canal, which included during its initial phase the identification and evaluation of candidates using a best practices methodology and preparation of development plans for successors, the training and development phase began with a group of 226 employees.

As part of the process and as a result of a gap analysis, participants were divided into five groups, which facilitated their participation in different program activities, such as: managerial rotations, coaching and mentoring, intervention in continuous improvement and innovation processes, according to individual development plans.

Human talent management is a strategic process for the Canal that seeks to guarantee the training of leaders in critical positions so that they are able to lead the Canal's performance with excellence, in the face of new business challenges.

Competency Model

The Panama Canal faces challenges that demand that its leaders have the necessary skills and competences. For this reason, a Senior Management Team leads a revision of the competency model for managerial and executive positions to make the necessary adjustments.

This resulted in a leadership model for the Canal that evolved from four key attributes to five. The essential characteristics of each attribute were specified, and they were incorporated into the Talent Management Program curriculum.

Labor Relations

In the Panama Canal Authority, recognition and respect for the role of trade unions that represent the six Negotiating Units and cover 93 percent of the Canal's workforce are fundamental principles of our organizational philosophy. During fiscal year 2017, a dialogue process continued, in adherence to the Canal's special labor regime, to promote efficiency, resolve differences, and reach agreements.

Employees by Negotiating Unit FY-2017	Permanent	Temporary	Total	%
Firefighters	61	19	80	1%
Captains and Deck Officers	205	15	220	2%
Marine Engineers	136	76	212	2%
Non-Professionals	6,000	2,177	8,177	83%
Professionals	198	13	211	2%
Pilots	267	0	267	3%
Excluded	631	89	720	7%
Total	**7,498**	**2,389**	**9,887**	**100%**

Training and Staff Development

The Panama Canal invests heavily in training and development of its workforce, as one of its objectives, to be competitive. In fiscal year 2017, 25,188 training instances were registered, which on average equal to 2.5 instances per employee.

Development Area	FY-2014	FY-2015	FY-2016	FY-2017
Maritime training	2,399	2,708	2,219	2,573
Industrial and safety training	10,295	7,594	12,613	11,713
Professional development training	11,533	10,945	10,723	10,902

The purpose of Canal employees participation in a Leadership Program was to reinforce business knowledge and its strategy, conflict management and resolution, as well the creation of bases for continuous improvement and innovation. The program had a total of 709 participants.

Panama Canal employees manage large amounts of specialized knowledge about this business. In order to instill a culture aimed at developing people, the Canal promotes organizational coaching and mentoring as tools to maximize the capabilities of potential successors through a collaborative alliance between coach and coachee, and to ensure the transfer of knowledge and abilities from mentor to student.

This program helps to raise awareness among current leaders of their responsibility to develop others, and at the same time, it ensures the transfer of knowledge and experience to the new generation of leaders. During fiscal year 2017, a total of 13 coaches/coachees and 20 mentors/students participated in the program.

Through the Stand-Out Program (Programa Destácate), the Canal offers talented employees the opportunity to make themselves known through a competitive process. Twelve people were identified and trained in leadership skills and business knowledge. One hundred and five new participants were selected and will start the program in fiscal year 2018.

The Canal continues training pilots and towboat captains with updated mathematical models that integrate segments of the expanded Canal with the new locks, navigational channels, and the Culebra Cut to guarantee the development of the skills required for the operation of the expanded Canal.

The Panama Grows Program (Programa Panama Crece), which provides training to young university students in critical areas for the Panama Canal, also contributes to the development of skilled labor for the country. During fiscal year 2017, this program had a participation of 136 students. Emphasis was on electronics and telecommunications, electricity, mechanics, metal mechanics, rigging and civil construction.

It has been noted that there are not enough linehandlers to meet the Canal's demand at the local level. The implementation of the Maritime Panama Grows Program for Linehandlers (Programa Panamá Crece Marítimo para Pasacables) has the purpose of procuring a source of candidates who, having graduated from a maritime high school, are trained in the development of the skills required to execute this job in the operation of the Canal. The program started with 97 participants, of which 24 will complete training at the beginning of fiscal year 2018.

While the sources for the Panama Grows Program are university students and maritime high school graduates, the Technical Craftsman Development and Upward Mobility Programs are aimed at candidates who have experience in the area of training. During fiscal year 2017, 98 participants entered different technical development programs. Additionally, 43 participants who had started in fiscal year 2016 continued their training.

Technical Development Programs			
Occupations	Grade	FY-2016	FY-2017
Rigger	MG-10		2
Shipfitter	MG-10		7
Admeasurer	NM-11	3	
Firefighter			7
Diver		8	
Diving Assistant		8	
Shipwright	MG-10		2
Port Entry Coordinator	NM-10		4
Power System Dispatcher	PB-10		2
Electrician	MG-10	4	24
High Voltage Electrician	MG-10	2	
Safety and Occupational Health Specialist (Hoisting Equipment)	NM-11	1	
Pipefitter	MG-10	9	
Electronics Mechanic	MG-11	2	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
Mate, Dredge	FE-11	4	
Senior Hydro and Generating Station Operator (Hydro)	PB-08		2
Senior Hydro and Generating Station Operator (Thermo)	PB-08		3
Crane Operator	MG-11		3
Electrical Equipment Repairer	MG-10	2	
Total		**43**	**98**

Performance

Performance evaluation management focuses on aligning individual work with business results. Evaluator’s confidence improves through feedback meetings. Performance evaluations covered 100 percent of the workforce.

Labor Indicators

The Panama Canal workforce reached 9,887 people, 2,389 temporary and 7,498 permanent. These figures reflect a 0.5 percent decrease with respect to the previous fiscal year, which is directly related to the completion of the Canal Expansion Program.

Staffing			
Period	FY-2015	FY-2016	FY-2017
Permanent	7,837	7,729	7,498
Temporary	2,089	2,207	2,389
Total	9,926	9,936	9,887

In terms of female participation, women represent 12 percent of the workforce, which remains within the average that has characterized the Panama Canal in the last five years. In fiscal year 2017, 1,230 women worked in the Canal, and 153 of them, 1.5 percent, hold leadership positions, a trend that has also been maintained for the past three years.

Staffing by Gender			
Period	FY-2015	FY-2016	FY-2017
Men	8,622 (87%)	8,668 (87%)	8,657 (88%)
Women	1,304 (13%)	1,268 (13%)	1,230 (12%)

One and a half percent of the workforce are women who work in positions traditionally occupied by men. The Canal is a company where gender equality is practiced, so it has regulations and infrastructure that facilitate the full exercise of a mixed work force, with optimal safety, hygiene, and comfort conditions. It is also noteworthy that there are men in non-traditional positions, such as on-site human resources specialists and nurses.

Distribution of Men and Women by Supervisory Position				
Period	Level of supervision	Men	Women	Total
FY-2015	Managers	82	35	117
	Supervisors/Leaders	880	120	1,000
	Non-supervisory	7,649	1,147	8,796
	Report to an executive manager or higher and supervise	11	2	13
FY-2016	Managers	82	35	117
	Supervisors/Leaders	864	124	988
	Non-supervisory	7,712	1,107	8,819
	Report to an executive manager or higher and supervise	10	2	12
FY-2017	Managers	80	35	115
	Supervisors/Leaders	856	116	972
	Non-supervisory	7,711	1,077	8,788
	Report to an executive manager or higher and supervise	10	2	12
	Subtotal	**8,657**	**1,230**	**9,887**

Women in Non-Traditional Positions		
Period	No. of Women	Increase/Decrease
FY-2013	146	-9
FY-2014	153	7
FY-2015	140	-13
FY-2016	142	2
FY-2017	146	4

Labor diversity has many dimensions in the Canal. The convergence of workers from different origins and with different styles and experiences enriches the work teams. Panamanians who are from the provinces of Panama and Colon, make up 83.7 percent of the workforce, and 16 percent of the workforce is from different provinces in the countryside. Similarly, the indigenous population is represented in the Canal by 0.2 percent of workers who come from the Comarca Guna Yala. Only 0.1 percent are foreign workers who were part of the workforce before the transfer of the Canal to Panama. This percentage shows a 0.1 percent decrease in relation to fiscal year 2016.

Employees by Province or Place of Origin	Permanent	Temporary	Total
Bocas del Toro	84	16	100
Chiriqui	406	99	505
Cocle	158	49	207
Colon	2,086	748	2,834
Comarca Guna Yala	6	9	15
Darien	79	28	107
Foreigners	13	0	13
Herrera	121	35	156
Los Santos	114	19	133
Naturalized	30	2	32
Panamanians born abroad	94	15	109
Panama	4,133	1,300	5,433
Veraguas	174	69	243
Total by province of birth	**7,498**	**2,389**	**9,887**

Safety and Occupational Health

Safety and health for Panama Canal employees in work areas is a priority for the organization and it is not optional. The Canal offers its workers instruction and continuous training in safety issues, putting special emphasis on the activities carried out in operational areas where risks may be greater. The Always Alert, Always Active program reinforces workers' awareness to sustain and improve accident prevention measures, as well as diseases, promoting healthy practices among employees and their environment.

Indicator	FY-2014	FY-2015	FY-2016	FY-2017
Accident severity index (average days of absence due to disability leave)	23.37	19.79	15.77	15.86
Number of work related fatalities	0	1	0	0

Voluntary Pension Savings Program

For the Panama Canal, motivating its employees to participate in the voluntary pension savings program is important, as this economic supplement allows them to enjoy a better retirement. During fiscal year 2017, the amount saved by those who have taken part in this initiative is B/.6.2 million.

Voluntary Retirement Program

Fiscal year 2017 closed with a slightly higher turnover rate than the previous year. This is directly related to the benefit that workers receive when they leave the company upon reaching the age established by the Social Security Fund to receive a pension for retirement and qualify for the Voluntary Retirement Incentive.

Workers who decided to accept the voluntary retirement incentive upon reaching the regular retirement age and the early retirement age, according to the regulations in force in the country, were 83 and 34 percent, respectively. This represents an increase in acceptance of six percent, in relation to the previous year.

The acceptance of this incentive by the workers is consistent with the growth tendency in the turnover rate that has been seen in the Canal in the last four years.

Period	FY-2014	FY-2015	FY-2016	FY-2017
Turnover rate	3.8%	4.0%	4.0%	4.6%

As a result of voluntary retirement, the average age of the permanent workforce of the Panama Canal dropped to 46 years this fiscal year.

46 YEARS | AVERAGE AGE OF WORKFORCE

45 (women) 46 (men)

Ethics and Transparency

For the Panama Canal, its corporate values and ethical principles are a fundamental part of the organizational culture and are the basis of its performance and good relations with its employees, customers, suppliers and the community in general.

The Canal's Ethics and Values Program includes an annual communication plan and training activities, and its main objective is to promote and strengthen its ethics, integrity, transparency, and accountability culture.

As one of the initiatives of the Program, in fiscal year 2017, the Second Panama Canal Ethics and Transparency Forum was held, sharing best practices in ethics, compliance, and social responsibility, addressed to the directors and management team, procurement, contracts, and human resources personnel, among others. The forum allowed for reflection and exchange of ideas about best practices in ethics, compliance, and social responsibility, together with the correct and safe handling of information and communication systems.

The Canal also expects its suppliers, contractors, and subcontractors to respect its values and ethical principles and have the background to support their seriousness, integrity, and reliability. In this sense, the First Meeting with Panama Canal Suppliers was held, which brought together more than 100 representatives of local companies that maintain commercial relations with the Canal. This conference provided space to reinforce important aspects about the Canal's procurement and contracting procedures and to share best business practices that reflect integrity and transparency in our business.

The Panama Canal is committed to ethical management and transparency, in strict adherence to the law and regulations, which allows it to continuously strengthen its good reputation and image, together with the respect and trust of its stakeholders.

ENVIRONMENTAL MANAGEMENT

Environmental management represents one of the most important challenges of the Panama Canal because the environmental quality of the ecosystems in the watershed, as well as efficiency and cleaner production in operations, are opportunities to generate creative ideas that add value to the organization and the country. Under this principle, the Panama Canal is governed by the highest standards and regulations at the local, regional and global levels, such as environmental and quality standards, ISO 14001, 9001 and 26000 Corporate Social Responsibility (CSR), and the strict compliance of current environmental policies, laws and regulations. Our adhesion to the 2002 United Nations Global Compact allows us to share part of this progress every year in order to continue to be a socially and environmentally responsible organization.

In this regard, the use of water resources to provide water for human consumption, the operation of the Canal, the water savings basins of the Third Set of Locks, the promotion of Panama as an all-water Green Route, which is shorter, and produces lower fuel emissions, with carbon neutral operations, reaffirm the responsibility of the Panama Canal with the conservation of nature.

In this way, the Canal shows how its initiatives have promoted operational efficiency in the world maritime industry with the implementation of the Green Connection Award Environmental Recognition Program together with the disclosure in international scenarios of the significant contribution in emissions reduction represented by the use of the Panama Canal route, in comparison with other routes.

Likewise, at the operational level, the Canal has maintained strict compliance with security and environmental protection standards, as well as a significant increase in the inclusion of the environmental variable in bidding documents for all types of civil works.

Surveillance of the vegetation cover has been reinforced in the watershed, in coordination with competent authorities, resulting in a reduction of illegal activities, which are becoming less frequent, especially in the areas surrounding the Chagres National Park. This is mainly due to institutional presence and awareness raising activities with the residents in the park and buffer zones.

In recent years the Canal has strengthened surveillance and monitoring systems for the quality and quantity of water resources in the watershed through the implementation of new analytical methods and state-of-the-art technology at the service of potable water production in three water treatment plants: Miraflores, Mount Hope and Mendoza, in the provinces of Panama, Colon and Western Panama, respectively.

The Canal has strengthened water governance, focusing on water resources protection and management through local training for communities, organized in a community structure. This has been possible thanks to an orderly process of updating baseline diagnostics in six fields of work, which contain useful information for decision making. In addition, a system of social and environmental safeguards has been developed that generates protective factors in the watershed populations and reduces risks related to climate change, thus creating resilience among the residents of these areas.

As a result, productive transformation processes at the local setting and best corporate environmental practices are oriented towards the generation of permanent changes in the way in which we relate to nature, and innovative didactic guidelines and pedagogical approaches are implemented, reinforcing conservation and protection messages regarding the natural environment in the watershed and Canal operational areas.

At the Panama Canal we start from the assumption that the conservation of the watershed's hydric resources is only possible if water is co-managed together with multiple players with a presence and interest in the watershed. However, this assumption is based mainly on the improvement of the living conditions of its residents, and how green initiatives, through the Environmental Economic Incentives Program, contribute to improving the agro-environmental quality of the watershed and the local economy of its producers.

Therefore, a green watershed for a sustainable Canal can only be understood systemically if we take into account the main components that interact: people, environment and Canal operations.

The Green Route through the Panama Canal enhances the way in which the above-mentioned components interact within the business chain, so that all investment in environmental conservation programs make water available in quality and quantity. This is precisely how this waterway generates economic value and promotes the use of a shorter route through the Canal, allowing the reduction of greenhouse gas emissions released into the atmosphere.

Other programs providing frequent and scientific monitoring of the vegetation cover, together with the implementation of education and awareness-raising strategies in the communities, have shown favorable results in the recovery of forest cover and a progressive increase in environmentally-friendly activities.

Finally, innovation and science are an integral part of environmental management at the Panama Canal, and this is why new projects are being developed in water resource management, aimed at ensuring the availability and quality of water for human consumption, while successfully implementing renewable energies, mainly photovoltaic, which has revealed optimal use of solar energy.

The Green Route

In addition to the impact of the Panama Canal on the world maritime industry, The Green Route has reinforced the commitment of the Panama Canal brand in the preservation of the ecological bases of the planet, since in its 103 years of operation, it has prevented the emission of approximately more than 700 million tons of CO_2 and in its first 12 months of operation, the expanded Canal has contributed to the reduction of more than 17 million tons of CO_2. Together with the Panamax locks, the expanded Canal has prevented the emission of more than 35 million tons; which amounts to more than 60,000 hectares of forests. It is estimated that the expanded Canal will reduce more than 160 million tons of CO_2 in the first 10 years of operations.

The efforts of the Republic of Panama through the actions undertaken by the Panama Canal, not only bring benefits and prosperity to the country, but have a direct impact on global initiatives to fight climate change. This has been possible through the implementation of a green strategy, which rewards the use of the route with less gas emissions that produce climate variations, as well as operational efficiency of vessels transiting our route.

In this respect, this year the Panama Canal acknowledged the good environmental practices of customers and their commitment to reduce emissions in 85 ships which accepted the Green Connection Award. We received 300 applications for the Environmental Premium Ranking from all vessel segments that transit the Panama Canal, including the *CMA CGM T. ROOSEVELT* and the *CMA CGM J. ADAMS*, each with a Total TEU Allowance (TTA) of 14,863, which by transiting the expanded waterway, contributed to the reduction of up to 30,000 tons of CO_2, compared to alternative routes.

To better communicate these efforts, the Canal designed the web page http://greenroute.micanaldepanama.com/ and delivered some 10 presentations in England, Germany and the United States, among other countries.

Conservation of the Watershed

The Panama Canal has invested in programs focused on taking nature conservation to a modern vision of sustainable development by articulating economic growth with social welfare, so that economic, social and environmental components receive an equal treatment aligned with sustainable development goals and promoted by ISO 26000 CSR Standards. These investments in nature generate measurable, verifiable and quantifiable returns, which confirm that by protecting nature we preserve humanity's most important resource.

Cadastre and Land Titling

Land titling has been the basis on which a series of conservation projects and initiatives in the watershed have been successfully implemented. In particular, the Panama Canal has regarded the respect for the cultural value and love of the land that its residents profess as the pillars of this program. Based on the above, this year, 8,931 hectares of land have been registered in the provinces of Panama, Western Panama and Colon and 785 property titles were conferred. This represents a significant increase in the legal security and land tenure regularization in the watershed.

The titling process in Salamanca as a buffer zone for the Chagres National Park is noteworthy. This is a strategic site of the watershed because 44 percent of the water required by the Canal for its operation, human consumption and electric power generation is produced here, making it one of the largest and most important conservation areas in the country.

Environmental Economic Incentives

With this program, the Panama Canal has promoted the protection of existing forest cover and the adequate use of land in the watershed by developing reforestation projects in agroforestry, conservation, commercial, silvopastoral and protection modalities and forest surveillance.

In fiscal year 2017, 225 hectares of reforested land were established under the agroforestry and silvopastoral modality, while 90 beneficiaries were encouraged to protect and monitor 650 hectares of forests in the Ciri and Trinity River watershed.

The beginning of the planting cycle of 65 hectares under the agroforestry modality was very important. It took place in the middle watershed of La Villa River in the Azuero Peninsula, as part of the reforestation program for compensation due to the construction of a bridge across the Canal, located in the Province of Colon, and the reforestation of 252 hectares of coffee trees in the Chucunaque River Watershed, in the villages of Nuevo Vigia and Alto Playon in the Province of Darien, in compliance with the provisions of the Environment Ministry (MiAmbiente) for the ecological compensation of the Canal Expansion Program.

Monitoring of Forest Cover and Heritage Areas

The elements that directly impact the environmental quality of the watershed are the forest cover and land use; these are constantly monitored by the Canal, in close coordination with MiAmbiente.

In this regard, 12 overflights were conducted out mainly over the Alto Chagres sector, from February to August 2017, together with staff from MiAmbiente, posted at the Chagres National Park. As a result, 16 violations were detected, three due to land invasion, which were relocated by the authorities; one due to starting forest fires and 12 cases of illegal logging in secondary, young forest and shrubs and bushes. These violations represent a reduction of 22 percent or fewer five cases than in fiscal year 2016; that is, 40 fewer hectares of forest cover that were impacted. Likewise, new residential areas were registered and the activities in the shooting ranges in Canal operations compatibility areas were verified.

In the areas monitored due to their economic and patrimonial use, the Panama Canal dealt with 17 cases of slash and burn, occupation of alienable lands and Canal operation compatibility areas; 13 administrative processes and 13 judicial processes for the protection of islands and riverbanks, levels 100 and 260; also, 35 lake patrols were deployed in Gatun and Alhajuela Lakes.

In addition, an integral management of the Zaino River subwatersheds project in the region of Los Hules-Tinajones and Caño Quebrado is being carried out. In its pilot phase, the project reports significant progress in the establishment of its socioenvironmental baseline. This year, 15 field trips were carried out to collect data on agricultural farming, socioeconomic information and forest cover, in which surveys to local inhabitants were conducted. The data collected included 39 productive activities, divided into 27 pineapple crops, 10 poultry farms and 2 hog farms.

