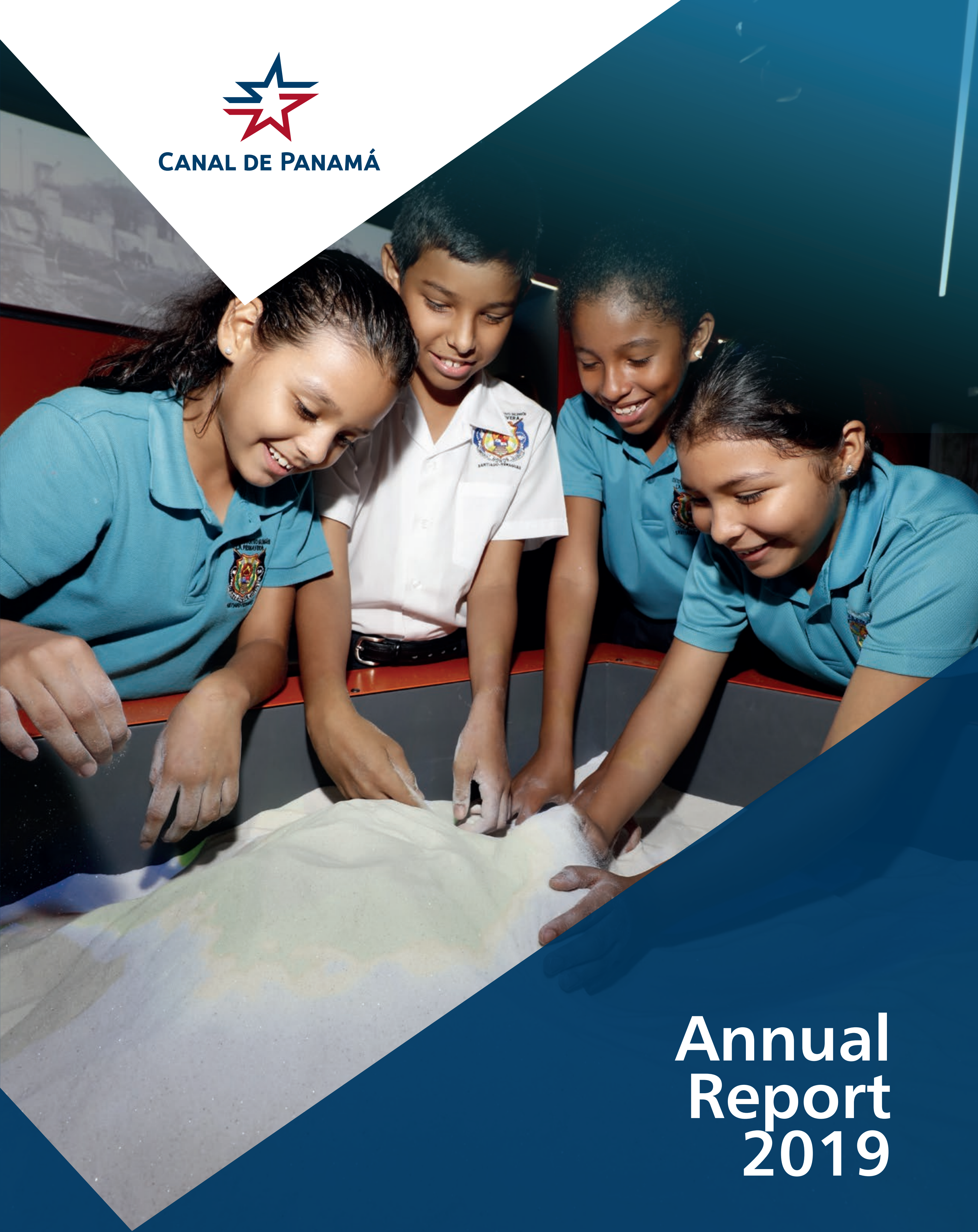
CANAL DE PANAMÁ



Annual Report 2019


OCEANIC BREEZE

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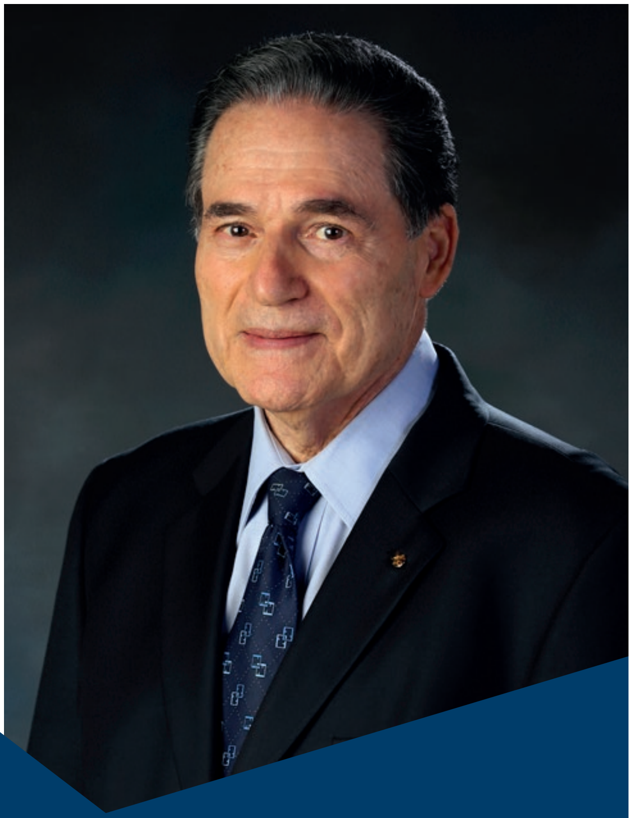


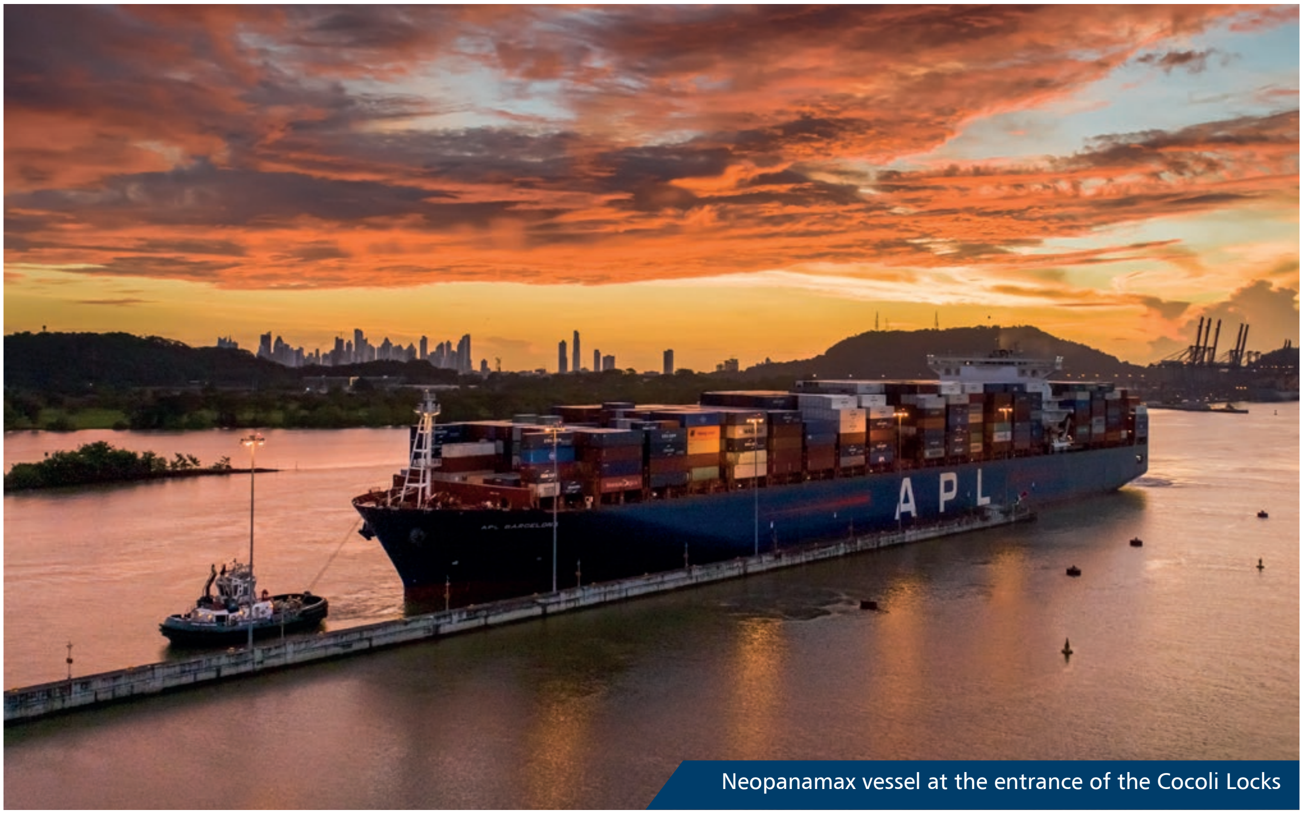
Aristides Royo Sánchez

Minister for Canal Affairs and Chairman of the Board of Directors

On July 1, 2019, I had the honor of taking office as Minister for Canal Affairs and Chairman of the Board of Directors of the Panama Canal Authority. My predecessor, Roberto R. Roy, held the position from August 20, 2012 to June 30, 2019. During this period, the Third Set of Locks was inaugurated, as a symbol of Panamanian ingenuity and effort; proof that the Canal seeks to provide the best possible service to the country and the world.

As negotiator of the 1977 Torrijos-Carter Treaties between Panama and the United States, I am proud of the fact that the Panama Canal has become an invaluable asset for all Panamanians; as a result of the efforts of those who struggled to achieve its transference to Panamanian hands. In conjunction with the fact that it remains thriving thanks to the work and effort of the Panamanian workforce that comprise it and has managed that the interoceanic route fulfills its mission, breaking paradigms and exceeding the expectations of its builders and first administrators.

Specifically, in compliance with its mission and to exercise the obligation established by the Panama Canal Authority's Organic Law, after a rigorous selection process, the Board of Directors appointed the ACP Administrator and the future Deputy Administrator, who will represent and will be accountable for the Canal's day-to-day management. The Board of Directors unanimously selected and appointed Dr. Ricaurte Vásquez Morales as Administrator, who took office on September 5, and Ilya Espino de Marotta as Deputy Administrator, who will take office as of January 1, 2020. For this process, the Board of Directors relied on national and international external advisors to conduct analyzes and interviews focused on knowledge, leadership, resilience, technical skills, strengths, qualities and experience, among others, as essential traits to occupy said positions.



Neopanamax vessel at the entrance of the Cocoli Locks

It should be noted that Dr. Vásquez, who has extensive experience in the public and private sector, has reaffirmed the Panama Canal's commitment to efficiently serve the maritime industry and contribute to Panama's sustainable development. Dr. Vásquez succeeded Jorge Luis Quijano, whose term culminated after a career of more than 43 years in the waterway.

This fiscal year, the Panama Canal has achieved a new tonnage record of 469.6 million tons PC/UMS[1], representing a 6.2 percent increase compared to the previous fiscal year, despite the commercial war between the United States and China, two of the main users of the Canal.

After a decade of planning, the expanded Canal is today an engineering benchmark and a symbol of the Canal's commitment to a new era in global maritime trade. Three years after its inauguration and with more than 6,000 Neopanamax transits, this year we celebrate the expanded Canal milestones, which continue to exceed the expectations of the maritime industry.

Proof of Panama Canal customers' confidence was the transit of the CMA CGM container carrier *Magellan*, the largest ship with the greatest container capacity to transit the expanded Canal. It set a new Panama Canal TEU[2] record, with 15,455 TEUs; as well as the Qatargas *Al Safliya*, the largest liquefied natural gas and first Q-Flex type vessel to transit the interoceanic route.

This year and with the purpose of reflecting the route's commercial value for its users and to global trade, tolls were modified according to Panama Canal market segments, and will be effective on January 1, 2020. This process allowed the ACP to strengthen relations with its users and learn first-hand their considerations regarding the service provided. These adjustments allow the interoceanic route to continue improving its infrastructure in order to remain competitive and continue to offer optimal service.

[1] PC/UMS: Panama Canal Universal Measurement System.
[2] TEU: Twenty-foot equivalent unit. The TEU volume is equivalent to 1,360 cubic feet.


Container vessel assited by tugboats

Another milestone worth mentioning was the inauguration of the Atlantic Bridge, built by the ACP in compliance with Law 28 of July 17, 2006, which approved the proposal for the construction of the Third Set of Locks. The Atlantic Bridge is another contribution to the communities surrounding the Panama Canal that will benefit more than 40,000 inhabitants of the Costa Abajo of the Province of Colón.

Regarding the financial aspect, Moody's improved ACP's rating from "A2" to "A1" for the ACP for its clear legal and institutional framework, its transparency and corporate governance standards. Similarly, for the fourth consecutive year, Fitch Ratings confirmed an "A" investment grade, based among other aspects, on the Panama Canal's continuous trajectory managing its operations advantageously through different administrations.

Concerned with the preservation of the environment, the Panama Canal became the first Latin American organization that formally joined the Global Industry Alliance, as part of its pursuit to improve energy efficiency and reduce greenhouse gas emissions in international shipping.

As guarantors of the Panama Canal Watershed, the ACP presented route plans for the Indio, Bayano and Azuero Rivers projects before the National Water Council and works on an implementation structure in conjunction with the authorities of the National Aqueduct and Sewer Institute, the Ministry of Economy and Finance and the National Council for Sustainable Development. Panama Canal Administration also analyzes several alternatives to improve the raw water intake of Alajuela Lake and constantly monitors the water quality of Gatun Lake and the Cocolí and Agua Clara Locks to ensure optimal salinity levels for human consumption.

The Panama Canal Authority also maintains environmental economic incentives program for producers bordering the watershed with the objective of improving their quality of life and guaranteeing the existence of flora and fauna in the area.

During fiscal year 2019, after conducting studies, analysis, consultations and reviewing applicable regulations, the Board of Directors approved a Concession Regulation with the objective of allowing the ACP to develop complementary businesses in order to obtain additional income for the benefit of the entity and the country, in addition to the attention to our main maritime transit business.

As a contribution to the country's logistics development, the Panama Canal inaugurated the Logistics Corridor in the Pacific, a road to be used by ports, industrial parks, factories and distribution centers in an express and safe way. This corridor will also enhance the transport capacity and connectivity of the continent, complementing it with the advantages offered by the Canal.

Demonstrating its commitment to Panamanian education and culture, the ACP inaugurated its first Interactive Center, in Santiago, Province of Veraguas. This center has the best interactive technology in the country and constitutes a means of increasing the community's sense of belonging with the interoceanic route that characterizes Panamanians.

We have the satisfaction of successfully completing Fiscal Year 2019, as we prepare to face new challenges, some of the main ones being the need for water resources and the possible impacts of climate change. We also continue to carefully analyze those uncertain economic events or scenarios that could impact the interoceanic route such as growing maritime trade, the increasing capacity of the world fleet, the volatility between demand and supply, port traffic volumes, the consolidation of maritime transport and others no less important.

We will continue working hard with our extraordinary workforce, the Panamanian people and our users, so that the Panama Canal continues to provide an efficient and profitable service, consolidating itself as a company committed to its people and the environment for the benefit of the country and the world.

Puente Atlántico inauguration ceremony

Board of Directors

Aristides Royo Sánchez
Chairman of the Board of Directors

Ricardo Manuel Arango
Director

Elías A. Castillo G.
Director

Henri M. Mizrachi K.
Director

Óscar Ramírez
Director

Lourdes del Carmen Castillo
Director

Nicolás Corcione
Director

Jorge L. González
Director

Francisco Sierra Fábrega
Director

José A. Sosa A.
Director

Alberto Vallarino Clément
Director

Message from the Administrator

Ricaurte *(Catín)* Vásquez M.

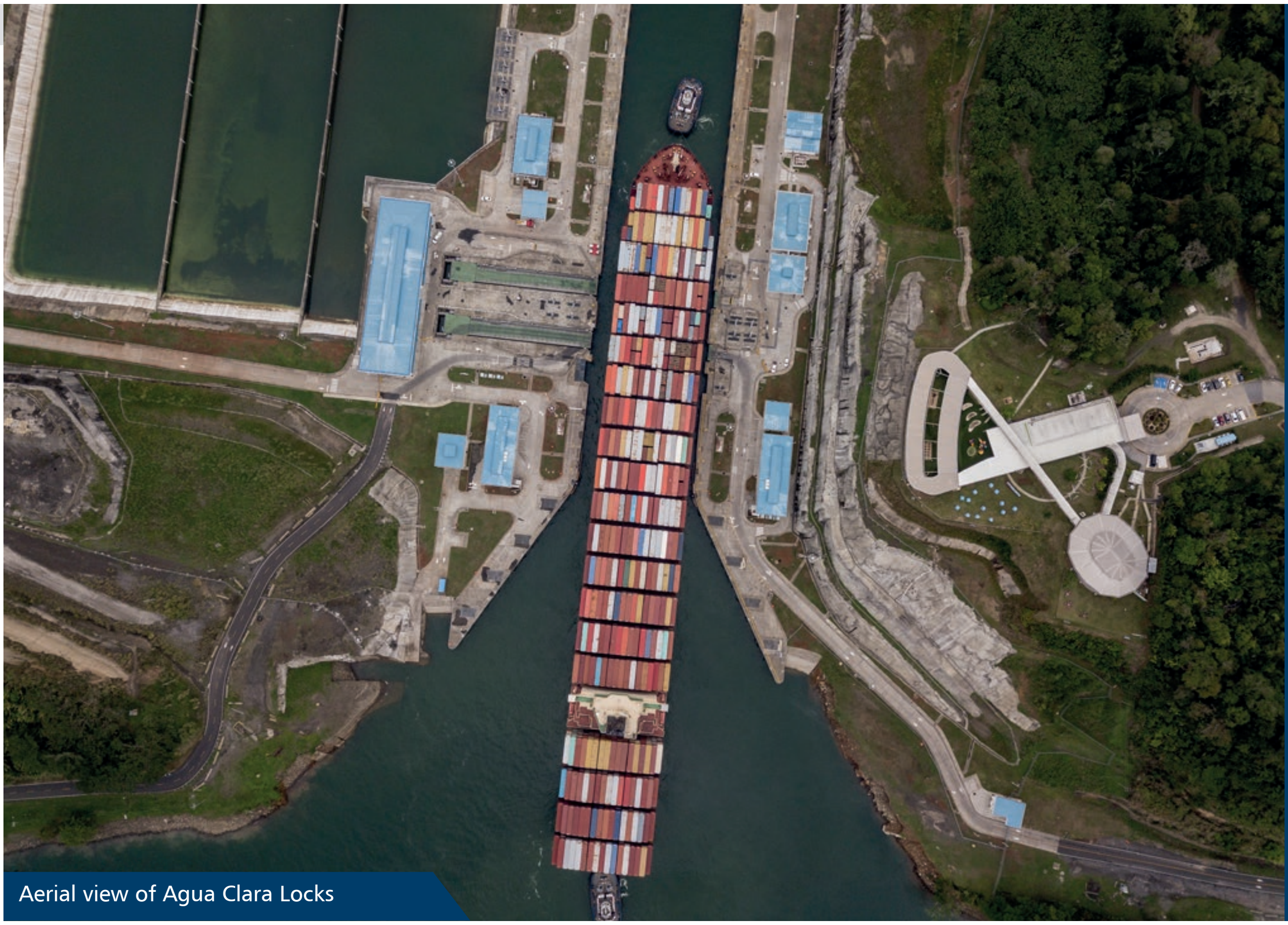
Administrator
Panama Canal

The Panama Canal ends Fiscal Year 2019 a few months after it reaches its first 20 years under Panamanian administration, with national and international recognition for its solid institutional and corporate management model. This model has as its main axis the continuous commitment to provide a quality service to its customers; managing to strengthen the route's value and positioning it as an increasingly competitive route at the service of international maritime trade.

This is demonstrated by its operational and financial results, which confirm that the Panama Canal has fulfilled its constitutional mandate to operate in a safe, continuous, efficient and profitable manner. By sizing the impact on our country, we found that the Panama Canal contributes to national development in multiple areas such as education, culture, environmental management, water security, as well as in activities that establish the organization as a fundamental part of the national and international logistics cluster.

We begin a new decade of operations with an asset base much higher than that received 20 years ago, reaching B/.13.905 billion; with an expanded Canal in full operation three years after its inauguration; a different, changing and disruptive global environment; resulting in a completely different market from the year 2000.

Just as the feeling of joy drove us on December 31, 1999, we are now excited about the commitment to ensure the sustainable growth of our core business; and even more, being aware that the reality of the maritime industry, which we serve, is immersed in geopolitical complexity, and therefore impacted by the contraction and expansion of trade flows of the different routes. However, maritime transport remains more efficient moving certain goods between producers and consumers. That is



Aerial view of Agua Clara Locks

why we work to be agile in our ability to adapt to the new realities of the markets with ingenuity and understanding.

We are aware of the natural condition of our isthmus, narrow and with a privileged geographical position, which commits us even more to preserve our natural wealth through its rational and sustainable use for a balanced development with its surroundings. This is only possible with a long-term vision for the waterway and a service that offers our customers reliability and identifies and attracts new markets.

For Panama, adequate use of its water resources will be a great challenge in the following decades. In response to climate change crisis and changes in rainfall patterns and water needs for the population and the interoceanic route, we are committed to allocate the investments required to find solutions to allow us to manage this resource based on three criteria: quantity, quality and control. It is up to us to maintain the strategic value of the route through Panama, with an eye towards the construction of a sustainable society. Hence, a mobilization for water must include all Panamanians.

Operating the Canal successfully has increased our pride and sense of national belonging, but we must always be alert, because change is the only constant in history and achieving the sustainability will continue to set new challenges. At the closing of this report, and as we have done in each of the previous years, we will continue to work with passion, courage and commitment to our country.

By starting a new year in the life of the Panama Canal, we reaffirm our obligation to fulfill the legacy of the generations that allowed us to get here. We reiterate our responsibility with the country and future generations to overcome the challenges that will allow us to consolidate the waterway's position, so that it continues to be a leader in global connectivity and driver of progress of our republic.

Management Team

Ricaurte Vásquez Morales
Administrator

Agenor Correa
Vice Presidency for
General Counsel

Manuel E. Benítez
Deputy Administrator

Francisco J. Miguez P.
Vice Presidency
for Finance

Francisco Loaiza B.
Vice Presidency for
Human Resources

Miguel A. Lorenzo
Vice Presidency for
Engineering and Services

Ilya Marotta
Vice Presidency for
Transit Business

Rafael Pirro
Vice Presidency for
Complementary Businesses

Oscar Vallarino B.
Vice Presidency for Corporate
Affairs and Communication

Carlos Vargas
Vice Presidency for
Water and Environment

First row: Alberto Alemán Zubieta, Admiral William J. Flanagan, William A. O'Neil y Mario F. Maffei. Second row: Flemming R. Jacobs, Philip A. Embiricos y Chee Chen Tung; Third row: Richard S. Gabrielson y Joe R. Reeder. Fourth row: Tommy Thomsen, Salvador Jurado y Gerhard E. Kurz. Absent: Yasumi Kudo, Andrónico Luksic, Hani Mahmassani, Albert H. Nahmad, Mikio Sasaki, Wang Haimin y Jorge L. Quijano.

Advisory Board

The Advisory Board is the consultative body that provides guidance to the Panama Canal Board of Directors and senior management in the decision-making regarding the needs, requirements and improvement of the international public service provided by the Canal, in accordance with the Political Constitution of Panama, and the Panama Canal Organic Law and regulations.

It is composed of 18 distinguished personalities from the maritime and business world of the national and international community, who share their extensive experience. Its members are the Honorable: Admiral William J. Flanagan, Chairman of the Advisory Board; Alberto Alemán Zubieta; Philip A. Embiricos; Richard Gabrielson; Flemming R. Jacobs; Salvador A. Jury; Yasumi Kudo; Gerhard E. Kurz; Andronic M. Luksic; Mario F. Maffei; Hani Mahmassani; Albert Nahmad; William A. O'Neil; Jorge L. Quijano; Joe R. Reeder; Mikio Sasaki; Tommy Thomsen; Chee Chen Tung and Wang Haimin.

The Advisory Board meets at least once a year as convened by the Board of Directors of the Panama Canal. In fiscal year 2019, two meetings were held: one in Rotterdam, the Netherlands, from November 26 to 28 and another in Panama, from May 14 to 16. During the meetings, the Administrator presented information on the performance and operation of the Canal, the restructuring of the organization, effective as of October 1, 2018, and on future waterway projects and plans.

The Advisory Board provided comments and recommendations on issues presented by the Board of Directors on the maritime industry and world trade. The meeting in Rotterdam was conducive for the Board of Directors to visit the Port of Rotterdam, the automated container terminal, APM Terminals; the liquefied natural gas import terminal, Gate Terminal; and the Kloosterboer Cool Port B.V.

Corporate Strategy

Vision

"Global connectivity leader and driver of Panama's progress"

Conectivity

- 144 Trade Routes
- 1,700 Ports
- 160 Countries

Mission

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

Fiscal Year 2019 Key Numbers

- PC/UMS tons: 469.6 million
- Transits: 13,785
- Total revenues: B/.3.366 billion
- Investment: B/.192 millions
- Workforce: 9,701 employees
- Direct contributions to the National Treasury: B/.1.786 billion
- Total contributions to the national economy: B/.2.889 billion

Strategic Objectives

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

Objective 2
Diversify revenues through related businesses.

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

Objective 4
Strengthen customer relations and business intelligence.

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

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

Objective 7
Transform the organization by developing its capabilities and competencies.

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

Values

Transparency • Reliability • Responsability • Honesty • Loyalty • Competitiveness

Panoramic view of the Panama Canal Pacific entrance

Twenty Years of Panamanian Administration

December 31, 2019 marks 20 years of one of the most important challenges in our history: managing the Panama Canal.

Backed by a management model that was the result of a national consensus, the Panama Canal has overcome challenges and achieved many goals, backed by the talent of its workforce and country's support. The waterway continues to honor its commitment to the generations that fought to allow Panamanians the privilege to operate and manage it.

In these two decades, the Panama Canal has fulfilled the mandate that it was entrusted by that management model and that is summarized in Title XIV of the Political Constitution of Panama: To operate the waterway in a safe, continuous, efficient and profitable manner.

The Canal's operational and financial results reflect this with contributions to the National Treasury, in addition to the opening three years ago of the expanded Canal, which has resulted in growth and development opportunities for the country.

But this tour is far from over. May the celebration of the 20-year anniversary of the transfer of the Panama Canal reaffirm the commitment of all, of the country and of those who have the privilege of serving to continue overcoming challenges to achieve the sustainability of our Canal.

Commitment to the Core Business

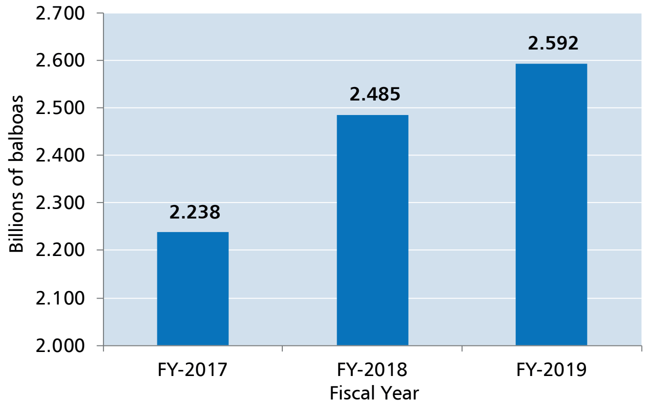
Liquified natural gas (LNG) carrier in Agua Clara Locks

Market

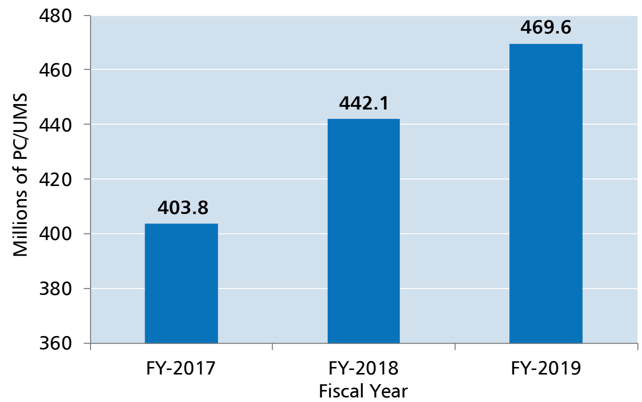
The Panama Canal registered 469.6 million PC/UMS tons during fiscal year 2019, a 6.2 percent increase to the previous fiscal year's tonnage. Total toll revenues totaled to B/.2.592 billion, a 4.3 percent increase over last year's figures.

Total transits decreased 0.07 percent, from 13,795 in fiscal year 2018 to 13,785 in fiscal year 2019, as a result of less refrigerated cargo, container and dry bulk vessels transits. Nonetheless, vessels transporting liquefied natural gas (LNG), liquefied petroleum gas (LPG), compared to the previous year, tankers and vehicle carriers, increased their transits through the Panama Canal.

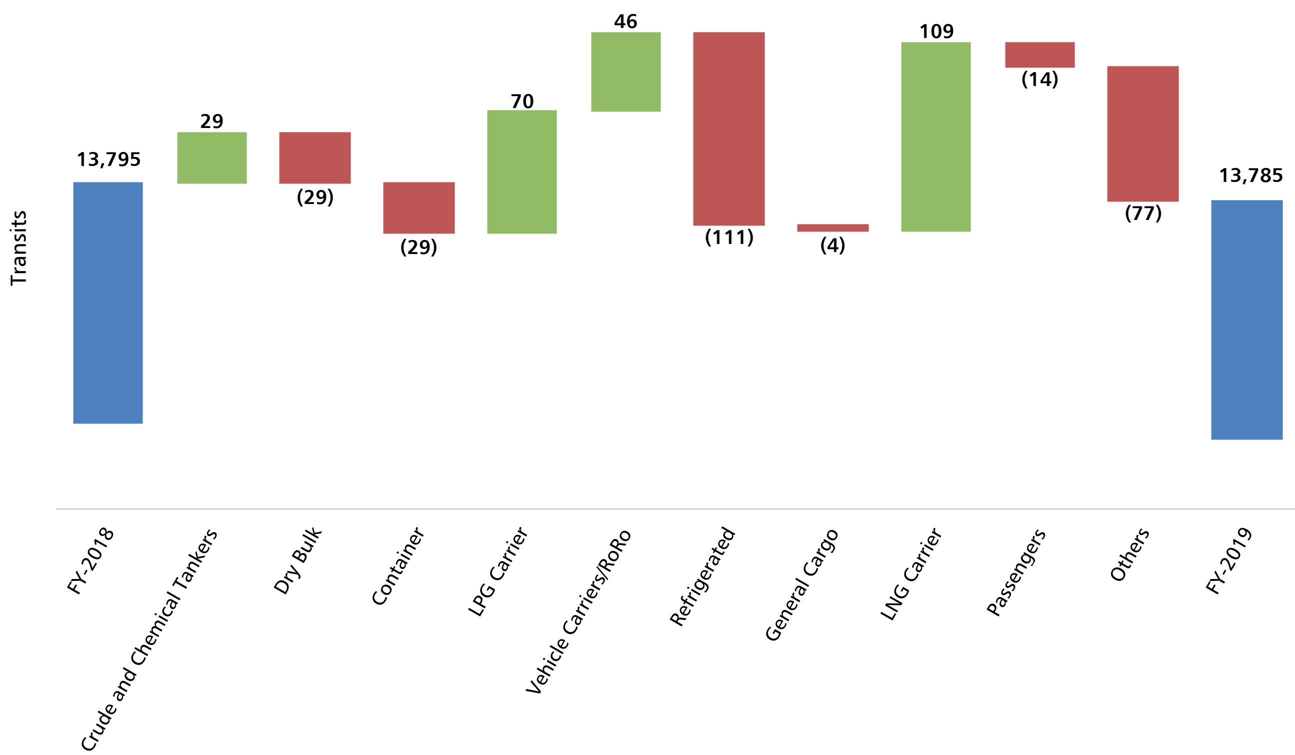
Graph 1. Tolls



Graph 2. Vessel Tonnage (PC/UMS)



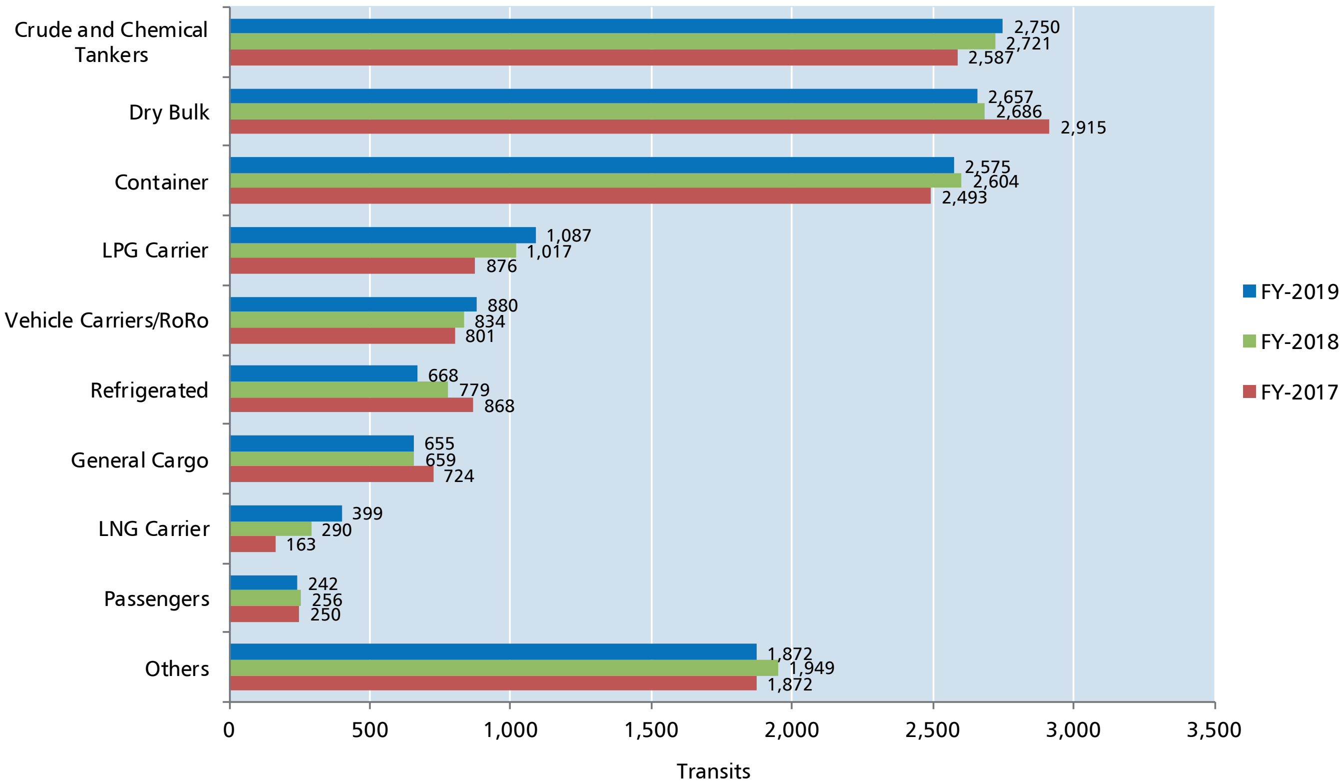
Graph 3. Variation of number of transits per market segment FY-2019 vs FY-2018



Tankers, dry bulkers, gas carriers and container vessels account for almost 80 percent of all large vessel transits. LNG and LPG vessel transits increased the most compared to fiscal year 2018.

Container vessel in Gatun Lake

Graph 4. Transits by market segment



World economy faced an uncertain environment in fiscal year 2019. The year began with high expectations of economic growth; however, such expectations diminished as the year wore on.

During the first quarter of the fiscal year, the economy of the United States sustained its robust economic growth rate. The Eurozone's economy showed signs of economic stability, and Asian's economies received a boost from a new United States demand derived from the trade frictions between the United States and China. At that time, most central banks increased interest rates to contain inflation and its effect on their economies.

The aforementioned positive indicators began to deteriorate during the second quarter of fiscal year 2019, with a decline in manufacturing output in several important economies including those of the United States, Germany, Italy, United Kingdom and China.

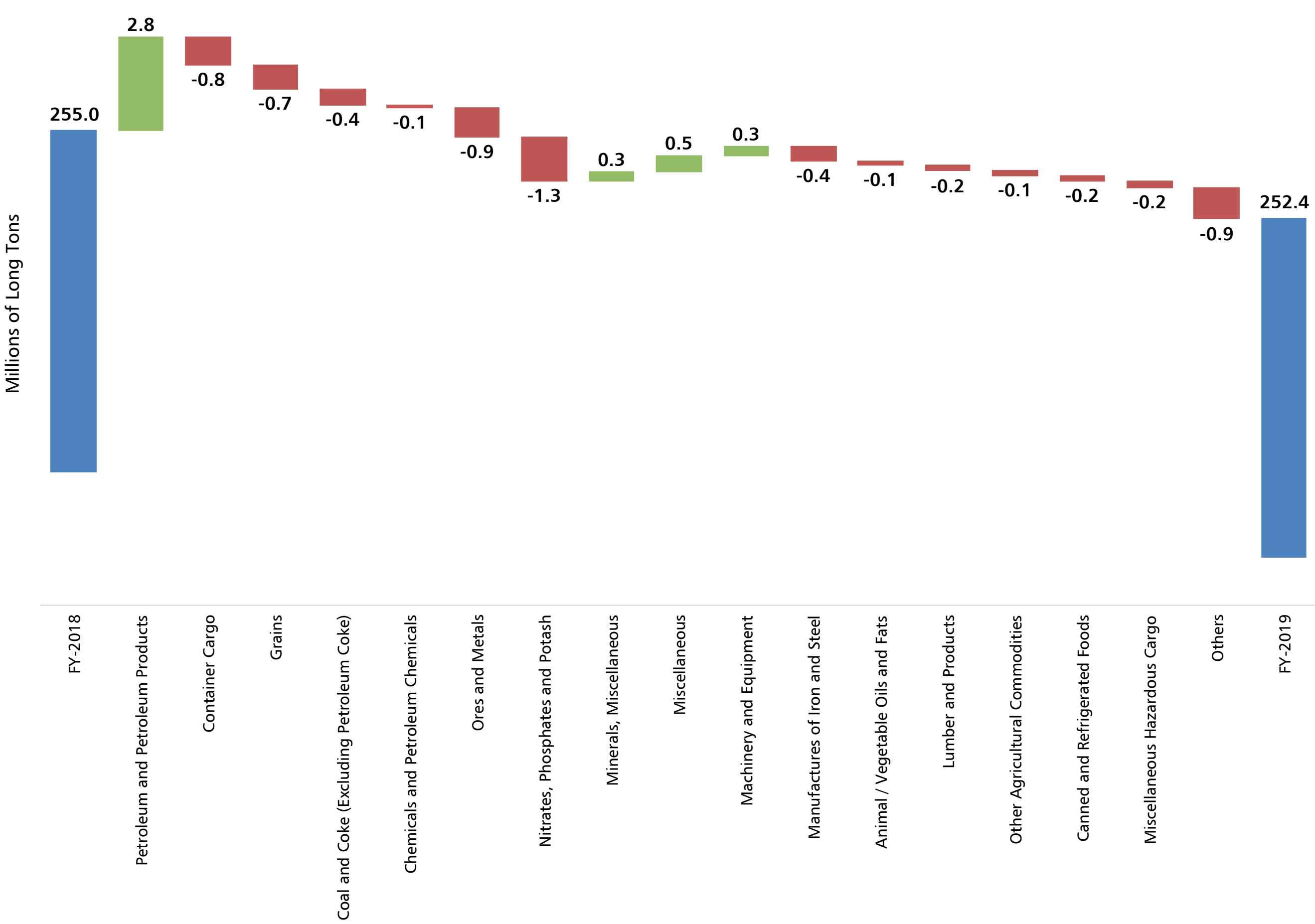
The uncertainty driven by volatile trade tensions between the United States and China, the Brexit movement and fear of recession, all furthered business entities concerns, which hampered investment. In the meantime, debt increased and the economic slowdown pushed central banks to reduce rates worldwide. All of this contributed to constrain global trade.

By September 2019, most international organizations confirmed an economic slowdown due to a decline in investments and global trade, which, in turn, drove down consumption. International trade had lost its usual role of economic driver, hinting at a possible structural change in the actual status quo.

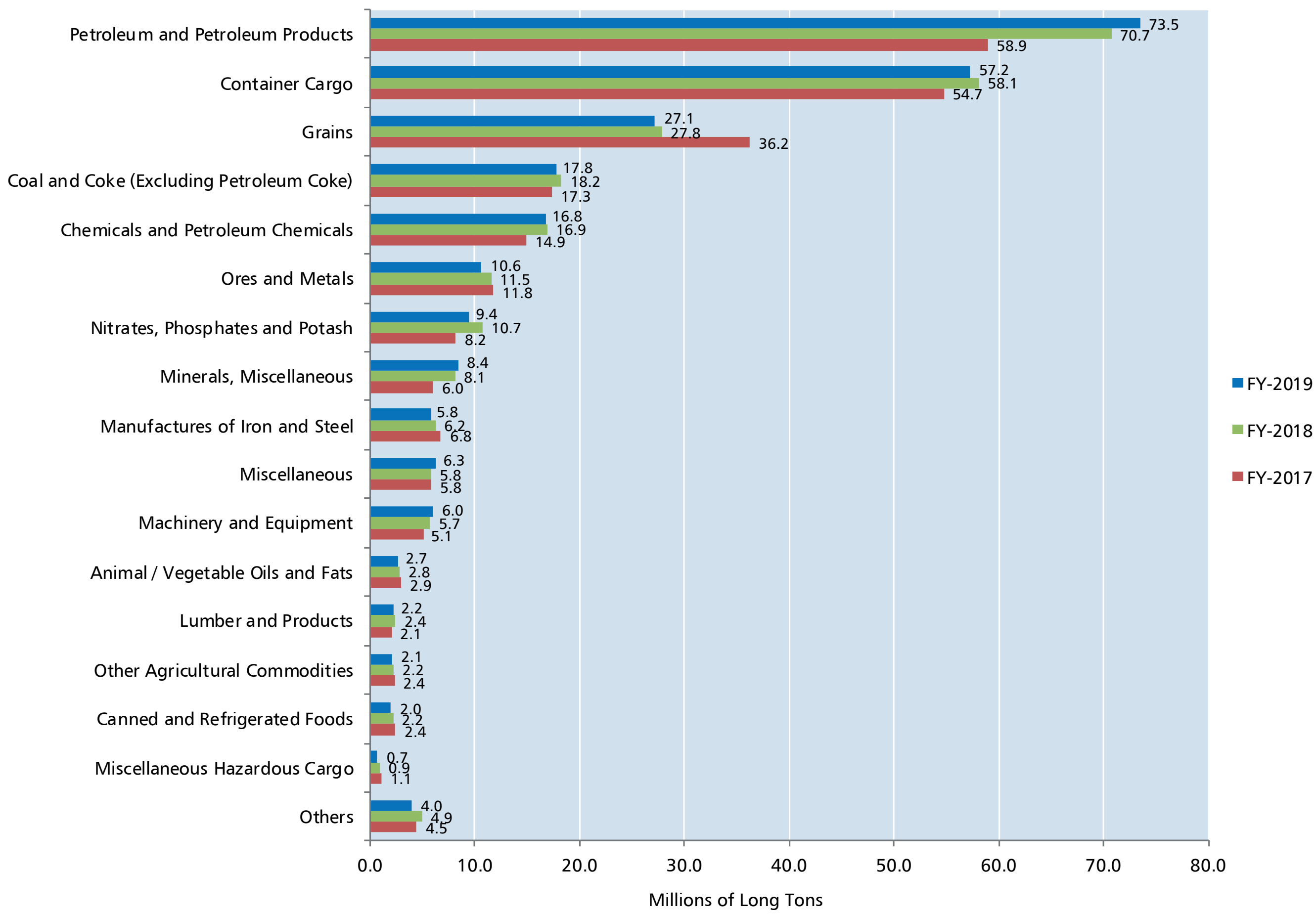
Container vessel transiting the Neopanamax Locks

In spite of an increase in PC/UMS tons and the resulting increase in toll revenues, the effect of the economic slowdown is evidenced by the 1.2 percent decrease in tons of cargo transported through the Panama Canal during fiscal year 2019. In addition, petroleum and related products (including LPG and LNG carriers) experienced the most growth and currently remains as the top commodity, followed by containerized cargo and grains, which declined from the previous fiscal year.

Graph 5. Variation of main commodities through the Panama Canal FY-2019 vs FY-2018



Graph 6. Principal commodities through the Panama Canal



Container Vessels Segment

Fiscal year 2019 closed with a total of 2,575 transits, 164.8 million PC/UMS tons, 16.8 million TEU capacity, 10.6 million loaded TEU transported and B/.1.197.7 billion in toll revenues. These represent increases over 2018 figures of 4.3 percent in TEU capacity, 3.6 percent in PC/UMS tons, and 2.7 percent in toll revenues. This segment accounts for a 46.2 percent share of total toll revenues collected during this fiscal year.

The implementation of draft restrictions, commercial tensions between China and the United States, and a weaker demand than the previous year, all posed many challenges for the transportation of containerized cargo through the Panama Canal. Despite the above, there was a 4.4 percent increase in fiscal year 2019 over 2018 in terms of the total number of cargo-loaded boxes onboard container vessels. Such increase was the result of retailers' strategies in order to replenish their inventories to mitigate the effect of import duties.

Trade between Asia and the east coast of the United States comprised the largest share with 61 percent of the total cargo transported during this fiscal year, followed by the west coast of South America and Europe, and the west coast of the United States and Europe. These three trade routes accounted for 90 percent of the total containerized commodities transported via the Panama Canal.

Container vessel *Triton* transiting Cocoli Locks

The fiscal year began with 28 liner services. After ensuing modifications to their service networks to adapt to changes in the international market, at fiscal year-end there were 30 services, 18 of which deploy Neopanamax-size ships.

The Neopanamax locks registered 1,334 transits, or 52 percent of the total traffic throughput; 76 percent of the total capacity volume and 75 percent of the segment's toll revenues. Operators continued to deploy larger vessels, and by the end of the fiscal year, 442 transits of vessels with more than 10,000 TEU capacity were registered, benefitting from the economies of scale that the Canal offers to its customers.

The container ship *Triton*, operated by the Taiwanese shipping line Evergreen Marine Corporation, set a milestone as the largest vessel to transit the expanded Canal at the time, with a beam of 51.03 meters, and 368.99 meters in length. This vessel surpassed the 15,000 TEU capacity mark, setting a record in terms of maximum container carrying capacity, transiting with 15,313 TEUs.

At the beginning of September, the CMA CGM *Magellan*, with a beam of 51.29 meters and 365.50 meters in length, surpassed the record of maximum allowed capacity, registering 15,455 TEUs.

At the end of the fiscal year, 93 percent of the transits in this segment benefitted from the loyalty program, achieving a greater capacity volume through the Panama trade route. During this period, 6 customers reached the maximum level of category 1 of the program, while achieving significant benefits from capacity tariff.

On the other hand, the tariff for loaded containers on board in the return voyage attracted a new Neopanamax southbound line service as of September. This service was previously deployed in an alternate route on its return leg to Asia from the east coast of the United States.

Liquid Bulk Vessels Segment

During fiscal year 2019, the liquid bulk segment registered 4,236 transits, 147.7 million PC/UMS tons and B/.669.2 million in toll revenues.

Total cargo was 91.8 million long tons (MMLT), 2.0 percent over fiscal year 2018, driven mainly by shipments of liquefied petroleum gas, liquefied natural gas and crude oil.

Tanker vessels recorded 2,750 transits, 66.9 million PC/UMS tons and B/.306.9 million in toll revenues. The driver for these deployments was mostly the transits of ballast tankers through the Neopanamax locks, seeking to reposition to the export terminals and by vessels loaded with crude oil from the United States to South Korea, Japan and Chile.

LPG vessels registered 1,087 transits, 37.8 million PC/UMS tons and B/.209.9 million in toll revenues. The propane inventory levels in the United States, encouraged price arbitrage between the United States and Asia increasing traffic through the Panama Canal.

Liquefied natural gas vessels registered 399 transits, 43.0 million PC/UMS tons and B/.152.4 million in toll revenues. The expectation of laden transits was greater than what actually transpired, due to less Asian imports as a result of more favorable weather conditions than anticipated, geopolitical factors and the restart of nuclear reactors in Japan.

The Q-Flex Al Safliyah is the largest LNG vessel that has transited the Panama Canal

Dry bulk vessel in the Gatun Locks

Dry Bulk Vessels Segment

During fiscal year 2019, dry bulk vessels registered 2,657 transits, 76.5 million PC/UMS tons and B/.360.4 million in toll revenues. The latter reflects a 1.3 percent increase over fiscal year 2018. These results are attributable to a higher share of dry bulk vessels loaded with other dry bulks and iron ore.

In addition, repositioning ballast transits related to coal trade and compensated for the downturn in the grain trade. Such trade suffered the ill effects of the trade war between the United States and China and the grain bypasses deployed via the Cape of Good Hope from the United States Gulf and east coast to Asia[3]. The negative impact of the bypass of Colombian coal to Chile via Cape Horn is also noteworthy.

Other dry bulks also contributed to boost traffic in this segment, including salt from Chile to the east coast of the United States and Canada for melting road ice; fertilizers for agricultural use, mainly from Europe to the west coast of Central and South America; and copper and zinc ore from Chile, Peru and the west coast of Mexico mainly to Europe for industrial applications.

Iron ore flows from the west coast of Mexico to Europe and from the east coast of South America to Asia's increase compared to last fiscal year's figures, are also worth mentioning.

[3] Source: Market Intelligence Network (MINT).

Refrigerated Cargo Segment

Fiscal year 2019 traffic statistics for the refrigerated cargo segment are as follows: 668 transits, 6.5 million PC/UMS tons, 79,646 on-deck TEUs and B/.34.7 million in toll revenues. A comparison of fiscal years 2019 and 2018 results indicates a decrease of 111 transits, declines of 9.2 percent, 0.7 percent and 7.7 percent in PC/UMS tons, on-deck TEUs and toll revenues, respectively. The reduction in tolls amounts to B/.2.9 million.

Bananas remain the main refrigerated cargo commodity transported through the Panama Canal, accounting for 56.9 percent of transported goods in this market segment. Bananas fell 14.3 percent from fiscal year 2018.

There was a steady decline in banana flows during fiscal year 2019, from Ecuador and Peru to European markets. The most relevant route continues to be the west coast of South America to Europe, with a share of close to 70 percent of all movements in this trade.

The decline in this market segment is attributable to the following: an increase in refrigerated capacity deployed in container vessels in the main route for this trade, South America – Europe; the advanced age of the conventional reefer fleet; the emergence of other attractive markets far removed from the Canal route; and the continued containerization of perishable cargo.

Two new conventional reefer vessels - among the few still joining the world fleet - transited the Panama Canal this year: the Cool Explorer and Cool Express, the world's largest conventional reefer vessels and most efficient in the industry with high reefer container carrying capacity and equipped with hybrid type scrubber to comply with the IMO's global sulphur cap in 2020.

Refrigerated cargo vessel transiting the Miraflores Locks

Passenger Vessel Segment

The 2018-2019 cruise season showcased Panama Canal passenger ship traffic as follows: 242 transits (188 full transits and 54 turnarounds), 14 transits less than the 256 transits of the previous fiscal year (204 full transits and 52 turnarounds). The total number of passengers was 263,691, 11.9 percent less than the 299,363 registered in fiscal year 2018. Toll revenues amounted to B/.51.1 million, a 9.9 percent decrease from B/.56.7 million in the previous fiscal year.

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

Passenger vessel traffic in the Neopanamax locks for fiscal year 2019 included seven vessels with a total of 12 transits from the Norwegian, Princess, Carnival and Disney cruise lines (*Norwegian Bliss*, *Caribbean Princess*, *Emerald Princess*, *Carnival Valor*, *Carnival Freedom*, *Carnival Sunrise* and *Disney Wonder*). During this cruise season three Neopanamax vessels made partial transits in the Atlantic side without disembarking passengers, which is an indication of the appeal of the Panama Canal experience for the cruise industry.

The Panama Canal is increasingly positioning itself as a preferred route for cruise ships in repositioning itineraries. For instance, the *Norwegian Bliss* cruise ship, the largest passenger ship that has transited the Panama Canal, made two complete transits on November 13, 2018 and April 3, 2019, to reposition to the Caribbean and Alaska, respectively.

Passenger vessel *Emerald Princess* at the Pacific entrance heading towards Cocoli Locks

Vehicle carrier in the Culebra Cut

Vehicle Carriers / RoRo Segment

Traffic results for fiscal year 2019 were as follow: 880 transits and 53.2 million PC/UMS tons, 5.5 percent and 7.3 percent increments, respectively, over the previous fiscal year. Transits of vessels of beam 100 feet and above accounted for 97.4 percent of total transits in this segment. Toll revenues were B/.223.3 million, a 6.6 percent increase from the previous fiscal year.

Tonnage and toll records were set in fiscal year 2019, as a result of car and heavy equipment exports from Asia and Europe to the United States east and west coasts. Car sales in Japan and South Korea had a 0.6 percent growth compared to the previous year[4]. Heavy equipment exports remained high, but have dropped some. In addition, the demand for mining equipment continued to be strong during this fiscal year, supported by the level of metal prices[5].

Cargo transported via the Panama Canal increased compared to fiscal year 2018. The segment registered 5.4 million long tons in fiscal year 2019, a 1.8 percent increase over the 5.3 million long tons of the previous fiscal year. The main commercial route for the Canal, Asia - east coast of the United States, registered 2.1 million long tons of cargo, 14 percent above the previous fiscal year. On the other hand, the Europe (Germany/United Kingdom/ Belgium) - west coast of the United States route recorded 314.3 thousand long tons, a decrease of 35.2 thousand long tons compared to the previous fiscal year.

During this fiscal year, there were 54 Neopanamax transits of the various vehicle carrier lines, Wallenius Wilhelmsen Ocean, Hoegh, Glovis, NYK Line, Mitsui O.S.K. and "K" Line shipping lines. Of these, 10 transits belonged to 5 vessels of the New Horizon Hoegh class, with the largest capacity in the world, 8,500 CEU (Car Equivalent Unit).

[4] Global Sales and Production Commentary, September 2019.
[5] Q2 nd First Half 2019. Quarterly presentation. Wallenius Wilhelmsen, August 21, 2019.

Customer Relations

During fiscal year 2019, the Panama Canal continued strengthening ties with customers and stakeholders.

To this end, Florida Caribbean Cruise Association (FCCA) representatives were hosted in February to discuss issues pertaining to regulations for the admeasurement of vessels and the tolls system applicable to passenger ships. In April and May, a delegation headed by the Canal Administrator visited clients in Asia to discuss topics such as Canal's performance, use of the reservation system and vessel deployment plans.

A visit to the International Chamber of Shipping (ICS) ensued in June to discuss the implementation of a new tolls proposal and request its support to notify its membership. These meetings allowed the administration to get a firm grasp of its customers' needs and to plan the necessary actions to continue providing an efficient and profitable transit service to the international maritime community.

During this period, new mutual cooperation agreements were signed. Of these, three were signed with ports and interest groups in Brazil (Itaqui, Suape and Aprosoja), given the potential for development of new trade routes between northeast Brazil and Asia through the Panama Canal. A memorandum of understanding was signed with the Port of Rotterdam to exchange information related to the development of commercial activities and to promote routes from the Port of Rotterdam to destinations in the Pacific. In addition, an agreement was made with PT Pelabuhan Indonesia II (Persero) to share best business practices.

Furthermore, the Panama Canal, hosted 90 delegations comprised of customer representatives and stakeholders, who met with ACP executives and were given tour visits to the locks and Visitor Centers in Miraflores, Cocolí and Agua Clara.