Interinstitutional Coordination

Together with the institutions that make up the Inter-Institutional Commission of the Panama Canal Watershed (CICH), the Operational Plan of the Extended Standing Technical Committee (CTPA) 2017 was successfully prepared and criteria were established for the selection of the projects that, due to the potential impact of their development, could affect the watershed if they did not fulfill their mitigation plans; among them, real estate, quarries, mining, pigs and poultry. Also, 18 follow-up tours were scheduled with the participation of CTPA members and 15 review meetings for the evaluation of findings and formulation of joint action plans were held.

Community Relations

During this fiscal year, capacity-building activities for community-based leaders were carried out, as well as the effective coordination of State institutions and local governments. In the same way, the Panama Canal has successfully integrated the private sector members in the advisory councils as part of the economic sector, thus facilitating integral management of environmental solutions in the Canal watershed.

Thirty workshops and two regional forums were held in the Panama Canal watershed to strengthen the community platform in six consultative community councils of six Canal watershed regions. Environmental safeguard systems were implemented and the Immediate Action Plan was updated; this is an essential baseline for the development of decision-making scenarios.

In addition, 900 community leaders, representatives of State institutions, non-governmental organizations and more than 15 entrepreneurs in Cleaner Production (CP) were trained in leadership, accountability and financial management, and the integrated solid waste management project in Chilibre and Chilibrillo were implemented. This project included 443 participants and benefitted 420 households in the pilot community of Nuevo Progreso, which has been considered by the Municipality of Panama in its Cero Solid Waste Integral Management Program. Also, three strategic river committees were established to monitor level 100 in Ciricito, Escobal and Cuipo, as well as five community committees that monitor environmental quality in the watershed. These initiatives contribute to the consolidation of the socioenvironmental process that is being undertaken in the Panama Canal watershed.

Education for Sustainability

In terms of environmental education for sustainable development, we were able to reach around 100 schools, train about 7,000 students in rural-peri-urban areas and establish two experimental projects in Nuevo Vigia and Ciricito schools, east and west of the watershed, respectively. In addition, within the framework of the Junior Achievement-ACP Partnership, 100 percent of Our Canal and its Watershed Program was achieved. Under this partnership, 75 volunteer employees taught 85 courses, 2,400 hours, to 1,500 graders of 38 schools in the Panama Canal Watershed. Also the creation of an environmental network of 60 young inhabitants of this important basin were trained in water governance issues and prepared as the next generation of environmentalists, future members of the consultative community councils of the six working regions in the Panama Canal Watershed.

Approximately 320 employees of diverse skills and working areas participated in the Panama Canal Environmental Education Program which is aimed at improving their environmental performance in themes such as: our environmental responsibility, energy efficiency in shipping operations and the proper management of materials and waste. In addition, 177 persons, hired to perform contracting projects in the Canal operations areas, were trained on environmental subjects.

Communicating Environmental Information

The Panama Canal works on various maps to support the Panama Canal Watershed territorial ordering and includes environmental guidelines such as forest coverage, water supply, among others. This initiative is carried out by the institutions that make up the CICH. These maps will be useful to the CICH, non-governmental organizations, local governments and universities, among others. During this year, 260 thematic maps related to water studies of Bayano and Azuero were produced and printed, as well as the drawing of maps and drafting of documentation of ACP administrative areas related to Law 21 of July 2, 1997, such as the rise of water level to 100 ft. and 260 ft., among others. In addition, open request, land use records were analysed, as part of the requirements for those interested in developing different projects in the Panama Canal Watershed.

Also, 41 radio and television programs were produced and 1,025 minutes of information were disseminated through seven radio stations in the watershed and more than 13,000 copies of the newspaper Mi Cuenca were distributed to a population of almost 50,000 watershed residents. The outreach strategy included the layout and publication of 20 informational EcoTips and the production of 20 video clips aimed at 4,500 employees.

Corporate Environmental Performance

As in other years, during fiscal year 2017, the Panama Canal included the environmental considerations in the formulation, design and management of projects carried out in Canal operational areas. Seventeen environmental project assessments were carried out, including initial recognition of environmental conditions, preliminary environmental assessment and environmental impact assessment (EIA) studies.

Also, environmental specifications were included in 30 bidding documents for project tenders; and 77 documents on environmental issues for different contracts were reviewed and annual security and environmental protection inspections were carried out and 10 operational areas were monitored.

The Canal carries out a constant monitoring of mobile source emissions, which was used to measure close to 300 vehicles owned by the ACP fleet (gasoline and diesel engines) and five tugboats, one per type. Also, the Air Quality Monitoring Program increased its coverage and included monitoring stations, some of them on a permanent basis and others are mobile, in the following sites: Miraflores, Ancon, disposal site T6 (former PAC-4), Paraiso-Pedro Miguel, south of disposal site T6, Agua Clara Locks, as well as in the project site for the construction of a bridge across the Canal at the Atlantic side, reporting a 100 percent compliance of the ACP air quality standard (Standard 2610-ESM109).

The audit on the application and efficiency of mitigation measures was carried out for the environmental impact study of the Third Set of Locks in its operational phase for the period from January to June 2017, and the results and conclusions were satisfactory. Likewise, the verification audit of the implementation and effectiveness of the mitigation measures for the construction of a bridge across the Canal at the Atlantic side was conducted, which resulted in the implementation of appropriate environmental controls by the ACP in all the programs established for the construction stage of the project.

The Panama Canal also carried out 827 inspections (with an increase of 18 percent in relation to 2016) in areas of responsibility of the Authority to evaluate environmental performance.

New Water Sources

The National Water Security Plan 2015-2050 and the National Water Council determined the need to study the potential of several watersheds in the country in order to identify new sources of water with high water potential, which will ensure, in the medium and long term, the human consumption of the Panamanian population. Among these are the watersheds of the Bayano River, Indio River and La Villa River, Perales and Parita Rivers, Santa Maria River in the Azuero and Veraguas region. The ACP, due to its experience in water management resources, watershed management and project management, was hired by MiAmbiente to conduct the studies that guarantee this availability.

In December 2016, MiAmbiente and the Panama Canal signed three contracts to carry out feasibility studies in multi-purpose reservoirs in the watersheds mentioned above. Among other things, these reservoirs will fulfill the main objective of generating capacity to prevent or mitigate climate change and address different uses and users of the productive sector and human consumption. This will enhance the Panama Canal brand and the economic value of the organization's knowhow in water resources management. At the end of September 2017, studies on Rio Indio, Bayano and Azuero showed a 10%, 15% and 51.34% progress, respectively.

Water Quality and Quantity

To ensure the quality and availability of water for different uses and users is a priority task at the Panama Canal. Under an absolute understanding of the economic and social value of water, the ACP invests enormous resources, physical, human, technological and financial for its conservation, monitoring and surveillance, applying high standards based on national and international standards, which ensure the reliability in management and supply of this valuable natural resource.

Water Quality

In order to provide surveillance and monitoring of water quality in the watershed, the Panama Canal has 38 stations, distributed along the six main rivers in the Gatun, Alhajuela and Miraflores reservoirs and priority subwatersheds. Fifty-eight water samples are collected every month from these stations to analyze between 24 and 27 water quality parameters. Data and information obtained make it feasible to establish the physical, chemical and biological conditions of the water resource for better decision-making regarding policies, programs and projects that contribute to sustainable use and efficient water management.

Based on the results obtained, the Panama Canal calculates the Water Quality Index (WQI). This index is a combination of several parameters that characterize water quality. The watershed's global WQI from October 2016 to September 2017 was 86, on a scale of 0-100. This result indicates very good water quality since it synthesizes varied and complex information in an indicator of high-value environmental performance for the integrated management of water resources.

Drinking water samples are collected and analyzed daily. Monthly, quarterly and annual analyses are conducted during the processing and final production at the three water treatment plants managed by the Canal: Mount Hope, Miraflores and Mendoza. This activity is approved and supervised by the National Authority of Public Services (ASEP, by its acronym in Spanish), and includes the analysis of physico-chemical, bacteriological, metal, organic compounds, pesticides, algae, cyanobacteria, toxins, protozoa and other chemical and biological indicators. During fiscal year 2017, samples were also collected and analyzed for the characterization and monitoring of the different wastewater discharges produced during Canal operations.

Water Quantity

The Panama Canal manages a database with more than 100 years of records from hydrometeorological stations, most of these registers are recorded in a modern and reliable database. This database will allow managing, processing and analysis of information in a more efficient, easy and effective way, which will be reflected in the publications of the Panama Canal. Among these journals are included the hydrological and sediment annual reports, rivers' flows behavior reports and thematic maps.

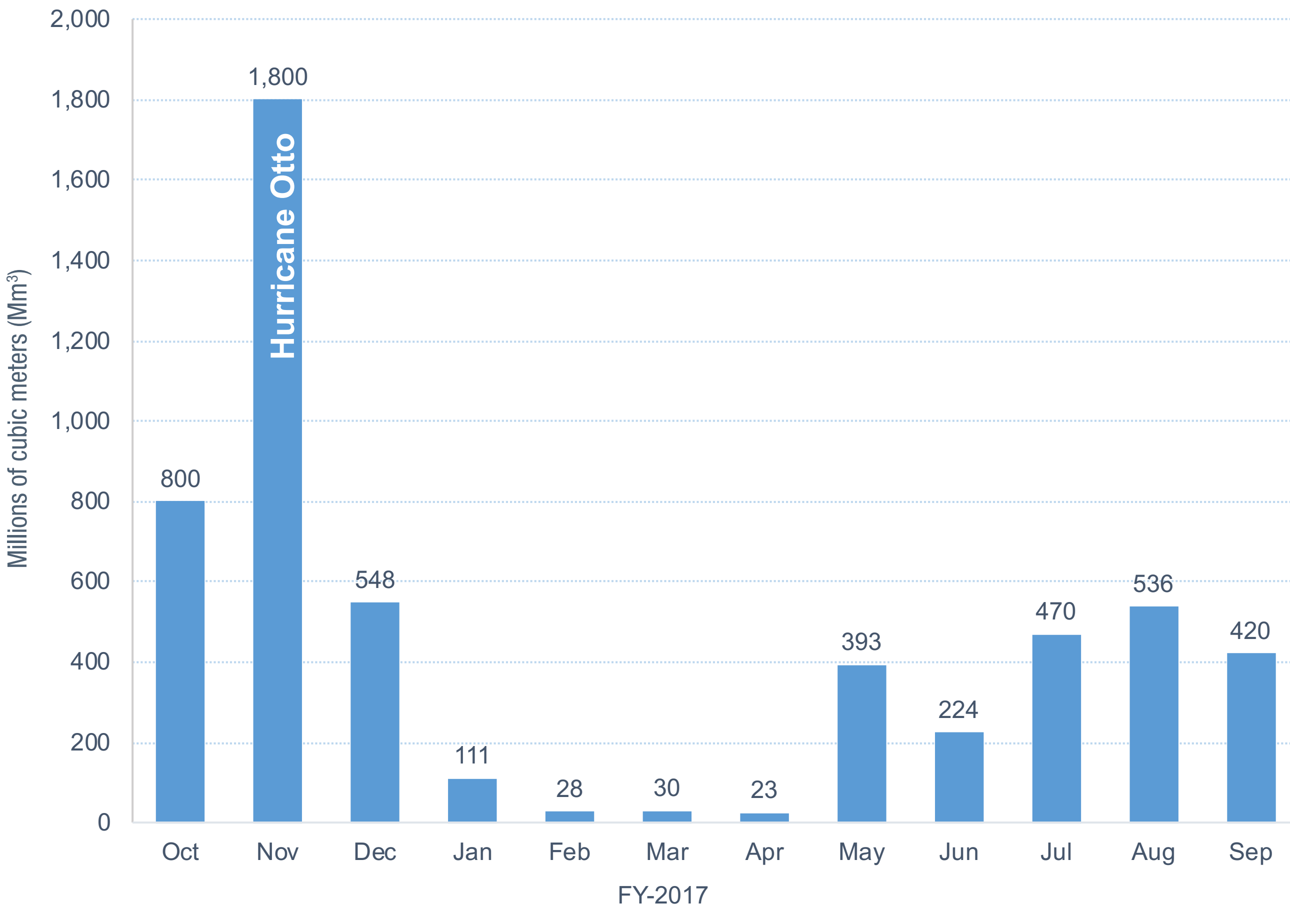
Meteorological data and most of the historical hydrological information is saved in this storage and information management system. Current hydrological and meteorological data are automatically uploaded daily.

The Panama Canal successfully implemented its Flood Control Program, which fully complies with its objective of safeguarding the communities and goods adjacent to the reservoirs and maintaining the Canal's operation uninterrupted, especially after the effects caused by recent extreme weather events, such as Hurricane Otto in November 2016.

During the extreme weather event, known as Otto, the Incident Command System coordinated the tests for the elevation of the operational level of Gatun Lake, where field trips were made to the communities of Guayabalito and Santa Rosa to monitor the discharge of the Alhajuela reservoir from the Madden dam, during the extreme storms in the months of October, November and December 2016.

In addition, due to this same tropical phenomenon, a large amount of the rain in the October to December 2016 quarter was above average, so November, 2016 was the rainiest month of all the months of November in the last 67 years.

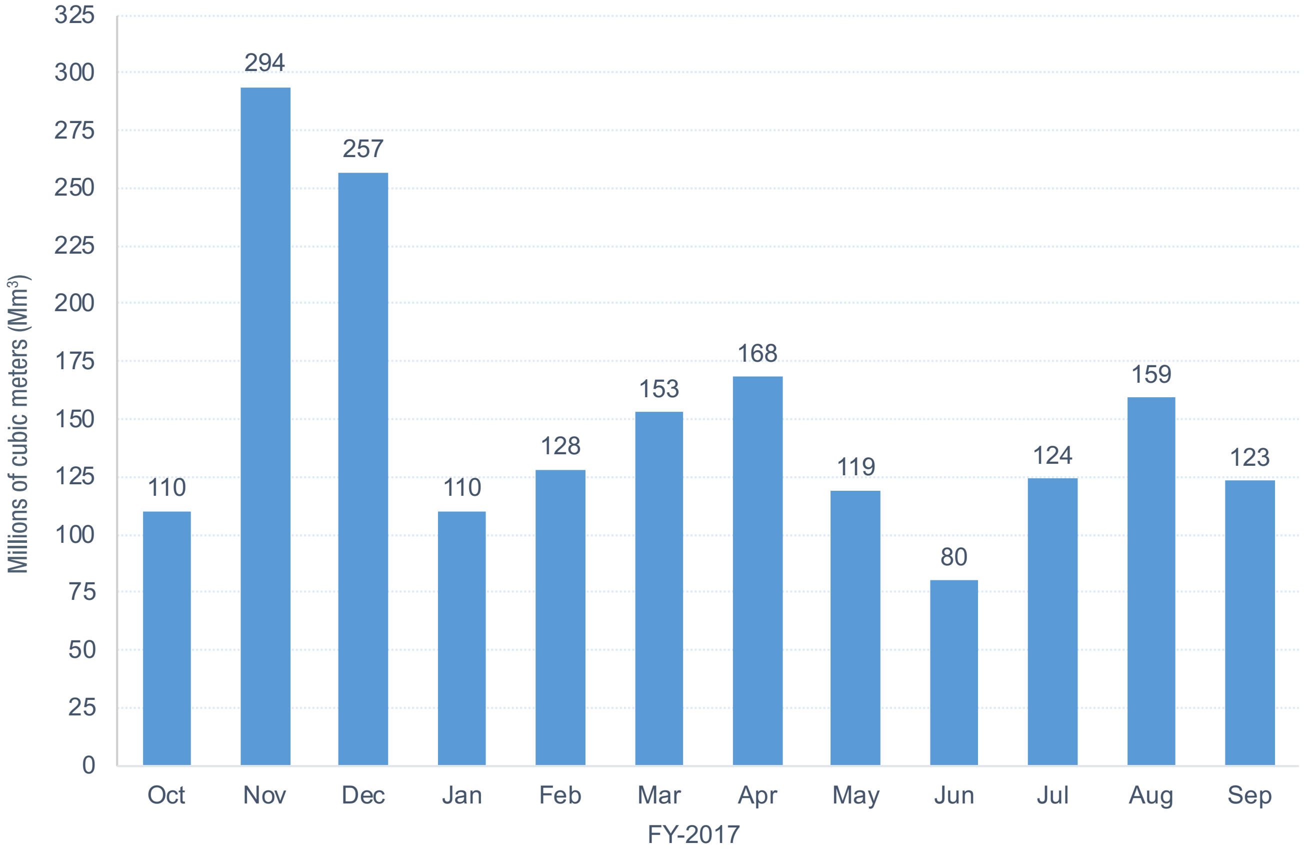
Panama Canal Watershed
Total contributions (5,383 Mm³)



It is very significant that during the fiscal year 2017, the water volume total contributions (5,383 million cubic meters) into the Panama Canal Watershed was 1.6 percent above the average of the last 20 years (5,300 million cubic meters). Eighty-five percent of the water inflows were recorded during the first (October, November and December of 2016) and fourth quarters (July, August and September of 2017); that is 58.5 percent and 26.5 percent, respectively.

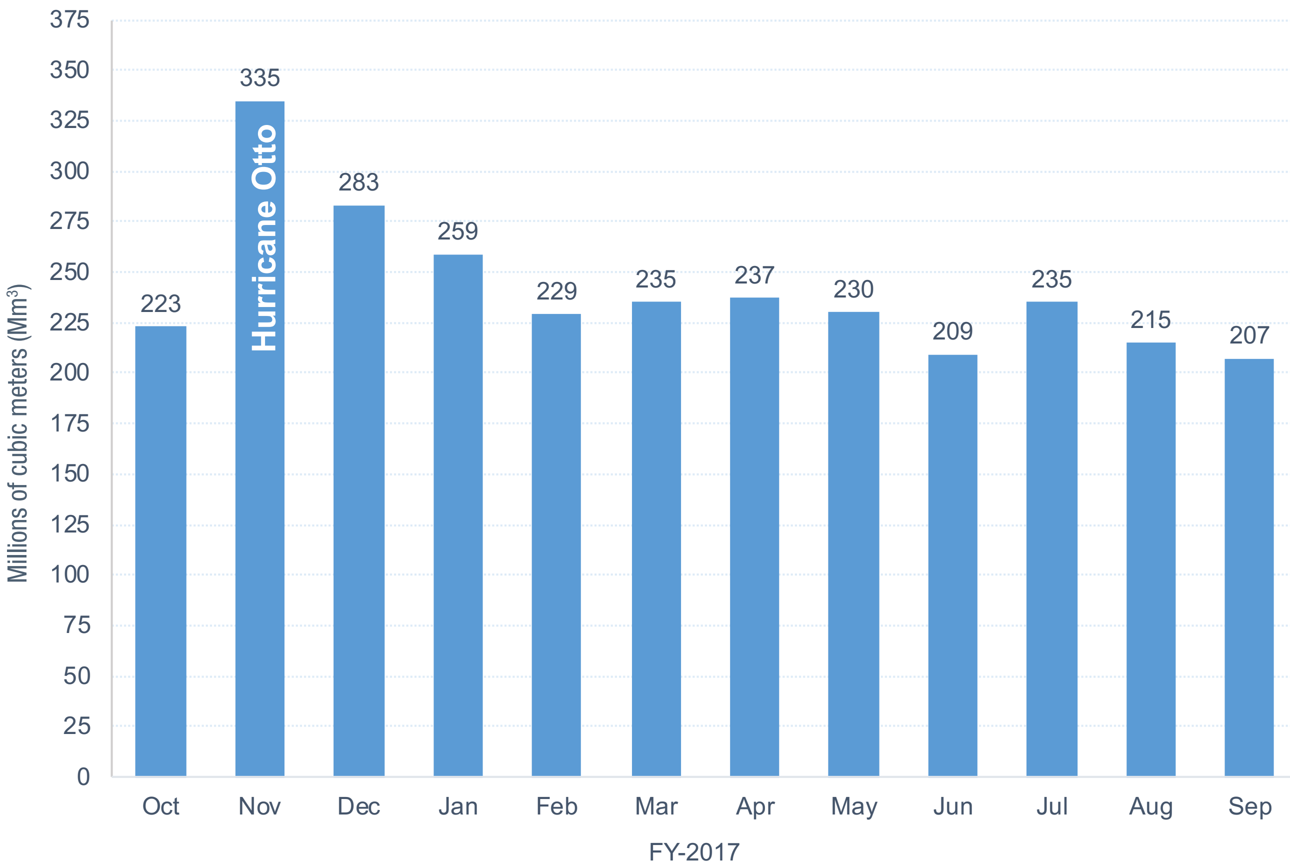
On the other hand, during the months of February, March and April the direct evaporation from the reservoirs significantly exceeded the total water inflows during those months. The accumulated volume evaporated (489 million cubic meters) is equivalent to 9 percent of the total inflows, in other words, almost twice the amount stored.