Signing of the mutual cooperation agreement with the port of Suape of Brazil

Transit coordination from the control house

Operations

Performance of Services Provided

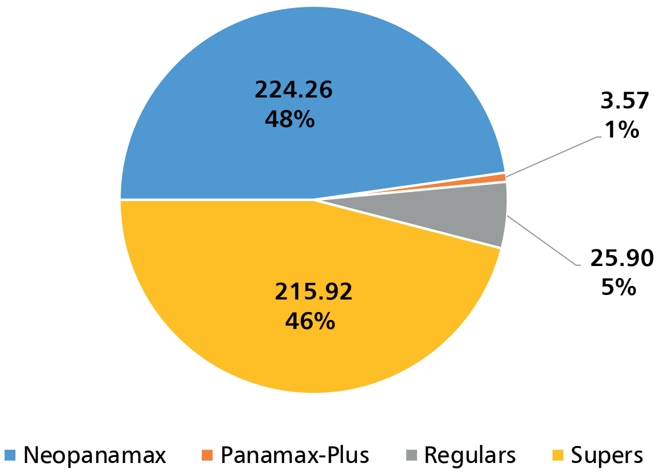
A total of 469.6 million PC/UMS tons transited the Canal, 27.5 million more than in fiscal year 2018, with an operating cost per ton of B/.1.61, very close to the established goal of B/.1.60. Furthermore, income from tolls and other maritime services was B/.3.077.6 billion, an increase of 3.6 percent compared to fiscal year 2018.

During this period, 12,291 oceangoing vessels transited the Panama Canal. This represents an increase of 82 vessels, or 0.67 percent compared to fiscal year 2018.

Of these, 6,747 transits (215.92 million PC/UMS tons) were of vessels size super (beam equal to or greater than 27.74 meters), which represents a decrease of 239 transits (3.42 percent) compared with fiscal year 2018.

During fiscal year 2018, as part of the super category vessel size, there were 5,546 transits of Panamax vessels (beam equal to or greater than 30.48 meters), a decrease of 166 transits (2.91 percent) compared with fiscal year 2018 (5,712 transits). Panamax vessel transits represented 45.12 percent of oceangoing vessel transits compared to 46.79 percent.

Graph 7. PC/UMS Tons per Vessel Size (Million)



On the other hand, 2,582 transits (25.90 million PC/UMS tons) were regular size vessels (beam less than 27.74 meters), a decrease of 152 transits (5.56 percent) compared with fiscal year 2018.

Neopanamax vessels registered 2,854 transits (224.26 million PC/UMS tons), of which 1,334 were of container vessels, 712 of LPG, 393 of LNG, 199 of dry bulk carriers, 144 of tanker vessels, 54 of vehicle carriers, 12 of passenger vessels, 3 of chemical tankers, and 3 of other market segments. Finally, Panamax-plus vessels (draft greater than 12.04 meters) registered 108 transits (3.57 million PC/UMS tons).

For Canal operations convenience, 88 Panamax vessels, of which 22 made complete transits and also transited the Neopanamax locks, and 66, mixed transits (51 through Gatun and Cocolí Locks, and 51 through Miraflores, Pedro Miguel and Agua Clara Locks). A total of 229.47 million PC/UMS tons transited through the Neopanamax locks, which represented 48.86 percent of the total PC/UMS tons transited through the Canal and an increase of 36.75 million tons (19.1 percent) compared to fiscal year 2018.

Small crafts had a decrease of 92 transits (from 1,586 to 1,494) or 5.8 percent compared to fiscal year 2018. Total transits, including small crafts, decreased by 10 (from 13,795 to 13,785) compared to fiscal year 2018.

During this fiscal year, the following records were established: The transit of 4 LNG vessels in one day on October 1 and 24, 2018; 42.53 million PC/UMS tons transited in one month, in August 2019; the billing of B/.1,213,450 from tolls and other maritime services to a vessel (MV THALASSA DOXA, on September 25, 2019); the transit of a vessel with 149,112 PC/UMS tons (MV CMA CGM AMERIGO VESPUCCI, on June 30, 2019); the transit of 13 Neopanamax vessels in one day on June 5, 2019; Average of 9.06 daily transits in the Neopanamax locks in one month, in July 2019; the transit of 1,705,622 PC/UMS tons in one day, on August 16, 2019; 21 resold reservations; and 90 previously reserved Neopanamax transits.

Container vessel transiting the Agua Clara Locks

Lockage tests were initiated with vessels of lengths greater than 367.28 meters (1,205 feet) up to 370.33 meters (1,215 feet), in order to be able to attend a new range of vessels, especially of the container vessels segment. Changes in navigational rules at the Pacific entrance were also implemented, related to combined beams in vessels encounters, which has had a positive impact in the Canal capacity. Replacement of the Neopanamax locks fendering system was also completed, which had a direct and positive impact in the decrease of vessels lockage times, and in the additional protection provided to vessels in transit as well as to locks infrastructure.

Implemented improvements, paired with increments in the learning curve of vessels transit through the Neopanamax locks, allowed to achieve a daily average of 8.1 transits through the Neopanamax locks (Neopanamax and Panamax-Plus vessels), compared with 6.8 transits in fiscal year 2018.

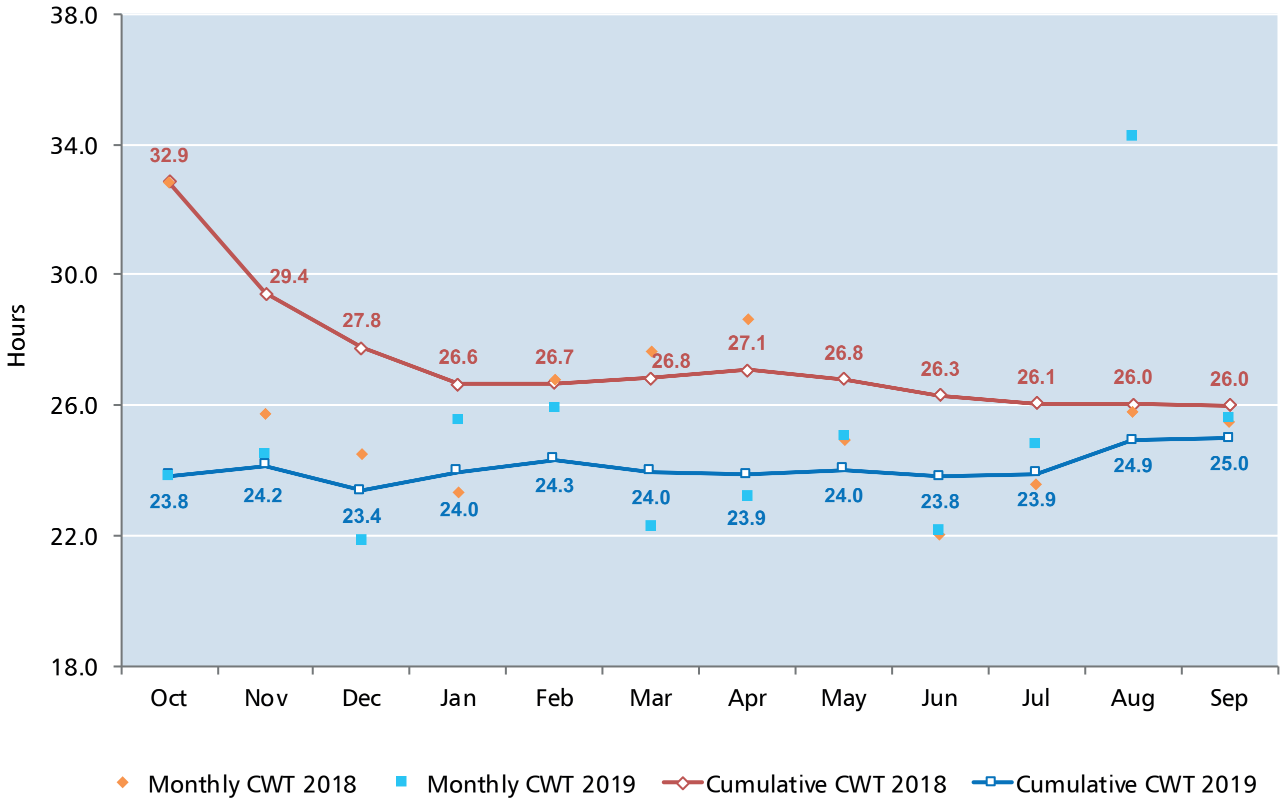
Canal Waters Time (CWT) and In Transit Time (ITT) Analysis

CWT, the time elapsed from the moment a vessel is declared ready for transit until it completes its transit, registered an average of 25.00 hours, an hour less than fiscal year 2018 average of 26.00 hours. Neopanamax vessels recorded an average CWT of 24.39 hours. Fiscal year 2019 average CWT decrease was due mainly to the lack of extended periods with high queues, to the reduction in Panamax vessels demand, and to these vessels' decreased need to make stops during their transits.

The average CWT for vessels with reservations was 15.37 hours, which is lower than the 15.73 hours for fiscal year 2018. The percentage of PC/UMS tons that met the expected CWT for each market segment reached 84.1 percent , an improvement to the 83.63 percent observed during fiscal year 2018.

Container vessel transiting the Neopanamax Locks

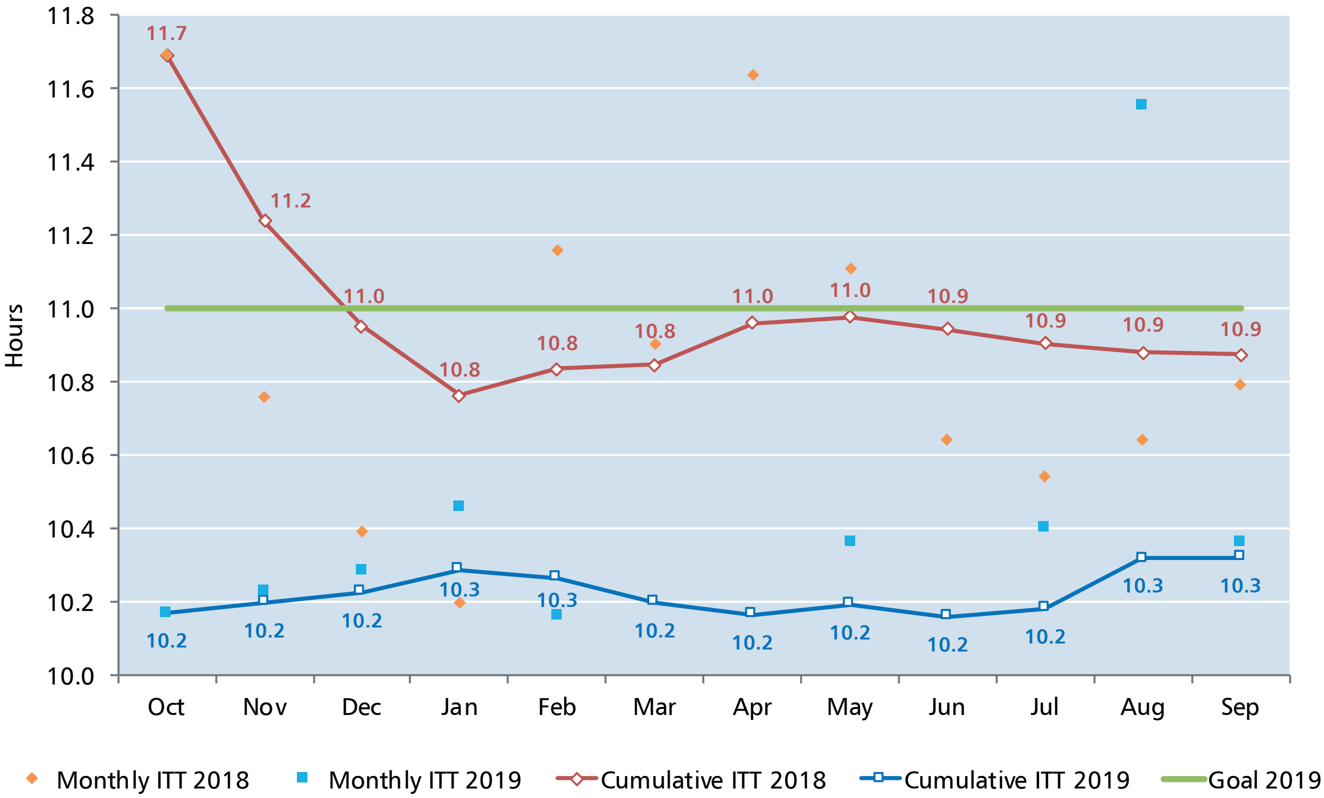
Graph 8. Canal Waters Time FY-2018 vs FY-2019



Staff on board Canal floating equipment

ITT, the time elapsed from the moment a vessel enters the first lock until it exits the last lock, recorded an average of 10.32 hours at the end of fiscal year 2019, 0.55 hours less than the 10.87 hours recorded in fiscal year 2018. Neopanamax vessels, on the other hand, recorded an average ITT of 13.82 hours. The average ITT decrease for fiscal year 2019 was due mainly to improvements in lockage times in the Neopanamax locks as well as improvements to navigation times in the Culebra Cut.

Graph 9. In Transit Time FY-2018 vs FY-2019



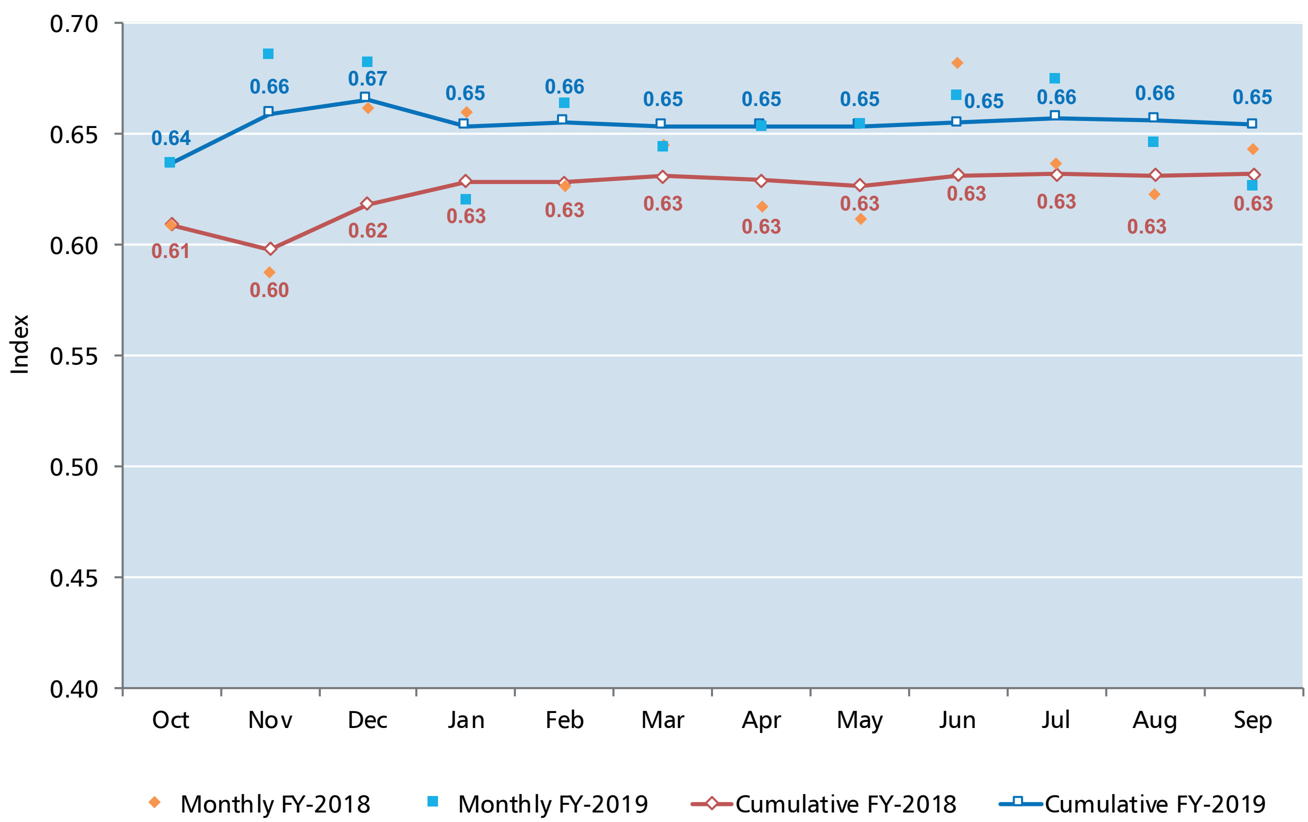
Customer Satisfaction

Regarding customer feedback on services received, the Customer Service Satisfaction Index exceeded this fiscal year's goal of 0.61, with a result of 0.65. A total of 2,956 surveys were received from 13,785 transits, of which 1,494 contained customer reviews. Of these reviews, 857 were recognitions favorable to the Panama Canal, which represents 6.2 percent of the total number of transits. During Customer Service Week, two conferences were held with the objective of improving the quality of the data registered by shipping agents.

The Canal continued to present Honorary Panama Canal Pilot licenses to transiting vessel captains who reach retirement age, and commemorative plaques to all vessels that transited the Panama Canal for the first time.

Emerald Princess Cruise inaugural transit

Graph 10. Excellence Index in Customer Satisfaction for Transit Services FY-2018 vs FY-2019



Dredging Program

In June 2019, pit dredging and construction of the underwater berm for a selective drain retention trap, south of Agua Clara Locks, in Banana Reach, Gatun Lake, were completed.

In September 2019, widening of the Gamboa Mooring Station was also completed, which allows the simultaneous mooring of one Neopanamax and one Panamax vessel. Likewise, dredging and buoys installation, in the South Cocoli Mooring Station, were completed, which will be available as soon as minor adaptations to buoys and bank lights are finalized.

Clearing of submerged logs continued, giving priority to the Monte Lirio Anchorage, included in the new anchorage project north of Gatun Lake. Furthermore, maintenance was performed to channel and operational areas in Culebra's reaches and Anchorage A.


Dredging works and buoys installation in South Cocoli Mooring Station

Maintenance

As part of the Overhaul and Major Repair Program for submerged equipment in the Panamax locks, lane outages took place in all 3 locks, of which, 16 outages of 4 to 8 hours, 10 outages of 8 to 12 hours, 2 outages of 8 days, and one of 3.5 days stand out; in addition to a culvert outage of 10 days. During these outages, 3 lock gates were removed, repaired and reinstalled; 6 lock gates were removed for overhauling; 2 reconditioned lock gates were reinstalled; and 2 vehicular bridges, affected by maritime accidents in Miraflores, were removed and repaired.

In Pedro Miguel and Miraflores Locks, complete dry chamber overhauling works were carried out, which included overhauling 4 lock gates, the replacement of rubber seals in another 14, and replacement of 10 reconditioned rising stem valves. On the other hand, in Gatun Locks, 11 cylindrical valves were replaced by a new model, and the remaining 49 were maintained. As for dry dock gate work, 4 lower ball joints were removed and reinstalled, and new steel plates were installed in 4 gates. Geobags were installed and concrete was poured to repair scouring in Gatun Locks' north approach wall, and in Pedro Miguel Locks, structural repairs were carried out on cracks found in east chamber's concrete.


Lane outage in the Panamax Locks

In regards to the Neopanamax locks, structural design and inspection tests were made as well as submerged equipment tests, also known as "after work completion tests". Four partial culvert isolations were carried out, in which the dry system design was revised, 8 main valves were removed for functional and structural inspection, and a gate niche was isolated and drained, also for functional and structural inspection.

A floating equipment annual maintenance plan was successfully accomplished by completing dry-docking of 9 tugboats, 11 launches and 5 workboats. Preventive maintenance was also performed on 75 tugboats and 320 launches.

The auxiliary motors maintenance plan was also accomplished by completing major overhauling of 72 motors from tugboats and launches. Furthermore, Barge 104 was adapted to become part of the new Cocoli Landing.

Floating equipment maintenance

Reliability was guaranteed for Madden Dam and of Miraflores and Gatun Spillways by timely executing overhauling of 4 drum gates and 4 spillway gates.

Infrastructure Development and Other Projects

As a result of the investment projects executed during fiscal year 2019, a series of equipment required for Canal operations and maintenance were replaced and procured.

Among these stand out 11 launches for boarding of operational personnel; a tank truck loading to improve the fuel transfer system; the extension of the Fleet and Equipment Maintenance Division's facilities in Miraflores; two plants to improve oily waters collection and treatment in Miraflores' and Monte Esperanza's facilities; the expansion of Monte Esperanza's Pier 14; the extension and improvement of buildings occupied by the Pacific Tugboats Operation Unit personnel; and the new building for launches operations in Amador Landing.

Launches procured for boarding of operational personnel

Commitment to Complementary Businesses

Energy Business

The necessary energy for the Canal's reliable and safe operation was generated, as well as for the service it provides the international shipping community. Additionally; contractual commitments to sell energy and actively participate in the domestic electricity market were met, generating B/.60.7 million in revenue at the end of FY 2019.

The project to modify the access ramp to the Miraflores spillway was completed, progress was made in the construction of the fueling dock facility and the construction of the new Energy Division complex.

Medium and high voltage electrical maintenance were performed to maintain maximum reliability of the power transmission and distribution system. Corten steel towers are being refurbished and, in a second phase, the track-span towers were replaced with concrete poles.

Replacement of track-span type towers in the Pedro Miguel area

The Low Voltage Section has been reorganized focused on critical processes for Panama Canal operations. A business plan is being is developed to offer external customers our services in the new facilities.

Drinking Water Business

The Panama Canal dispatched approximately 125 million gallons of drinking water per day for Canal operations and for the cities of Arraiján, Colón, La Chorrera and Panama from the Monte Esperanza (28 percent), Miraflores (38 percent) and Mendoza (34 percent) plants, generating B/.36.1 million in sales revenue.

To ensure drinking water supply reliability, the Miraflores and Monte Esperanza sedimentation tubs were rehabilitated; maintenance was performed on the Monte Esperanza water treatment plant; auxiliary raw water pumping equipment from Gamboa and Mendoza was enabled; Arraijan's centrifugal pump and Gamboa's raw water pumping station electrical distribution cabinet were replaced and progress was made in the replacement

View of the water treatment plant project in Pedro Miguel

of Balboa pumping water supply station cabinet. The chilled water plant infrastructure was replaced and improved for reliable chilled.

Pilgrims of World Youth Day at the Miraflores Visitor Center

Visitors Centers: Windows to the Canal

The Panama Canal visitor centers (Miraflores Visitors Center – CVM, Agua Clara Observation Center – COA and Cocoli Pavilion), as the main gateway of tourist activities, received a total of 972,384 visits. This activity at the centers represented an income of B/.14.5 million in ticket sales, guided tours, rentals, and VIP and concession services.

Extraordinary activities, such as the World Youth Day (WYD), brought with them a large number of visitors from different countries in America, Europe, Asia and Africa. For these purposes, the Canal was prepared with infrastructure, operational logistics, training and human resources. Likewise, in order to strengthen the offer was the opening of the new theater in 3D format, IMAX-Panama Canal.

In addition, progress has been made in the expansion of visitor centers with improvements that include works related to the New Country Road in the Agua Clara Center, the new Gatun observation site and the Miraflores Outdoor Park.


Tourists at the Agua Clara Visitor Center

Commercial cargo passage through the Canal Logistics Corridor

Business Development

Revenues from developing businesses amounts to B/.5.1 million at the end of fiscal year 2019, mainly generated by the concession contract between ACP and Panama International Terminal, S.A. (PSA), from the sale of excess equipment and goods.

During fiscal year 2019, the sale of two important Canal assets with major leading roles in the Canal's operation such as the dredge Mindi and the Miraflores revolving bridge are to be noted.

On March 15, 2019, the Canal Logistics Corridor (CLC) was inaugurated, a road located on the west side of the peaceful entrance of the interoceanic road that allows better access for the Canal's operations which contributes to the development of complementary waterway projects. The use of the road is charged by means of an automated toll system, so that commercial freight carriers can transit through the CLC to reduce travel times. Another important milestone was the adoption of the Panama Canal Concessions Regulation, which set the rules and procedures applicable for the granting of concessions.

Commitment to Human Capital

Locks maintenance personnel

Almost twenty years after taking over the responsibility of successfully operating and managing the interoceanic route, the Panama Canal continues to execute its strategy of engaging and developing human capital, fostering innovation, strengthening organizational culture and leadership, as an active and valuable resource that adapts to the changing conditions the business faces.

During fiscal year 2019, the development of our human capital was focused on improving and increasing competences and skills in technical, labor relations and leadership aspects.

Labor Indicators

Staffing

The Panama Canal workforce, at the end of fiscal year 2019, consisted of 9,701 people, with an average age of 46 years, and there is a 1.17 percent decrease with respect the 2018 report mainly due to the voluntary retirement plan.

It is important to note that 77 percent of the total workforce is permanent, highlighting the importance of workforce stability and validating the sustainability of our work policies. Term contract offers (temporary employees) are made by reason of a project or to fill temporarily vacant positions and operational needs with beginning and completion dates clearly defined from the beginning of the employment relationship.

Staffing			
Period	**FY-2017**	**FY-2018**	**FY-2019**
Permanent	7,498	7,412	7,495
Temporary	2,389	2,404	2,206
Total	**9,887**	**9,816**	**9,701**

Diversity Indicators

The Panama Canal's culture is strengthened by the diversity of its workforce as a reflection of Panama as a country and its society in general. At present, the Canal's workforce is originally from different provinces and two indigenous regions of the country.

Employees celebrating the month of the homeland

Employees by Province of birth or place of origin	
Bocas del Toro	84
Chiriquí	497
Coclé	203
Colón	2,825
Kuna Yala Indigeneous Region	12
Ngobe-Buglé Indigeneous Region	1
Darién	84
Foreign nationals	11
Herrera	148
Los Santos	120
Naturalized	29
Panamanians Born Abroad	100
Panamá	5,348
Veraguas	239
Summary	9,701

Staffing by Gender

Female participation during fiscal year 2019 corresponded to 1,174 women, equivalent to 12 percent of the workforce. Of this number, 140 women hold leading positions in the organization.

Although the percentage of the female workforce did not change, the participation of women in non-traditional occupations increased 5 percent, as a result of the Canal's merit system that guarantees participation and equal opportunities for all hiring and promotions.

Staffing by Gender

Period	FY-2017	FY-2018	FY-2019
Women	1,230 (12 %)	1,205 (12 %)	1,174 (12 %)
Men	8,657 (88 %)	8,611 (88 %)	8,527 (88 %)
Total	9,887	9,816	9,701

Women in Non-Traditional Positions

Period	FY-2017	FY-2018	FY-2019
Women	146	174	183

Gender Equality Certification

For fiscal year 2019, The Panama Canal was recognized with the Silver Seal of Gender Equality in the Public Sector. This initiative was led by the National Women's Institute of the Republic of Panama (INAMU), with the technical assistance of the United Nations Program for Development, through which it seeks to create more egalitarian conditions for men and women in the work environment and thus contribute to the advancement of the Sustainable Development Goals of the 2030 Agenda in Panama.

Collaborators in surveying works in the locks

Paternity Leave

During this fiscal year, paternity leave was incorporated into the Panama Canal regulations in order to grant paid leave to workers, in case of the birth their children.

Occupational Health and Safety

Health and safety are a priority in the management of the Panama Canal's workforce and in fiscal year 2019 an accident prevention strategy continued, through programs, tools and procedures that guarantee a safe working environment, promote good health and well-being.

Regarding health, actions were focused on raising awareness among the workforce about paying attention to weight issues, obesity, diabetes and hypertension through health fairs and with the design of a comprehensive program that allows each person to perform routines and simple exercise at home, accompanied by healthy eating habits.

Actions to reduce accidents and to promote safe behaviors have been intensified. Attention was maintained on the correct application in the operational areas of the Three is Zero Program, with the aim of creating awareness of taking three minutes before starting a task to review the risks and take the necessary measures to avoid accidents, emphasizing safe work conditions.

Indicator	FY-2017	FY-2018	FY-2019
Accident severity index *	15.86	28.76	18.01
Number of work related fatalities	0	2	2

* days of absence x 200,000 / total productive hours

Organizational Climate Measurement, Satisfaction and Commitment.

In accordance with best organizational practices and with the interest of knowing the perception of the workforce with respect to the company, how well they feel being part of it, their level of commitment and satisfaction, during the fiscal year an organizational climate survey and satisfaction was conducted, which will lead to initiatives that will be implemented during the next fiscal year.

Merit System and Performance

The Panama Canal supports the management of its human capital by means of a merit system that guarantees the hiring, transfers and promotions governed by a merit contest and based on knowledge, experience, preparation, suitability, competence and achievements of those who aspire to access Job positions. By means of performance evaluation work, not only a culture of recognition is promoted, but it is also possible to align its human resources with the Canal's goals and objectives. Within that framework, the performance of 100 percent of the workforce is measured and a culture of recognition for high quality work is promoted.


Personnel in dry chamber works

Savings Program

Panama Canal Employees' economic well-being and their financial tranquility lead to better performance. The Panama Canal continues with the policy of motivating its employees to participate in the voluntary pension savings program, which allows them to have additional funds once they retire. This economic complement is undoubtedly an option for workers to be better prepared to assume the natural loss of income that comes with retirement. The closing of fiscal year 2019 registered B /.6.9 million in savings, product of those who have voluntarily accepted this initiative.


Savings programs offer
Canal employees benefits

Training and Development of Human Capital

The Panama Canal values its workforce talent and recognizes that it is its most important asset and an essential element of its competitive advantage. Year after year, it develops multiple initiatives and programs aimed at facilitating personal growth and professional development. During fiscal year 2019, 26,154 training instances were registered, which on average equal to 2.7 instances per person.

Development Area	FY-2017	FY-2018	FY-2019
Maritime training	2,573	3,615	2,189
Industrial and safety training	11,713	9,989	11,071
Professional development training	10,902	12,252	12,894
Totals	**25,188**	**25,856**	**26,154**

This fiscal year, 144 participants received a certificate of completion of the Talent Management Program, with the purpose of strengthening and developing the leadership skills and competencies required to meet the Canal's current and future challenges.

With the purpose of promoting a productive work environment after a change in organizational structure, the workforce was supported through different interventions for change management and the establishment of high performance teams.

Graduation Ceremony of New Pilots in Training

The Ascending Mobility, Panama Crece (Panama Grows), maritime and artisan technical development programs, contribute to have the qualified talent required for the continuous and efficient operation of the Canal.

A total of 403 participants in the Panama Crece Maritime Program, designed to develop future sailors and linehandlers, completed the program.

Recognition

During fiscal year 2019, 6,972 awards and recognitions were granted to those workers whose contribution and performance exceeded expectations. Through the different incentive programs, the Canal recognizes values, attitudes, behaviors and significant contributions.

Recognitions	FY-2019
On the Spot Award	3,265
Award for Act or Special Service	1,014
Safety Award	1,160
Years of Service Award	1,533
TOTAL	6,972


Worker at the Balboa substation

Labor Relations and Negotiations

For the Panama Canal, it is important to maintain constructive relations with its workers and trade union organizations. All workers have freedom of association and representation as a rights in compliance with the Canal's legal framework.

Approximately 94 percent of the Canal's workforce is part of the six negotiating units, each with its respective collective bargaining agreement. It should be noted that during fiscal year 2019, negotiations began for two of the current collective bargaining agreements: the Non-Profesional and Professionals Bargaining Units.

Employees by Bargaining Unit (Permanent and Temporary)			
Bargaining Unit	FY-2017	FY-2018	FY-2019
Firefighters	80	77	75
Masters and Mates	220	225	219
Machine Engineers	212	212	210
Nonprofessionals	8,177	8,151	8,080
Professionals	211	207	205
Pilots	267	282	295
Total included	9,167	9,154	9,084
Excluded from union coverage	720	662	617
Workforce Total	9,887	9,816	9,701
Percentage with union coverage	93	93	94

Internal Communication

During the fiscal year 2019, the leader's role as the main internal communication channel was reinforced to facilitate face-to-face dialogue with work teams on key issues for the Canal and its purpose. An internal communication alignment model was applied, wich incorporated elements of planning, execution, coaching and measuring its effectiveness. The leaders executed and personified internal communication plans with a reach of 85 percent of the collaborators.

Field trips as part of the internal communication meetings

Ethics and Transparency in Panama Canal Management

The Panama Canal management model has a solid regulatory framework that, complemented with good corporate governance practices, has been a fundamental part in the organization's continued success.

The Canal has an ethics and conduct regulation with high standards to safeguard it along with its workforce and its clients from any form of corruption or illegal practice that may compromise the trust and credibility placed in the interoceanic route. The best way to beat the odds and maintain these values is to always act with honesty, integrity, impartiality, transparency and with a likely behavior.

Every year, the Panama Canal Authority puts into action its ethics program, with actions aimed at promoting - in its collaborators and other interest groups - good behavior based on principles and values, not only for complying with regulations, but because it is the right thing to do.

Collaborators participate in the caravan of ethical and moral values in different areas of the Canal

Commitment to the Environment and Society

The Green Route

he Green Route Program represents the management of the Canal Watershed to ensure a sustainable operation. This program articulates activities for sustainable development in the Panama Canal Watershed, with environmental management to reduce carbon emissions in the operation of the Canal, and provides green incentives to the global maritime industry for the use of the Canal route.

During the current fiscal year, 50 million tons of carbon dioxide (CO_2) have been reduced by the operation of the Panama Canal Green Route, this reduction is equivalent to the conservation of a 100,000-hectare forest.

In addition, from August to November, the Canal provided monitoring and compliance with the World Maritime Organization (IMO) regulation indicating, all vessels to reduce speed in the entry route of the Panama Canal for the purpose of protecting cetaceans migrating during this months from colliding with the vessels. The implementation of the IMO regulation "The maritime traffic separation device", not only promotes preservation of the biodiversity but also contributes to the reduction of 14,000 tons of carbon dioxide (CO_2).

In the promotion of the Green Route, in fiscal year 2019, 30 vessels received the Green Connection Award and 300 vessels were allowed to apply for the Green Connection Environmental Recognition Program and Environmental Premium Ranking.

The *Green Connection* Award given to the Qatargas *Al Safliya* vessel

Similarly, more than 4,500 green transits met high environmental performance standards recommended by the IMO.

The transits of the Qatargas *Al Safliya*, the first Q-Flex and largest LNG vessel to transit the waterway, and Evergreen's *Triton*, have together reduced more than 20,000 tons of carbon dioxide compared to alternate routes.

In March 2019, the Panama Canal formally joined the Global Industry Alliance (GIA), a public-private partnership initiative promoted by the World Maritime Organization (IMO), which brings together 17 maritime industry leaders seeking to improve energy efficiency and reduce greenhouse gas emissions in international shipping.

This year, the United Nations Conference on Trade and Development (UNCTAD), in its Review of Maritime Transport 2019 report, recognized the Panama Canal as the only entity from a developing country to join the GIA, for its initiatives in promoting energy efficiency and reducing greenhouse gas emissions in international shipping.

Green Connection Environmental Recognition and Environmental Premium Ranking for use of the Panama Canal Greenway

Panoramic photo of the Panama Canal Watershed

Sustainability: Watershed and Community Management

The Panama Canal integrates efforts and initiatives to ensure adequate environmental management in its operations and areas of responsibility. The Panama Canal is inspired by corporate values and core principles, which guide us as a government institution to establish a balanced relationship with nature, seeking a rational use while protecting the natural resources of the Panama Canal Watershed, and implementing the best environmental practices in all of its processes, products and services.

These initiatives seek to preserve the quantity and quality of water resources. All activities are developed with a strong scientific focus and implementing cutting-edge technology, thus, giving water its value within the business chain. This creates a conservation value that is reflected through investment in environmental programs, whose measurable return is the water produced for the consumption of 2 million inhabitants and the operation of the Canal. Along with this, the Panama Canal promotes the usage of the all-water Green Route wich is shorter and with less greenhouse gas emissions.


Emberá children enjoying a swim in the Chagres River

Watershed Conservation

The environmental programs of the Panama Canal aim at promoting good production practices through the development of sustainable environmental businesses that directly benefit small farmers and their families. Their farms are planned under livestock and agricultural modalities, which increase the production yield. Additionally, farmers are provided with economic incentives to protect forests. As part of these programs, the Panama Canal promotes environmental land-use planning, the strengthening of community-based organizations, inter-institutional coordination, and environmental education. All of these actions contribute to the achievement of the Sustainable Development Goals and to preserve the watershed as country's heritage.


Panoramic view of Gatun Lake

Cadaster and Land Titling

Cadaster and land titling are part of the environmental land management strategy of the Panama Canal Watershed. This program is implemented alongside with the National Authority of Land Administration and aims to provide legal security over land to the inhabitants of the basin. During this fiscal year, 6,807 hectares of land were registered. Additionally, 762 property titles were issued in the districts of Colon and La Chorrera, in the provinces of Colon and Western Panama. One result of this program is the increase of up to 81.25 percent of the regularization of tenure, in relation to the initial baseline of 15 percent.

In this sense, the titling process has been completed in the 5 *corregimientos* in the district of Capira and in 8 of 9 *corregimientos*, in the district of La Chorrera.

Delivery of property titles to Canal Watershed residents

Environmental Economic Incentives

The Environmental Economic Incentives Program represents in Panama and the region, an unprecedented model of green economy for conservation and improvement of living conditions of the Panama Canal Watershed's population. Crop planning process is a vital component of this Program. Within the process of coffee farm planning, coffee berry borer control was used to manage crops in 75 hectares. In addition, the Program strengthened capabilities of coffee producers from the *Asociación de Caficultores de las Subcuencas de los Río Cirí Grande y Trinidad del Canal de Panamá* (ACACPA). They received a complete guide of functional records, implementation of sanitary practices in the processing of coffee and quality control protocols of gold and roasted coffee beans. All of these in turn will increase their production and life standards.

Coffee producers in the sub-basin of the Cirí and Trinidad Rivers.

The Program has managed to protect 1,000 hectares of forest on private land and has transferred incentives to 128 beneficiaries under the forest monitoring and protection system. In this sense, during this fiscal year, 500 new hectares have been included in the Payment for Environmental Services Program. As for reforestation, for conservation purposes, 637 new hectares have been reforested in different modalities, 624 hectares in the Reforestation by Compensation Program, with maintenance and management in the provinces of Panama, Darien, Herrera and Los Santos. Also, 720 hectares of commercial reforestation with management and maintenance, as well as 147 hectares within national parks in the watershed have been established.

Monitoring Forest Coverage

The monitoring of forest coverage is a fundamental task that the Panama Canal carries out in coordination with the Ministry of Environment. An example of this is the joint surveillance of the Chagres National Park, within which 44 percent of the water that supplies the Canal Watershed is produced. During fiscal year 2019, the Panama Canal completed eight surveillance flights to monitor the forest coverage in Alto Chagres and Cirí and Trinidad, and nine land tours were carried out to gather information from five communities in the watershed.

Monitoring of forest coverage in the watershed.

Exchange of experiences of Advisory Councils

Social Participation and Environmental Education

Participatory water management is the strategy the Panama Canal relies on for the conservation of natural resources and adequate water governance. It is based on the premise that it is not possible to conserve the Canal Watershed without improving the living conditions of the inhabitants. This is achieved by strengthening the capacities of local communities, so that they can make informed decisions for their future.

During fiscal year 2019, a community training plan was implemented. It included 11 modules, in which 165 delegates were trained in watershed management, project administration and environmental conflict management.

The Panama Canal promotes the participation and empowerment of the younger generation in 6 advisory councils and 29 local committees. In order to do so, 120 young members from the environmental network were trained in water governance. Additionally, 6 environmental cleaning days were held, with the participation of 300 residents of the Canal Watershed. Furthermore, there were 6 workshops for the exchange of knowledge and experiences between participants from various ages, in which more than 360 delegates from the advisory councils participated. By the end of this fiscal year, 24 assemblies of six Canal Watershed advisory councils and 96 meetings of 29 local committees had been held, with the participation of nearly 3,635 people.

The Environmental Education Program was implemented in 154 schools located in the provinces of Panama, Colon, and Western Panama. This year, a series of events took place. Among these was the Watershed Guardians Program, which trained 550 students, 60 teachers and 100 parents in nature conservation. There were also several community fairs with the participation of 585 students and the Environmental Awareness Festival with 652 participants. One of the flagship programs of the Panama Canal is entitled "Our Canal and its Watershed". It fosters among the participating students the entrepreneurial spirit and encourages the development of green businesses.

This year, this program was held in 31 schools and offered 60 courses to benefit 1,738 students in total.

As part of the corporate environmental education strategy, approximately 10,000 Panama Canal employees received recyclable bags; 13 collection points for recyclable waste or clean points were established within Canal facilities; and 54,000 kilograms of solid waste were collected from employees. Additionally, 500 people were trained through the Corporate Environmental Education Program in environmental responsibility courses.

Guardianes de la Cuenca Program in the community of Zanguenga.

Interinstitutional Coordination

The Panama Canal considers that in order to have adequate environmental management, it is necessary to establish lasting relationships with multiple sectors of society. To this end, the Panama Canal develops strategic alliances with key actors in order to learn and share experiences regarding environmental management.
Within this scope, an inter-agency cooperation framework agreement was signed with the Regional Office of the United Nations Environment Organization, which opens up important opportunities for knowledge sharing. Additionally, a strategic plan for a timeframe of 7 years was developed and the Panama Canal was recertified under the new ISO14001-2015 Quality Standard, in order to guide a set of actions to facilitate a coordinated environmental management in its areas of responsibility.

Accountable for our constitutional mandate, the Panama Canal executes systematic and coordinated surveillance at the levels 100 and 260 within the Canal Watershed. As a result of these actions, there were 116 legal initiatives and 4 inter-institutional agreements to incorporate the regulations of the ACP in resolutions and requirements of the Ministry of Environment, as well as 32 patrols in the Gatun and Alhajuela lakes.


Island and river patrols in the Panama Canal Watershed

Environmental Communication

In the Panama Canal, training in values for an environmental culture is supported by appropriate educational messages. These messages are shared by using available means and with content for diverse stakeholders. Throughout the year, 12,000 copies of “Mi Cuenca” newspaper were published and distributed. There were three digital publications of Caudal Magazine; 51 radio programs; 17 video reports; 22 Ecotips with conservation messages were distributed, and 20 news and reports were published in corporate media, such as “El Faro”, “Tu Canal” and social networks.

Environmental education at the community and school

Corporate Environmental Performance

The integration of the environmental variable in all plans, programs, and projects developed by the Panama Canal is a short-term objective. This implies considering the environment from the moment a project idea is conceptualized until its implementation. As a result, 25 evaluations were carried out in the formulation, design and management of projects in operational areas considering the environmental aspects. In addition, 33 project tender documents were reviewed, including environmental specifications and 120 environmental documents from different contracts.

To address the technical aspects in the evaluation of environmental performance, there were 1,000 inspections in areas of responsibility of the Panama Canal Authority. In addition, four external environmental compliance audits were conducted with respect to the mitigation measures included in the Environmental Impact Study of the Third Set of Locks in its operational phase, and the third bridge over the Canal in the Atlantic sector. Both audits gave satisfactory conclusions regarding compliance with applicable environmental standards and observance of international principles.


Environmental performance inspections

Navigation to the Chico hydrometric station, Río Chagres

Water Quality and Quantity

Water Quality

The Panama Canal carries out the Water Quality Surveillance and Monitoring Program in the Panama Canal Watershed, which includes the main rivers, water treatment plants and wastewater discharges.

The program is carried out in 40 sampling sites, which are visited every month and are distributed as follows: 14 in the Gatun Reservoir, 5 in the Alhajuela Reservoir, 5 in Miraflores, 7 in the main rivers (Boquerón, Pequení, Chagres, Indio, Trinidad, Cirí Grande and Gatun); 4 in the middle section of the Chagres River; and, 5 in the main sub-basins of Chilibre, Caño Quebrado, Los Hules and Tinajones Rivers.

In the period from October 2018 to September 2019, 630 water samples were taken and nearly 16,000 data portions on physical, chemical and microbiological parameters, concentrations of nutrients, sediments, minerals and organic matter present in the various water bodies were generated. With the data obtained, the Water Quality Index (ICA for its acronym in Spanish) was calculated, obtaining a value of 87, on a scale of 0 to 100.

This value indicates a "good" water quality level in the high range. The ICA has the ability to synthesize in a single number the results of nine different parameters that individually express varied and complex interactions. All the information produced has made it possible to characterize and know the status and evolution of the characteristics of the water in the Canal basin.

Water quality analysis, Panama Canal water quality laboratory

The potable water sampling program includes the daily, monthly, quarterly, and annual collection and analysis of process and final product samples from the three water treatment plants managed by the Canal: Monte Esperanza, Miraflores, and Mendoza.

This program, approved and supervised by the National Public Services Authority (ASEP for its acronym in Spanish), includes physicochemical and bacteriological analyses, metals, organic compounds, pesticides, algae, cyanobacteria, cyanotoxins, protozoa, and other chemical and biological indicators.

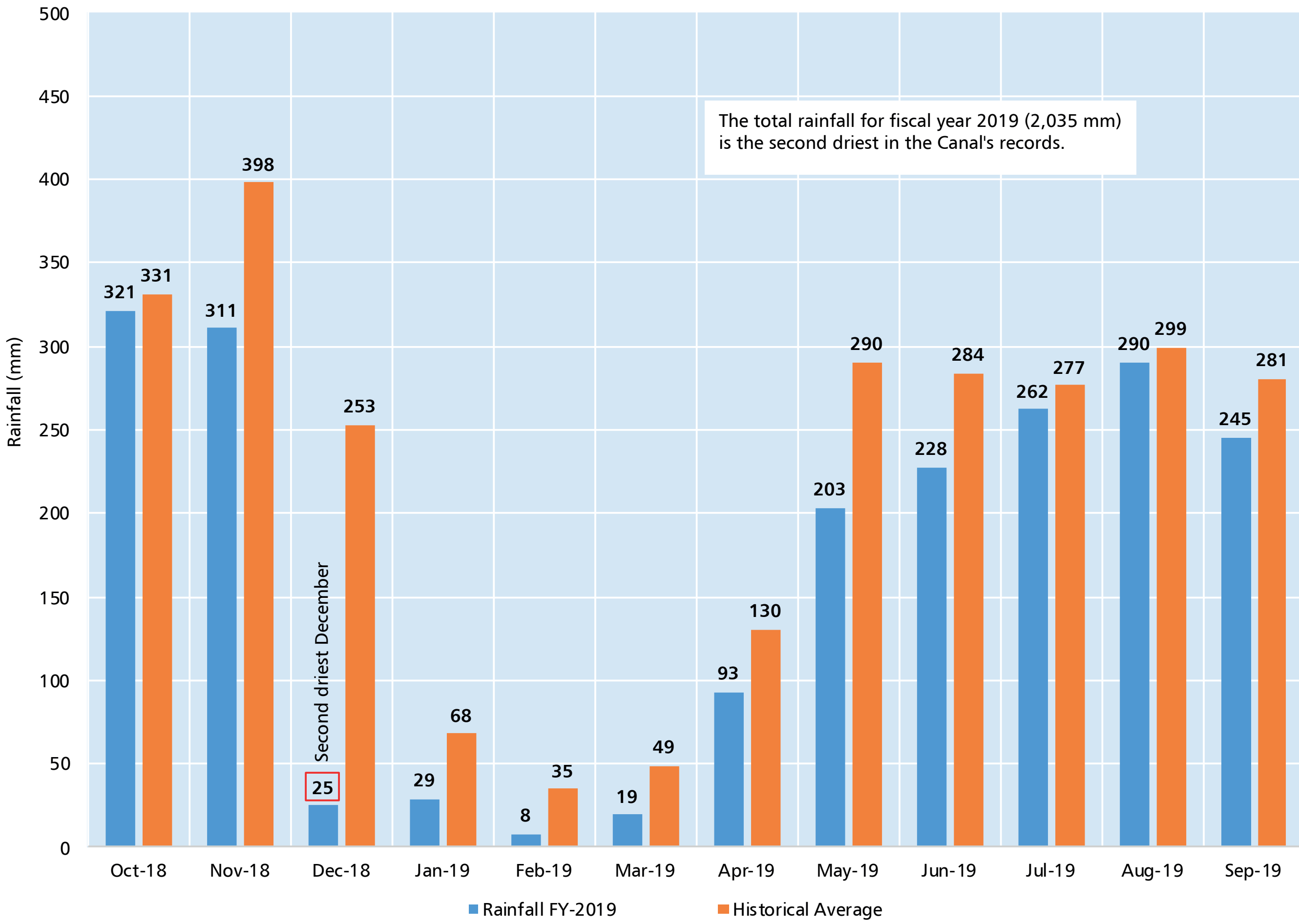
Water quality sampling

Water Quantity

Rainfall in the Canal Watershed for fiscal year 2019 was determined by the emergence of El Niño event between 2018 and 2019. This period was the second driest fiscal year with rainfall records of 2,035 millimeters (mm). This rainfall is only surpassed by fiscal year 2015 with 2,027 mm. The rainfall deficit for fiscal year 2019, was 660 mm, when compared to the historical annual average of 2,695 mm. It is worth indicating that the monthly rainfall in fiscal year 2019, was below in relation to each of the 12 months of the historical average.

The water contribution for fiscal year 2019 was 3,521 million cubic meters (Mm^3), representing 69.5 percent of the historical average, which started in year 1917, and was of 5,064 Mm^3. December 2018 was the second driest month according to our records, with a precipitation of 25 mm, which represents a total contribution of 147 Mm^3. This sets a record within the last 103 years with respect to the driest years, surpassing only fiscal year 1997, which registered 111 Mm^3.

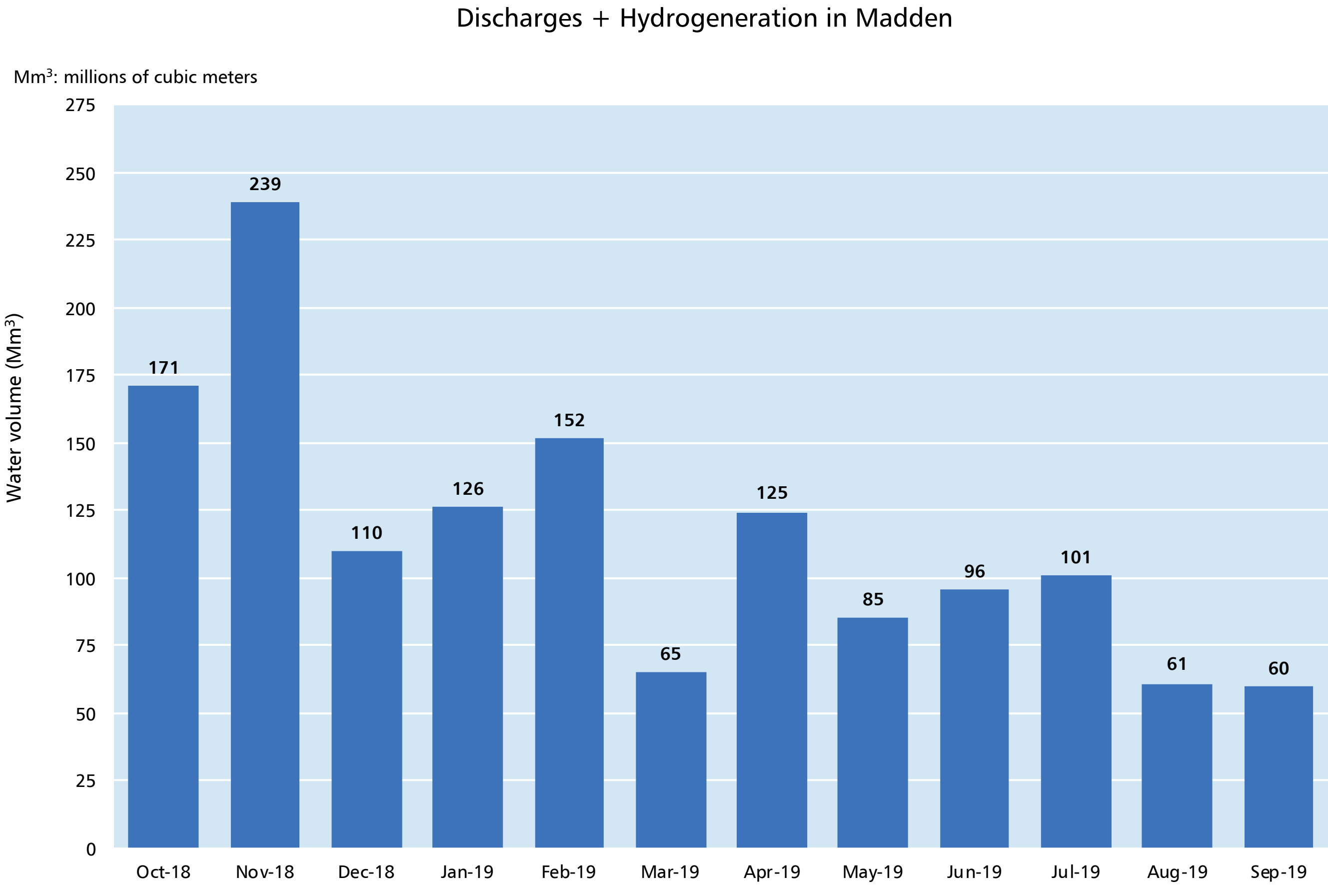
Graph 11. Monthly Rainfall in the Panama Canal Watershed FY-2019 (Total 2,035 mm)



Due to the precipitation deficit in the Canal Watershed and its direct impact on Gatun reservoir operational levels, timely water-saving measures were implemented. Among these measures are: suspension of hydroelectric production at Gatun; implementation of water conservation operating procedures at the Panamax locks; minimization of leaks at the Canal's dams, spillways, and auxiliary dams through the permanent maintenance program; intensive use of the water recycling basins at the Neopanamax locks; permanent dredging of the navigation channel, scientific and technological management of water resources. Additionally, other measures implemented in the watershed consisted on reforestation programs; studies of new water sources for the Ministry of Environment; optimization of water resources allocation through the application of the Decision Support System, which allowed the sending of notifications to internal and external clients to adapt their activities with time; and, the Environmental Economic Incentives Program for the conservation of forests and water resources in the watershed.

The Panama Canal's transit load increased 6 percent for fiscal year 2019, while the Canal's water efficiency improved by 28 percent, compared to fiscal year 2018, indicating that more cargo was transited with less water.

Graph 12. Transfer from the Alhajuela Reservoir (1,391 Mm^3) to the Gatun Reservoir Panama Canal Watershed FY-2019



The volume of water transferred from the Alhajuela reservoir to Gatun was 1,391 Mm^3, through hydrogeneration by the Madden plant, in addition to preventive spills, which represent 39.6 percent of the total contributions, equivalent to 3,515 Mm^3.

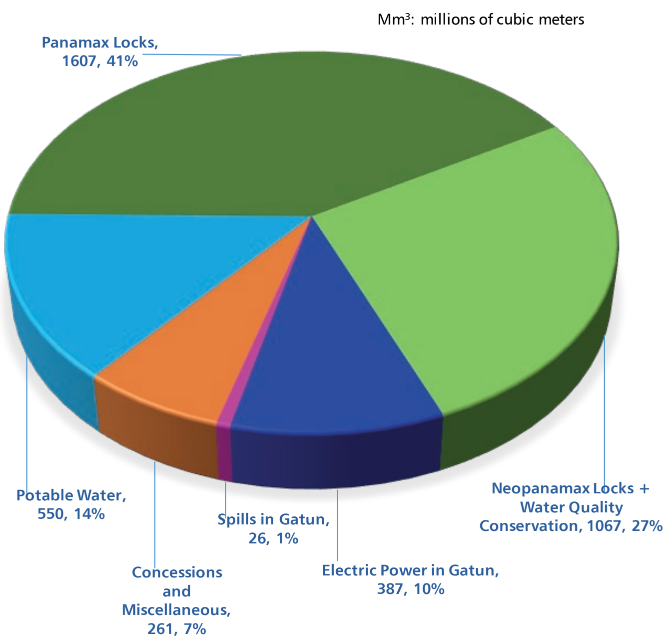
The Flood Control Program, whose objective is to safeguard the communities and assets surrounding the reservoirs and maintain uninterrupted Canal operations when extreme weather events occur, was successfully implemented. On November 22nd and 23rd, the last significant storm in the Canal basin was recorded, which required preventive discharges from the Madden Spillway to control water levels.

The Panamanian Government began the construction of two new potable water treatment plants: one, José "Pepe" Fierro in Gamboa and, the other, José Guillermo Rodríguez in Arraiján. Additionally, there are expansion plans for the Federico Guardia Conte and the Sabanitas potable water treatment plants, which require the extraction of approximately 263 Mm^3 of water annually from the Alhajuela and Gatun reservoirs, which will increase water demand.