Panama Canal Watershed
Water transferred from Alhajuela reservoir (1,825 Mm^3) to the Gatun reservoir



The volume of water transferred (1,825 million cubic meters) from Alhajuela to the Gatun reservoir, including the spills, was almost a third of the total water inflows (that is 34 percent); therefore, the Panama Canal could continue providing the service without operational restrictions.

Panama Canal Watershed
Water used for lockages (2,897 Mm³)



The amount of water used for lockages (2,897 million cubic meters) is equivalent to 54 percent of the total contributions, distributed between the Panamax and Neopanamax locks. The volume of water extracted from the Alhajuela and Gatun reservoirs for drinking water was equal to 600 million cubic meters. This is equivalent to 11 percent of the total contributions.

Much of the success of the Panama Canal is due to the continuous implementation of a maintenance culture, which is synonymous with reliability, in its operations. Studies were carried out to introduce improvements in the three spillways: Miraflores, Gatun and Madden, in addition to preventive maintenance works.

Sustainable Energy and Innovation

The Panama Canal promotes projects based on non-conventional renewable energies in its areas of operation. Naturally, photovoltaic plants have been studied and, more recently, their use on bodies of water. To this end, the Panama Canal began in 2016 the construction of a floating facility in the Lake View area in Miraflores, to study the energy production and effects on the implementation of large-scale projects. It is worth mentioning that all the installation was carried out by Panama Canal employees, who applied science and innovation for the successful assembly and operation of this important initiative.

The floating support structure and the photovoltaic modules were assembled in October 2016 and the final connection to the grid was done in February 2017. This project became the first floating photovoltaic array connected to the grid in Latin America.

Other aspects within this strategy include: raising additional income from external sales or internal energy consumption based on a non-conventional renewable source; enhancing The Green Route by reducing greenhouse gas emissions associated with the generation of energy; establishing the Panama Canal as a leading and innovative organization regarding the production of floating photovoltaic energy in the country and the region.

The project also allows us to make the best use of the Miraflores Lake without affecting its current uses, since, due to its location, it is relatively easy to connect to the existing ACP grid, saving the construction of transmission lines and substations.

The aforementioned lake areas will generate renewable energy and achieve very significant emission reductions. This energy resource, combined with other elements within the Panama Canal energy matrix, increases the reliability of the system as a whole.

SOCIAL RESPONSIBILITY

The Panama Canal is proud of the new milestones achieved this year under the Corporate Social Responsibility (CSR) Program. Through the different CSR programs, aligned with the vision and mission of the organization and the 17 Sustainable Development Goals (SDGs), many Panamanians' lives were transformed, in aspects such as the environment, integral well-being, culture, community development, and education.

The Children to Canal Camp, an outstanding program dedicated to youngsters, celebrated its 10th anniversary. A special camp agenda was prepared that included two important innovations: the participation of three young people who attended the camp during their childhood; and the invitation of schools (one per province) to participate in the National Contest for Educational Excellence 2016. The success of the celebration was marked by sharing the experiences of those children - now young adults who had participated in the program. Also, thanks to the contest, educational centers throughout the country received well-deserved recognition, for striving to achieve excellence in the education offered to children who are the future of Panama. The guests learned first-hand, about the operations of the Canal. They visited different points of interest, and had activities and workshops to develop new skills that encourage their innovative spirit.

Panamanian youth also received special attention this year. Apart from the formal spaces to add young talent to the Panama Canal, two important projects were aimed at young leaders and entrepreneurs. The first was a meeting with the Panama Canal Administrator for an update on waterway issues. The second was a historic dialogue organized with United Youth for Education, to commemorate the 103th anniversary of the Panama Canal. This year's conference was entitled "The Role of Youth in the Panama Canal". This significant occasion was broadcasted by different media. It produced a unique exchange between young people from all over the country and panel members. These are part of the modern history of the interoceanic waterway.

This year's most important event focused on the achievement of the SDGs. A large unprecedented Public-Private Partnership for Development was established between the Panama Canal and prestigious national and international companies from various industries. The objective is to join efforts and resources from each sustainability and CSR program of the alliance's member companies to increase the impact on economic, social and environmental development initiatives in Panama. Specifically, the initiatives, which form a collective impact effort, will seek to improve the agroecological quality, the water resource and life of the population of the Canal Watershed and its surrounding areas.

This emphasis on the Canal Watershed is due to its vital importance to the country: providing the necessary water resources for drinking water for most of the Panamanian population, and to supply the Canal with water transit of global cargo. To ensure its sustainability, it is important, that its administration, management and conservation be strengthened; that social participation instances at the subwatersheds be reinforced; and awareness-raising, education and reforestation projects in the communities be intensified. This great alliance will initiate project execution in fiscal year 2018.

This year, a total of 3,350 volunteers registered, and a new structure of Canal volunteers was implemented with 34 leading volunteers and 7 working committees. A total of 47 volunteer initiatives were carried out, with the participation of 2,260 supporters for a total of 14,000 volunteer hours in the fiscal year 2017; and a 9-year historical cumulative of 189,200 volunteer hours.

The organization honored the work of volunteers over the past 12 months, during a tribute held on December 5, 2016, at the Miraflores Visitor Center. More than 600 corporate volunteers attended the event, and enjoyed an evening in recognition of the time, work and talent that each one offers to worthy causes and projects.

Among the initiatives completed in 2017, the five areas of action (environment, integral well-being, culture, community development, and education) are detailed below:

Environment

Volunteers contribute to environmental conservation through educational programs, as well as prevention, mitigation and ecological compensation actions.

For example, the Canal volunteers joined about 150 volunteers from 10 companies and organizations on National Volunteer Day to make improvements to Summit Municipal Park. The corporate volunteers then continued to donate their time for several months to this park, especially to refurbish the puma enclosed habitat.

In March 2017, the Earth Hour was celebrated as a symbol of commitment to the planet. Non-essential electric lights were turned off all over the world for one hour. This is a call to mobilize and act constructively in defense of the planet. On this occasion, the Panama Canal also partnered with the Roba Morena Foundation and the Yo Me Reciclo (I Recycle) Fair. During this event, corporate volunteers raised awareness on recycling, voluntary donation and local actions that contribute to community development.

As in previous years, during the 2017 National Reforestation Day, the Canal supported efforts to stop the accelerated rate of degradation suffered by the natural heritage of Panama. On this occasion, volunteers from the Panama Canal participated in the Camino de Cruces National Park and in Cerro Galera.

Another tradition of the Panama Canal is to participate in several clean-up activities in beaches, coasts and rivers, as well as underwater cleaning, together with non-governmental organizations in areas of natural interest in the country.

Integral Well-being

The Canal volunteers supported once again the 2016 Relay for Life Walk to support the Friends of Children with Leukemia and Cancer Foundation (FANLYC), inspired by the child hero Obadías Quintero. In addition, several organizations received support, such as the Panama Special Olympics; the Make-A-Wish Foundation (fulfilling the wish of children with terminal illnesses who wish to visit the Panama Canal); the Art of Living Foundation (with the Panama Medita event); the Ann Sullivan Panama Center and the Soy Capaz Foundation (with the autism awareness campaign focused on autonomy and self-determination); and several companies and foundations that together commemorated the Good Actions Day. The latter was particularly extraordinary, since three simultaneous activities were organized on this day:

- In Colon province, the recycling of electronic devices (cell phones and cell batteries, laptops, CPUs and UPS) was promoted to encourage the culture of recycling and, with it, the conservation of the environment and adaptation to climate change.

- At the Summit Municipal Park, general cleaning and nursery work was carried out, as well as the cleaning and painting of benches.

- In the pediatric ward of Nicolas Solano Hospital, in La Chorrera, volunteers delivered donations to patients who are hospitalized due to unforeseen circumstances or medical emergencies, and cannot afford the cost of their hospital stay.

Culture

This year, the Canal hosted the III Regional Encounter on Volunteer Management as a joint initiative with AIESEC, and with the sponsorship of the World Scout Bureau-Inter-America Support Center, the Latin American Volunteer Center (CELAV), World Vision and the United Nations Volunteers (UNV) Regional Office. Leaders from over 20 international organizations, NGOs, universities, private companies and foundations that incorporate strategic volunteer in their programs and projects who work in Latin America and the Caribbean participated. During this event volunteering is a civic virtue and a heartwarming habit was emphasized. In these meetings, the synergy and cooperation among the regional actors that are key to join efforts and multiply results in the solidarity agenda of Latin America are promoted, thus contributing to the fulfillment of the SDGs.

In addition, this year the Panama Canal volunteers actively participated in the workshop "Painting with Olga Sinclair using the style of Master Roberto Matta". During the day, the volunteers transmitted their joy and great service vocation to about 5,000 children and their companions in El Prado Boulevard from early hours. Among other tasks, they coordinated the general logistics of the event and demonstrated their overwhelming support for the promotion of culture in favor of Panamanian children.

Finally, this year the "Mi Familia Canalera" seminar, offered on the Pacific and Atlantic sides, was organized for Canal employees. This seminar was aimed at strengthening ties between parents and children; so children recognize the impact of their parents' work on the Canal's performance and how this influences the well-being of their family and the country. Family values are reinforced as a reflection of the organization's values and corporate culture.

Community Development

Every year, Panama Canal employees get organized and carry out Christmas activities in communities, located in the Canal Watershed, where a complementary activity is simultaneously accomplished to promote local sustainable development. This year, 25 activities were completed in 29 communities, benefiting more than 3,180 people with the Ambassadors of Illusion Program.

Volunteering also carries out community infrastructure improvement projects. A project was undertaken this year to repair the home of a girl with cancer; the construction of a suspension bridge over the middle stretch of the Boqueron River (this was accomplished with the help of residents in surrounding communities); the delivery of materials and other donations to the School of Ciricito of La Encantada (assisted by the Coco Solo Lions Club); and a day for improvements in the electrical system of the Polytechnic Institute Gil Betegon.

Education

This year the ACP joined two prestigious organizations in order to assist programs that promote educational quality in the country. In the first case, an alliance was signed with the Foundation for the Promotion of Educational Excellence. Panama Canal volunteers supported the first and second edition of the National Contest for Educational Excellence, in November 2016 and September 2017. The Panama Canal authorities believe in the potential of the Panamanian youth and that education is the way to achieve the development and prosperity of the country and of all Panamanians. The Panama Canal has a program to support different aspects of this national contest.

The dialogue "The role of young people in the Panama Canal" was also organized, together with the organization United Youth for Education, to commemorate the 103th anniversary of the Panama Canal. In this discussion, four distinguished personalities (the Canal Administrator, Director Oscar Ramirez, Dr. Jorge E. Ritter and Dr. Eloy Alfaro) answered questions posed by young people from all over the country who were selected through a contest. With this discussion, we sought to recognize the importance of the waterway as a national asset, and what it represents in the history, culture, development of the country, and for world trade. Canal volunteers helped in the preparation and induction of young volunteers who would support the dialogue.

COMMUNICATION

In Contact With the Country

Panama Canal matters have always been close to the hearts and minds of Panamanians because of the effort and sacrifice to recover full sovereignty of our territory.

Aware of this reality, the Canal is always seeking to enhance its communication channels and maintain a permanent contact with the community. The interaction with thousands of Panamanians continued this year and the messages of the institutional advertising campaign "We Love Challenges" were focused on the challenges that lie ahead despite the completion of the expanded Canal and the long road ahead.

During fiscal year 2017, the Panama Canal developed a communications plan to disseminate the milestones achieved by the expanded Canal on its first year of operations, confirming its impact in global maritime trade, and the actions that have been taken on environmental sustainability, as part of The Green Route, and the Canal's role in the National Water Security Plan.

Additionally, more than 50 briefings were given to approximately 6,000 attendees, mostly students, at universities and schools in the provinces of Panama, Colon, Cocle, Herrera, Los Santos, Veraguas and Chiriqui as part of the "We Love Challenges" campaign. Moreover, 20 Panama Canal spokespersons reported in the regional news media about performance of the expanded Canal on its first year of operations and the upcoming challenges.

In celebration of its 103rd anniversary, the Panama Canal organized the well-liked Magical Nights event at the Miraflores Visitor Center. The event had a record attendance of more than 6,000 people, where families shared musical evenings, live characters exhibitions, and enjoyed Panamanian traditions.

The traditional Canal Summer Festival brought together more than 30,000 people of all ages for the three-day event in the surroundings of the Panama Canal Administration Building that included the presentation of a movie, a theatrical presentation and musical performances to please everyone.

The Panama Canal participated in 17 fairs and events throughout the country, reaching approximately 481,578 people, while the traveling informative bus shared the history and operation of the waterway in 23 roadshows to 22,125 people.

As part of the Canal of All program, 18,164 people including students, local authorities, trade organizations, civil society, and non-governmental organizations, had the opportunity to learn more about Canal operations during their tours to the Miraflores Visitor Center or to the Agua Clara Visitor Center, in Colon, which offers a new window for tourism in the Atlantic side of the country. Since its creation in 2003, the Canal of All program has brought 155,024 to the Canal.

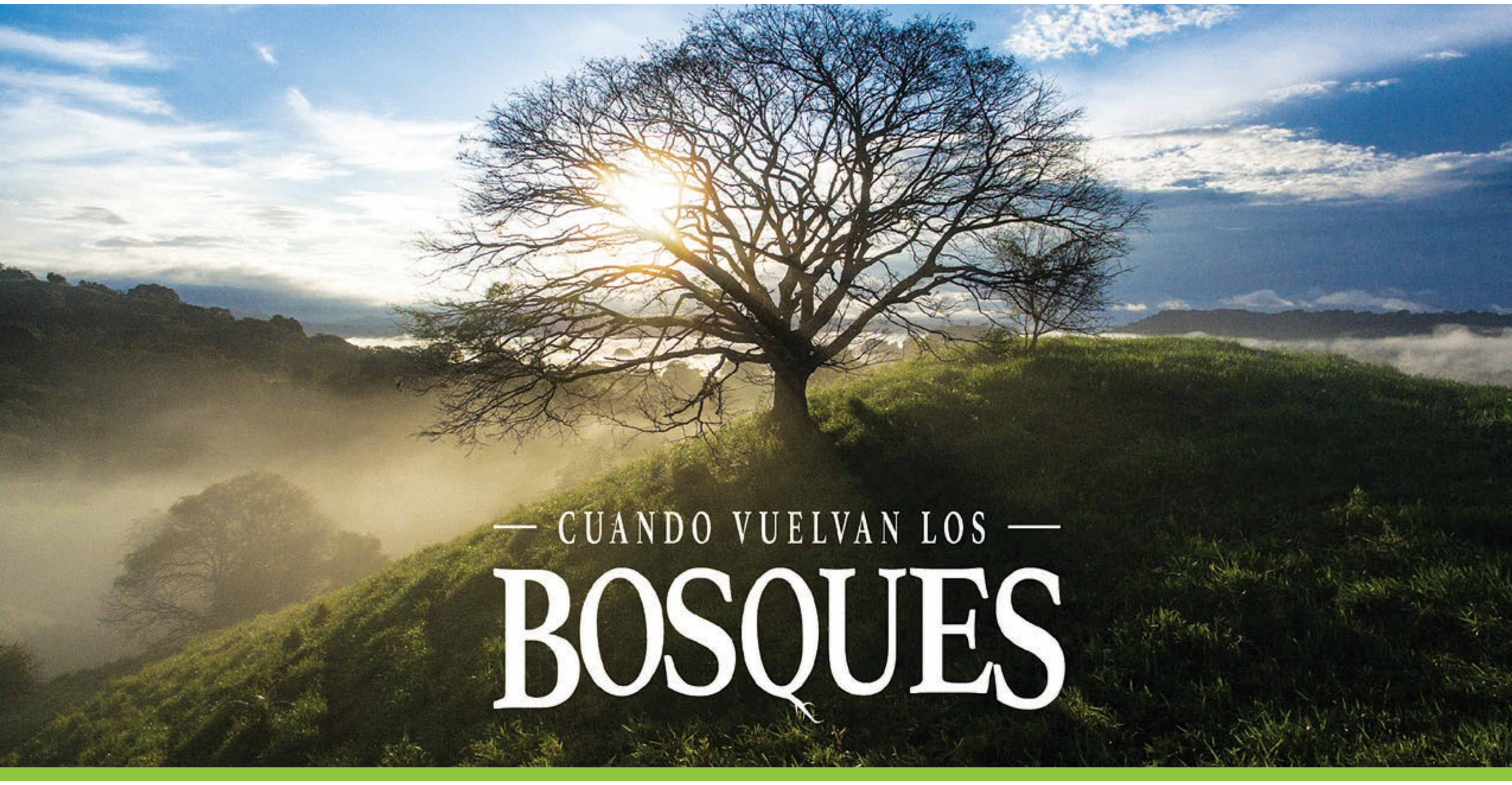
Geographical distance has not been an obstacle for the Canal to build a bond with Panamanians from different regions of the country by means of its eight information centers located in Changuinola (province of Bocas del Toro), Aguadulce (province of Cocle), David (province of Chiriqui), Chitre (province of Herrera), Guarare and Las Tablas (province of Los Santos) and Santiago (province of Veraguas). More than 69,000 people, especially young students, took advantage of these free meeting point centers.

Even beyond physical borders, social media has opened an additional communication channel for interaction with several generations of Panamanians. This has been possible through websites and the social networks Twitter, Instagram and Facebook, with a monthly average reach of 5.9 million users in 2017.

In addition to informative content and social campaigns shared via social networks, public participation was promoted. Consequently, events such as the Canal Summer Festival, the Visitor Center's Magical Nights, and contests to attend guided tours to the expanded Canal had massive participation.

Moreover, the Panama Canal increased content production in its different platforms, moving its daily Canal TV schedule from three to four hours, and subscribing a cooperation agreement with the University of Panama for the transmission of programs and documentaries from the University Cinema Experimental Group (GECU).

In addition, the Panama Canal extended its scope by launching live broadcasts of special events on Canal TV, its corporate channel, YouTube and Facebook Live. These transmissions included emblematic activities such as the first anniversary of the expanded Canal, forums about the 40th anniversary of the signing of the Torrijos-Carter Treaties and the Role of Youth in the Panama Canal, in partnership with the Youth United for Education Foundation.



To accomplish the organization's commitment to the National Water Security Plan, the Panama Canal organized the launching of the documentary "Cuando Vuelvan los Bosques" (When the Rainforests Return), produced by Vertical and Albatros Media, which became part of the programs to promote the importance of protecting and identifying new water sources.

The Canal continued to be the main point of interest for tourists arriving in the country, who are drawn by recent attractions such as the new simulator at the Miraflores Visitor Center. The two visitors centers received a total of 995,824 people as of September 2017, of which 29 percent were nationals and 71 percent were foreigners, representing a revenue of B/.10.1 million.

In order to develop a comprehensive plan to promote the waterway's tourism potential, a consultancy was awarded to the Canadian company FORREC. Meanwhile, the project to build the first getting to know about the Canal center in the countryside, in the city of Santiago province of Veraguas, is still underway. At the end of fiscal year 2017, its progress was at 16 percent.

The expanded Canal contributed to Panama's good international reputation, being recognized with the Lloyd's List Americas award "Newsmaker of the Year" for the historic inauguration of the Neopanamax locks and its impact on news media around the world.