The total contribution to the Canal Watershed during fiscal year 2019 was 3,515 Mm^3 and the direct evaporation on the reservoirs was 488 Mm^3, which means that the net contribution is equivalent to 3,027 Mm^3. To satisfy the demand for water during fiscal year 2019, it was necessary to consume 871 Mm^3 of the reserves stored in the Gatun and Alhajuela reservoirs. The total water used in fiscal year 2019 was 3,898 Mm^3, and it is comprised by the net contribution plus the reserves.

The graph 13 shows the distribution of water uses in volume and percentages, with respect to the total used during fiscal year 2019. The water used for treatment totaled 550 Mm^3 (14 percent); for Panamax locks including Gatun and Pedro Miguel, 1,607 Mm^3 (41 percent); for Neopanamax locks and water quality conservation, 1,067 Mm^3 (27 percent); Gatun hydroelectric power generation, 387 Mm^3 (10 percent); while preventive discharges and tests of the floodgates in Gatun, 26 Mm^3 (1 percent); and, concessions and miscellaneous, 261 Mm^3 (7 percent).

Graph 13. Distribution of water uses in Mm^3
Panama Canal Watershed
FY-2019



Aerial view of the reservoir of Alhajuela

Corporate Social Responsibility (CSR)

The Panama Canal is committed to driving Panama's progress. This reflects the aspiration that through the work of excellence of each employee, all the stakeholders of the Canal will achieve well-being and prosperity. This motivation is also aligned with the global agenda of the Sustainable Development Goals (SDGs).

Because of its relevance, a campaign was developed with short videos where Canal employees explain each of the SDGs and how to contribute to achieving them, from the professional and personal spheres of action.

Also, believing that education is the engine that accelerates and enables development, a large part of this year's work was aimed at contributing to the instruction and growth of the Canal's stakeholders, especially youngsters and inhabitants of the Panama Canal Watershed. In addition, all initiatives addressed the environmental challenge of climate change and the importance of water in the sustainability of the Canal and Panama's progress.

Integration with Youth
This year marked a milestone for Panamanian youth, with the completion of the first Latin American Laboratory for Citizen Action (LLAC for its acronym in Spanish); a hands-on program designed with Unidos por la Educación Foundation to train youngsters on community action, advocacy, and leadership to help meet national challenges. Through a public call, 150 young people were selected from 10 provinces and one indigenous reserve; then they were trained while designing and carrying out 15 projects aimed at art, environment, inclusion, new methodological strategies for education, significant learning, sexual education, emotional intelligence, and attention to vulnerable populations.

A forum titled "The Role of the Youth in the Future of the Panama Canal" was held, with the participation of 400 young people from all over the country. They met with the Canal Administrator and other personalities to discuss the challenges and the future of the Panama Canal, conveying the importance of the Canal as a national asset and what it represents in the history, culture, development of the country, as well as for world trade. The event was held in coordination with Jóvenes Unidos por la Educación, and the program was planned around the topics on sustainability, competitiveness and institutionality of the Panama Canal.

Patronage of Portobelo and San Lorenzo

Partnerships and Agreements for Sustainable Development

Another notable achievement this year was the launching of initiatives within the framework of the public-private partnership for development established in 2018, between the Panama Canal and companies from various industries and non-governmental organizations. The objective of the alliance is to join efforts and resources from each sustainability and CSR program of ACP allies, to increase impact on economic, social and environmental development initiatives in Panama. The programs carried out aim at improving access to drinking water in nearby communities or within the Chagres National Park aas well as comprehensive improvements in schools in the Canal Watershed.

In addition, two cooperation agreements were subscribed with organizations focused on sustainability, culture and education: The Portobelo and San Lorenzo Society, and The Private Sector Council for Educational Assistance (COSPAE). Also, an environmental forum was organized with the Maritime Chamber of Panama, on "Green Development in the Maritime Industry". The objective was to highlight the contributions of this industry in environmental sustainability, through approaches that make operations more efficient and reduce greenhouse gas emissions.

Young participants of the first Latin American Citizen Action Laboratory

The Canal also hosted the Good Deeds Day Second Regional Conference for Latin America, organized with the Good Deeds Day Foundation. About 115 people from 16 countries attended.

Volunteering

In terms of volunteering, it is worth mentioning the participation of some 750 Panama Canal volunteers to support the realization of World Youth Day, where they dedicated 9,500 hours of service.

Throughout this fiscal year, 75 volunteer initiatives were carried out. All of them contribute to the achievement of 11 SDGs, with the participation of 2,900 volunteers who contributed 25,000 volunteering hours. This allowed reaching more than 133,000 people, with actions focused on: environment, integral well-being, culture, community development and education.

Initiatives to Improve the Environment

Volunteer work contributes to environmental conservation through the development of educational programs, as well as to prevent, mitigate and promote environmental compensation.

For example, on the date of the global event "The Earth Hour", as the lights of the Canal Administration Building were turned off, recycling and local actions that contribute to the community development were actively promoted.

Panama Canal volunteers also participated in the National Reforestation Day; and in several clean-up activities in beaches, coasts, rivers and underwater, in conjunction with non-governmental organizations, at areas of natural interest in the country.

Additionally, they carried out maintenance and improvement of natural trails in several Canal Watershed locations: the Amado Trail, in Nuevo Emperador, Arraiján; the La Ranita Azul Trail, in El Cacao, Capira; and the El Caucho trail, in Ancon Hill.

Volunteers in reforestation days in the Canal Watershed

Initiatives to Improve the Integral Well-Being of Employees and their Families

Corporate volunteers participated in the Relay for Life walk of Amigos del Niño con Leucemia y Cáncer Foundation. They also volunteered in several Special Olympics Panama, Make-A-Wish Foundation, and the Román Torres Soccer Academy activities. Together they also commemorated the Good Deeds Day.

Participation of volunteers on walk

Initiatives to Foster Culture

The My Canal Family workshop was held at the Pacific and the Atlantic areas with employees and their families, in order to strengthen ties between parents and children and family values as a reflection of the Panama Canal's values and corporate culture.

In the framework of the WYD, a cultural festival was organized with Luna Llena de Tambores; it took place at the steps of the Canal Administration Building, for both pilgrims and volunteers from 5 continents, reaching some 15 thousand participants.


Employees and their families sharing with Deputy Administrator Mr. Manuel Benítez

Initiatives to Support Community Development

As a tradition, some 350 volunteers got together to carry out Christmas and development activities in communities located mainly in the Canal Watershed. This year they were solidary with 25 communities and more than 2,200 inhabitants.

Community infrastructure improvement projects were also carried out. One of them encompassed improvements to the aqueduct that supplies water to 2 communities in Altos de Pacora, and another in the indigenous community of Parará Purú, both located in the area of influence of the Chagres National Park. The La Petra School in Capira was also attended.

Again, the Canal and its volunteers offered producers from the Canal Watershed the opportunity to participate in the 2019 National Crafts Fair. Farmers exhibited products such as Cuencafé Coffee, La Campesina Honey, El Mas Bellaco del Chagres hot sauce and Organic Coriander of Bajo Bonito.

Support to producers of the Canal Watershed in the National Craft Fair

Initiatives to Support Education

The Canal and its volunteers contributed to the realization of the third and fourth edition of the Concurso Nacional por la Excelencia Educativa. The XI Children to the Canal Camp was also held; and about 200 children from 10 educational centers across the country lived the training experience through city tours, cultural events, and the Canal Historic Rally.

They traveled on the Transisthmian train to the Province of Colon, where they could observe the expanded Canal from the Agua Clara Visitors Center.

Students at the Agua Clara visitors center

Aerial view of the Puente Atlántico

Social Impact Projects

Third Bridge over the Canal on the Atlantic Side

The works for the Construction of the Third Bridge over the Canal on the Atlantic Side concluded during Fiscal Year 2019 and it was opened to the public on August 2, 2019. The construction of the east and west intersections, the new bridge over the Chagres River and the rehabilitation of the road to Escobal and Costa Abajo, were completed simultaneously.

Its benefits include uninterrupted connection within the province and the country; substantial improvement in the quality of life - expeditious access to health services; education and other public and private benefits; land development; direct and fast access of local agricultural producers to markets; tourism development through new investments; the basis for infrastructure and service projects in the region.

It will benefit the residents of 14 towns, 495 communities, more than 40,000 Costa Abajo inhabitants, and it improves tourism by locals and foreigners.

A Commitment to Communication

Students at the Interactive Center of the Panama Canal

Accountability

Aware of the importance of the waterway to the national sentiment, the Panama Canal maintains permanent programs in order to maintain close contact with the population.

More than 715,000 people throughout the country participated in several Panama Canal activities during fiscal year 2019, which included conferences, presentations, participation in fairs, visits to schools and universities, forums and trainings. All these activities were aimed at educating and communicating how the Canal operates, its resources and projects, and the performance of the expanded Canal, offering accountability and strengthening that connection between the Canal and its people.

One of the main milestones in 2019 was the inauguration of the Panama Canal Interactive Center in the city of Santiago, Veraguas Province. The center is the first of its kind in Panama, contributing to education and serving as a tourist attraction in the region.

The interactive center is a new way for the Canal to connect with the provinces, mainly with children and young people, to share information on the waterway, and its role in the creation of the national identity as a result of the efforts of several generations to achieve its transfer in 1999. Its content combines sensory and simulation exhibitions using technologies that allow the public to immerse themselves in the experience, and at the same time enjoy and learn about the history, operation, impact and benefits of the interoceanic route.

Informative tours to schools as part of the El Canal de Todos program

In 2019, the Canal de Todos program continued. Created in 2003, this program has helped cultivate a sense of belonging in a new generation of Panamanians, through informative tours to learn and come experience the Panama Canal first-hand. During this year, 21,353 people participated, bringing the number of participants to 198,203 since its creation 16 years ago.

With this program, the participants -- mainly young students – discover Miraflores Visitor Center in Panama City, or Agua Clara Visitor Center in the city of Colon, from where they are able to see the operation of the expanded Canal and the passage of ships through Gatun Lake.

Visiting the Country

Each year, the Panama Canal participates in fairs, cultural festivals and events throughout the country, such as the Mil Polleras parade and the fairs of San Jose de David and Azuero, among others.

In addition, the Panama Canal Informative Buses traveled to several communities, providing talks and activities to inform the population, and mostly young people, about the Panama Canal.

Environmental education using the informative bus of the Panama Canal

The Panama Canal also maintains direct contact with the population through its Summer Festival, an artistic, cultural and musical event, which includes open-air movie nights throughout the country.

Canal Summer attendees

Technology and Outreach

As part of the effort to reach more Panamanians, the Panama Canal takes advantage of communication technologies such as social media, the internet and Canal TV television channel, to share informative, educational and cultural content.

Canal TV's programming included presentations by national artists, interviews, forums and live broadcasts of the most relevant events of the Panama Canal. Part of the contents produced by Canal TV were also shared on social media, including the inauguration of the Atlantic Bridge, as well as the appointment and inauguration of the new Administrator Ricaurte Vásquez Morales.

Cultural contents broadcast on Canal TV

Commitment to Solid Financial Performance

2019 was another year with solid profitability margins, low leverage, and increases in efficiency and productivity. These results of growth and financial strength of the Panama Canal Authority are based on a conservative institutional framework oriented towards transparent, autonomous and prudent governance, and towards the uninterrupted sustainability of yields with a long-term vision.

Container vessel in the Culebra Cut

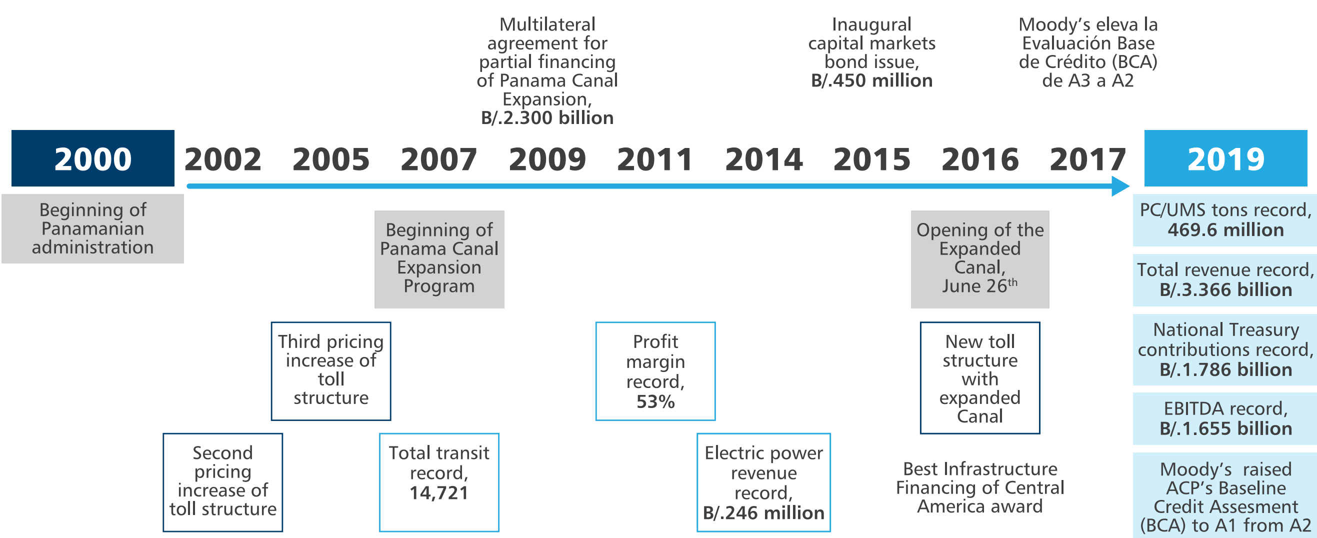
Relevant Milestones with Impact on Financial Management

After 20 years of Panamanian administration, the Canal has achieved many important financial milestones, operating results records with increasing contributions to the National Treasury, and the expanded Canal's operation rapid growth. The success achieved is the product of the institutional stability and credit capacity of the Panama Canal.

The Canal concluded fiscal year 2019 with revenues of B/.3.366 billion, B/.194 million or 6.1 percent more than fiscal year 2018. This increase was mainly due to the growth in traffic revenues, driven by the increase in the transit of neopanamax vessels. Canal revenues and tonnage increased at a compound annual growth rate (CAGR)[6] of 8.0 and 7.8 percent, respectively, since fiscal year 2017, after operations of the expanded Canal started. As a result of the new locks, the Canal managed to reach a total of 469.6 million PC/UMS tons, 27.5 million tons or 6.2 percent more than the previous year, for a total of B/.108 million more in transit revenues.

In fiscal year 2019, transit revenues and tonnage reached record levels as a result of modifications to the reservation system and an increase in reservations for neopanamax vessels.

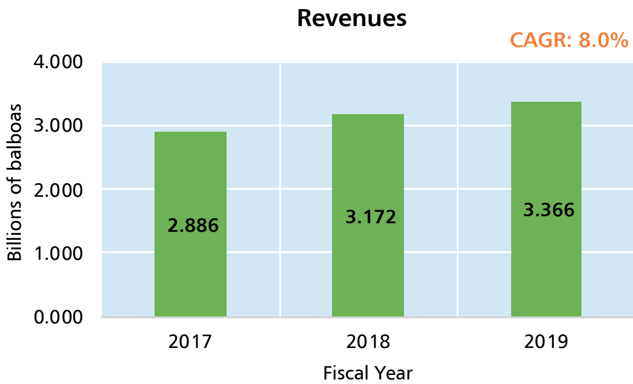
Graph 14. Relevant Milestones Highlighting Financial Management



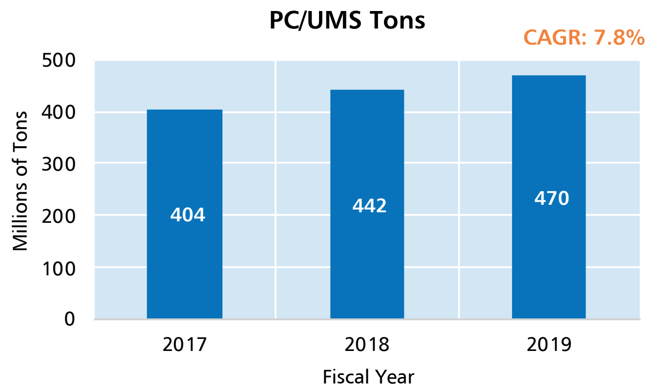
[6] CAGR: is a measure used specifically in business and investing contexts that determines the growth rate over multiple time periods.

In fiscal year 2019, transit revenues and tonnage reached record levels as a result of modifications to the reservation system and an increase in reservations for neopanamax vessels.

Graph 15. Total Revenues and Tonnage of the Panama Canal



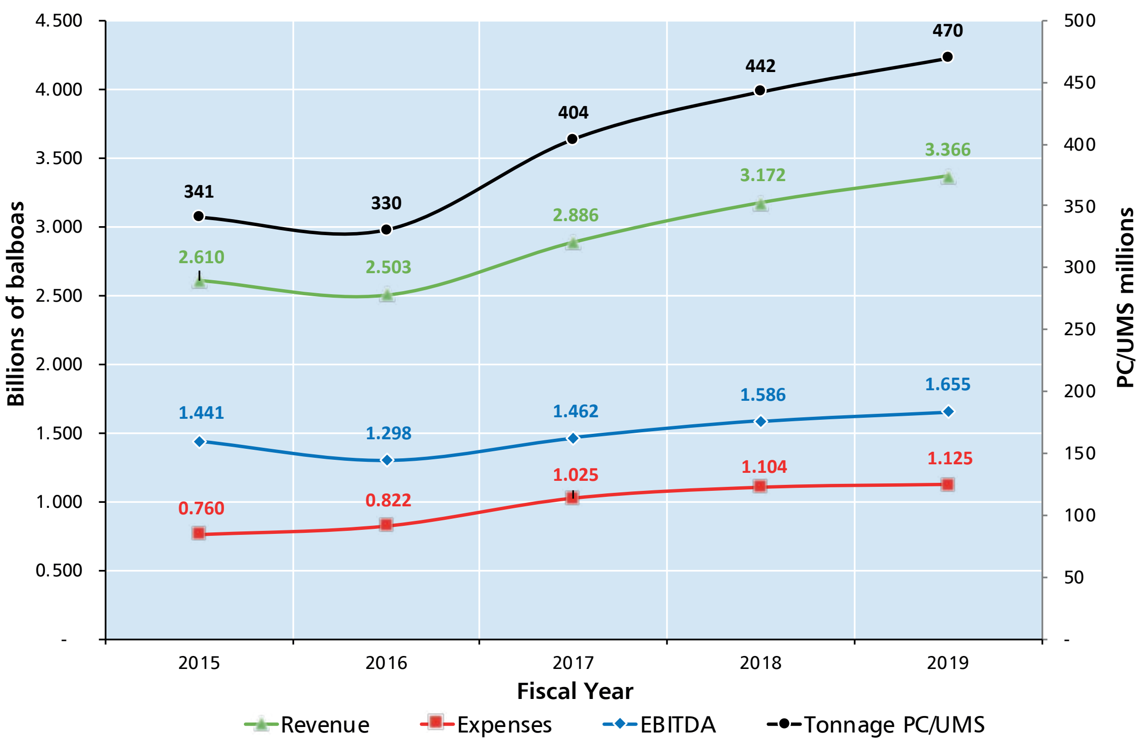
Note: Total revenues includes financial income from: (i) earned interests and (ii) advance and other receivables to contractor.



In fiscal year 2019 the Panama Canal saw an increase in revenue despite the uncertainty in world trade mostly caused by the US-China trade conflict.

As shown in graph 16, earnings before interest, taxes, depreciation, and amortization (EBITDA) were of B/.1.655 billion, a 4.4 percent increase over the previous year.

Graph 16. Historic Financial Performance of the Panama Canal



CAGR	6.6%	10.3%	3.5%	8.3%

Compound Annual Growth Rate (CAGR): 2016 - 2019

Operating Results

Revenue

Transit operations, which are broken down into toll revenues and transit-related services, accounted for a total of B/.3.078 billion of the annual income. Toll revenues increased 4.3 percent to B/.2.592 billion in fiscal year 2019, due to a 6.2 percent increase in PC/UMS tonnage driven by a net increase of 20.4 percent in the liquid bulk segment in addition to decreases of 12.8 percent and 9.4 percent in the passengers and refrigerated segments, respectively. Tolls represented 77.0 percent of the total revenues for fiscal year 2019.

Table 1. Panama Canal Income Statement FY-2019 vs FY-2018

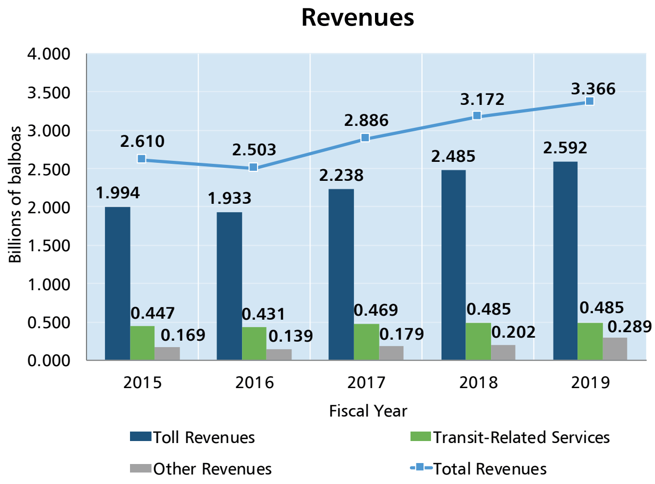
	FY-2018 Actual	FY-2019 Actual	2019 vs 2018 Deviation	%
	(billions of balboas)			
Revenues:				
Transit-related revenues	2.970	3.078	0.108	3.6
Other revenues	0.202	0.288	0.086	42.6
Total operating revenues	3.172	3.366	0.194	6.1
Expenses:				
Total operating expenses	1.104	1.125	0.021	1.9
Earnings before fee per net ton, Public services fees and depreciation	2.068	2.241	0.173	8.4
Fee per net ton	0.502	0.532	0.030	6.0
Public services fees	0.002	0.002	-	-
Depreciation	0.211	0.211	-	-
Net earnings	1.353	1.496	0.143	10.5
Direct contributions to the National Treasury	1.703	1.786	0.083	4.9
Tonnage (in millions)	442.1	469.6	27.5	6.2
Transits	13,795	13,785	(10)	(0.1)

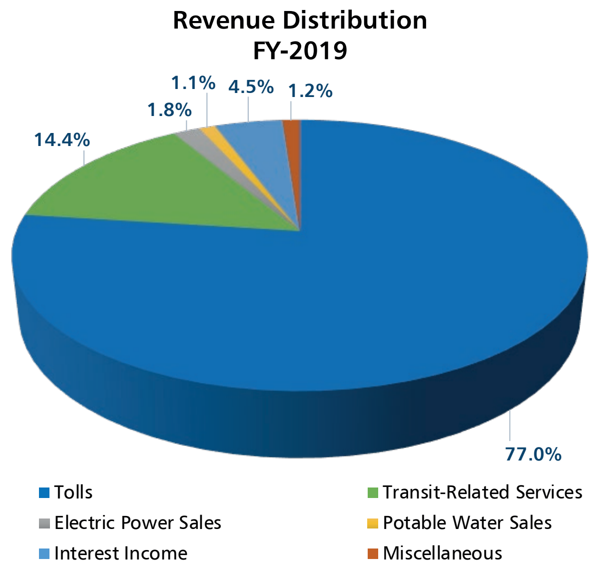
Note: operating expenses equals total expenses plus financial cost minus (depreciation, fee per net ton and public services fees).

Transit-related services contributed 14.4 percent of total revenues, generating B/.485 million in fiscal year 2019, the same revenue achieved in fiscal year 2018. Transit reservations and tugboat services continued to be the leading transit-related revenue drivers, which can be mainly attributed to Neopanamax vessels.

In addition, B/.288 million or 8.6 percent of the annual revenue, resulted from energy sales, water sales, interest earned by treasury management and miscellaneous revenues.

Graph 17. Total Panama Canal Revenues during FY-2019

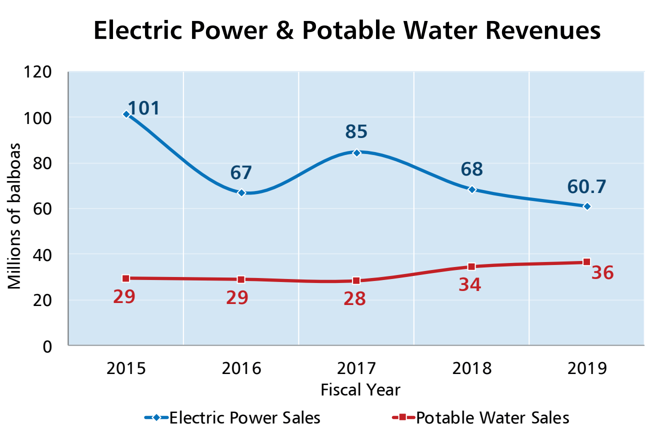


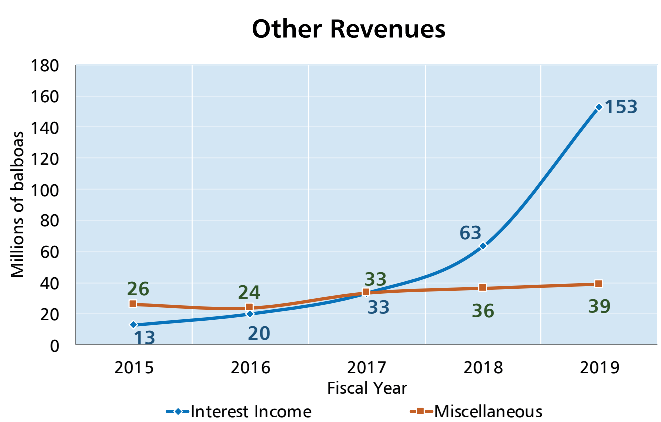


Revenue from energy sales, decreased by B/.7 million at the close of fiscal year 2019, which represents 10.3 percent decrease from the previous year. The revenue decrease resulted from the entry of other generating agents and fewer power contracts. Water sales generated revenues of B/.36 million, which represents a 5.9 percent or B/.2 million increase compared to fiscal year 2018, due to a higher demand from National Water and Sewage Systems Institute (IDAAN, by its acronym in Spanish).

As shown in graph 18, the Canal generated B/.153 million in interest, mostly from fixed income and short-term investment-grade securities. This represents an increase of B/.90 million or 142.8 percent compared to fiscal year 2018, due to an increase in both, the average liquidity and the average interest rate. The increase in liquidity includes the recovery of B/.884 million, related to advance payments as per the terms of the Third Set of Locks contract, part of the Panama Canal Expansion Program.

Graph 18. Other Panama Canal Revenues





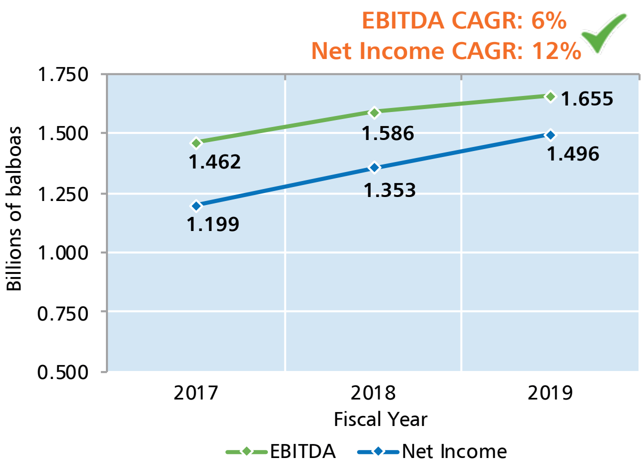
Expenses

At the end of fiscal year 2019, the Canal had operating expenses of B/.1.125 billion, representing 33.4 percent of the total revenues. Additionally, the 6.0 percent increase in fee per net ton is in line with the growth in transited tons. Compared to fiscal 2018, operating expenses increased 1.9 percent.

Net Earnings

Fiscal year 2019 net earnings of B/.1.496 billion, exceeded the results of the previous year by B/.143 million, or 10.6 percent. This growth in profit resulted from increases in revenues and operating expenses of B/.194 million, and B/.21 million, respectively.