FINANCIAL PERFORMANCE

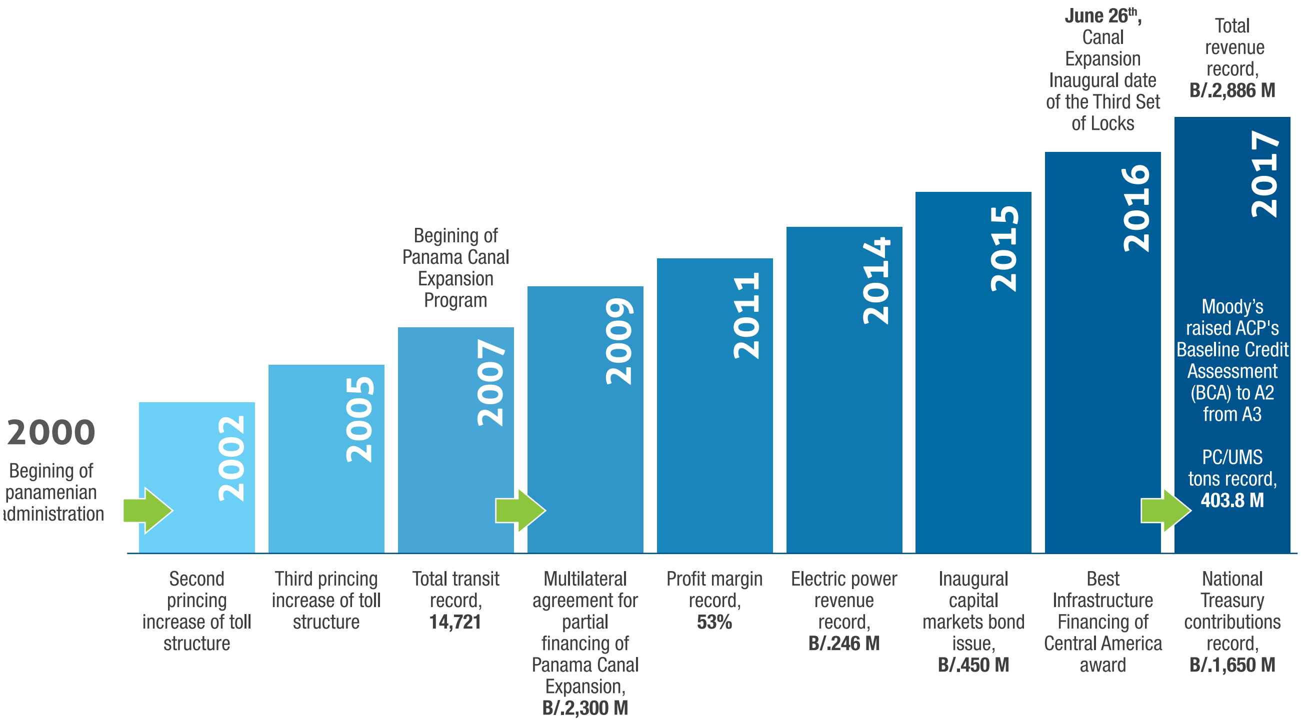
FINANCE

Proven Financial Strength of the Panama Canal

The start of commercial operations of the Third Set of Locks of the Panama Canal has prompted the redesign of many regional and global supply chains, and has influenced changes in maritime trade patterns, which favor users and contribute to the progress of Panama. Canal users and clients benefit from the economies of scale that result from the use of larger vessels on the Panama route, as well as a very competitive toll structure, specially designed for each market segment. With the new locks, the Republic of Panama strengthens its position as a thriving global logistics and transportation hub in the Americas, as a result of the value and connectivity provided by the route through Panama.

Since Panama took over Canal administration back in 2000, the Canal has maintained a track record of financial growth and contributions to the National Treasury with management focused on business sustainability, the implementation of improvements, and the maximization of financial returns.

Panama Canal's Relevant Milestones by Fiscal Year



In 2017 the maritime industry favored the Panama route, which led the Canal to achieve records in toll revenues and tonnage transited through the waterway. In addition, Canal administration adopted innovative strategies to strengthen its market share in relevant routes and segments, attracting an increasing number of Neopanamax vessel transits, to reach the expected return on the investment proposed for the Expansion Program. In this sense, the Canal implemented actions to take advantage of the new capacity offered by the Neopanamax locks, such as the auction of a new daily transit slot on the route to the east coast of the United States, targeting container Neopanamax vessels. With these actions, the Canal aims to satisfy world trade growing demand, attract higher revenues, ensure profitable and sustainable growth of the business and offer the reliability required by shipping customers.

As mentioned earlier, one month after the first anniversary of operations, the expanded Canal received the Newsmaker of the Year award presented by the Lloyd's List Americas Awards, in recognition of the historic inauguration of the Neopanamax locks and its impact in the media around the world.

Today, the expanded Canal is making the headlines, now focused on the milestones that are being surpassed almost daily in new market segments such as Liquefied Natural Gas (LNG), new liner services and the tonnage records established by the Neopanamax locks. The Canal expansion success confirms the proven capacity for operational growth and the financial strength of the interoceanic Canal.

The Canal concludes fiscal year 2017 with a solid financial position and robust financial metrics, and as a key component of the economic development of Panama and international maritime trade. Financial strength of the Canal is based on its constitutional and legal framework, corporate governance policies and its firm commitment to transparency in management, which is well recognized by international credit rating agencies.

International Credit Rating Agencies Affirmed Investment Grade Ratings

In July 2017, the S&P Global Ratings confirmed the rating "A -" corporate credit and long-term debt for the Panama Canal, with stable perspective, a year and a month after the opening of the expanded Canal, reiterating its confidence in the administration, operations and investments of the Panama Canal. S&P said "that the Canal's operating performance and financial results met expectations and expect the Canal to maintain its exceptionally strong competitive position as the most economical and time-saving option for commercial routes between America, Asia and Europe."

In August 2017, Fitch Ratings reaffirmed the "A" investment grade with stable outlook and, qualification for long-term debt and Panama Canal bonds. According to Fitch, the rating is awarded based on factors such as resiliency to the economic crisis, stable tonnage and the long history of the Panama Canal Authority managing its operations profitably over the course of different administrations. The evaluation is based on the expectation that the Canal will continue to be managed under the same legal and constitutional framework, pillars of its operational autonomy, with which it mitigates the risk of any external interference.

Likewise, the Moody's Investor Services confirmed in September 2017 the rating "A2", with a stable outlook, assigned to the bonds without a senior guarantee for 450 million dollars, issued to partially finance the construction of the third bridge over the Canal, in the Atlantic coast.

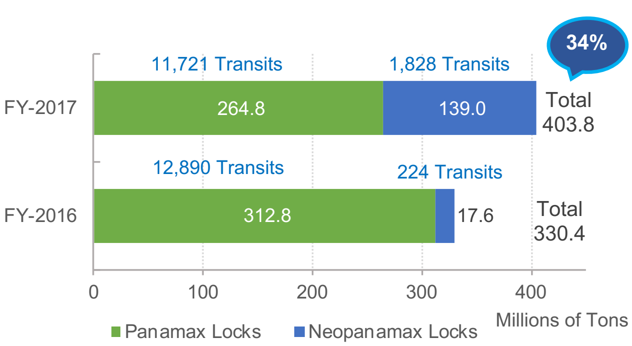
Moody's Raised the Base Credit Assessment to A2

Moody's also raised the Panama Canal Base Credit Assessment (BCA), from A3 to A2, as a result of the successful operation of the expanded Canal a year after its opening. Moody's highlighted in its report that the A2 rating is one-step above the A3 rating of the sovereign ceiling, reflecting the historic operation of the Panama Canal distanced from political interference.

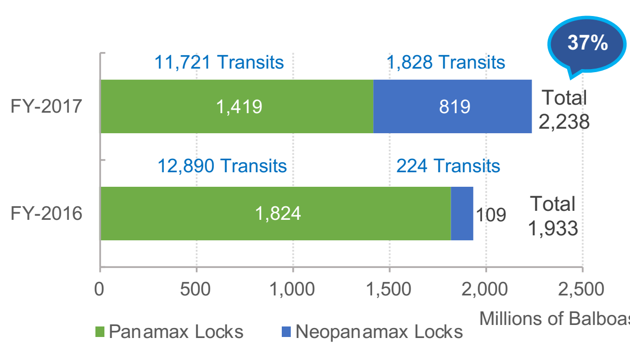
The New Locks Boost Panama Canal Growth

The Expanded Canal exceeded expectations at the end of fiscal year 2017. The Neopanamax vessel traffic generated B/.819 million in toll revenues, which represents 37 percent of total toll revenues for the year and 34 percent of the tonnage that went through the Canal, after 1,828 vessels transited the new locks. These transits are equivalent to an average of 5 vessels per day and 76,000 PC/UMS tons per transit. The non Neopanamax vessels generated toll revenues of B/.1,419 million.

PC/UMS Tons



Toll Revenues



With the new locks, the Canal benefits from growing business segments, such as LNG, and the large container ships and passenger vessels. Thanks to the added capacity, a record toll of B/.1.2 million was set by a container ship with a capacity of 14,863 TEU, and the first Neopanamax cruise ship with a 2,800-passenger capacity paid B/.487 thousand.

As many as 235 Neopanamax cruise ships will transit the waterway during the 2017-2018 cruise season, and the arrival of the largest cruise ship, with a capacity to carry 4,200 passengers, is expected during this season.

Milestones of Neopanamax Locks		
Container vessel breaks revenue and capacity record with 14,863 TEU	B/.1,194	thousand
First Neopanamax cruise with capacity of 2,800 passengers	B/.487	thousand
Average tons per Neopanamax transit versus panamax	3.4	times
Average toll per Neopanamax transit versus panamax	3.7	times

The additional tonnage per ship through the Neopanamax locks represents 3.4 times more tons on average per transit compared to the original locks. The average for the original locks was 23 thousand tons per transit, equivalent to an average toll revenue of B/.448 thousand per transit in the new locks; this is 3.7 times more in average toll revenue per transit than the Panamax locks, which has an average income of B/.121 thousand per transit.

Risk Management Guarantees Canal's Reliability

The Panama Canal actively manages risks with a variety of permanent actions and mechanisms as part of its business continuity and reliability strategy. Prior to the commissioning of the Third Set of Locks, the Canal raised the multi-risk coverage policy up to B/.2,500 million to include assets of the Panama Canal Expansion. The coverage ensures business continuity in the face of catastrophic risk scenarios.

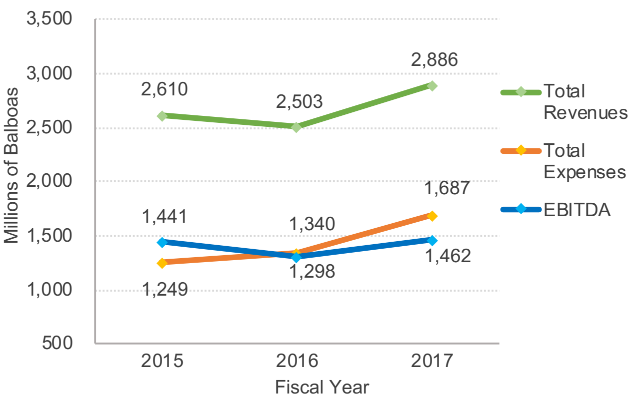
This coverage and adequate liquid reserves, in addition to its financing capacity, represent the backbone of the conservative and rigorous risk management policy of the Canal.

Excellent Financial Performance

The Canal ended fiscal year 2017 with record revenues of B/.2,886 million, B/.383 million or 15.3 percent above fiscal year 2016. This increase is mainly attributed to the additional 73.4 million PC/UMS tons that transited during the year, which represented B/.343 million in transit revenues. The higher tonnage is credited to increased cargo volumes from Asia and the East Coast of the United States and the economies of scale on shipping routes due to the new locks.

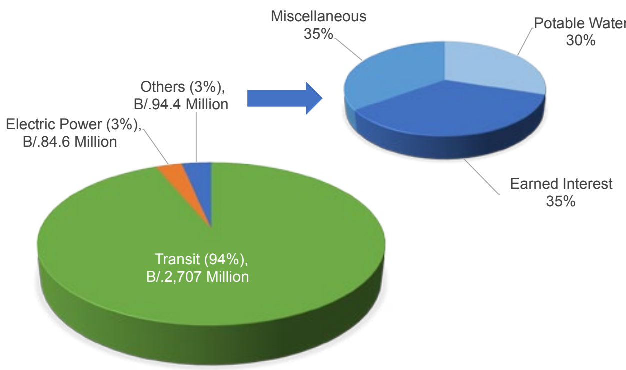
Transit-related services represented 94 percent or B/.2,707 million of the income for fiscal year, energy sales represented three percent or B/.84.6 million, while the remaining 3 percent or B/.94.4 million is composed of water sales B/.28.4 million, B/.33 million interest earned and other miscellaneous income for B/.33 million.

Income Statement



Note: total revenue includes earned interest

Revenue Distribution



The Canal reported a profit before interest, taxes, depreciation and amortization (EBITDA)[7] of B/.1,462 million, which produced a record direct contributions to the National Treasury[8] for B/.1,650 million.

The fiscal year ended with a remarkable performance in terms of its main financial metrics, with return of sales (ROS)[9] of 42 percent, return on assets (ROA)[10] of 9 percent, return on equity (ROE)[11] 12 percent, and return on capital invested (ROCE)[12] 9.6 percent. The debt to EBITDA ratio of 1.9 times is consistent with the conservative leverage policy and the Canal's solid capital structure.

The excellent financial results of the Panama Canal for the 2017 fiscal period are evidence of its continued capacity to generate revenues and provide valuable contributions to the country.

[7] EBITDA: earnings before interest, taxes, depreciation and amortization. Calculated from the sum of the Net Profit + Depreciation + Amortization + (Charges for Financial Interest - Earned Interest).
[8] Direct contributions to the National Treasury: it is the total paid to the State as surplus, right per net ton and rates for public services.
[9] ROS: return on sales.
[10] ROA: return on assets.
[11] ROE: return on equity.
[12] ROCE: return on capital employed. Return on the capital invested.

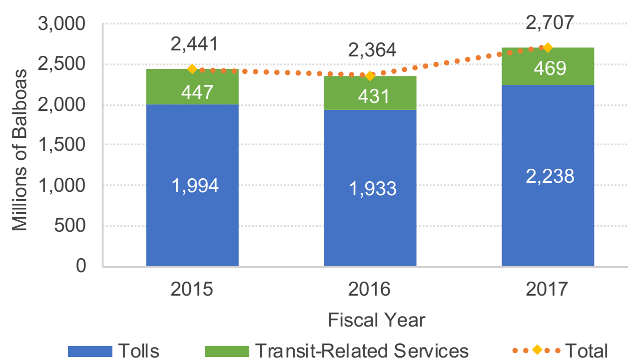
Revenue Growth in the Canal

Toll Revenues Increased by B/.343 Million

Revenues related to transit operations were B/.2,707 million for fiscal year 2017 and include:

- **Toll Revenues**
  For Fiscal year 2017, toll revenues reached a record level of B/.2,238 million. It is 15.8 percent or B/.305 million higher than fiscal year 2016. Cargo volume increased 22.2 percent, at 403.8 million PC/UMS tons, with the operation of the expanded Canal.

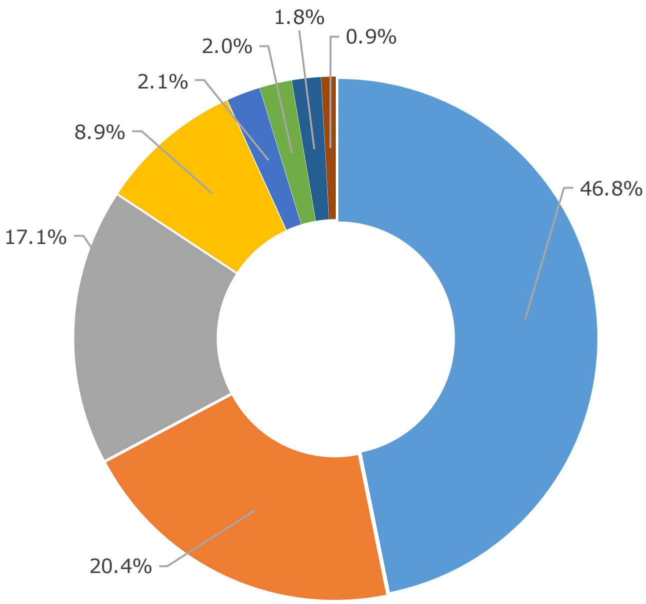
Transit Revenues



- **Income from Other Marine Services**
  These are transit-related services provided by the Canal. For fiscal year 2017, this income totaled a record of B/.469 million, or 8.8 percent more than fiscal year 2016. Forty four percent came from reservations, which contributed B/.205 million, an increase of 13 percent with respect to fiscal year 2016. The container segment is the main user of reservations. Tugboat services contributed with B/.129 million, 15 percent above previous year. The growth in this service responds to the increasing demand of Neopanamax transits.

Out of B/.2,238 million in toll revenue, the container segment remained the leading and largest user of the expanded Canal and generated revenues of B/.1,048 million or 46.8 percent of total tolls.

Toll Revenue Distribution per Market Segment



Segment	Revenue (millions B/.)	Variation vs FY-2016
Full Container Vessels	1,048	10.5% ↑
Liquid Bulk Carriers	457	46.0% ↑
Dry Bulk Carriers	382	16.8% ↑
Vehicle Carriers	198	0.5% ↑
Passengers Vessels	46	24.3% ↑
Reefer Vessels	44	-2.2% ↓
General Cargo	41	-6.8% ↓
Others	22	-
	2,238	

During fiscal year 2017, 142.6 million of PC/UMS tons were from the container vessel segment. Out of this tonnage, 89.1 million PC/UMS tons, or 62 percent, are Neopanamax container ships taking advantage of the economies of scale offered by the expanded Canal. The container vessel segment grew 10.5 percent with respect to fiscal year 2016.

Liquid bulk toll revenues rose by 46 percent as compared to fiscal year 2016 and represented 20.4 percent of total tolls. There were 54.5 percent more PC/UMS tons, as compared to fiscal year 2016, and represented B/.457 million in tolls. These revenues were mainly due to the transit of 539 Neopanamax LPG vessels and 21 million PC/UMS tons which generated B/.94 million in tolls; and 159 Neopanamax LNG vessels, which is a new segment for the Canal, that contributed B/.54 million in tolls. The increase in cargo volumes was driven by higher trade volume in the Asia to east coast of United States route.

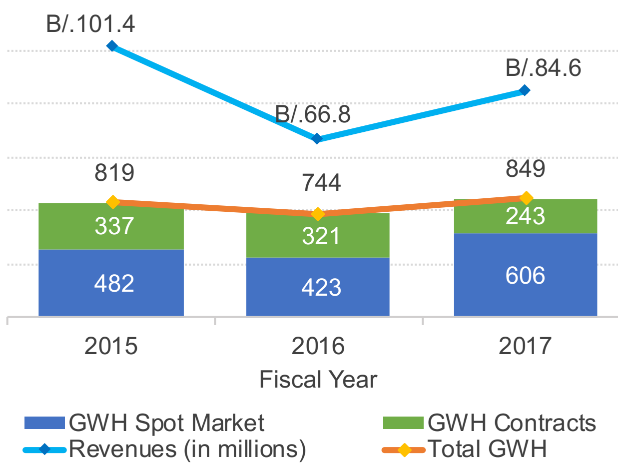
The bulk carriers segment reported toll revenues for B/.382 million, an increase of 16.8 percent in tolls paid or 13.3 million additional PC/UMS tons as compared to fiscal year 2016. This increase is mainly attributable to volumes from the east coast of South America bound for the west coast of Central and South America.

Energy Income Increases by B/.17.8 Million

At the end of fiscal year 2017, electric power sales contributed a total of B/.84.6 million, equivalent to 849 GWH[13], 14 percent more than in fiscal year 2016. This increase represents B/.17.8 million, or 27 percent more income than fiscal year 2016.

The rise in revenue was driven by the 43 percent increase in the amount sold to the occasional electricity GWH market, as the Panama Canal marginal generation costs were among the lowest in the local market. This reduction in costs was attributed to three important factors: using fuel with lower viscosity, efficiency adjustments in unit consumption of fuel and oil and administrative measures to achieve more competitive operations and maintenance costs.

Electric Power External Sales

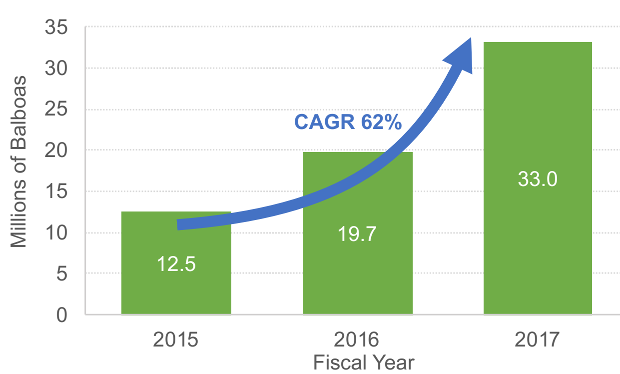


Interest Revenue Increases by B/.13.4 Million

Between fiscal year 2015 and 2017, the liquidity of the Panama Canal increased at an annual compound growth rate (CAGR)[14] of 62 percent. At the end of fiscal year 2017, the treasury management generated B/.33 million in interest income on time deposits and short-term financial instruments.

The interest income was B/.8.4 million, or 34 percent higher than the estimated budget due to an increase of B/.146 million in average liquidity and 26.7 basis points increase in the average interest rate. At the end of the fiscal year, the average yield of the portfolio was 1.26 percent and the interest earned exceeded B/.13.4 million, or 68 percent, to those of fiscal year 2016.

Earned Interest



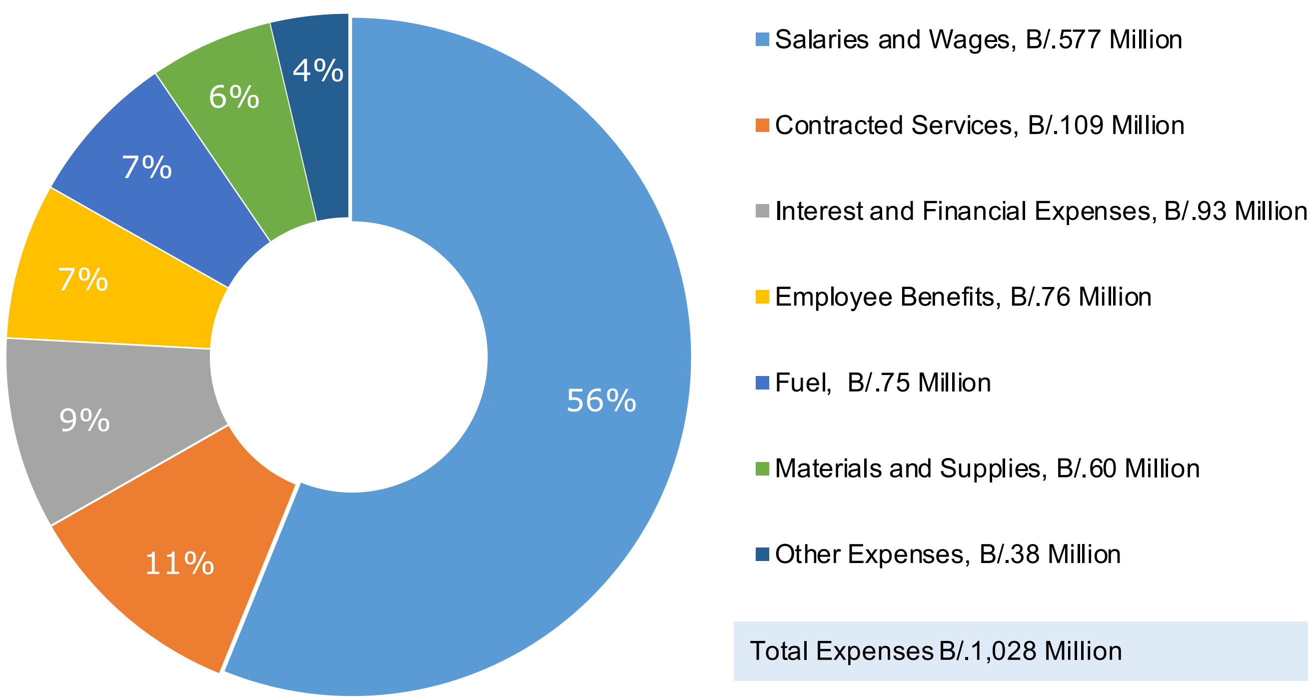
[13] GWH: one gigawatt-hour, equivalent to one billion Wh, is usually used to measure the amount of energy produced by power generation plants.
[14] CAGR: annual compound growth rate.

Expenses with the Expanded Canal were B/.1,687 Million

Expenses for fiscal year 2017 were B/.1,687 million, 26 percent or B/.347 million higher than fiscal year 2016. Of this total, operating expenses, which exclude fee per net ton, rates for utilities and depreciation, were B/.1,028 million, registering an increase of 24.6 percent over fiscal year 2016. Personal services represent the main increase by B/.91.2 million.

These results are consistent with the increase in the volume of operations with the expanded Canal, with three operative set of locks, and the salary adjustments from collective agreements with six unions, in addition to a salary adjustment for excluded workers, after 10 years of the previous negotiations (in force between 2007 and 2015).

Expense Distribution
Excludes fee per net ton & public services and depreciation

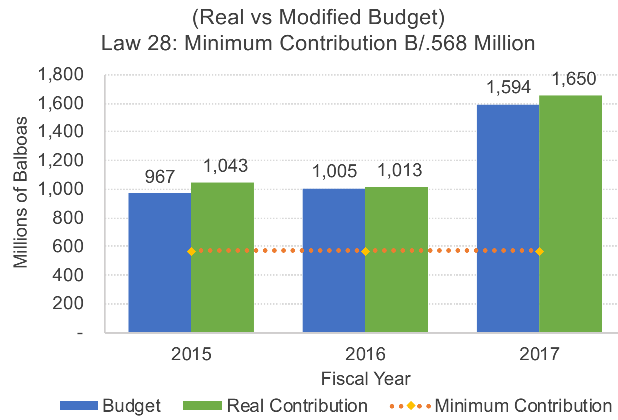


The Canal Achieves Record Contributions and Surplus to the National Treasury

In fiscal year 2017, the Canal contributed B/.1,650 million in direct contributions to the National Treasury, B/.56 million above expected budget contributions of B/.1,594 million.

Surplus declared for fiscal year 2017 was B/.1,194 million, an amount that exceeds in B/.59 million the budgeted amount for the year.

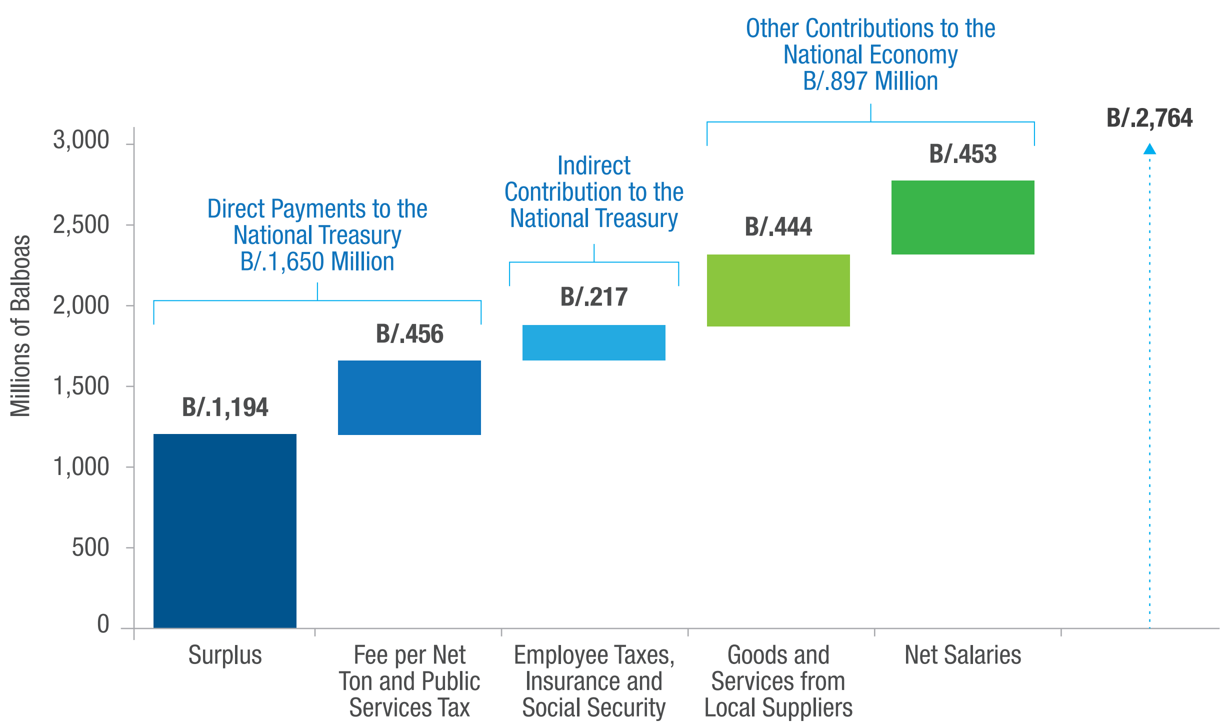
Total Direct Contribution



Economic Impact to the Country Reached B/.2,764 Million

At the end of fiscal year 2017, the direct and indirect contributions to the national economy totaled B/.2,764 million, of which B/.1,650 million were direct contributions to the National Treasury, including B/.1,194 million in surplus payment, and B/.456 million in fees per net ton and public services. Indirect contributions to other State entities were B/.217 million, which included workers income tax, social security and education insurance. The remaining indirect contributions for a total of B/.897 million correspond to the payment of labor benefits, net salaries paid to Panamanian employees, purchases of goods and services in local commerce and payments to local suppliers.

Economic Impact to Panama B/. 2,764 Million



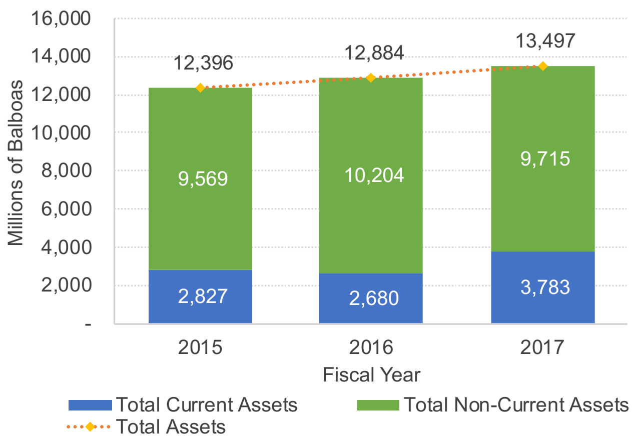
Economic Growth Perspective

Assets of the Expanded Canal Valued at B/.13,497 Million

At the end of fiscal year 2017, total assets amounted to B/.13,497 million reflecting a net increase of B/.613 million, or 4.8 percent, with respect to fiscal year 2016.

The net growth of assets, as compared to 2016, was mainly attributed to an increase of B/.1,103 million in assets currents (Net Account Receivables of advance payments to contractors[15], other financial assets, and cash and cash equivalents), and a decrease of B/.489 million in non-current assets.

Panama Canal Assets Distribution

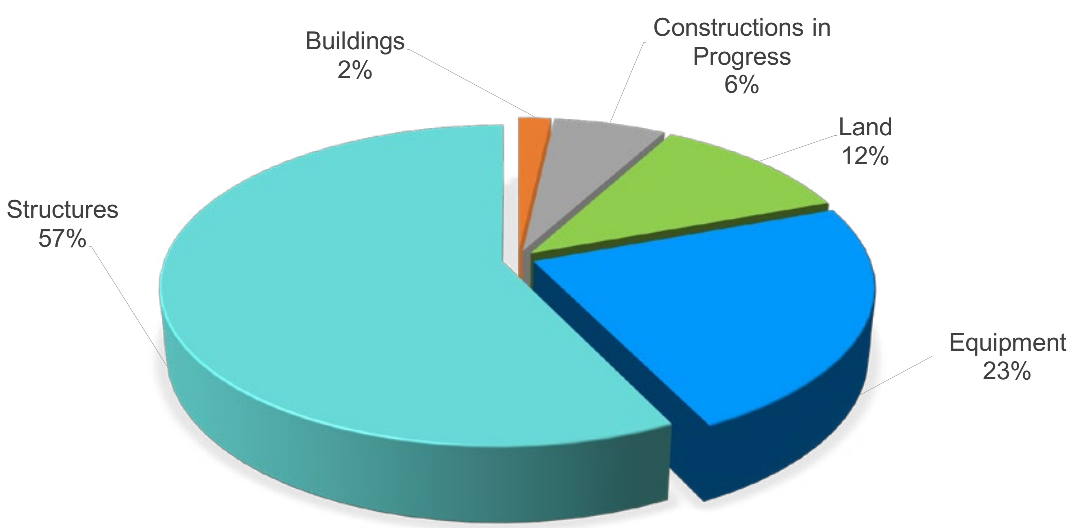


Composition of Net Fixed Assets by B/.8,979 Million

At the end of fiscal year 2017, the net fixed assets[16] amounted to B/.8,979 million, 57 percent or B/.5,142.5 million in structures, 23 percent or B/.2,094 million in equipment, 12 percent or B/.1,023.1 million in land, 6 percent or B/.559 million of constructions in progress and 2 percent or B/.160.4 million in buildings. Compared to fiscal year 2016, these assets increased 0.7 percent.

In relation to the fixed assets base of the Canal, the 585 assets incorporated after the completion of the Canal Expansion Program represent 62 percent or B/.5,602 million of the total net fixed assets of the Canal.

Fixed Assets Composition



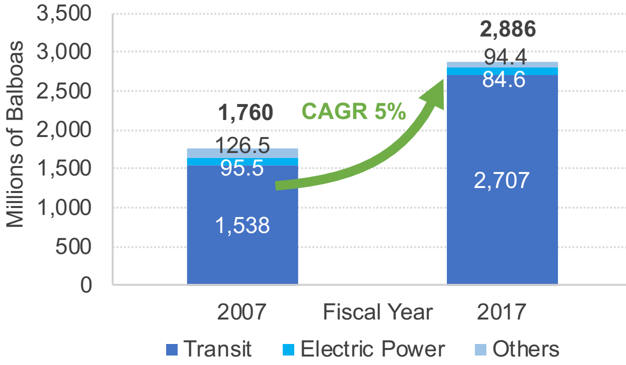
[15] Refer to notes 5 and 6 of the Audited Financial Statements.
[16] Net fixed assets: Property, plant and equipment, net of accumulated depreciation.

Total Income Increased by B/.2,886 Million at a CAGR of Five Percent

Between 2007 and 2017, Canal revenues increased at an annual compound growth rate (CAGR) of five percent. The fiscal year 2017 ended with total revenues of B/.2,886 million.

This extraordinary performance is the result of a management strategy focused on promoting the competitive growth of the route, investing in modernization, efficiency and capacity of its primary operations and related activities, increasing returns on capital, innovating to improve productivity and attracting new businesses to maximize the benefits to the country.

Total Revenues

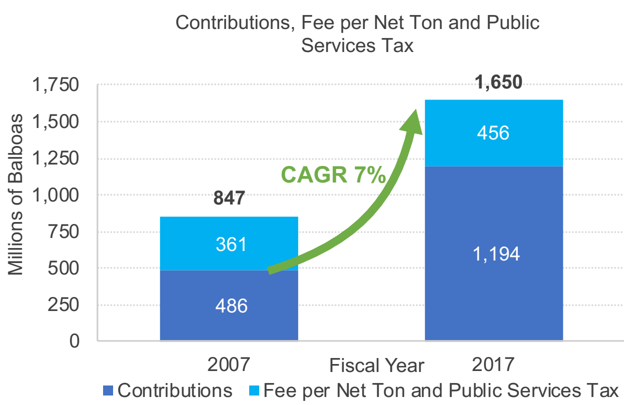


Direct Contributions to the National Treasury at a CAGR of Seven Percent

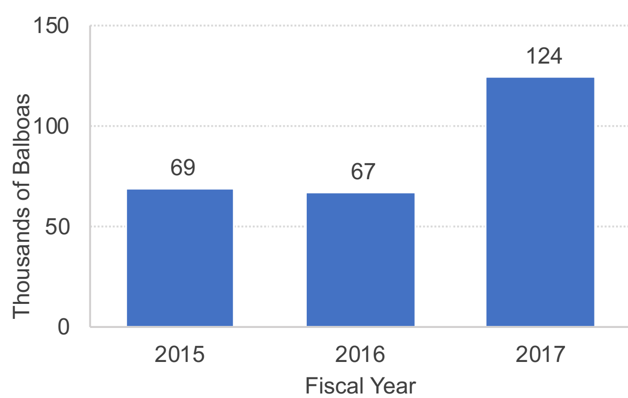
The contribution of the Panama Canal to the National Treasury in the form of surplus payment, payment of fees per net ton and public services reached the record of B/.1,650 million for fiscal year 2017. Between fiscal year 2007 and 2017, this contribution has grown at a compound annual rate of seven percent.

At the end of fiscal year 2017, the direct contributions to the National Treasury per man-hour basic indicator increased to B/.124 thousand or 85 percent as compared to fiscal year 2016. This performance is consistent with the record that was reached in contributions for fiscal year 2017 and the little variation in the amount of basic man-hour the Canal has maintained in the last three years.

Direct Contributions to the National Treasury

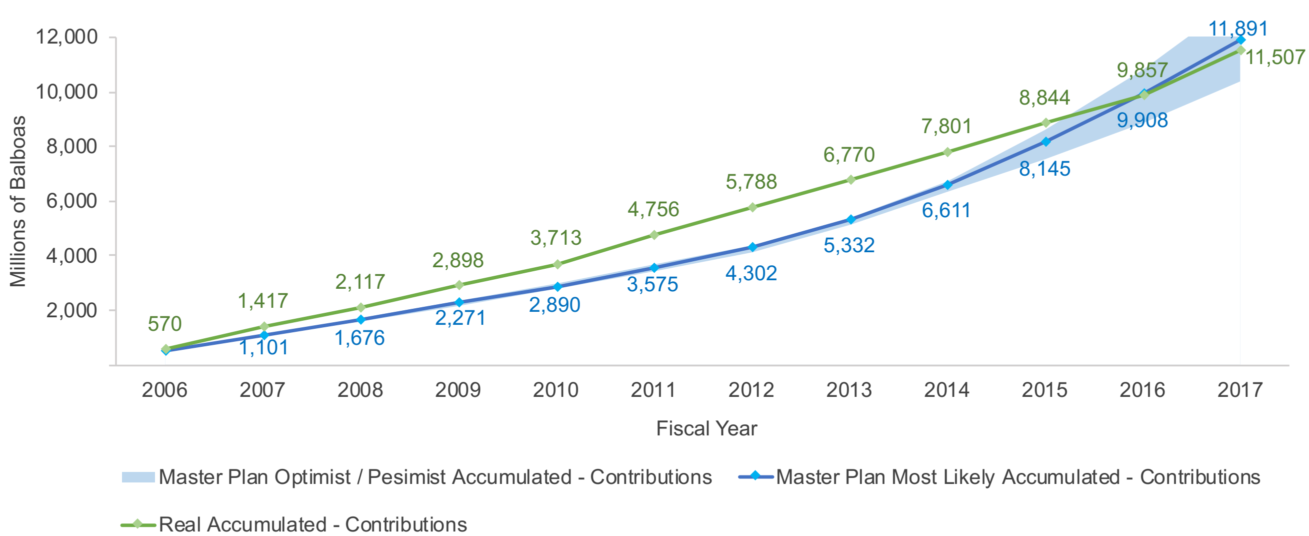


Direct Contributions to the National Treasury per Man Year



During this period, the accumulated contributions of the Canal to the National Treasury totaled B/.11,507 million, in line with the Master Plan.

Accumulated Total Direct Contributions Real vs Master Plan

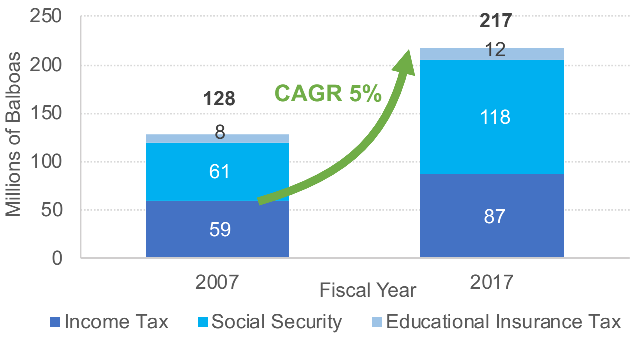


Indirect Contributions to the National Treasury Increased B/.19 Million

At the end of fiscal year 2017, the indirect contributions were B/.217 million and from fiscal year 2007 through 2017 the annual compound growth rate was five percent.

The indirect contributions of the Canal in the form of income tax, educational insurance and social security expenses increased B/.19 million as a result of salary adjustments resulting from the collective agreements signed between unions and the Canal, in comparison to fiscal year 2016.

Indirect Contributions Composition to the National Treasury

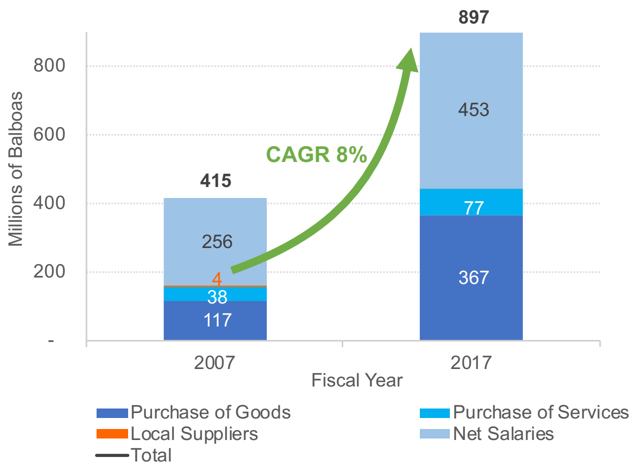


Other Contributions to the National Economy by B/.897 Million at a CAGR of Eight Percent

Other contributions to the country's economy, as a result of purchases of goods and services from Panamanian suppliers, payment to national contractors and net wages, were B/.897 million during fiscal year 2017.

From fiscal year 2007 until 2017, this contribution had grown at a compound annual rate of eight percent. This growth was attributed to investments in equipment and infrastructure the Canal has made in recent years.