Graph 19. EBITDA & Net Income Performance



Vehicle carrier vessel transiting in the Culebra Cut

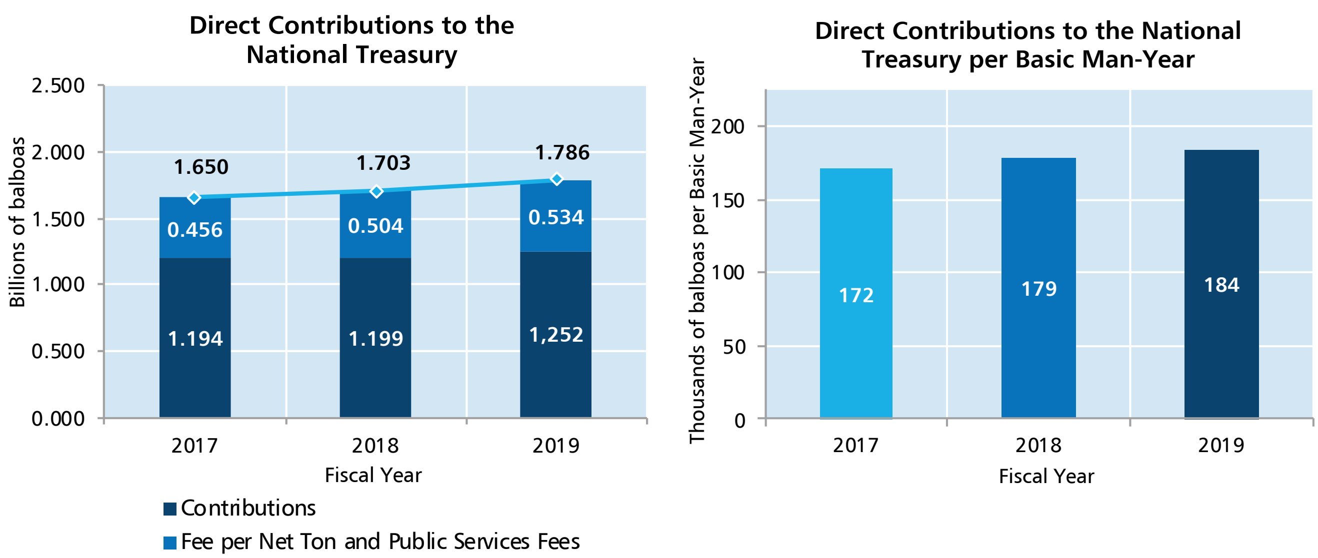
Contributions

Growth in Direct Contributions to the National Treasury

Direct contributions paid to the National Treasury reached B/.1.786 billion, an amount that exceeds B/.49 million, the estimated amount at the beginning of fiscal year 2019 of B/.1.737 billion, and B/.83 million or 4.9 percent more than the fiscal year 2018. This figure includes surplus payments for B/.1.252 billion, and fees per net ton and fees for public services of B/.534 million. This line of contributions had a growth of 8.2 percent between 2017 and 2019.

The ratio of direct contributions to the National Treasury for each basic man-year in the Canal increased B/.5 thousand per basic man-year, that is, 2.8 percent more compared to fiscal year 2018. This trend is in line with the growth sustained in direct contributions to the National Treasury, and with greater productivity by basic man-year in the post-expansion period.

Graph 20. Direct Contributions to the National Treasury



Greater Indirect Contributions to Other Public Entities

At the end of fiscal year 2019, indirect contributions to the National Treasury, through other public entities, reached B/.226 million, B/.3 million more than in fiscal year 2018. These contributions are mainly made up of Social Security payments for B/.122 million, Income tax for B/.91 million, and Educational Insurance for B/.13 million.

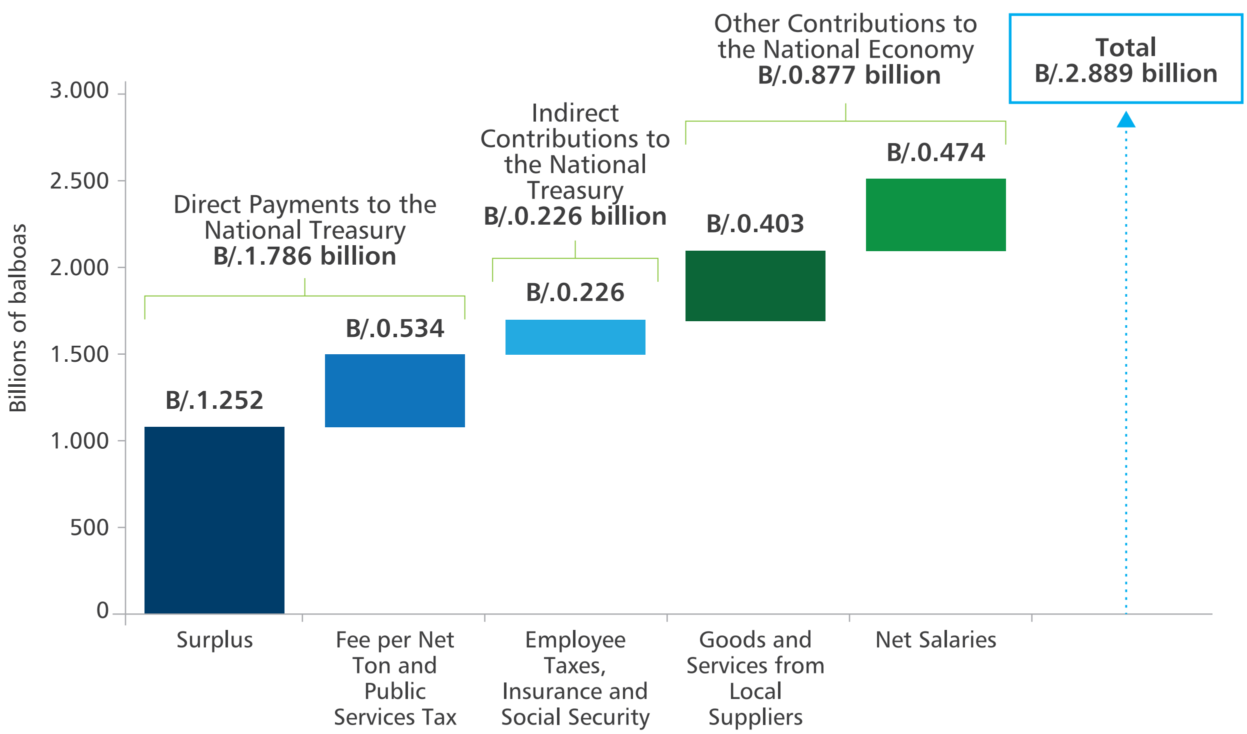
The Panama Canal contributes directly and indirectly to the national economy

Other Indirect Contributions to the National Economy

In fiscal year 2019, the Canal contributed indirectly to the country's economy a total of B/.877 million, as a result of net salaries paid to Panamanian employees for B/.474 million; and B/.403 million in local purchases of goods and services, and payment to local suppliers as part of the investments in equipment and infrastructure that the Panama Canal annually makes.

At the end of fiscal year 2019, the Canal increased the national economy with a record in direct and indirect economic contributions for a total of B/.2.889 billion.

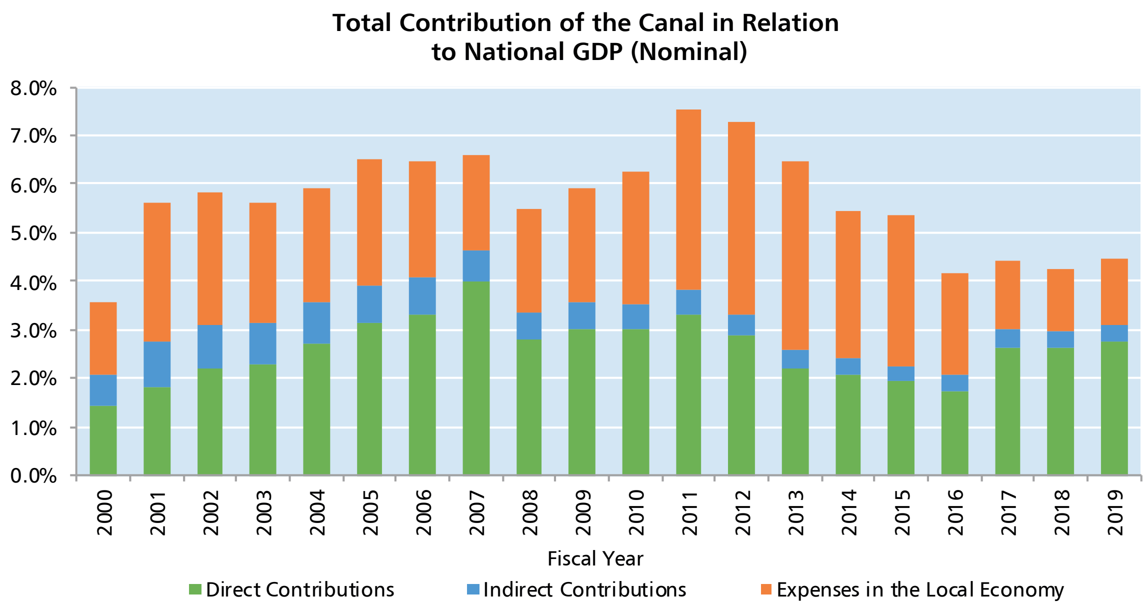
Graph 21. Panama Canal Impact on the National Economy

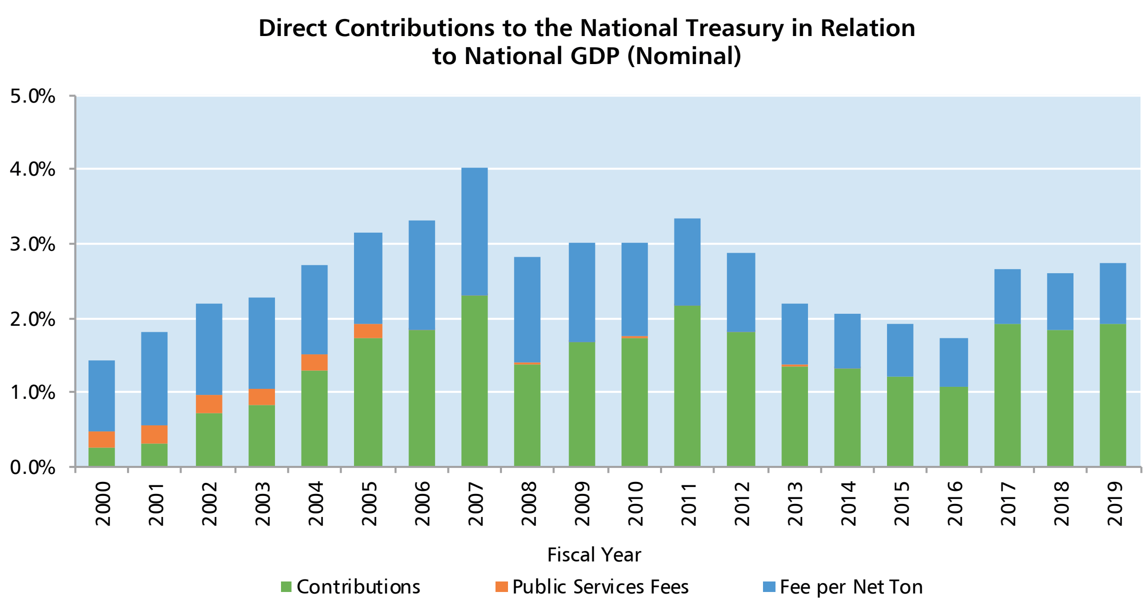


Direct Contributions to the National Treasury in Relation to the National GDP (Nominal)

In fiscal year 2019, the direct contributions of the Canal of Panama were 2.7 percent in relation to the Nominal National GDP and the total contributions, including the expenses in the local economy, direct and indirect contributions represent an estimated 4.5 percent of the Nominal National GDP.

Graph 22. Panama Canal Impact on the National Economy in Relation to the National GDP (Nominal)



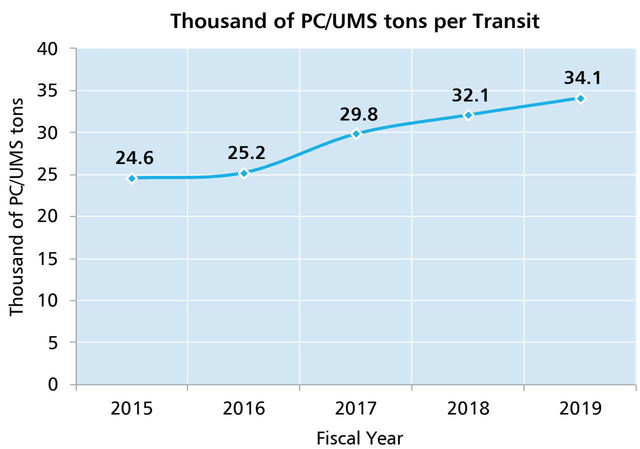


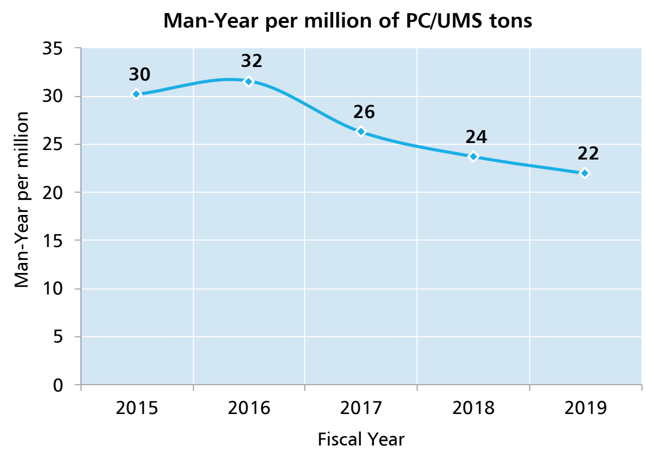
Operational Efficiency

Since the beginning of commercial operations of the third sets of locks, the Canal's productivity has improved, allowing transits of larger vessels, and more PC/UMS tons per transit (24.6 thousand tons per transit in fiscal year 2015, to 34.1 in fiscal year 2019). Man-year per million PC/UMS tons decreased 26.7 percent, from 30 in fiscal year 2015, to 22 Man-year per million PC/UMS in fiscal year 2019.

Welding work in the industrial workshops of the Panama Canal

Graph 23. Key Performance Indicators suggests an increase in operational efficiency of the Canal

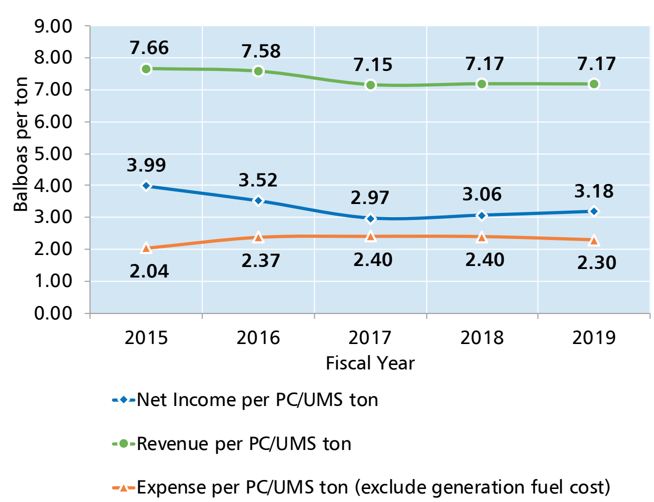




On the other hand, revenues per PC/UMS ton decreased 6.4 percent, from B/.7.66 per ton to B/.7.17, mainly due to lower average effective toll rate of neopanamax transits.

Net Income per PC/UMS ton also decreased 20.0 percent, from B/.3.99 per PC/UMS ton to B/.3.18, while total expenses per PC/UMS ton show a slight decrease.

Graph 24. Net Income per PC/UMS ton



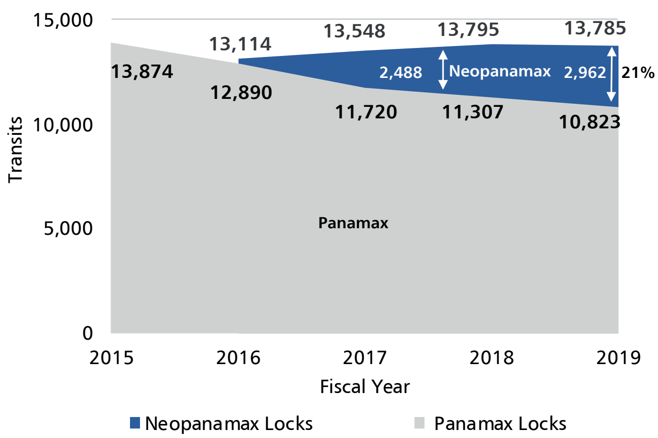
Neopanamax Capacity Continues to Drive the Transit Business

The Expanded Canal has allowed the waterway to maintain the route competitive, reaching new markets, and achieving records in tonnage and revenues, only possible through this capital expenditure.

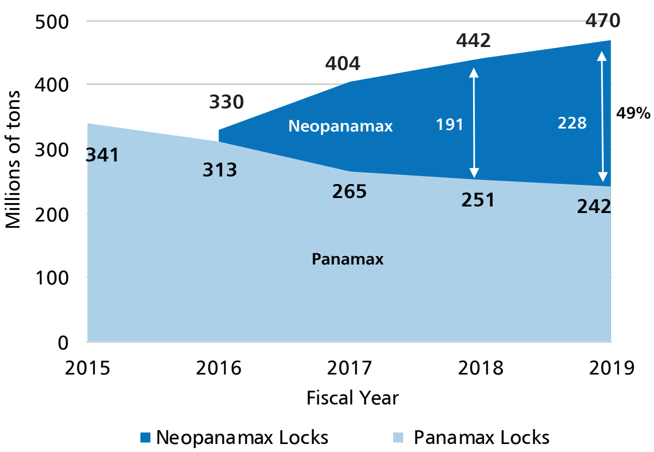
At the end of fiscal year 2019, figures show how the Neopanamax locks enable the sustained growth of the transit business and accounted for a total of 2,962 transited vessels, an average of 8.1 vessels per day and 77.0 thousand PC/UMS tons per transit.

Neopanamax vessels generated 228 million tons during fiscal year 2019, representing 49 percent of the total tonnage. In turn, the tonnage volume from Neopanamax vessels generated B/.1.334 billion in tolls revenue, which represents 51 percent of the total tolls revenue for the fiscal year, with only 21.5 percent of total transits. The rest of the vessels were smaller than Neopanamax vessels and generated toll revenues of B/.1.258 billion, 49 percent of total toll revenues for fiscal year 2019.

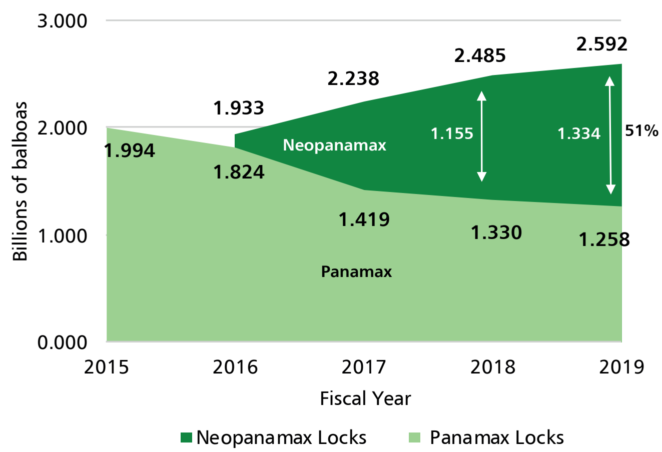
Graph 25. Transits



Graph 26. PC/UMS Tons



Graph 27. Toll Revenues



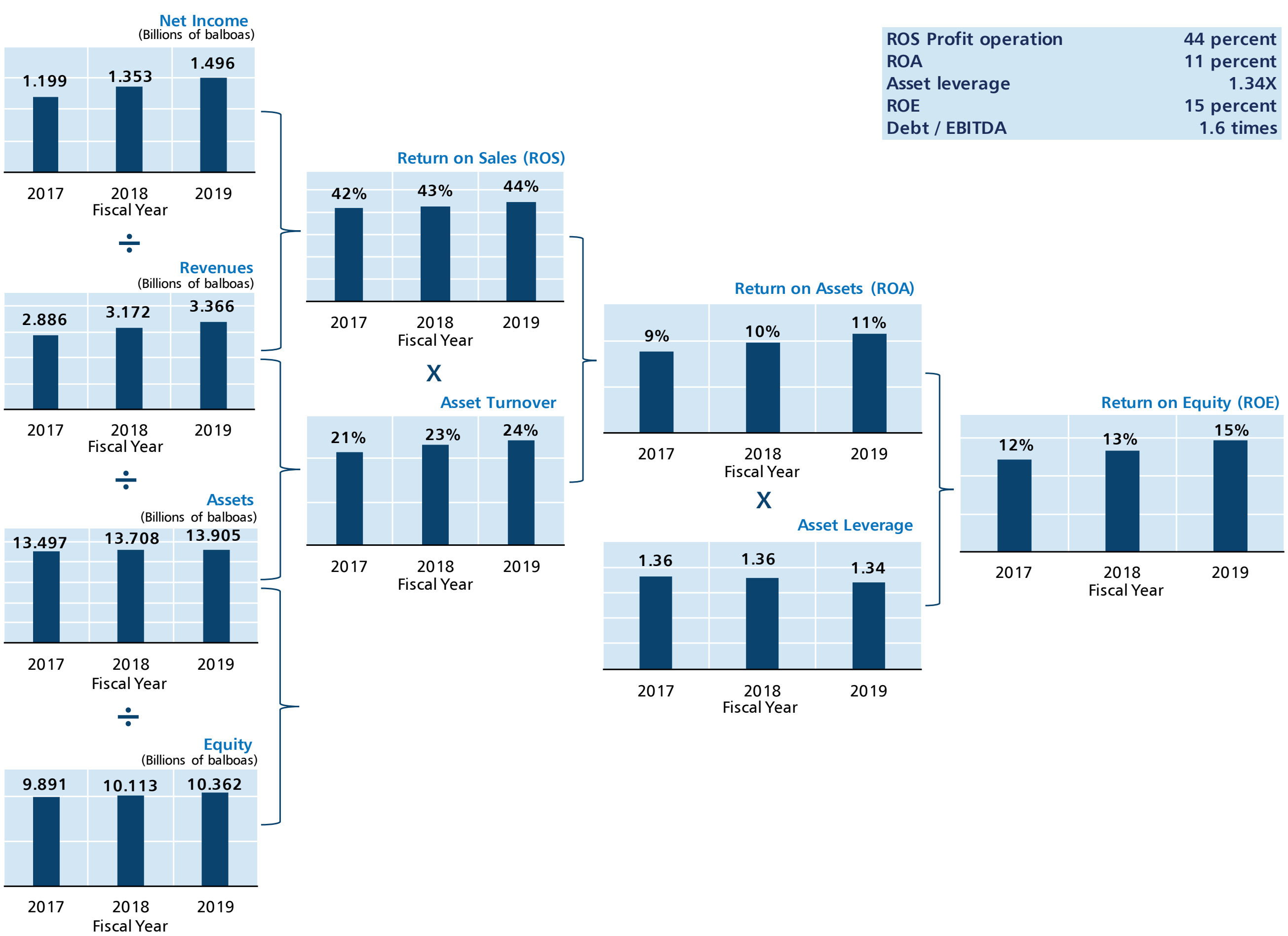
Financial Performance Results

The DuPont Analysis shown in graph 28 reveals the strong financial performance of the Panama Canal, reporting 44 cents in net profit for every dollar in revenue (ROS). A 24 percent Asset Turnover (1 percentage point over that in fiscal year 2018), results from a 6.1 percent increase in revenues, and a 1.4 percent increase in total assets, as compared to fiscal year 2018.

A Return on Total Assets (ROA) of 11.0 percent and Return on Equity (ROE) of 15.0 percent reported in fiscal year 2019 validates the Canal's capacity to create sustainable economic value, while an Asset Leverage ratio of 1.34 also shows its ability to finance capital expenditures primarily from own resources.

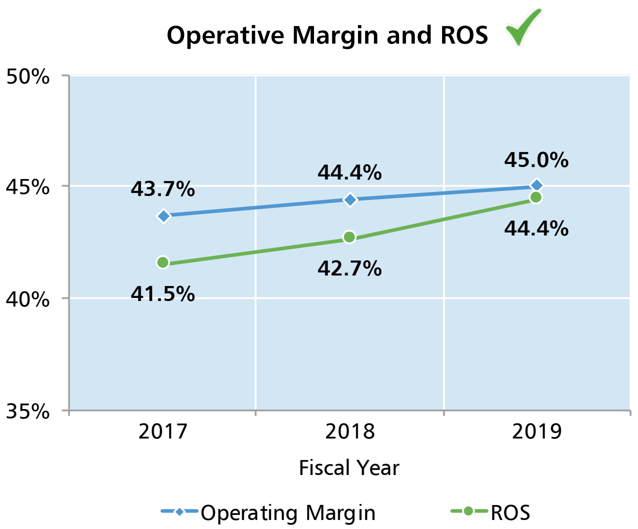
Inauguration of the 3rd International Congress of Maintenance and Asset Management organized by the Canal

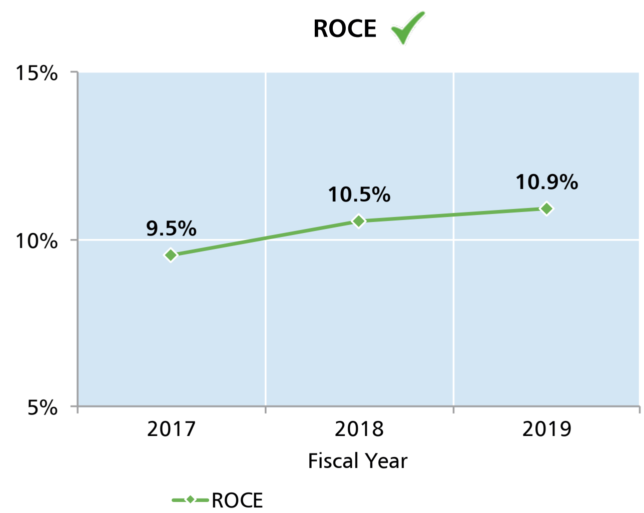
Graph 28. DuPont Analysis shows the strong Financial Performance of the Panama Canal



The operating margin was 44.4 percent and the return on sales (ROS) 45.0 percent surpassed the results of fiscal year 2018. The return on capital employed (ROCE), an index that values the wealth generated by capital investments, increased from 10.5 percent to 10.9 percent from year 2018 to 2019.

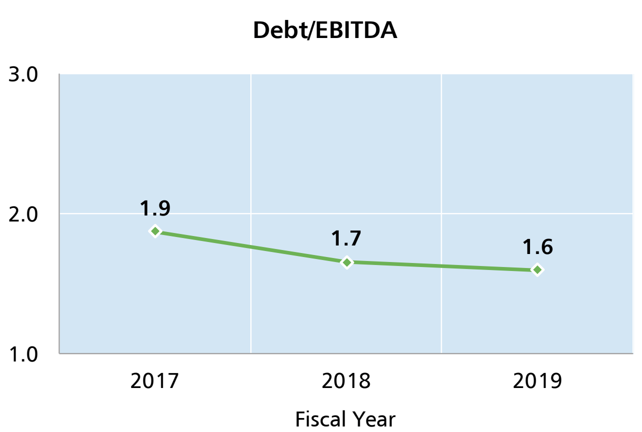
Graph 29. Financial Performance Indicators of the Panama Canal

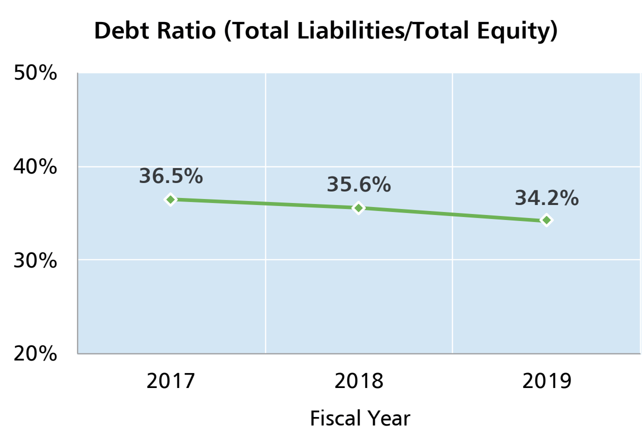




The leverage ratio or debt ratio, at the end of fiscal year 2019, was 34.2 percent and the capital multiplier closed at 1.36, both showing a slight downward trend, in line with a conservative leverage policy that maintains the Canal. On the other hand, the Debt to EBITDA indicator at 1.6 maintains an adequate level, well above the usual requirements of financial credit institutions.