Other Contributions to the National Economy



Indicators of Financial Performance

Dupont Analysis (ROS, ROA, ROE)

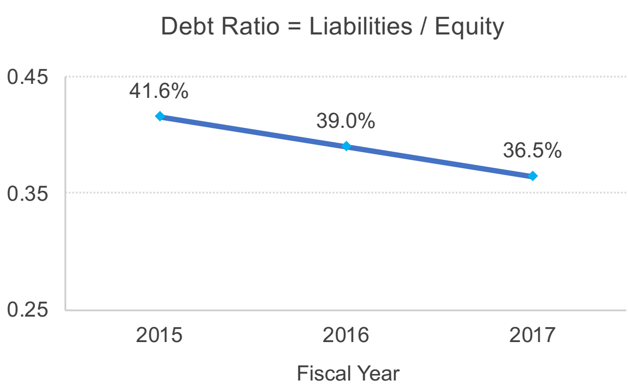
At the end of fiscal year 2017, the Canal obtained a profit margin of 42 cents of net income per dollar of revenue. Asset turnover was 21 percent and the return on total assets was 9 percent. The capital multiplier closed at 1.36 and the profit on equity was 12 percent.

The Canal has timely implemented strategies to strengthen its financial capacity and sustainability of the business, which has allowed it to continue contributing as one of the key driving forces of the economic development of the country.

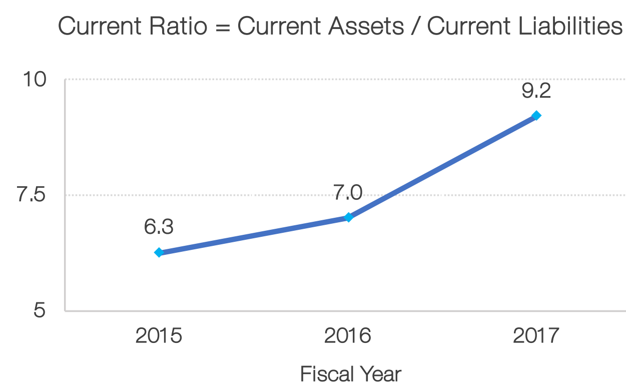
Dupont Analysis

Other Financial Indicators

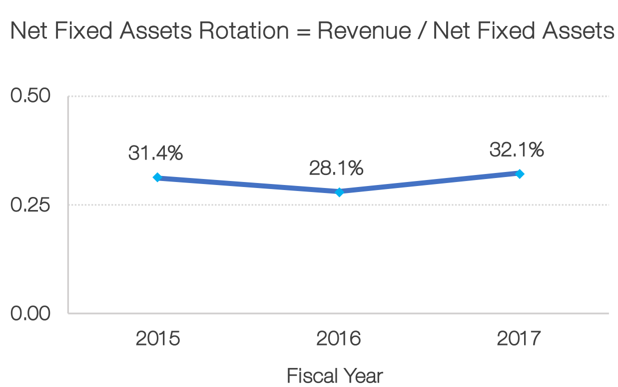
Leverage



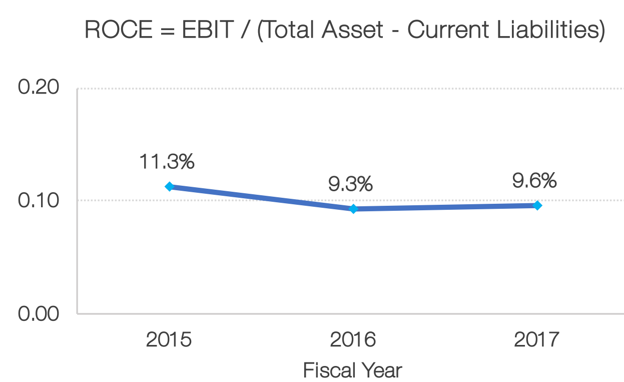
Liquidity



Efficiency



Profitability



The leverage ratio at the end of the fiscal year was 36.5 percent with a downward trend over the past three years and a reduction of 2.5 percentage points over fiscal year 2016. These results reflect the conservative policy of external leverage of the Panama Canal.

The current ratio of the Canal rose to 9.2, which indicates a robust payment capacity to honor short-term financial obligations.

The rotation of net fixed assets increased 4 percentage points as compared to fiscal year 2016, closing at 32.1 percent. This performance is due to an increase of 15.3 percent in revenue while net fixed assets remained stable.

The return on capital employed (ROCE) increased to 9.6 percent. The indicator was stable given EBIT[17] increased in equal proportion to the difference between total assets minus current liabilities.

The Canal's financial indicators show positive and robust results and reaffirms its operational and financial strength.

[17] EBIT: earnings before interest and taxes. Calculated from the sum of the Net Profit + (Charges for Financial Interest - Earned Interest).

AUDITED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2017

Content

Ernst & Young Limited Corp.
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To the Board of Directors of
The Panama Canal Authority

Opinion

We have audited the financial statements of the Panama Canal Authority (the Authority), which comprise the statement of financial position as of September 30, 2017, and the income statement, the statement of comprehensive income, the statement of changes in shareholder equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2017, its financial performance and cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS).

Basis for the Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the section Responsibilities of the Auditor with regards to the audit of the financial statements in our report. We are independent from the Authority, per the Code of Ethics for Accounting Professionals of the International Ethics Standard Board for Accountants (IESBA), together with ethical requirements that are relevant to our audit of the financial statements in Panama, and we complied with all other ethics responsibilities per these requirements and the IESBA Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 period. 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 express a separate opinion on these matters. For each key matter outlined below, we describe how this matter has been addressed in the context of our audit.

We have fulfilled the responsibilities described in the "Auditor's Responsibilities Regarding the Audit of the Financial Statements" section of our report, including those related to key audit matters. Accordingly, our audit included the execution of procedures designed to respond to our assessment of risks of material misstatement in the financial statements. The results of our audit procedures, including the procedures performed to address the key audit matters detailed below, provide the basis for our audit opinion on the accompanying financial statements.

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Advances and Other Accounts Receivable from Contractors, net

As mentioned in notes 5, 6, and 26 as of September 30, 2017, the Authority maintains advances and other accounts receivable from contractors, net for B/.858 million. Advances and other accounts receivable from contractors are considered one of the significant issues because the recoverability assessment and determination of the recoverable amount of advances and other accounts receivable includes a high level of judgment and estimation by the Authority's Management.

Our audit procedures to cover the significant risk in relation to advances and other accounts receivable, net, including the following, among others:

- Submission of balance confirmations.
- Evaluation of the Authority's process to determine the recoverability of advances and other accounts receivable.
- We analyzed the classification of current and non-current balances.
- We evaluated the validity of bank guarantees.
- We evaluated the model, approach, and method used by Management to determine the recoverable amount.
- We evaluated the disclosures made by Management.

Contingencies for Contractor Claims

According to note 29, as of September 30, 2017, the Authority maintains claims presented by the contractor for B/.5,863 million. The evaluation of provisions and contingencies requires important judgments and analysis by Management due to this we consider that it is one of the significant issues.

Our audit procedures to cover the significant risk in relation to disclosures for contingencies and/or provisions, included the following, among others:

- We obtained the analysis made by Management and its legal advisors.
- Together with our construction and legal specialists, we evaluated the conclusions reached by Management and its legal advisors.
- We sent confirmations to the Authority's legal advisors.
- We evaluated the disclosures made by Management.

Other Information

The other information consists of information included in the annual report which is different from the financial statements and our corresponding audit report. Management is responsible for the other information.

The Authority's annual report is expected to be available to use after the date of that audit report. Our opinion on the annual reports does not cover the other information and we do not express an opinion or any other type of assurance in that regard.

Regarding our audit of the financial statements, our responsibility is to read that other information as soon as it becomes available, and while doing to consider whether there is a material deviation between that other information and the financial statements, or the knowledge that we obtained during the audit. If we determine that the other information contains material deviations, we are required to report this.

Responsibilities of Management and Those Charged with the Authority's Corporate Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and for such the 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 Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with the Authority's Management are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an auditor's 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 significant error when it exists. Misstatements can arise from fraud or error and are considered significant if, individually or in the aggregate, they could be reasonably expected to influence the economic decisions made by users taken on the basis of these financial statements.

As part of an audit under ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

As auditors, we also:

- Identify and assess the risk of material misstatement in the financial statements, 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 a material misstatement due to fraud going undetected is higher than one due to error, since fraud may involve collusion, forgery, intentional omissions, intentionally mistaken statements, or the circumvention of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are adequate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

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- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and 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 Authority's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to call attention in our audit report to the corresponding disclosures in the financial statements, or if those disclosures are not adequate, to express a modified opinion. Our conclusions are based on audit evidence obtained as of the date of our audit report. However, future events or conditions may cause the Authority not to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether those statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Authority's Management regarding, among other matters, the planned scope and timing of the audit and the significant audit findings, including any significant deficiencies in internal control that we have identified during our audit.

We also provided the Authority's Management with a statement that we have met the applicable ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to bear our independence and, where applicable, related safeguards.

From the matters communicated with those charged auditor's with governance, we determine those that were the most significant in the audit of financial statements as of September 30, 2017, and therefore constitute key audit matters. We described those key audit matters in our auditor's report, unless a law or regulation precludes a public disclosure about the matter, or, in extremely rare circumstances, if we determine that the 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 Víctor M. Ramírez.

Panama, Republic of Panama
December 14, 2017

Ernst & Young

Panama Canal Authority

Statement of Financial Position

September 30, 2017

(In thousands of balboas B/.)

Notes	Assets:	2017	2016
	Non-current assets:		
	Properties, plant, and equipment:		
4	Properties, plant, and equipment, net	**B/. 8,420,016**	B/. 8,386,759
4	Construction in progress	**558,595**	532,208
	Total properties, plant, and equipment, net	**8,978,611**	8,918,967
5	Advances to contractors	**7,828**	887,081
6	Advances and other receivable to contractor, net	**309,727**	-
25	Reimbursement right to ACP	**328,611**	308,568
8	Investment properties	**89,831**	89,831
	Total non-current assets	**9,714,608**	10,204,447
	Current assets:		
9	Inventories, net	**72,729**	69,947
6	Advances and other receivable to contractor, net	**547,959**	-
7, 26, 27	Trade and other receivable	**49,213**	28,084
10, 26	Other financial assets	**2,562,817**	2,250,416
11	Accrued interest receivable and other assets	**21,809**	17,192
12, 26	Cash and cash equivalents	**528,293**	314,407
	Total current assets	**3,782,820**	2,680,046
	Total assets	**B/. 13,497,428**	B/. 12,884,493

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

Annual Financial Statements

Notes	Equity and liabilities:	**2017**	2016
	Equity:		
13	Contributed capital	**B/. 1,906,193**	B/. 1,906,193
14	Investment programs contibutions	**5,985,835**	6,000,030
14	Reserves	**924,089**	905,089
15	Other equity accounts	**(118,449)**	(175,593)
16	Unappropriated retained earnings	**1,193,809**	630,765
	Total equity	**9,891,477**	9,266,484
	Non-current liabilities:		
18, 26	Bonds payable	**450,000**	450,000
	Less: discount and issuing costs	**9,643**	10,208
	Bonds payable, net	**440,357**	439,792
17, 26	Borrowings	**2,300,000**	2,300,000
25	Employee benefits	**340,036**	319,463
19, 26	Other financial liabilities	**115,087**	176,034
	Total non-current liabilities	**3,195,480**	3,235,289
	Current liabilities:		
20, 26, 27	Trade and other payables	**222,416**	201,800
21	Provision for marine accidents claims	**14,045**	20,054
	Accrued salaries and vacation payable	**135,748**	128,292
19, 26	Other financial liabilities	**7,722**	11,450
22	Other liabilities	**30,540**	21,124
	Total current liabilities	**410,471**	382,720
	Total equity and liabilities	**B/. 13,497,428**	B/. 12,884,493

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

Panama Canal Authority

Income Statement

For the year ended September 30, 2017

(In thousands of balboas B/.)

Notes		2017	2016
	Revenues:		
	Toll revenues	B/. 2,238,035	B/. 1,933,114
	Other Canal transit services	468,811	430,858
		2,706,846	2,363,972
	Other revenues:		
	Sales of electricity	84,634	66,813
27	Sale of potable water	28,337	28,967
	Miscellaneous	33,130	23,605
	Total other revenues	146,101	119,385
	Total revenues	2,852,947	2,483,357
	Expenses:		
23	Salaries and wages	577,060	485,896
23, 27	Employee benefits	75,534	68,442
23	Materials and supplies	60,127	58,538
23	Fuel	74,585	51,205
	Transportation and allowances	2,121	2,164
	Contracted services and fees	109,287	102,330
	Insurance	21,306	15,195
21	Provision for marine accidents	(3,425)	903
9	Provision for obsolete inventory	66	2,569
4, 23	Depreciation	202,828	132,392
16, 20, 27	Fees paid to the Panamanian Treasury	456,569	382,365
23	Other expenses	17,857	15,855
	Total expenses	1,593,915	1,317,854
	Results of operations	1,259,032	1,165,503
	Finance income	33,045	19,693
17	Finance costs	(80,304)	(21,759)
6	Loss in financial instruments	(13,159)	-
	Finance costs, net	(60,418)	(2,066)
	Profit for the year	B/. 1,198,614	B/. 1,163,437

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

Panama Canal Authority

Statement of Comprehensive Income

For the year ended September 30, 2017

(In thousands of balboas B/.)

Notes		2017	2016
	Profit for the year	**B/. 1,198,614**	B/. 1,163,437
	Other comprehensive income		
	Other comprehensive income to be reclassified to net profit of subsequent periods:		
10	Unrealized loss on securities available for sale	**(1,220)**	-
	Net income (loss) in cash flow hedges - interest rate swap contracts	**58,413**	(1,803)
	Net other comprehensive income to be reclassified to the net profit of subsequent periods	**57,193**	(1,803)
	Other comprehensive income not to be reclassified to the net profit of subsequent periods:		
	Net remeasurement losses of employee defined benefit plans	**(49)**	(1,401)
	Net other comprehensive income not to be reclassified to the net profit of subsequent periods	**(49)**	(1,401)
15	Other comprehensive income (loss) for the year	**57,144**	(3,204)
	Total comprehensive income for the year	**B/. 1,255,758**	B/. 1,160,233

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

Panama Canal Authority

Statement of Changes in Equity

For the year ended September 30, 2017

(In thousands of balboas B/.)

Notes		Contributed capital	Contributions	Reserves	Other equity accounts	Unappropriated retained earnings	Total equity
	Balance as of September 30, 2015	**B/. 1,906,193**	**B/. 5,457,968**	**B/. 914,479**	**B/. (172,389)**	**B/. 649,613**	**B/. 8,755,864**
	Profit for the year	-	-	-	-	1,163,437	1,163,437
15	Other comprehensive income:						
	Cash flow hedges	-	-	-	(1,803)	-	(1,803)
	Net remeasurement losses of employees defined plans actuarial loss	-	-	-	(1,401)	-	(1,401)
	Comprehensive income of the year	-	-	-	(3,204)	1,163,437	1,160,233
16	Transfer to the Panamanian Treasury	-	-	-	-	(649,613)	(649,613)
14	Net increase in contributions	-	542,062	-	-	(542,062)	-
14	Net decrease in equity reserves	-	-	(9,390)	-	9,390	-
	Balance as of September 30, 2016	**B/. 1,906,193**	**B/. 6,000,030**	**B/. 905,089**	**B/. (175,593)**	**B/. 630,765**	**B/. 9,266,484**
	Profit for the year	-	-	-	-	1,198,614	1,198,614
15	Other comprehensive income:						
	Unrealized loss on securities available for sale	-	-	-	(1,220)	-	(1,220)
	Cash flow hedges	-	-	-	58,413	-	58,413
	Net remeasurement losses of employees defined plans actuarial loss	-	-	-	(49)	-	(49)
	Comprehensive income of the year	-	-	-	57,144	1,198,614	1,255,758
16	Transfer to the Panamanian Treasury	-	-	-	-	(630,765)	(630,765)
14	Net decrease in contributions	-	(14,195)	-	-	14,195	-
14	Net increase in equity reserves	-	-	19,000	-	(19,000)	-
	Balance as of September 30, 2017	**B/. 1,906,193**	**B/. 5,985,835**	**B/. 924,089**	**B/. (118,449)**	**B/. 1,193,809**	**B/. 9,891,477**

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

Panama Canal Authority

Statement of Cash Flows

For the year ended September 30, 2017

(In thousands of balboas B/.)

Notes		2017	2016
	Cash flows from operating activities:		
	Profit for the year	**B/. 1,198,614**	B/. 1,163,437
4, 23	Depreciation	**202,828**	132,392
6	Loss in financial instruments	**13,159**	-
25	Net movement in defined benefit plans, net of reimbursement right	**482**	21
4	Loss on disposal of fixed asset	**477**	896
9	Estimation for inventory obsolescense	**66**	2,569
21	Provision for marine accidents	**(3,425)**	903
	Amortized discount in bonds payable	**565**	564
	Changes in working capital:		
	(Increase) decrease in trade and other receivable	**(21,129)**	1,751
	(Increase) decrease in inventories	**(2,848)**	4,200
	Increase in accrued interest receivable and other assets	**(4,617)**	(4,895)
	Increase (decrease) in trade and other payable	**20,616**	(71,437)
21	Payments of marine accidents claims	**(2,584)**	(1,890)
	Increase in accrued salaries and vacation payable	**7,456**	6,506
	Decrease in other current financial liabilities	**(3,728)**	(1,594)
	Increase (decrease) in other liabilities	**9,416**	(1,596)
	Net cash provided by operating activities	**1,415,348**	1,231,827
	Cash flows from investing activities:		
	Purchase of properties, plant, and equipment	**(254,542)**	(728,764)
	Purchase of other financial assets	**(3,072,964)**	(3,150,072)
	Maturities of other financial assets	**2,756,809**	2,699,486
	Net cash used in investing activities	**(570,697)**	(1,179,350)
	Cash flows from financing activities:		
18, 26	Proceeds from collections of bonds issuance	**-**	441,042
16	Transfer to Panamanian Treasury	**(630,765)**	(649,613)
	Net cash used in financing activities	**(630,765)**	(208,571)
	Net increase (decrease) in cash and cash equivalents	**213,886**	(156,094)
	Cash and cash equivalents at the beginning of the year	**314,407**	470,501
12	Cash and cash equivalents at the end of the year	**B/. 528,293**	B/. 314,407
	Interests:		
	Received	**B/. 63,141**	B/. 38,715
	Paid	**B/. 79,753**	B/. 72,167

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

Explanation Added for Translation into English

The accompanying financial statements have been translated from Spanish into English for international use. These financial statements are presented in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Certain accounting practices applied by Autoridad del Canal de Panamá (the ACP) 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 financial statements of the Autoridad del Canal de Panamá (the ACP), for the year ended as of September 30, 2017, were approved by the Board of Directors and authorized for issuance on December 14, 2017.

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 sale of water, energy and 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 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

The financial statements of the ACP, including the comparatives, for the year ended September 30, 2017, have been prepared in accordance with the International Financial Reporting Standards (IFRS), disseminated by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis, except for certain assets and liabilities measured at fair value, which are described in the significant accounting policies.

3. Summary of significant accounting policies

Functional currency

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

Transactions with related parties

All transactions with related parties are disclosed based on the criteria established in the International Accounting Standard (IAS 24) - "Related Party Disclosures". The ACP considers as a related party, all Governmet 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 Administration key personnel of the ACP, their relatives, dependents or close persons, which include the spouse, their children or children of the spouse, or persons of analogous relationship of affectivity.

Revenue recognition

Revenues are recognized 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 electricity

Revenues from the sale of electricity 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 potable water

Revenues from the sale of potable water is recognized when treated water is delivered based on prices contracted with the Instituto de Acueductos y Alcantarillados Nacionales.

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.

Transfer to Panamanian Treasury

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

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.

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.

Properties, plant, and equipment

The Panama Canal as an entity defined by the 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 waters, 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 currently 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 profit and loss 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 were 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 upon disposal or 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.

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 by investment properties to or from owner-occupied properties are made only when there is a change in use of the asset.

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.

Impairment of non-financial assets

The ACP assesses, at each reporting period date, whether there is an indication that a nonfinancial 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 risk specific to the asset. Impairment losses are recognized in the income statement in the year they are determined.

Cash and cash equivalent

Cash and cash equivalent comprises cash and highly liquid short term investments which their maturity are equal or less than three months since the acquisition date as of the date of the financial position. For cash flows purposes, ACP presents the cash and cash equivalent net of overdrafts, if any.

Inventories

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

Provisions

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

The amount recognized as a provision is the best estimate of the disbursement required to settle the present obligation at the end of the reporting period 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 reimbursement of some or all economic benefits required to cancel a provision is expected, a receivable is recognized as an asset, but only when the reimbursement is a virtually a fact and the amount of the receivable can be reliably measure.

Provision for marine accidents and other claims

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

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

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

The ACP will pay for claims that are properly supported and approved by ACP, in its administrative stage or judicial stage, according to Article 69 of the Organic Law or pursuant to a final ruling by the maritime tribunal. In those cases where the ACP may be liable as a result of a claim of a contract, if the contract contains an arbitration clause, the claim will be heard by the Arbitration Center established in the respective contract. If there is no arbitration clause, the case will be resolved by the Third Chamber of the Supreme Court.