Graph 30. Debt Ratio and Debt/EBITDA Indicators





Credit Ratings and Financial Strength Summary

Fitch Ratings have affirmed the Long-term Issuer Default Rating (IDR) and the B/.450 million senior unsecured notes rating at A, with a stable outlook. The key drivers acknowledged by the rating agency rely in the fact that the Panama Canal is a critical asset for Panama and the international trade flows due to its privileged geographical position. The strong legal framework of the entity provides institutional, operational and financial autonomy to maintain the Canal's profitability.

Table 2. ACP's Credit Ratings

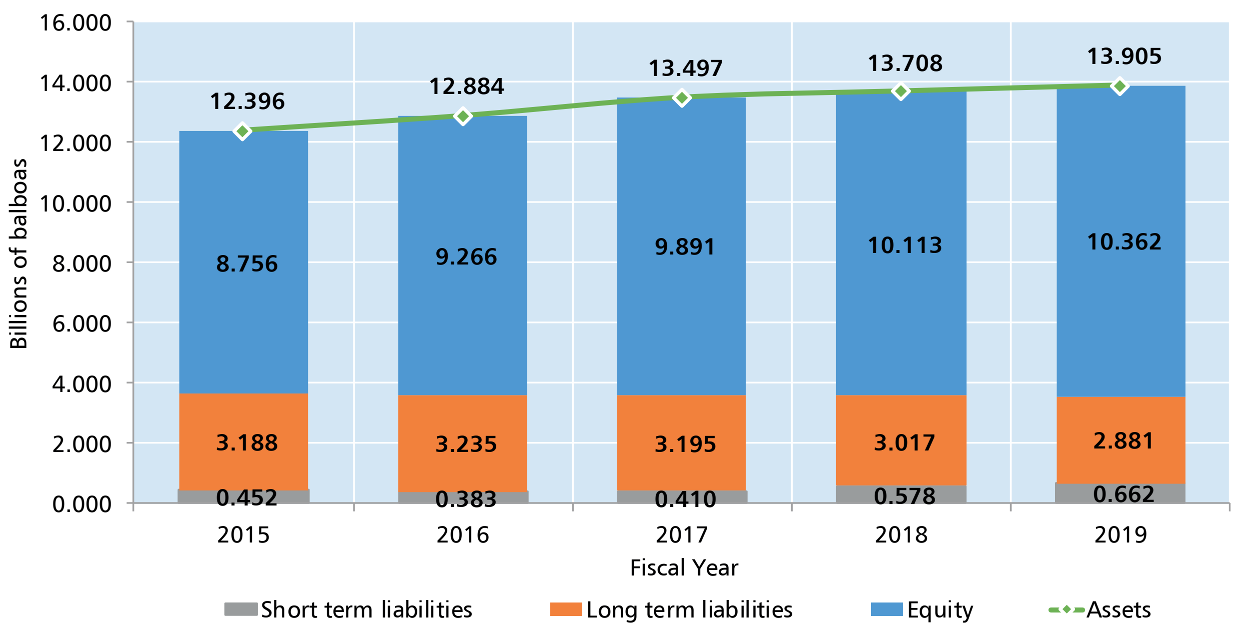
Rating Agency	Rating	Outlook	Date
Fitch	A	Stable	Aug. 2019
Standard & Poor´s	A	Stable	Apr. 2019
Moody´s	A1	Stable	Apr. 2019

This rating concludes FY 2019 annual revision by the three rating agencies. Early this year, Moody's Investors Service upgraded the 20-year B/.450 million Senior Unsecured Bonds issued by the Panama Canal Authority to A1 from A2, with a stable outlook, based on the waterway's strong performance since the expansion's inauguration. S&P Global Ratings (S&P) upgraded the long-term debt, bonds and senior unsecured liabilities of the ACP, from A- to A, with a stable outlook.

Balance Sheet

At the end fiscal year 2019, Canal assets were B/.13.905 billion, B/.198.0 million (1.4%) above fiscal year 2018, and are composed by 32.0 percent (B/.4.451 billion) and 68.0 percent (B/.9.454 billion) of current assets and non-current assets, respectively. On the other hand, equity and liabilities represented from total assets 74.5 percent (B/.10.362 billion) and 25.5 percent (B/.3.543 billion), respectively.

Graph 31. Assets, Liabilities and Equity of the Panama Canal



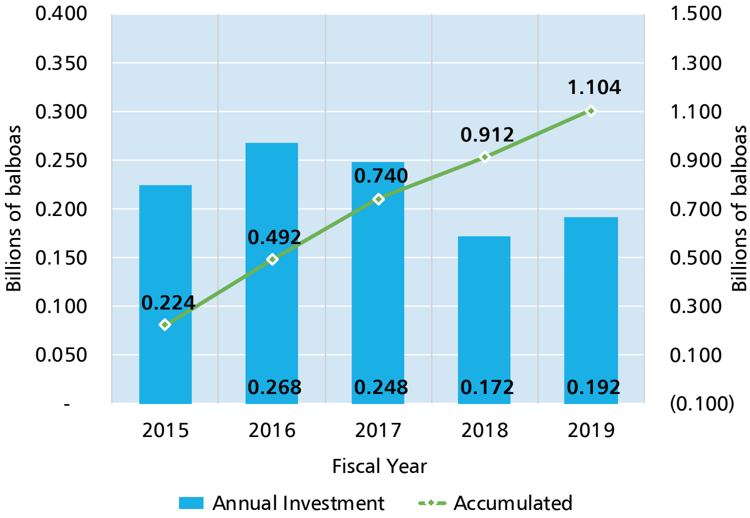
New dock for maintenance of floating equipment in Miraflores Lake

Regular Investment Program

The Regular Investment Program for fiscal year 2019 consisted of 148 projects, with a total expense of B/.192 million, intended to:

- Increase the Canal's operation efficiency.
- Mantain the Canal's reliability.
- Improve the electrical power system's reliability.
- Protect water quality in the Canal Watershed.
- Comply with Law 28 of July 17, 2006 by which the ACP is responsible for the construction of a new bridge in the Atlantic entrance of the Canal.

Graph 32. Regular Investment Program Execution / Expenses



Annex: Audited Financial Statements

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Financial Statements

September 30, 2019

(With Independent Auditor's Report)

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

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KPMG
Apartado Postal 0816 -1089
Panamá 5, República de Panamá

Teléfono: (507) 208-0700
Fax: (507) 263-9852
Internet: www.kpmg.com

INDEPENDENT AUDITORS´ REPORT

To the Board of Directors
Autoridad del Canal de Panamá

Opinion

We have audited the financial statements of the Autoridad del Canal de Panamá, (the "ACP"), which comprise the statement of financial position as of September 30, 2019, the income statement, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ACP as of September 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Contingencies for contractor claims
See note 30 to the financial statements

The key audit matter	How the matter was addressed in our audit
Contractor' claims are considered as a significant issue, because of the assessment of provisions and contingencies, which requires important judgments and analysis by management. Contingencies for arbitration claims with a contractor have an amount of B/.1,210 million in two arbitrations and a provisional amount between B/.1,500 to B/.2,000 million in other arbitration.	Our procedures in this area included: • We evaluate together with our legal specialists the conclusions reached by the management and its legal advisors. • We carry out and validate the procedures for sending and receiving confirmations to legal advisors and the internal lawyers of the ACP and we evaluate the disclosures made.

Property, plant, and equipment, net
See notes 3 (g), and 4 to the financial statements

The key audit matter	How the matter was addressed in our audit
• The ACP is the owner of the Canal facilities, buildings, structures and equipment required to operate the Panama Canal. The property, plant, and equipment (PPE) are considered a key Audit matter by its high transactional volume that involves the evaluation of capitalization of additions, designation of useful lives and judgement applied in the estimation of impairment losses on the basis of the calculation of the value in use of related PPE. The total amount in property, plant, and equipment is B/.8,927 million, representing 64% of the total assets of the ACP.	• We obtained an understanding and test the operational effectiveness of controls on the additions of PPE. • We obtained an understanding of how the ACP is determining the useful life and residual value of the PPE to conclude on the adequacy or not of such determination. • We make substantive test of additions during the year through selective sampling, and we examine relevant documents such as invoices, payments and reports of staff assigned to the construction underway to evaluate if the additions have been capitalized in accordance with the policies established by the ACP. • We recalculate the corresponding depreciation for the year; and • We visited and we inspected the PPE according to selective sampling. • We obtained and analyzed the impairment evaluation carried out by the ACP on the PPE to determine if the calculation is reasonable. We analyzed the method used, calculated and compared it with the one carried out by the ACP.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ACP internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ACP ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ACP to cease to continue as a going concern.

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

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

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

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

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

KPMG

Panama, Republic of Panama
December 12, 2019

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Financial Position

September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Assets:			
Non-current assets:			
Property, plant and equipment:			
Property, plant and equipment, net	4	8,758,157	8,313,110
Constructions in progress	4	168,745	629,354
Total property, plant and equipment, net		8,926,902	8,942,464
Advances and other receivable to contractor, net	5, 26	0	292,152
Reimbursement right to ACP	25	368,684	320,649
Investment properties	7	97,394	89,831
Inventories, net	8	61,421	68,991
Total non-current assets		9,454,401	9,714,087
Current assets:			
Inventories	8	7,466	11,914
Advances and other receivable to contractor, net	5, 26	0	547,959
Trade and other receivables	6, 26, 28	41,363	54,227
Operations with settlement in progress	26	2,603	0
Other financial assets	9, 26	4,314,392	3,295,450
Cash and cash equivalents	11, 26	57,832	60,339
Accrued interest receivable	10	25,127	22,773
Other assets		1,724	1,092
Total current assets		4,450,507	3,993,754
Total assets		13,904,908	13,707,841

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

	Note	2019	2018
Equity and liabilities:			
Equity:			
Contributed capital	12	1,906,336	1,906,193
Investment programs contributions	13	6,035,696	5,952,757
Reserves	13	1,270,589	1,111,449
Other equity accounts	14	(103,321)	(56,959)
Earnings available to distribute	15, 31	1,251,892	1,199,101
Total equity		10,361,192	10,112,541
Non-current liabilities:			
Bonds payable		450,000	450,000
Less: discount and issuing costs		8,513	9,078
Bonds payable, net	17, 26	441,487	440,922
Borrowings	16, 26	1,955,000	2,185,000
Employee benefits	25	381,266	331,591
Other financial liabilities	18, 26	103,603	59,884
Total non-current liabilities		2,881,356	3,017,397
Current liabilities:			
Trade and other payables	19, 26, 28	166,487	219,866
Bonds payable - interest	17	3,712	3,712
Borrowings	16, 26	260,530	146,520
Provision for marine accidents claims	20	13,882	20,402
Accrued salaries and vacation payable		152,035	138,403
Accrued interest payable	26	6,791	1,790
Other liabilities	21	58,923	47,210
Total current liabilities		662,360	577,903
Total equity and liabilities		13,904,908	13,707,841

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Income Statement

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Revenues:			
Toll revenues		2,592,482	2,484,696
Other Canal transit services		485,163	484,858
		3,077,645	2,969,554
Other revenues:			
Sales of electricity and power		60,723	68,283
Sales of potable water	28	36,174	34,265
Miscellaneous	23	38,867	36,273
Total other revenues		135,764	138,821
Total revenues		3,213,409	3,108,375
Expenses:			
Salaries and wages	22	616,147	592,972
Employee benefits	22, 26	79,264	77,772
Materials and supplies	22	63,905	68,398
Fuel	8, 22	72,957	70,806
Transportation and allowances		2,816	2,203
Contracted services and fees		134,377	160,648
Insurance		19,006	20,844
Provision for marine accidents	20	508	10,241
Provision for obsolete inventory	8	1,944	500
Depreciation	4, 22	208,975	208,949
Fees paid to the Panamanian Treasury	15,19, 26	534,521	503,686
Other expenses	22	32,515	14,397
Total expenses		1,766,935	1,731,416
Results of operations		1,446,474	1,376,959
Finance income		106,915	57,714
Financial income in advance and other receivables to contractor	5	45,631	5,640
Finance costs	16	(103,239)	(86,930)
Finance income (costs), net		49,307	(23,576)
Profit for the year		1,495,781	1,353,383

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

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Comprehensive Income

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Profit for the year		1,495,781	1,353,383
Other comprehensive income (loss):			
Items that will not be reclassified to income statement			
Net remeasurement of employee defined benefit plans actuarial (loss) income		(1,510)	566
Items that will not be reclassified to income statement		(1,510)	566
Items that are or may be reclassified to income statement			
Reclassification of losses on financial instruments to profit for the year		(171)	0
Unrealized income on fair value instruments with changes in other comprehensive income (OCI)	9, 14	3,465	240
Net (loss) income in cash flow hedges - call option contract and light diesel swap contract		(1,058)	2,078
Net (loss) income in cash flow hedges - interest rate swap contracts		(47,842)	58,606
Items that are or may be reclassified to income statement		(45,606)	60,924
Total other comprehensive (loss) income	14	(47,116)	61,490
Total comprehensive income		1,448,665	1,414,873

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

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Changes in Equity

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	Contributed capital	Investment programs contributions	Reserves	Other equity accounts	Earnings available to distribute	Total equity
Balances as of September 30, 2017		1,906,193	5,985,835	924,089	(118,449)	1,193,809	9,891,477
Profit for the year		0	0	0	0	1,353,383	1,353,383
Other comprehensive income:							
Securities available for sale		0	0	0	240	0	240
Cash flow hedges		0	0	0	60,684	0	60,684
Net measurement of employees defined benefit plans actuarial income		0	0	0	566	0	566
Total other comprehensive income		0	0	0	61,490	0	61,490
Total comprehensive income of the year		0	0	0	61,490	1,353,383	1,414,873
Transfer to the Panamanian Treasury	15	0	0	0	0	(1,193,809)	(1,193,809)
Net decrease in contributions	13	0	(33,078)	0	0	33,078	0
Net increase in equity reserves	13	0	0	187,360	0	(187,360)	0
Balance as of September 30, 2018		1,906,193	5,952,757	1,111,449	(56,959)	1,199,101	10,112,541
Adoption impact of IFRS 9 as of October 1, 2018	27	0	0	0	754	(1,810)	(1,056)
Balance as of October 1, 2018		1,906,193	5,952,757	1,111,449	(56,205)	1,197,291	10,111,485
Profit for the year		0	0	0	0	1,495,781	1,495,781
Other comprehensive income (loss):							
Reclassification of losses on financial instruments to profit for the year		0	0	0	(171)	0	(171)
Fair value instruments with changes in other comprehensive income		0	0	0	3,465	0	3,465
Cash flow hedges		0	0	0	(48,900)	0	(48,900)
Net remeasurement of employee defined benefit plans actuarial loss		0	0	0	(1,510)	0	(1,510)
Total other comprehensive loss		0	0	0	(47,116)	0	(47,116)
Total comprehensive income (loss) of the year		0	0	0	(47,116)	1,495,781	1,448,665
Transfer to the Panamanian Treasury	15	0	0	0	0	(1,199,101)	(1,199,101)
Net increase in contributions	13	0	82,939	0	0	(82,939)	0
Net increase in equity reserves	13	0	0	159,140	0	(159,140)	0
Properties transferred to ACP	12	143	0	0	0	0	143
Balance as of September 30, 2019		1,906,336	6,035,696	1,270,589	(103,321)	1,251,892	10,361,192

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

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Cash Flows

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Cash flows from operating activities:			
Profit for the year		1,495,781	1,353,383
Depreciation		208,975	208,949
Loss on disposal and impairment adjustment of fixed assets		692	1,033
Realized net loss on investment at FVOCI (2018:available for sale)		(394)	(143)
Provision for marine accidents		508	10,241
Estimation for inventory obsolescence		1,944	500
Amortized discount in bonds payable		565	565
Materials and supplies inventory usages		42,933	38,457
Finance (income) costs, net		(49,307)	23,576
Changes in working capital:			
Decrease (increase) in trade and other receivable		12,858	(5,014)
Decrease (increase) in fuel inventory		4,448	(2,716)
Increase in other assets		(632)	(1,017)
(Decrease) Increase in trade and other payable		(53,379)	23,545
Payment of marine accidents claims		(7,028)	(3,883)
Increase in accrued salaries and vacation payable		13,632	2,655
Increase in operations with settlement in progress		(2,603)	0
Employee benefits plans		129	83
Increase in other liabilities		4,008	16,669
Cash provided by operating activities		1,673,130	1,666,883
Interest paid		(99,228)	(83,725)
Net cash provided by operating activities		1,573,902	1,583,158
Cash flows from investing activities:			
Purchase of property, plant and equipment		(193,820)	(173,835)
Purchase of inventories		(37,306)	(44,418)
Purchase of other financial assets		(5,076,194)	(3,577,452)
Sales and maturities of other financial assets		4,066,476	2,867,373
Advances and other receivable to contractor		847,630	31,043
Interest received		130,906	39,986
Net cash used in investing activities		(262,308)	(857,303)
Cash flows from financing activities:			
Payment of borrowings		(115,000)	0
Transfer to Panamanian Treasury		(1,199,101)	(1,193,809)
Net cash used in financing activities		(1,314,101)	(1,193,809)
Net decrease in cash and cash equivalents		(2,507)	(467,954)
Cash and cash equivalents at the beginning of the year		60,339	528,293
Cash and cash equivalents at the end of the year	11	57,832	60,339

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

(1) General Information

The Autoridad del Canal de Panamá, (the "ACP") is an autonomous legal entity of public law established by Article 316 of Title XIV of the Constitution of the Republic of Panama and subject to special arrangements made by the provisions of that Title, of Law No. 19 of June 11, 1997 and regulations that dictates the Board of Directors as mandated by articles 319 and 323 of the same Title. This legal framework provides, inter alia, that the administration, operation, conservation, maintenance and modernization of the Canal de Panamá (the Canal) and its related activities corresponds to the ACP exclusively. In addition, it establishes a special labor regime applicable to the ACP and its work force, as well as provides it with its own patrimony and the right to its administration.

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

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

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

(2) Basis of Preparation

(a) Statement of Compliance

The financial statements of the ACP, for the year ended September 30, 2019, have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The financial statements of the ACP, for the year ended September 30, 2019, were approved by the Board of Directors and authorized to be issued on December 12, 2019. The accompanying financial statements have been translated from Spanish into English.

(2) Basis of Preparation, continued

(b) Measurement Base

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

- Fair value securities with change in other comprehensive income (FVOCI)
- Securities available for sale and hedging instruments
- Reimbursement right to ACP
- Employees benefits

(c) Functional and Presentation Currency

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

(3) Summary of Significant Accounting Policies

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

(a) Fair Value Measurement

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

(b) Transactions with Related Parties

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

(c) Revenue Recognition

The ACP implemented IFRS 15 *Revenue from contracts with customers* as of October 1, 2018. This new standard provides a framework that replaces the revenue recognition guide existing in IFRS and establishes a five-step model for accounting for revenue arising from contracts with customers: identify the contract (s) with the customer; identify performance obligations; determine the transaction price; assign the transaction price to performance obligations to the extent that the contract covers more than one performance obligation; and recognize income when performance obligations are met. Revenue is recognized in an amount that reflects the consideration that the entity expects to receive in exchange for transferring goods or services to a customer

Depending on whether certain criteria are met, revenues are recognized: over time, in a way that represents the entity's performance; or at a certain moment in time, when the control of the goods or services is transferred to the client.

The ACP adopted IFRS 15 using the method retroactively with the cumulative effect of the initial application of this standard recognized on the date of initial application. The adoption of IFRS 15 did not change the ACP revenue recognition policy. IFRS 15 applies only to the results reported for fiscal year 2019.

Specific recognition criteria described below are met before the revenue is recognized:

Toll Revenue

Toll revenue is recognized at a specific time, when the transit service is provided through the Canal.

(3) Summary of Significant Accounting Policies, continued

Sale of Electric Energy and Power

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

Sale of Water

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

Services Rendered

Revenue from other services that include leases of communications structures, leasing of buildings, extraction of raw water, among others, are recognized over time. The client simultaneously receives and consumes the benefits provided by the entity's performance.

Some of the contracts include the free transfer of improvements to the ACP, an obligation that is satisfied in a moment when the concession period is over, so the income will be recognized at that time.

Interests

Interest earned on financial instruments measured at amortized cost and financial assets measured at fair value with changes in other comprehensive income (OCI) are recognized using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the financial instrument expected life to the carrying amount of the financial asset or liability. Interest income is included in a separate line in the income statement.

(d) Transfer to Panamanian Treasury

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

(e) Fees Paid to the Panamanian Treasury

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

(f) Borrowing and Bonds Issuance Costs

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

(3) Summary of Significant Accounting Policies, continued

(g) Property, Plant and Equipment

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

Property, 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 property, plant, and equipment, with the respective retirement of any replaced element. When different parts of significant relative value of property, plant, and equipment have different useful lives, they are accounted separately.

Following the accrual principle, periodic maintenance, preservation and repair costs are recognize in the income statement when incurred:

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

The following estimated useful lives are used to calculate depreciation:

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

(3) Summary of Significant Accounting Policies, continued

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 property, plant, and equipment and its depreciation will begin.

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

(h) Investment Properties

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

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

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

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

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

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

(i) Impairment of Non-Financial Assets

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

(j) Cash and Cash Equivalents

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

(3) Summary of Significant Accounting Policies, continued

(k) Inventories

Supplies and materials for operations and fuel inventories are shown at the lower of cost between its acquisition cost and its net realizable value. Inventories are valued using the average cost method based on purchase cost to suppliers, not exceeding the realizable value, net of allowance for obsolescence of supplies and materials.

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

(l) Provisions

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

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

When the recovery of some or all of the economic benefits required to settle a provision is expected, an account receivable is recognized if it is virtually certain that the income will be received and the amount of the account receivable can be measured with certainty.

(m) Provision for marine accidents and other claims

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

(n) Employee Benefits

Ninety two percent (92%) of the workforce in the ACP is represented by six bargaining units (unions) that have negotiated collective agreements which terms are periodically negotiated. 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 implicit 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 labor obligation for the ACP, nor are they provisioned.

Voluntary Retirement Plans

The ACP provides two unfunded defined benefit plans for voluntary retirement of employees. The cost of providing these benefits is determined using the projected unit credit method. Actuarial gains and losses are fully recognized in the period which they occurred 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.

(3) Summary of Significant Accounting Policies, continued

(o) Reimbursement Right to ACP

The right to reimbursement to ACP is an insurance policy in which the indemnities return to the ACP to reimburse all the benefits paid to employees as an incentive for voluntary retirement. In accordance with IAS 19, it is recognized at fair value as a separate asset when it is virtually certain that a third party will reimburse some or all of the disbursements required to settle a defined benefit obligation. Changes in the fair value of the right to reimbursement are disaggregated and recognized in the same way as for changes in the fair value of the related obligation plan. The components of defined benefit cost are recognized net of changes in the carrying amount of the right to reimbursement.

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

(p) Financial Instruments

The ACP has adopted IFRS 9 Financial Instruments issued in July 2014 with initial application date October 1, 2018. The requirements of IFRS 9 do not represent a significant change at the time of recognition or how to measure assets and liabilities, and related expenses and income.

Changes in the accounting policies of the adoption of IFRS 9 have been applied retrospectively, with the exception of the following:

- Comparative periods have not been updated. The differences in the book values of the financial assets resulting from the adoption of IFRS 9 are recognized in the earnings available to distribute as of October 1, 2018; therefore, the information presented for 2018 does not reflect the requirements of IFRS 9 and, therefore, is not comparable with that presented for 2019 according to IFRS 9.
- The following evaluation was carried out on the basis of the facts and circumstances that existed at the date of initial application, which consisted in determining the business model in which a financial asset is maintained.
- All hedging relationships designated under IAS 39 as of September 30, 2018 meet the criteria for hedge accounting under IFRS 9 as of October 1, 2018 and, consequently, are considered continuous hedging relationships.

Recognition of financial instruments

The ACP uses the negotiation date to record its financial instrument transactions.

(q) Financial assets and liabilities

Financial assets are classified at the date of initial recognition, based on the nature and purpose of the acquisition of the financial asset.

Accounting policies used as of October 1, 2018:

<u>Classification and measurement - Financial assets under IFRS9</u>

In their initial recognition, financial assets are classified as measured at: amortized cost (AC) and fair value through other comprehensive income (FVOCI).

(3) Summary of Significant Accounting Policies, continued

- ***Amortized Cost (AC):***
  A financial asset is measured at amortized cost and not at fair value with changes in results if it meets both of the following conditions:

  - The asset is maintained within a business model whose objective is to maintain assets to obtain contractual cash flows; and

  - On specified dates, the contractual conditions of the financial asset give place, to cash flows that are only payments of principal and interest on the outstanding principal amount.

  Financial assets at amortized cost represent trade accounts receivable and other and bank deposits.

  After the initial recognition, these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income and impairment are recognized in the income statement. Any gain or loss on an account derecognition is recognized in the income statement.

- ***Fair value through other comprehensive income (FVOCI)***
  A debt instrument is measured at FVOCI only if both of the following conditions are met and is not measured at fair value through profit or loss:

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

  - On specified dates, the contractual conditions of the financial asset give place, to cash flows that are only payments of the principal and interest on the outstanding principal amount.

  These financial assets are composed of debt instruments not classified as financial instruments at fair value recognized in profit and loss (FVPL) or at amortized cost and are subject to the same approval criteria as the rest of the loan portfolio.

  After the initial recognition, these assets are subsequently measured at fair value. Interest income calculated under the effective interest method and impairment are recognized in the income statement. Other net gains and losses are recognized in the income statement.

  Unrealized gains or losses are reported as net increases or decreases in other comprehensive income in the statement of changes in equity until they are realized.

(3) Summary of Significant Accounting Policies, continued

- ***Evaluation of the business model***

  The evaluation at the portfolio level and the objective of the business model that applies to the financial instruments of these portfolios includes the following:

  - The policies and objectives set for the portfolio and the operation of those policies in practice that include the management strategy to define:

    (i) collection of contractual interest income
    (ii) maintain a defined interest yield profile
    (iii) be able to sell at any time for liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration and the defined goal.

  - The way in which the ACP senior management team and board of directors are informed about the behavior of the different portfolios;

  - The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which these risks are managed;

  - The frequency and value of sales in previous periods, the reasons for those sales and expectations about future sales activity.

- ***Evaluation of whether contractual cash flows are solely payments of principal and interest (SPPI)***

  For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. “Interest” is defined as the consideration of the value of money over time and the credit risk associated to the amount of the outstanding principal for a particular period of time and for other risks consistent with a basic loan agreement and other associated costs, as well as the profit margin.

  In assessing whether contractual cash flows are solely payments of principal and interest, the ACP focused on the contractual terms of the instrument. This evaluation considered, among others:

  - Contingent events that could change the amount and / or periodicity of cash flows
  - Leverage conditions
  - Advance payment terms and extension
  - Terms that limit the ACP to obtain cash flows from specific assets (example, asset agreements without resources); and
  - Characteristics that modify the considerations for the value of money over time (example, periodic review of interest rates).

(3) Summary of Significant Accounting Policies, continued

Accounting policies used before October 1, 2018:

Classification and measurement - Financial assets under IAS 39

Financial assets are classified in the following specific categories: receivables, investments held to maturity, financial assets available for sale and financial instruments designated as hedges recorded at fair value. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

- ***Trade and other receivable***

  Trade and other receivables are financial assets with fixed or determined 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 and other 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 in the account advances and other receivable to contractor, adjusted to its fair value which is determined by using a discount rate representative of the currency in which the instrument is defined, the expected term for collection and the debtor's credit risk at the time of reclassification. This adjustment is recognized as a loss in financial costs and amortized through the financial income account until the collection expected date.

- ***Investments held to maturity***

  Consist of deposits in banks whose payments are fixed or determinable or with a fixed maturity that the ACP intends to hold until they expire. After the initial measurement, investments held to maturity are measured at amortized cost using the effective interest rate method, less any impairment.