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.

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 payments.

Defined benefit contribution plan

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

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.

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.

Held-to-maturity investments

Investments in time deposits with maturities greater than 90 days and in commercial paper with fixed or determinable payments and with a defined maturity date are classified as held-to-maturity- investments when the ACP has both the intention and the ability to maintain them until its maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method less any impairment. The amortized cost is calculated considering any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

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. The ACP is exempt from the payment of any national or municipal levy, tax, duty, fee, rate, charge or contribution, with the exemption of Social Security payments, educational insurance, workmen's compensation, and fees for public services.

Other financial liabilities

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

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

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

Hedge accounting

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

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

Cash flow hedges

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

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

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

Derecognition of financial liabilities

The ACP derecognizes a financial liability when it expired, cancelled, or met ACP's obligations.

Changes in accounting policies

The accounting policies used in preparing the financial statements for the year ended September 30, 2017 are the same as those applied in the financial statements for the year ended September 30, 2016.

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

Standards issued effective for annual periods beginning on or after January 1, 2016 that have not been adopted:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, when is adopting IFRS for the first time and whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances.. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the income statement and in the statement of other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. The application of this standard is not expected to have an impact on the ACP.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in a joint operation

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. So it is not expected that they will have an impact on the ACP.

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

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and it is not anticipated that they will have an impact on the ACP.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

These amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and it is not anticipated that they will have an impact on the ACP.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments are not anticipated that they will have an impact on the ACP.

Standards issued but not yet in force

Standards issued but not yet in force at the date of issuance of the financial statements are listed below. This list of standards and interpretations issued are those that the ACP anticipates could have an effect on the disclosures, financial position or results when they are applied at a future date. The ACP intends to adopt these standards when they become effective:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 that replaces the previous versions of 2009 and 2010, the

Amendments to IFRS 7 and 9, Mandatory Effective Date and Transition Disclosures, and IFRS 9 of 2013, Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39. IFRS 9 of 2014 is effective for annual periods beginning on or after January 1, 2018. However, for annual periods beginning before January 1, 2018, the entity may early adopt the previousversions instead of applying the final version of 2014. This can be done, as long as the initial application date is before February 1, 2015.

Amendments to IFRS 4 - Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued the amendments to IFRS 4 to address the issues that arose as a result of the different dates of application of IFRS 9 and the new IFRS 17 on insurance contracts that is about to be issued (previously Phase II of IFRS 4).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or afterJanuary 1, 2018, allowing its early adoption. In April 2016, amendments to IFRS 15 were issued, which are effective for annual periods beginning on or after January 1, 2018. Early application of this standard is allowed.

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 recognise 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 recognise 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 recognise 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. The standard is effective for annual periods beginning on or after 1 January 2018. Early application of this standard is permitted.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Improvement to IFRS

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

- Servicing contracts
  The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be made retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Applicability of the amendments to IFRS 7 to condensed interim financial statements
  The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the ACP.

Amendments to IAS 1: Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities - Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

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 26);
- recoverability of property, plant, and equipment, including construction in progress balances (note 4);
- fair value of financial instruments (note 26);
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (note 25); and
- estimates for the provision for marine accident claims and contingent liabilities (notes 21 and 29, respectively).

4. Properties, plant, and equipment, net

Properties, plant, and equipment, net are detailed as follows:

Cost	Buildings	Structures	Equipment	Land	Construction in progress	Total
At the beginning of fiscal year 2016	B/. 120,380	B/. 1,057,897	B/. 1,589,630	B/. 1,023,137	B/. 5,571,187	B/. 9,362,231
Additions	81,982	4,363,390	1,327,143	-	(5,038,979)	733,536
Retirements	(6)	-	(8,510)	-	-	(8,516)
At the end of fiscal year 2016	202,356	5,421,287	2,908,263	1,023,137	532,208	10,087,251
Additions	7,374	193,802	38,388	-	26,387	265,951
Retirements	(2,929)	(1)	(15,032)	-	-	(17,962)
At the end of fiscal year 2017	B/. 206,801	B/. 5,615,088	B/. 2,931,619	B/. 1,023,137	B/. 558,595	B/. 10,335,240

Accumulated Depreciation	Buildings	Structures	Equipment	Land	Construction in progress	Total
At the beginning of fiscal year 2016	B/. (42,099)	B/. (329,103)	B/. (670,154)	-	-	B/. (1,041,356)
Depreciation	(3,148)	(50,463)	(81,782)	-	-	(135,393)
Retirements	6	-	8,459	-	-	8,465
At the end of fiscal year 2016	(45,241)	(379,566)	(743,477)	-	-	(1,168,284)
Depreciation	(4,001)	(93,076)	(109,003)	-	-	(206,080)
Retirements	2,839	1	14,895	-	-	17,735
At the end of fiscal year 2017	B/. (46,403)	B/. (472,641)	B/. (837,585)	B/. -	B/. -	B/. (1,356,629)
Net Book Value						
At the end of fiscal year 2017	B/. 160,398	B/. 5,142,447	B/. 2,094,034	B/. 1,023,137	B/. 558,595	B/. 8,978,611
At the end of fiscal year 2016	B/. 157,115	B/. 5,041,721	B/. 2,164,786	B/. 1,023,137	B/. 532,208	B/. 8,918,967

		Investment Program - Canal Expansion		Investment Program - Others		Construction in progress total
Balance as of October 1, 2015	B/.	5,248,051	B/.	323,136	B/.	5,571,187
Additions		411,887		246,687		658,574
Transfers to property, plant and equipment		(5,676,283)		(97,076)		(5,773,359)
Interests, commissions and other financing expenses		54,403		21,403		75,806
Balance as of September 30, 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		-		21,763		21,763
Balance as of September 30, 2017	B/.	5,681	B/.	552,914	B/.	558,595

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 2017, the Panama Canal Expansion Program capitalized B/.50,709 (2016: B/.5,676,283). The assets of the program were composed as follows: B/.76,551 for 102 buildings; B/.4,377,731 for 100 structures and B/.1,272,711 for 351 equipments. Additionally, during the construction period and previous to 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/.5.730,510 was capitalized in 585 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, 2017, the total amount of construction in progress for the Investment Program – Others was B/.552,914, standing out the project for the design and construction of the bridge in the Atlantic side of the Canal with an amount of B/.379,031.

During 2017, the ACP recorded losses of B/.477 (2016: B/.896) as a result of the derecognition of assets. Main assets derecognized included patrol boat, hydrometric station and power transformer. During fiscal year 2016, main assets retired included chimney, bunker burners and soot blower unit.

As of September 30, 2017, depreciation corresponding to equipment used in projects of the investment program that were capitalized in property, plant and equipment was B/.3,252 (2016: B/.3,001).

5. Advances to contractors

	2017		2016	
Grupo Unidos por el Canal, S. A.	**B/.**	**847,630**	B/.	868,247
Puente Atlántico, S. A.		**7,828**		18,834
		855,458		887,081
Less: reclassification		**(847,630)**		-
	B/.	**7,828**	B/.	887,081

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.

The advance is guaranteed by (4) irrevocable letters of credit in force between January 20 until May 19, 2018, issued by a bank with investment grade A + from Standard & Poors, for the entire advance amount which decreases as repayments are made. In the event that advances have not been recovered by the ACP 45 days before the expiration of the corresponding irrevocable letters of credit, the Contractor shall extend, at the latest 30 days prior to the expiration of the letters, the validity thereof for a period not less than one year or the ACP may request the bank for the payment of corresponding letters. According to the contract, this advance payment will be repaid by withholdings from each payments from the ACP to the contractor for work performed. The discounts related to the repayment of advances for B/.35,000 began after the project progress exceeded 10% of the contract awarded. As of September 30, 2017, the amount withheld from payments to the contractor is B/.27,172 (2015: B/.16,166), leaving a balance of B/.7,828.

Change in advances to contractors is as follows:

	2017		2016	
Balance at the beginning of the year	**B/.**	**887,081**	B/.	889,697
Additions		**-**		34,354
Amortizations		**(31,623)**		(36,970)
Reclassification		**(847,630)**		-
Balance at the end of the year	**B/.**	**7,828**	B/.	887,081

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 receivables to contractor, net

	2017		2016	
Advances with bank guarantees:				
Mobilization	**B/.**	**247,959**	B/.	-
Plant		**300,000**		-
		547,959		-
Advances with corporate guarantees:				
Specified suppliers		**66,979**		-
Lock gates		**12,754**		-
Specified expenditures		**99,995**		-
Subcontractors and suppliers		**119,943**		-
		299,671		-
Plus: reimbursement for legal expeditures		**23,215**		-
		870,845		
Less: financial ajustment to be amortized		**13,159**		-
Total for advances and other receivable to contractor, net	**B/.**	**857,686**	B/.	-

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.

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

	2017		2016	
Current asset	B/.	547,959	B/.	-
Non-current asset		309,727		-
	B/.	857,686	B/.	-

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:

Mobilization:

The advance payment for mobilization was made for the amount of B/.300,000, and as of September 30, 2017, 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.

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.

Specified suppliers:

The advance payment for specified suppliers was made for a maximum amount of B/.150,000. As of September 30, 2017, 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, 2017, 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 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. ACP is pursuing 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, 2017, 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, 2017, 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:

	2017	2016
Transits	**B/. 19,726**	B/. 8,310
Sale of electricity	**10,046**	9,216
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**5,054**	5,301
Other government entities	**9,664**	1,964
Other services	**4,723**	3,293
	B/. 49,213	B/. 28,084

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

Aging of past due but not impaired receivables:

	2017	2016
60 - 90 days	**B/. 19**	B/. 80
90 - 180 days	**226**	85
	B/. 245	B/. 165

8. Investment properties

As of September 30, 2017 investment properties are detailed as follows:

	2017		2016	
Lands and buildings	**B/.**	**89,831**	B/.	89,831
Balance	**B/.**	**89,831**	B/.	89,831

As of September 30, 2017, ACP investment properties presented no changes compared to fiscal year 2016. 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/.51,944. 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/.6,283. 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.

- An area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal that adjoins the complex of buildings of the ACP in Corozal, with a book value of B/.89,757 and fair value of B/.90,628, estimated based on an independent appraisal made in 2015. The ACP purchased the land for its strategic value for the development of commercial activities complementary to the operation of the Canal.

The land's fair value given in concession is calculated on the discounted operating cash flow analysis, using a representative of each business discount rate.

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 a discounted operating cash flow analysis at a representative rate for this type of business.

9. Inventories, net

Inventories are detailed as follows:

	2017		2016	
Supplies and materials	**B/.**	**67,531**	B/.	66,585
Fuel		**9,198**		7,862
Provision for inventory obsolescence		**(4,000)**		(4,500)
	B/.	**72,729**	B/.	69,947

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

	2017		2016	
Balance at the beginning of the year	**B/.**	**4,500**	B/.	5,000
Increase		**66**		2,569
Write-off		**(566)**		(3,069)
Balance at the end of the year	**B/.**	**4,000**	B/.	4,500

The amount of material and supplies recognized during fiscal year 2017 in the income statement was B/.36,290 (2016: B/.33,516).

The amount of fuel recognized during fiscal year 2017 in the income statement was B/.74,585 (2016: B/.51,205).

10. Other financial assets

Other financial assets are detailed as follows:

	2017				2016			
	Book value		Fair value		Book value		Fair value	
Investments held to maturity, measured at amortized cost:								
Time deposits over 90 days	**B/.**	**1,105,000**	**B/.**	**1,105,000**	B/.	984,000	B/.	984,000
Investment grade corporate bonds		-		-		1,263,161		1,262,104
Securites available for sale, measured at fair value:								
Investment grade corporate bonds		**1,457,096**		**1,457,096**		-		-
Financial instruments designated as hedge instruments, measured as fair value:								
Interest rate swap		**721**		**721**		3,255		3,255
	B/.	**2,562,817**	**B/.**	**2,562,817**	B/.	2,250,416	B/.	2,249,359

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.

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, 2017, the annual interest rate of return of others instruments was 1.47% (September 30, 2016: 1.01%) 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 and other assets

Accrued interest receivable and other assets are detailed as follows:

	2017		2016	
Interest receivable	**B/.**	**21,734**	B/.	16,959
Prepayments		**75**		233
	B/.	**21,809**	B/.	17,192

12. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	2017		2016	
Cash on hand	**B/.**	**37**	B/.	34
Deposits in current accounts		**155,633**		29,365
Deposits in saving accounts		**222,623**		46,006
Time deposits with original maturities under 90 days		**150,000**		239,002
Total cash and cash equivalents	**B/.**	**528,293**	B/.	314,407

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. At September 30, 2017, the investment of these resources has the priority to cover all ACP obligations and earns interest rates which vary between 0.1% and 1.4% (September 30, 2016: 0.1% and 0.8%)

As of September 30, 2017 and September 30, 2016, 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 patrimony necessary to operate and maintain the Canal.

This patrimony is divided into two groups: the inalienable patrimony, comprised of land, lakes, rivers, dams, locks and anchorages, as established in Article 2 of the Organic Law; and the economic patrimony, comprised of all those installations, buildings, structures and equipment that support the operation of the Canal, as established in Article 33 of the same Law.

14. Reserves and contributions for investment programs

Changes in investment programs contributions and reserves as of September 30, 2017 are detailed as follows:

	September 30, 2017	Increase (decrease)	September 30, 2016	Increase (decrease)	September 30, 2015
Contributions:					
Investment programs	**B/. 5,985,835**	**B/. (14,195)**	B/. 6,000,030	B/. 542,062	B/. 5,457,968
	5,985,835	**(14,195)**	6,000,030	542,062	5,457,968
Reserves:					
Catastrophic risks	**36,000**	**-**	36,000	-	36,000
Contingencies and working capital	**223,120**	**19,000**	204,120	(9,390)	213,510
Enterprise capitalization	**274,969**	**-**	274,969	-	274,969
Strategic for investment programs	**390,000**	**-**	390,000	-	390,000
	924,089	**19,000**	905,089	(9,390)	914,479
Total	**B/. 6,909,924**	**B/. 4,805**	B/. 6,905,119	B/. 532,672	B/. 6,372,447

Investment programs

At September 30, 2017, the ACP decreased the funds of the investments programs by B/.14,195 (2016: B/.542,062) for a contributed total of B/.1,725,460 (2016: B/.1,681,722) for the Investment program – Others and B/.4,260,375 (2016: B/.4,318,308) 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 2017, it was approved to increase this reserve by B/.19,000 while in 2016, it was approved to decreased it by B/.9,390 for a total reserve of B/.223,120 (2016: B/.204,120).

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 2017 and fiscal year 2016, this reserve was not adjusted so it keeps a total reserved of B/.274,969.

Strategic for investment programs

In fiscal year 2014, 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 2017 and fiscal year 2016, this reserve was not adjusted so it keeps a total reserved of 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:

		2017		2016
Balance at the beginning of the year	**B/.**	**(175,593)**	B/.	(172,389)
Securitites available for sale:				
Net unrealized loss		**(1,220)**		-
Cash flow hedges:				
Interest rate swap contracts:				
Reclassification of losses to construction in progress		**-**		24,319
Reclassification of losses to income statement		**23,656**		8,023
Net income (loss) of not-yet matured contracts		**34,757**		(34,145)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**57,193**		(1,803)
Actuarial valuations:				
Net remeasurement losses of employe defined benefit plans		**(49)**		(1,401)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(49)**		(1,401)
Income (loss) during the year		**57,144**		(3,204)
Balance at the end of the year	**B/.**	**(118,449)**	B/.	(175,593)

16. Unappropriated retained earnings

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 14, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.1,193,809 to the Panamanian Treasury which corresponds to the year ended September 30, 2017 (2016: B/.630,765). (See note 30).

Detail of payments to the Panamanian Treasury is as follows:

		2017		2016
Payments to the Panamanian Treasury				
Fees per net ton	**B/.**	**454,558**	B/.	379,973
Public service fees		**2,011**		2,392
Sub-total		**456,569**		382,365
Unappropriated retained earnings (See note 30)		**1,193,809**		630,765
Total	**B/.**	**1,650,378**	B/.	1,013,130

17. Borrowings

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

Credit Facilities	Interest Rate	Maturity Date		**Sep. 30-17**		Sep. 30-16
	%					
European Investment Bank (BEI)	LIBOR 6 months + 0.811	Nov. 15-28	**B/.**	**100,000**	B/.	100,000
European Investment Bank (BEI)	LIBOR 6 months + 0.824	Nov. 15-28		**300,000**		300,000
European Investment Bank (BEI)	5.196	Nov. 15-28		**100,000**		100,000
Development Bank of Latin America (CAF)	LIBOR 6 months + 1.20	Nov. 15-28		**150,000**		150,000
Development Bank of Latin America (CAF)	LIBOR 6 months + 1.40	Nov. 15-28		**150,000**		150,000
International Finance Corporation (IFC)	LIBOR 6 months + 1.30	Nov. 15-28		**300,000**		300,000
Inter-American Development Bank (IADB)	LIBOR 6 months + 1.05	Nov. 15-28		**400,000**		400,000
Japan Bank for International Cooperation (JBIC)	LIBOR 6 months + 0.75	Nov. 15-28		**800,000**		800,000
			B/.	**2,300,000**	B/.	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 beginning on May 15, 2019, due in November 2028.

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 EBITDAand the Debt Service Coverage.

	2017	2016
Total Debt to EBITDA Ratio	**1.9**	2.14
Debt Service Coverage Ratio	**56.3**	62.1

- Before the completion of the Expansion Program, the total debt to EBITDA ratio should maintain as of the end of each semi-annual fiscal period of the borrower, 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 each semi-annual fiscal period of the borrower, 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 borrower, a ratio of no less than 5.0 for each 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 borrower, a ratio of no less than 3.0 for each 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, 2017, 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, 2017, are detailed as follows:

	2017		2016	
Interest on loans	**B/.**	**77,668**	B/.	64,561
Cash flow hedges		**23,656**		32,342
Other expenses		**743**		662
Total interests, cash flow hedges and other financing costs		**102,067**		97,565
Less: amount of capitalized financing costs		**(21,763)**		(75,806)
Net financing costs	**B/.**	**80,304**	B/.	21,759

18. Bonds payable, net

On September 24, 2015, the ACP issued bonds for B/.450,000 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	**2017**	2016
	%			
Bond 2035	4.95	29-Jul-35	**B/.450,000**	B/.450,000

These bonds were issued under rule 144A 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:

	2017	2016
Financial instruments designated as hedging instruments carried at fair value:		
Interest rate swaps	**B/. 122,809**	B/. 187,484
	B/. 122,809	B/. 187,484
Current	**B/. 7,722**	B/. 11,450
Non-current	**115,087**	176,034
	B/. 122,809	B/. 187,484

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:

	2017	2016
Panamanian Treasury	**B/. 37,873**	B/. 32,563
Suppliers and others	**184,543**	169,237
	B/. 222,416	B/. 201,800

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, 2017, the total of such fees amounted to B/.454,558 (2016: B/.379,973).

21. Provision for marine accident 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:

	2017	2016
Balance at beginning of the year	**B/. 20,054**	B/. 21,041
(Reversion) provision for the year	**(3,425)**	903
Payments made	**(2,584)**	(1,890)
Balance at end of the year	**B/. 14,045**	B/. 20,054

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

22. Other liabilities

	2017	2016
Inventories - in transit	**B/. 5,331**	B/. 3,790
Miscellaneous claims	**1,876**	13,238
Advance payment of Ministerio de Obras Públicas (MOP)	**20,198**	-
Others	**3,135**	4,096
	B/. 30,540	B/. 21,124

During 2017, the ACP and MOP subscribed an agreement for the transfer of particular and totally depreciated buildings and other facilities used in the operation of the Canal,which are required for the construction of the fourth bridge over the Panama Canal. In exchange, MOP promised to pay ACP B/.33,663, of which B/.20,198 has already been advanced. As soon as the ACP transfers the control of these facilities to MOP, they will be derecognized from the properties, plant and equipment account and the corresponding profit will be recognized in the results of that period. According to the agreement, the facilities will be transferred to MOP, but ACP will maintain control and ownership of the land on which they are build.

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:

	September 30, 2017		
	Total expenses	**Capitalized costs**	**Net operating expenses**
Salaries and wages	**B/. 610,793**	**B/. 33,733**	**B/. 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**
	B/. 1,058,798	**B/. 50,807**	**B/. 1,007,991**

	September 30, 2016		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	B/. 530,883	B/. 44,987	B/. 485,896
Employee benefits	70,373	1,931	68,442
Materials and supplies	65,927	7,389	58,538
Fuel	57,478	6,273	51,205
Depreciation	135,393	3,001	132,392
Other expenses	16,048	193	15,855
	B/. 876,102	B/. 63,774	B/. 812,328

24. 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.

25. Employees benefits

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

	2017	2016
Benefit for employment retirement	**B/. 340,036**	B/. 319,463

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 Social 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, and 5) files the termination of employment form through voluntary resignation.

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, 2017. 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 liabilityfor 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, 2017 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).

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

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	Oct. 1, 2016	Benefits costs	Net interest	Benefits paid	Actuarial adjustments	Sept. 30, 2017
Fair value of the benefits	B/. 319,463	B/. 36,578	B/. 6,306	B/. 23,781	B/. 1,470	B/. 340,036

The principal actuarial assumptions used are shown below:

	Age	2017	2016
		%	%
Discount rate		**3.7**	3.1
Salary increase		**3.5**	5.0
Mortality			
Female	57 years old	**2.8**	2.8
Male	62 years old	**5.9**	5.9
Disability			
Female	57 years old	**1.2**	1.2
Male	62 years old	**1.9**	1.9

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

	2017
Maturity of the obligation:	
From 0 to 1 year	**B/.23,633**
From 1 to 5 years	**B/.123,772**
From 5 to 10 years	**B/.193,763**
From 10 to 25 years	**B/.357,389**
Beyond 25 years	**B/.78,468**

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

A quantitative sensitivity analysis for significant assumptions as of September 30, 2017 is as follows:

Assumption	Discount rate		Cost of Salaries	
Sensitivity level	Increase 25 pbs	Decrease 25pbs	Increase 25 pbs	Decrease 25pbs
Impact on defined benefit obligation	(B/.7,017)	B/.7,485	B/.6,818	(B/.6,818)

Reimbursement 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 3.41% of the total insured amount.

Changes in the reimbursement right to ACP during fiscal year 2017 are detailed as follows:

	Statement of Financial Position	Income Statement			Stament of Comprehensive Income	Statement of Financial Position
	Oct. 1, 2016	**Reimbursement right cost of the year**	**Net interest**	**Reimbursements during the year**	**Actuarial adjustments**	**Sept. 30, 2017**
Reimbursement right to ACP	B/. 308,568	B/. 35,703	B/. 6,094	B/. 23,175	B/. 1,421	B/. 328,611

At September 30, 2017, the ACP paid the insurer B/.24,300 (2016: B/.15,200) in premiums of the reimbursement policy.

26. 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 its high levels of cash generated by its operations to afford its costs of operation, investment, functioning, maintenance and modernization up to December 2008, when the ACP subscribed to a common term financing agreement with five development agencies which committed to grant borrowings totaling B/.2,300,000 to partially finance the Canal Expansion Program, and more recently, in September 2015, when it issued bonds in 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

	2017		2016	
Financial assets				
Cash and cash equivalents (Note 12)	**B/.**	**528,293**	B/.	314,407
Advances and other receivables to contractor, net (Note 6)		**857,686**		-
Trade and other receivables (Note 7)		**49,213**		28,084
Other financial assets (Note 10)		**2,562,817**		2,250,416
	B/.	**3,998,009**	B/.	2,592,907
Financial liabilities				
Financial instruments designated as hedging instruments (Note 19)	**B/.**	**122,809**	B/.	187,484
Trade and other payables (Note 20)		**222,416**		201,800
Borrowings (Note 17)		**2,300,000**		2,300,000
Bonds payable (Note 18)		**440,357**		439,792
	B/.	**3,085,582**	B/.	3,129,076

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. Internal auditors periodically monitor the compliance with the policies and exposure limits. The ACP does not subscribe or negotiate financial instruments for speculative purposes.

The ACP's treasury quarterly updates the Board of Directors Finance Committee and follows up the risks and the implemented policies to mitigate risk exposure. The Office of Inspector General periodically audits treasury operations and reports to the Board of Directors.

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

Market risk

ACP activities are primarily exposed to financial risks due to variations of currency exchange, interest rates, and commodity prices out of its control. With the purpose of managing these risks exposure, 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 regular Canal's 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 inbanks, shall be in the dollarsof the United States of America or in other currencies authorized by the Board of Directors.

As of September 30, 2017 and September 30, 2016, the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Interest rate risk management

The ACP is exposed to interest rate risk because it borrowed funds through financings 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 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, without collateral, interest rate swap contracts, 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 maturityon November 15, 2028.

On July 2016 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 would be effective starting on November, 2016.

Later, 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 would be effective starting on November 15, 2017 up to November 15, 2018.

Principal amortizations would be B/.70,000 semi-annually starting on May 15, 2019 until its maturity on November 15, 2028.

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 over the cash flow of part 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
(Notional: B/.800,000, effective date: May 17, 2010, maturity: November 15, 2028)
(Notional: B/.1400,000, effective date: November 15, 2016, maturity: November 15, 2017)

Contracts with floating interest rates and outstanding fixed payment rates	Average contracted fixed interest rate		Notional principal value				Fair value			
	2017	2016		**2017**		2016		**2017**		2016
Less than 5 years	**1.03%**	1.03%	**B/.**	**1,400,000**	B/.	1,400,000	**B/.**	**2,899**	B/.	3,255
5 years or more	**4.67%**	4.67%	**B/.**	**800,000**	B/.	800,000	**B/.**	**(124,988)**	B/.	187,484

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

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

Interest rate sensitivity analysis

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

As of September 30, 2017, 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/.561.08. 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.

Fuel price risk

The ACP is exposed to commodity price fluctuations risk, mainly from the fuel used in its transit and dredging operations, as well as in its power generation activities for its operations and for 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 from 10 to 12 million gallons of light diesel on its vessel transit operations. Since October 20, 2009, risk management for price fluctuations on this commodity is performed mainly within the fiscal year, period that is considered representative for the implementation of appropriate commercial policies. The risk management is performed through specific hedging transactions that covers approximately 80% of expected volume.

For fiscal year 2017, the ACP purchased a hedge instrument (cap) establishing a maximum price of B/.1.56 per gallon for 8.10 million gallons for the year in order to hedge the price fluctuation risk for the diesel used in operations. At the end of fiscal year 2017, an accumulated fuel consumption of 13.45 million of gallons was registered.

Energy generation

The ACP generates power for the consumption of the Canal operations, while excess capacity is sold in the domestic electricity market. Until September 2017, the ACP consumed 17% of the generated power, while the remaining 83% was sold to the electricity market. Power generated by hydroelectric plants was 18% and by thermal plants was 82%.

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

Operational fuel price risk sensitivity analysis

As of September 30, 2017, the current price index for light diesel purchases made by the ACP was B/.1.69 per gallon. Fuel expenses registered an increase of B/.4.15 million. As of September 30, 2017, no hedging instrument has been contracted for fiscal year 2018.

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: short-term risk rating, issuer leverage index, economic factor, liquidity index, and deterioration index.

Counterparty risk refers to the risk of a counterparty defaulting in the payment of a security purchase 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 quality risk rating not less than the following: A-2 by Standard & Poors, P-2 by Moody's Bank Deposit Ratings, or F-2 by Fitch Ratings; and up to seven percent of the portfolio in financial instruments that have more than one short-term international investment quality 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.

Investment credit quality

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

	2017					
	Fair Value		Amortized Cost		Unrealized Gain or Loss	
Aaa to Aa3	B/.	-	B/.	-	B/.	-
A1 to A3		264,435		264,546		(111)
Baa1		476,339		476,770		(431)
Baa2		580,762		581,247		(485)
Baa3		132,575		132,753		(178)
Ba1		-		-		-
WR		2,985		3,000		(15)
NR		-		-		-
	B/.	**1,457,096**	**B/.**	**1,458,316**	**B/.**	**(1,220)**

Credit risk concentration

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

		2017
Basic Materials	B/.	132,622
Communications		169,660
Consumer, Cyclical		169,993
Consumer, Non-Cyclical		210,700
Energy		292,835
Financials		324,202
Industry		27,850
Technology		75,237
Services		53,997
Total	B/.	1,457,096

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 use of an own financial model called “Risk Assessment System for Banking Institutions and Financial Instruments”.

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. External rating
2. Capital coverage
3. Country risk
4. Liquidity index
5. Deterioration index
6. Performance index
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

In addition to the credit risk of the treasury portfolio, the ACP maintains a 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/.857,686, net of financial instrument losses for B/.13,159. ACP has bank and insurance guarantees totaling B/.547,959, which account for 64% 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/.309,727, 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 its 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, undertake 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.

Also, the ACP has an advance payment balance to contractor Puente Atlántico, S.A. for B/.7,828 for the construction of the bridge across the Atlantic side of the Canal, as explained in note 5. This advance is guaranteed by five letters of credit issued by a bank with a credit risk rating of A+ granted by Standard & Poors.

Liquidity risk management

The ACP manages the liquidity risk through continuous monitoring of the forecasted and actual cash flows, and reconciling the maturity profiles for the financial assets and liabilities.

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

Interest and liquidity risk tables

To finance the Canal Expansion Program for B/.2,300,000, the ACP has a Common Terms Agreement with five multilaterals agencies. Currently 4.3% of the debt is contracted at a fixed effective rate of 5.31%, and the remaining 95.7% has a moving average effective rate of 2.56%. The effective rate for the financing is 2.68%.

For the financing of the new bridge across the Atlantic Side of the Canal, bonds were sold at a fixed rate of 4.95% (effective rate of 5.14%) payable semi-annually in January and July of each year.

	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, 2017							
Variable interest loan	2.57%	B/. -	B/. -	B/. -	B/. 770,000	B/. 1,430,000	B/. 2,200,000
Fixed interest loan	5.31%	-	-	-	35,000	65,000	100,000
Fixed interest rate Bonds	5.14%	-	-	-	-	450,000	450,000
		B/. -	B/. -	B/. -	B/. 805,000	B/. 1,945,000	B/. 2,750,000

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

Sep-30-17	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Time deposits	B/. 15,000	B/. 810,000	B/. 430,000	B/. -	B/. -	B/. 1,255,000
Demand deposits and others	379,014	-	-	-	-	379,014
Advances and other receivables to contractor, net	-	-	547,959	309,727	-	857,686
Securities available for sale	31,556	343,270	1,082,270	-	-	1,457,096
	B/. 425,570	B/. 1,153,270	B/. 2,060,229	B/. 309,727	B/. -	B/. 3,948,796

Sep-30-16	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Time deposits	B/. 90,002	B/. 508,000	B/. 625,000	B/. -	B/. -	B/. 1,223,002
Demand deposits and others	78,660	-	-	-	-	78,660
Investment held to maturity	136,954	38,774	1,087,433	-	-	1,263,161
	B/. 305,616	B/. 546,774	B/. 1,712,433	B/. -	B/. -	B/. 2,564,823

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

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

	Less than 3 months	3 to 12 months	1 - 5 years	More than 5 years	Total
September 30, 2017					
Trade and other payables	B/. 222,416	B/. -	B/. -	B/. -	B/. 222,416
Other financial liabilities	7,722	-	-	115,087	122,809
Borrowings	-	-	805,000	1,495,000	2,300,000
Bonds payables	-	-	-	450,000	450,000
	B/. 230,138	B/. -	B/. 805,000	B/. 2,060,087	B/. 3,095,225
September 30, 2016					
Trade and other payables	B/. 201,800	B/. -	B/. -	B/. -	B/. 201,800
Other financial liabilities	11,450	-	-	176,034	187,484
Borrowings	-	-	575,000	1,725,000	2,300,000
Bonds payables	-	-	-	450,000	450,000
	B/. 213,250	B/. -	B/. 575,000	B/. 2,351,034	B/. 3,139,284

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

Fair value of financial instruments measured at amortized cost

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

	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Financial assets measured at amortized cost:				
Advances and other receivables to contractor, net	**B/. 857,686**	**B/. 857,686**	B/. -	B/. -
Investments held to maturity	**-**	**-**	1,263,161	1,262,104
	B/. 857,686	**B/. 857,686**	B/. 1,263,161	B/. 1,262,104
Financial liabilities				
Financial liabilities measured at amortized cost:				
Floating rate borrowings	**B/. 2,200,000**	**B/. 2,226,508**	B/. 2,200,000	B/. 2,126,161
Fixed rate borrowings	**100,000**	**115,263**	100,000	115,758
Fixed rate bonds	**440,357**	**501,840**	439,792	508,154
	B/. 2,740,357	**B/. 2,843,611**	B/. 2,739,792	B/. 2,750,073

Valuation techniques and assumptions applied in order to measure fair value

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

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

- The fair value of advances and other receivable to contractor and of other financial assets and financial liabilities (excluding hedging instruments) is determined in accordance with general acceptance pricing models based on discounted cash flow analysis using yield curves applicable for the duration of these instruments.

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

Fair value measurements recognized in the statement of financial position

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

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: fair value measurements are those derived from indicators other than quoted prices included within Level 1 which are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: fair value measurements are those derived from valuation techniques that include indicators for the assets or liabilities that are not based on observable market data (unobservable indicators).

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS:				
Financial assets at fair value with changes in other comprehensive income				
Investments available for sale	**B/. 1,457,096**	**B/. -**	**B/. -**	**B/. 1,457,096**
Hedged financial instruments	**B/. -**	**B/. 721**	**B/. -**	**B/. 721**
LIABILITIES:				
Financial liabilities at fair value with changes in other comprehensive income				
Hedged financial instruments	**B/. -**	**B/. 122,809**	**B/. -**	**B/. 122,809**

	2016			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Financial assets at fair value with changes in other comptehensive income				
Hedged financial instruments	B/. -	B/. -	B/. -	B/. -
LIABILITIES:				
Financial liabilities at fair value with changes in other comprehensive income				
Hedged financial instruments	B/. -	B/. 187,484	B/. -	B/. 187,484

27. 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 Year ended				Purchase of goods and services Year ended			
	2017		2016		2017		2016	
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**B/.**	**28,337**	B/.	28,967	**B/.**	**-**	B/.	-
Other government entities		**20,091**		3,978		**-**		-
Caja de Seguro Social		**-**		-		**77,237**		70,373
Fees paid to Panamanian Treasury		**-**		-		**456,569**		382,365
	B/.	**48,428**	B/.	32,945	**B/.**	**533,806**	B/.	452,738

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

	Amounts owed by the Republic of Panama				Amounts owed to the Republic of Panama			
	2017		2016		2017		2016	
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	**B/.**	**5,054**	B/.	5,301	**B/.**	**-**	B/.	-
Other government entities		**9,664**		1,964		**-**		-
Advance payment from Ministerio de Obras Públicas (MOP)		**-**		-		**20,198**		-
Caja de Seguro Social		**-**		-		**18,462**		20,436
Public service fees		**-**		-		**157**		174
Panamanian Treasury - fees per net ton		**-**		-		**37,873**		32,563
	B/.	**14,718**	B/.	7,265	**B/.**	**76,690**	B/.	53,173

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

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

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

Compensation and benefits to key executives

The ACP paid as of September 30, 2017 a total of B/.3,068 (2016: B/.2,929) for remuneration and benefits to its key management personnel. It is the responsibility of the Administration to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

28. Commitments

As of September 30, 2017, commitments from construction in progress contracts and undelivered purchase orders amounted to approximately B/.271,659 (2016: B/.343,256), as follows:

		2017		2016
Investment programs:				
Canal Expansion	B/.	28,136	B/.	52,528
Others		173,300		228,315
Sub-total		201,436		280,843
Operations		70,223		62,413
	B/.	271,659	B/.	343,256

Commitment of the investment program – canal expansion include the contract awarded to GUPCSA for the design and construction of the third set of locks project totaling B/.24,737 (2016: B/.43,195). The awarded contracts during the twelve months ending September 30, 2017 amounted to B/.5,479 (2016: B/.4,709).

Commitment of the investment program – others include those granted to Puente Atlántico, S.A. for the construction of a bridge through the Canal on the Atlantic side totaling B/.79,897 (2016: B/.168,161), to Consorcio COPISA-COCIGE-PUENTES for the rehabilitation of the Gatun highway, parking lots and bridge over the Gatun landfill totaling B/.31,000 (2016: B/.-), and to Auxiliar Naval del Principado, S.A. for the acquisition of aluminum boats/ pilot– linehandler launches totaling B/.15,120 (2016: B/.-).

The operations commitments include awarded contracts for inventory purchases totaling B/.30,403 (2016: B/.38,735), to Willis Limited for the three-year multi-risk insurance policy totaling B/.13,013 (2016: B/.11,728), to Mayer Brown LLP for legal advice in the Canal expansion program totaling B/.10,086 (2016: B/.-), and to Ingenieros Consultores Civiles y Electricos, S.A. for the studies and conceptual design for a multipurpose reservoir in the basin of Rio Indio totaling B/.2,584 (2016: B/.-).

Bonds:

The ACP has outstanding contracts for the purchase of energy which are guaranteed with a compliance bond issued by a bank with investment grade A+ of Standards & Poors. ACP and Gas Natural Fenosa totaling B/.3,859, ACP and ENSA totaling B/.2,815, and ACP and ETESA totaling B/.83.

29. Contingent liabilities

As of September 30, 2017, 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/.5,863,983. 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/.5,209,028. This contingent liability does not have provisioned funds. Claims filed have been submitted to arbitration. The following describes general information about the status of these claims:

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). Subsequently, 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 and the ACP is preparing the response to the claim, which must be submitted on December 18, 2017.

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 two arbitrations: (i) CCI No.22465/ ASM//JPA, related to disputes 15, 6 and 13C regarding the design of gates and labor cost adjustments and, (ii) CCI 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 disturbances (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. The amount in dispute of these two arbitrations were estimated by the ACP using the amounts presented by GUPCSA in its Statement at Completion and subsequent updates, in B/.506,907 the first and B/.4,355,042 the second, and both are pending president designation of their respective arbitration courts.

The Arbitration of Advance Payments

Subsequently, GUPCSA filed the arbitration CCI No. 22588/ ASM/JPA, requesting that it declare that the Advances have not expired and that it is in the process of establishing its procedural calendar.

The Disruption and other claims arbitration

In February 2017, GUPCSA filed Dispute 16 before the DAB for an amount of B/.2,510,255. Dispute 16 mainly included part of the claims that GUPCSA had filed in arbitration CCI No.22466/ ASM/JPA, such as Disruption (Claim 78) and some new claims that had not been announced or decided by the ACP. Dispute 16 was withdrawn from DAB by GUPCSA and submitted again directly to arbitration, that is, without a DAB decision, like Dispute 15, given that, according to GUPCSA the DAB did not meet the 84-day deadline to resolve these disputes.

Duplicated Arbitrations

In July 2017, GUPCSA filed two new arbitrations identified as CCI No. 22966/JPA and CCI No. 22967/JPA related exactly to the same claims that make up Disputes 15 and 16, already submitted by GUPCSA to arbitration (cases CCI No. 22465/ ASM//JPA and 22466/ASM//JPA) as GUPCSA itself declares in the arbitration requests presented.

During fiscal period 2017, GUPCSA has presented claims for a total amount of B/.2,230,619, which are part of the current total claimed by GUPCSA and which, as indicated above, amounts to B/.5,863,983.

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 a claim in the Third Chamber of the Supreme Court of Justice such as the related to the Contractor Grupo Howard, S. A. for B/.30,684; this contract corresponds to the Panama Canal Expansion Program. Also, there are seven claims related to the Contract for the Construction of a Bridge across the Canal at the Atlantic Side of which six are compiled in a single arbitration process for an amount of B/.155,156 including process costs, and a claim that is in the administrative stage for an amount of B/.2,765 making a total amount of B/.157,921, claimed under 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 French 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, 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; therefore, the ACP, challenged the legitimacy of the cautionary measure and filed a request to lift the measure, as it is not a part of the dispute.

On April 26, 2017, a French judge of first instance issued his decision ordering the lifting of the cautionary measure. As a result of the foregoing, the counterpart filed with the Court of Appeals of the Republic of France a request for suspension of this order and announced the filing of an appeal against this decision. On July 20, 2017, the Court of Appeals of the Republic of France rejected the request for suspension of the order issued by the judge of the first instance on April 26, so that all of the funds subject to the cautionary measure were released and transferred to the ACP.

Nevertheless, the appeal is still pending to be resolved in a hearing to be conducted by the Court of Appeals of the Republic of France for May 3, 2018.

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.

30. Events that occurred after the reporting period

On October 31, 2017, GUPCSA and one of its shareholders filed a request for annulment of the final award, related to the CCI 19962/ASM arbitration that was issued on July 31, 2017, at the courts of Miami, United States. The ACP considers that the likelihood of the result of this annulment request impacting the arbitration award of the cofferdam is very remote.

The Board of Directors approved at its meeting on December 14, 2017, the transfer to the Treasury of the operating and functioning economic surplus corresponding to fiscal year 2017 by the amount of B/.1,193,809. (See note 16).

CREDITS

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