- ***Financial assets 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 the statement of 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 statement of 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.

(3) Summary of Significant Accounting Policies, continued

Policy applicable as of October 1, 2018:

Impairment of financial assets

At the date of the statement of financial position, it is determined whether there is an objective evidence of impairment in the financial instruments, and it is used the reserve method to provide for losses in the financial instruments.

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

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

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

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

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

- Trade and other accounts receivable on which the credit risk has not significantly increased since its initial recognition;

- Investments in debt instruments, demand deposits and time deposits that are determined to reflect low credit risk at the reporting date.

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

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

- ***Measurement of the ECL***

  The ECL is an estimated weighted probability of credit loss which is measured according to the following items:

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

  Impaired financial assets at the reporting date: the difference between the book value and the present value of the estimated future cash flows.

(3) Summary of Significant Accounting Policies, continued

- ***Definition of impairment***

  It is considered an impaired financial asset when:

  - It is unlikely that the debtor will fully pay his credit obligations to the ACP, without resources from the ACP to take actions such as executing the collateral (in case they maintain it); or
  - The debtor has delinquency of more than 90 days in any significant credit obligation.
  - For the fixed income financial instruments the following concepts are included, among others:

    - Low external rating of the issuer;
    - Contractual payments are not made on the due date or in the stipulated period or grace period;
    - There is a virtual certainty of suspension of payments;
    - Its likely to go bankrupt or file a bankruptcy petition or similar action;
    - The financial asset stops trading in an active market given its financial difficulties.

  In assessing whether a debtor is in default, the following indicators are considered:

  - Qualitative (for example, breach of contractual clauses);
  - Quantitative (for example, delinquency status and non-payment on another obligation of the same issuer to the ACP); and

  The inputs used in the evaluation of whether financial assets are impaired and their importance may vary over time to reflect changes in circumstances.

- ***Significant increase in credit risk***

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

  It is considered as the main indicators of the significant increase in risk, the variations in the risk rating and the atypical increases in the credit margin or in the reference prices of the credit default swaps (CDS) of the financial instruments.

- ***Credit Risk Rating***

  A credit risk rating is assigned to financial assets that do not have an available international credit risk rating. The ACP identifies significant increases in credit risk through the use of a quantitative model of payment default prediction that assigns a credit rating equivalent to that of Standard & Poors and the application of expert credit judgment.

(3) Summary of Significant Accounting Policies, continued

For investments in debt instruments and time deposits, credit risk rating of international short-term investment from Standard & Poors, Moody's and Fitch Ratings and its changes are used to establish whether there is a significant increase in risk and for the PD calculation.

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

- ***Generating the probability of default (PD) term structure***
  Credit risk ratings are the main input to determine the PD term structure for different exposures.

  The PD of investments in debt instruments, deposits in banks and advances and other accounts receivable is estimated using approximates of liquid markets based on international credit risk rating of investments or deposits.

- ***Assessment of significant increase in credit risk***
  A general framework has been established that incorporates quantitative and qualitative information to assess whether the credit risk of a financial asset has increased significantly since its initial recognition.

  The initial framework is aligned with the internal process of the ACP for credit risk management. The criteria for determining whether the credit risk has increased significantly will vary by portfolio and will include limits based on defaults.

  The ACP assess whether the credit risk of a particular exposure has increased if, based on a quantitative model, the probability of expected credit loss in the remaining life increased significantly since the initial recognition. In determining the increase in credit risk, the expected credit loss in the remaining life is adjusted for changes in maturities.

  In certain circumstances, by using credit experts judgment and relevant historical information, the ACP may determine that an exposure has experienced a significant increase in credit risk if qualitative factors indicate so and those factors may not be fully captured by the quantitative analyzes performed periodically.

  The effectiveness of the criteria used to identify significant increases in credit risk is monitored through regular reviews.

- ***Inputs in the measurement of the ECL***
  The following variables are key inputs used in measuring ECL:

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

(3) Summary of Significant Accounting Policies, continued

PD is the probability of default of one year applied to the portfolio for expected losses of less than 12 months and during the lifetime for expected losses of more than 12 months. The default rates are obtained from the Bloomberg system (1-yr Default Probability) for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, the S&P Global Income Research and S&P Creditpro transition table is used as a source.

The LGD for financial assets is the estimated loss percentage of the amount exposed in case of default. The LGD is obtained from the Bloomberg system for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, Bloomberg (1-yr Default Probability and Loss Given Default) are used in the same way.

The EAD is the accounting balance of the principal amount and interest on financial assets at the end of the period under review.

Policy applicable before October 1, 2018:
<u>Impairment of financial assets</u>
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.

- ***Derecognition of financial assets***
  A financial asset is derecognized only when the contractual rights to receive the cash flows from the asset have expired; or when all the risks and rewards of ownership of the financial asset have been transferred substantially. If all the risks and rewards of the property are not transferred or substantially withheld and control of the transferred asset is continued, then the interest withheld on the asset and a related liability for the amounts that it may have to pay are recognized. If substantially all the risks and rewards of ownership of a transferred financial asset are retained, the financial asset continues to be recognized and a guaranteed liability is also recognized for the amount received.

- ***Financial liabilities***
  Financial liabilities are initially recognized 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 profit or loss is recognized in the income statement when a financial liability is derecognized as well as through the amortization process.

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

- ***Borrowings and bonds payable***
  Borrowings and bonds payable are initially recognized at fair value at their respective contractual dates, including the costs attributable to the transaction.

(3) Summary of Significant Accounting Policies, continued

After its initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

- ***Trade and other payable***
  Accounts payable do not earn interest and are booked at their face value.

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

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

Policy applicable as of October 1, 2018:
<u>Hedge accounting</u>

- The ACP applies IFRS 9- “Financial Instruments” hedge accounting rules in full.

- The financial instruments held for risk management purposes are measured at fair value in the statement of financial position. These instruments are initially recognized at fair value at the date a hedging contract is entered into and are subsequently remeasured to their fair value at each reporting date.

- On initial designation of the hedge, the ACP formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The ACP makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated.

- The ACP uses financial instruments designated as hedges to manage the interest rate risks and the variability of light diesel prices used in its operations.

- These financial instruments contracts designated as hedges are classified as cash flow hedges. They are reported as assets or liabilities, as applicable.

(3) Summary of Significant Accounting Policies, continued

- In order to qualify for hedge accounting, these instruments must be considered highly effective at reducing the risk associated with the exposure being hedged. Each instrument must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, as well as how effectiveness will be assessed prospectively. Any ineffectiveness must be reported in current-year profit or loss.

Hedge accounting relationship

- When the ACP enters into a hedge accounting relationship, the first requirement is that the hedging instrument and the hedged item must be expected to move in the opposite direction as a result of the change in the hedged risk.
- This requirement is fulfilled for the hedging relationships carried by the ACP as the underlying of the hedging instrument matches or is closely aligned with the hedged risk.
- The ACP makes a qualitative assessment which considers the following: a) maturity; b) nominal amount; c) cash flow dates; d) interest rate basis; and e) credit risk,

Hedge ratio

- The hedge ratio is the relation between the amount of hedged item and the amount of the hedging instrument. For most of the hedging relationships, the hedge ratio is 1:1 as the underlying of the hedging instrument perfectly matches the designated hedged risk. For a hedging relationship with a correlation between the hedged item and the hedging instrument that is not 1:1 relationship, generally set the hedge ratio so as to adjust for the type of relation in order to improve effectiveness.

Discontinuation of hedge accounting

- The ACP discontinues hedge accounting prospectively in the following situations:

1. It is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item.
2. The derivative expires or is sold, terminated or exercised.
3. It is determined that designation of the derivative as a hedging instrument is no longer appropriate.

The ACP carries all financial instruments designated as hedges in the statement of financial position at fair value.

Cash flow hedges

- When a financial instrument is designated as the hedging instrument in a hedge of variability in cash flows attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and recognized in profit or loss when the hedged cash flows affect earnings. The ineffective portion is recognized in profit or loss as loss on financial instruments, net.

(3) Summary of Significant Accounting Policies, continued

- If the cash flow hedge relationship is terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively and the related amounts in other comprehensive income are reclassified into profit or loss when hedged cash flows occurs.

Accounting policies used before October 1, 2018
Hedge accounting
The ACP designates certain financial instruments as cash flow hedges.
At inception date of the hedge, the ACP documents the hedging relationship and the objective and risk management strategy to undertake the hedging transaction. The documentation shall include the identification of the hedging instrument, the hedged transaction or instrument, the nature of the hedged risk and the manner in which the effectiveness of the hedging instrument will be measured to compensate the exposure to changes in the fair value of the hedged item or the changes in the cash flows of the hedged risk. These hedges are expected to be highly effective in order to mitigate changes in cash flows.

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

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

  Hedge accounting is discontinued 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, any gain or loss accumulated in equity is recycle from equity to the income statement.

- ***Derecognition of financial liabilities***
  A financial liability is derecognized if it expires, cancels or fulfills the obligations of the ACP and when its conditions are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognized based on the new conditions at fair value.

(3) Summary of Significant Accounting Policies, continued

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

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

IFRS 16 Leases

IFRS 16 replaces the current IAS 17 Leases standard. IFRS 16 Leases will be effective for ACP as of October 1, 2019.

IFRS 16 changes the way of the lease accounting for lessees, using a unique model to account for such transactions. This unique model determines that a lessee must recognize a right-of-use asset, which represents his right to use the underlying asset, and a lease liability, which represents his obligation to make future lease payments.

IFRS 16 includes exemptions for its application for short-term leases and leases in which the underlying asset is of low value.

For leases recognized as financial in accordance to IAS 17, no significant impact is expected from the adoption of IFRS 16.

Transition

The ACP will apply IFRS 16, as of October 1, 2019, using the modified retrospective approach. This approach establishes the following in relation to recognition and measurement:

Lease Liability

It will be recognized at the date of initial application for leases previously classified as operating leases. It will be measured as the present value of the remaining lease payments, discounted at the incremental borrowing rate of the ACP at the date of the initial application.

Right-to-use asset

It will be recognized at the date of initial application for leases previously classified as operating leases. It will be measured at an amount equivalent to the lease liability, adjusted by the amount of any lease payments advanced or caused in relation with that lease recognized in the statement of financial position immediately before the date of the initial application.

The information presented in the financial statements for the year 2018 will not be re-expressed.

The ACP has decided to apply the exemption from the standard for existing leases to give continuity to the definition of lease on the transition date. This means that it will apply IFRS 16 to all contracts concluded before October 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 46.

Preliminary Impact Assessment

The ACP has evaluated the estimated impact that the initial application of IFRS 16 will have on its financial statements, based on its lease agreements.

(3) Summary of Significant Accounting Policies, continued

The preliminary assessment estimates that as of October 1, 2019, the right-of-use assets and lease liabilities will represent an amount of approximately B/.13,593 according to the information currently available. That is, an approximate increase of 0.09% in assets and 0.38% in debt. A slight impact on profitability indicators is expected.

For the year 2020, it is estimated a decrease of B/.4,873 in the lease expense, an increase in the depreciation of B/.4,732; and an increase in interest expense of B/.229.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or to fair value through other comprehensive income, provided that the contractual cash flows are “solely payments of principal and interest on the principal amount outstanding” (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The modifications will be applied retroactively to the reporting periods beginning on January 1, 2019 or later, allowing early application.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of an entity.

(3) Summary of Significant Accounting Policies, continued

Annual Improvements 2015-2017 Cycle

These improvements include:

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are completed.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application allowed. Since the ACP current practice is in line with these amendments, the entity does not expect any effect on its financial statements.

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);
- claims registered or disclosed from or directed to the main ACP contractors (notes 5 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 20 and 30, respectively).

(4) Property, Plant and Equipment

Property, plant, and equipment are detailed as follows:

Cost	Buildings	Structures	Equipments	Lands	Constructions in progress	Total
At the beginning of fiscal year 2018	206,801	5,615,088	2,931,619	1,023,137	558,595	10,335,240
Additions and other adjustments	418	71,425	32,722	0	70,759	175,144
Retirements	(226)	(1,064)	(16,437)	0	0	(17,727)
At the end of fiscal year 2018	206,993	5,685,269	2,947,904	1,023,137	629,354	10,492,657
Additions and other adjustments	9,140	582,343	64,807	181	(460,609)	195,862
Retirements	(64)	(864)	(33,391)	0	0	(34,319)
At the end of fiscal year 2019	216,069	6,266,748	2,979,320	1,023,318	168,745	10,654,200

Accumulated depreciation	Buildings	Structures	Equipments	Lands	Constructions in progress	Total
At the beginning of fiscal year 2018	(46,403)	(472,641)	(837,585)	0	0	(1,356,629)
Depreciation	(4,260)	(95,061)	(111,392)	0	0	(210,713)
Retirements	158	984	16,007	0	0	17,149
At the end of fiscal year 2018	(50,505)	(566,718)	(932,970)	0	0	(1,550,193)
Depreciation	(4,780)	(95,006)	(110,947)	0	0	(210,733)
Retirements	63	361	33,204	0	0	33,628
At the end of fiscal year 2019	(55,222)	(661,363)	(1,010,713)	0	0	(1,727,298)
Net book value						
At the end of fiscal year 2019	160,847	5,605,385	1,968,607	1,023,138	168,745	8,926,902
At the end of fiscal year 2018	156,488	5,118,551	2,014,934	1,023,137	629,354	8,942,464

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Other	Constructions in Progress Total
Balance as of October 1, 2017	5,681	552,914	558,595
Additions	3,884	149,036	152,920
Transfers to property, plant and equipment	(4,659)	(100,182)	(104,841)
Interests, commissions and other financing expenses	0	22,680	22,680
Balance as of September 30, 2018	4,906	624,448	629,354
Additions	3,440	192,279	195,719
Transfers to property, plant and equipment	(1,681)	(654,647)	(656,328)
Balance as of September 30, 2019	6,665	162,080	168,745

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 2019, the Panama Canal Expansion Program capitalized B/.1,681 (2018: B/.4,659). The assets of the program were composed as follows: B/.76,593 for 103 buildings; B/.4,378,013 for 100 structures and B/.1,278,726 for 358 equipments. Also, during the construction period and previous the 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/.5.736,849 was capitalized in 593 assets.

(4) Property, Plant and Equipment, continued

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 Payment 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, 2019, the total amount of construction in progress for the Investment Program – Others was B/.168,745.

During 2019, the ACP recorded losses for impairment in equipment for an amount of B/.692 (2018: B/.577).

Depreciation on September 30, 2019, B/.1,899 (2018: B/.1,765) corresponded to equipment used in investment projects that were capitalized as property, plant and equipment. (Note 22).

(5) Advances and Other Receivable to Contractor, Net

	2019	**2018**
Advances with bank guarantees:		
Mobilization	0	247,959
Plant	0	300,000
	0	547,959
Advances with corporate guarantees:		
Specified suppliers	0	66,979
Lock gates	0	12,754
Specified expenditures	0	99,995
Subcontractors and suppliers	0	119,943
	0	299,671
Plus: reimbursement for legal expenditures	0	0
	0	847,630
Less: financial adjustment to amortize	0	7,519
Total for advances and other receivable to contractor, net	0	840,111

During the year 2019, the discount was amortized to financial income for B/.7,519 (2018: B/8,640) to the account financial income on advances and other accounts receivable to contractor).

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

	2019	**2018**
Current assets	0	547,959
Non-current	0	292,152
	0	840,111

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).

(5) Advances and Other Receivable to Contractor, Net, continued

According to the December 12, 2018 award of the advance arbitration (“the award”), the Canal executed the three letters of credit issued by two local banks, for the sum of B/.547,959. The ACP charged the advances of corporate guarantees on November 30, 2018 for B/.12,000, on February 22, 2019 for B/.123,933 and on March 8, 2019 for B/.186,401, which completes the recovery of the total amount of B/.299,671, plus interest for B/.20,293 and part of the legal costs for B/.2,370 failed in the award.

Grupo Unidos por el Canal, S.A. (GUPCSA), the Contractor (the “Contractor”) for the Design and Construction of the Third Set of Locks, filed an international arbitration under the rules of the International Chamber of Commerce (ICC) on the interpretation of the repayment date of advance payments arguing that the advances were not due, and consequently were not liquid or enforceable. On December 12, 2018, the arbitral tribunal issued an award in favor of the ACP determining that the Contractor was obligated to and should immediately pay to the ACP all overdue advances in the amount of B/.847,630, plus interest, as well as amounts of legal costs and expenses that the ACP had incurred in connection with this arbitration.

On December 13, 2018, the ACP made demand and received payment under: (i) three letters of credit, issued by two Panamanian banks, which guaranteed the repayment of the mobilization and plant advances in the amount of B/.547,959; and, (ii) a letter of credit guaranteeing the payment of interest generated by the lack of timely payment of said advances, in the amount of B/.13,187, issued by a bank in London, England.

In addition, the ACP commenced an arbitration against the issuer of an advance payment bond securing repayment of an advance payment related to the locks gates works. The arbitral tribunal issued an award in favor of the ACP, ordering the issuer of such bond to pay the ACP the sum of B/.12,000, in respect of such advance payment owed by the GUPCSA, as well as B/.2,275 for payment to the ACP of interest at an annual rate of 10% and costs and expenses incurred by the ACP in the arbitration process.

Further, the ACP also commenced proceedings before the English courts to enforce certain English law-governed corporate guarantees issued by the three European shareholders of the Contractor and one of the parent companies of one of said shareholders, seeking collection of outstanding amounts payable of certain other advances guaranteed for such English law-governed corporate guarantees. This process ended with a judgment issued by the Court entitling the ACP to receive the payment of B/.123,933 on February 22, 2019 and B/.186,401 on March 8, 2019, which included amounts to make payment of said advances, interest and a portion of the legal costs incurred by the ACP in such proceeding, in the sum of B/.22,662.

Through these legal proceedings, the ACP completed the successful recovery of all outstanding amounts of the advance payments owed by GUPCSA plus associated amounts of interest and partial payment t of the legal costs that ACP incurred in relation to said recoveries.

(6) Trade and Other Receivables

Trade and other current receivables are detailed as follows:

	2019	**2018**
Transits	6,420	28,108
Sale of electricity and power	10,930	5,809
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	6,171	7,545
Other government entities	15,683	8,789
Other services	2,159	3,976
	41,363	54,227

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

Aging of past due but not impaired receivables:

	2019	**2018**
60 – 90 days	4	86
90 – 180 days	24	2
	28	88

(7) Investment Properties

The following table presents details of investment properties at September 30, 2019:

	2019	**2018**
Lands and buildings	89,831	89,831
Cinema for the screeing of large format films - IMAX	7,563	0
Total	97,394	89,831

(7) Investment Properties, continued

As of September 30, 2019, the carrying value of the ACP's investment properties made the following changes in relation to fiscal year 2018. They are composed of:

- An area of 180,345 square meters of land, water surface and underwater background, granted in concession to the Panama International Terminal, S.A. (PSA) for a period of 20 years (with a renewal option 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/.117,835. Upon termination of the contract, all facilities such as docks, buildings and other improvements constructed within the port will become 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. In January 2019, the concessionaire formally transferred, free of charges and free title to the Autoridad del Canal de Panamá, the building, upgrades and permanent equipment built on a plot of property 196761, consisting of a Cinema for the projection of large-format, IMAX theater filming with a fair value of B/.7,705.

- A land with an area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP, with a book value of B/.89,757 and fair value of B/.90,628 as per independent appraisal from 2015. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities.

- Twenty-five buildings currently leased by the ACP. These buildings are fully depreciated and have a fair value of B/.24,965, which was estimated based on the analysis of operating cash flow discounted at a representative rate for this type of business.

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

(8) Inventories, Net

Inventories are detailed as follows:

	2019	2018
Supplies and materials	67,021	73,075
Fuel	7,466	11,914
Provision for inventory obsolescence	(5,600)	(4,084)
	68,887	80,905
Current	7,466	11,914
Non-current	61,421	68,991
	68,887	80,905

The change in the estimate for obsolescence of supplies and materials inventory is as follows:

	2019	2018
Balance at the beginning of the year	4,084	4,000
Increase	1,944	500
Write-off	(428)	(416)
Balance at the end of the year	5,600	4,084

The amount of material and supplies recognized during fiscal year 2019 in the income statement was B/.43,112 (2018: B/.37,445).

The amount of fuel recognized during fiscal year 2019 in the income statement was B/.72,957 (2018:B/.70,806).

The ACP classified its inventories as non-current when it is expected that they will be used or consumed in the operation in a period of more than twelve months.

(9) Other Financial Assets

As of September 30, 2019, other financial assets are detailed as follows:

	2019	
	Book value	Fair value
Financial instruments measured at amortized cost:		
Time deposits over 90 days	1,515,512	1,519,248
Accrued interest receivable	27,724	27,724
	1,543,236	1,546,972
Financial instruments measured at fair value with changes in other comprehensive income (FVOCI):		
Corporate debt securities	2,770,136	2,770,136
Financial instruments designated as hedge instruments measured as fair value:		
Commodity call option contract	1,020	1,020
	4,314,392	4,318,128

(9) Other Financial Assets, continued

During fiscal year 2019, the financial instruments measured at fair value with changes in other comprehensive income (FVOCI) generated a unrealized income of B/.3,465, that was recognized in other comprehensive income.

During fiscal year 2019, sales of financial instruments at FVOCI were B/.331,384 (securities available for sale 2018: B/.75,794) with a realized net loss for (B/.394) and 2018: (B/.143).

During fiscal year 2019, financial instruments for B/.3,735,092 (2018: B/.2,791,579) were collected upon expiration.

As September 30, 2018, the other financial assets are detailed as follows:

	2018	
	Book value	**Fair value**
Investments held to maturity, measured at amortized cost:		
Time deposits over 90 days	1,230,000	1,230,000
Accrued interest receivable	16,690	16,690
	1,246,690	1,246,690
Securities available for sale, measured at fair value:		
Corporate debt securities	2,042,558	2,042,558
Financial instruments designated as hedge instruments measured as fair value:		
Interest rate swap	4,124	4,124
Commodity price swap contract	2,078	2,078
	3,295,450	3,295,450

During fiscal year 2018, the available for sale financial instruments generated a unrealized income of B/.240, that was recognized in other comprehensive income.

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.

Investments in securities and time deposits are negotiated 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, 2019, the annual interest rate of return of other financial assets (excluding current and saving accounts) was 2.93% (September 30, 2018: 2.10%) 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 hedging the risk of variability of future cash flows attributable to the price fluctuation of light diesel that the ACP will purchase during fiscal year 2020 for its operations, the ACP subscribed on September 19, 2019 a call option, Asian style contract effective October 1, 2019.

(10) Accrued Interest Receivable

Accrued interest receivable are detailed as follows:

	2019	2018
Corporate debt securities	25,127	22,773

(11) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	2019	2018
Cash on hand	41	46
Deposits in current accounts	18,826	5,182
Deposits in saving accounts	24,877	55,055
Time deposits with original maturities under 90 days	14,001	0
Accrued interest receivable	87	56
Total cash and cash equivalents	57,832	60,339

Cash deposit in bank accounts earns interest based on daily rates determined by correspondent banks. At September 30, 2019, these resources has the priority to cover ACP obligations and earns interest rates which vary between 0.08% and 2.5% (2018: 0.1% and 2%).

As of September 30, 2019 and as of September 30, 2018, there were no restrictions over the balance of cash and cash equivalents.

(12) Contributed Capital

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

This patrimony is divided into two groups: the inalienable patrimony, comprised of land, lakes, rivers, dams, locks and anchorages, as established in Article 2 of the Organic Law; and the economic patrimony, comprised of all those installations, buildings, structures and equipment that support the operation of the Canal, as established in Article 33 of the same Law. During fiscal year 2019, the Republic of Panama transferred as a donation to the ACP, a lot of land for an amount of B/.143.

(13) Contributions for Investment Programs, Payment of borrowings and Reserves

Changes in investment programs contributions, payment of borrowings contributions, and reserves, as of September 30, 2019, are detailed as follows:

	2019	Increase (decrease)	2018	Increase (decrease)	2017
Contributions:					
Investment programs	5,920,696	(32,061)	5,952,757	(33,078)	5,985,835
Payment of borrowings	115,000	115,000	0	0	0
	6,035,696	82,939	5,952,757	(33,078)	5,985,835
Reserves:					
Catastrofic risks	36,000	0	36,000	0	36,000
Contingencies and working capital	264,120	8,640	255,480	32,360	223,120
Enterprise capitalization	274,969	0	274,969	0	274,969
Strategic for investment programs	695,500	150,500	545,000	155,000	390,000
	1,270,589	159,140	1,111,449	187,360	924,089
Total	7,306,285	242,079	7,064,206	154,282	6,909,924

Investment programs

At September 30, 2019, the ACP decreased the funds of the investments programs by B/.32,061 (2018: -B/.33,078) for a contributed total of B/.2,208,280 (2018: B/.1,692,382) for the Investment program – Others and a decrease in the contributions for the Investment program – Canal expansion of B/.547,959 (2018: B/.0) for a contributed total of B/.3,712,416 (2018: B/.4,260,375) for the Investment program – Canal expansion. This contribution includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period.

Payment of borrowings

At September 30, 2019, the ACP contributed with B/.115,000 (2018: B/.0) for the payment of borrowings, for a contributed total of B/.115,000.

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 2019, it was approved to increase this reserve by B/.8,640 while in fiscal year 2018, it was approved to increase this reserve by B/.32,360 for a total reserve of B/.264,120 (2018: B/.255,480).

(13) Contributions for Investment Programs, Payment of borrowings and Reserves, continued

Enterprise capitalization

The ACP maintains an equity reserve for capitalization in order to ensure and facilitate the long-term financial projection of the ACP. During fiscal year 2019 and fiscal year 2018, this reserve was not adjusted and maintains a balance of B/.274,969.

Strategic for investment programs

The ACP established an equity reserve to maintain strategic sustainability and competitiveness of the Canal, ahead ensuring the availability of funds to meet additional needs of existing investment projects and to take advantage of growth opportunities requiring the implementation of new investment projects. During fiscal year 2019, it was approved to increase this reserve by B/.150,500 (2018: B/.155,000) for a total reserve of B/.695,500 (2018: B/.545,000).

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.

(14) Other Equity Accounts – Components of Other Comprehensive income

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

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

	2019	2018
Balance at the beginning of the year	(56,959)	(118,449)
Adoption impact of IFRS 9 as of October 1, 2018	754	0
	(56,205)	(118,449)
Actuarial valuations:		
Net remeasurement gains (losses) of employee defined benefit plans	(1,510)	566
Other comprehensive income not to be reclassified to profit or loss	(1,510)	566
Financial instruments:		
Reclassification of losses on financial instruments to profit for the year	(171)	0
Fair value with changes in other comprehensive income:		
Net unrealized gain during the year	3,465	240
Commodity Call option and Price swap contracts:		
net unrealized income (loss) of non-yet matured contracts	(1,058)	2,078
Cash flow hedges:		
Interest rate swap contracts:		
Reclassification of gains to income statement	13,806	16,655
net income (loss) of non-yet matured contracts	(61,648)	41,951
Other comprehensive income to be reclassified to profit or loss	(45,606)	60,924
(Loss) income during the year	(47,116)	61,490
Balance at the end of the year	(103,321)	(56,959)

(15) Unappropriated Retained Earnings

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 13, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.1,251,892 to the Panamanian Treasury which corresponds to the year ended September 30, 2019 (2018: B/.1,199,101). (See note 31).

Detail of payments to the Panamanian Treasury is as follows:

	2019	2018
Payments to the Panamanian Treasury:		
Fees per net ton	532,583	501,548
Public service fees	1,938	2,138
Sub-total	534,521	503,686
Unappropriated retained earnings (see note 31)	1,251,892	1,199,101
Total	1,786,413	1,702,787

(16) Borrowings

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

Credit Facilities	Interest Rate %	Maturity Date	2019	2018
European Investment Bank (BEI)	Libor 6 months + 0.811	15-Nov-28	285,000	300,000
European Investment Bank (BEI)	Libor 6 months + 0.824	15-Nov-28	95,000	100,000
European Investment Bank (BEI)	5.196	15-Nov-28	95,000	100,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.20	15-Nov-28	142,500	150,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.40	15-Nov-28	142,500	150,000
International Finance Corporation (IFC)	Libor 6 months + 1.30	15-Nov-28	285,000	300,000
Inter-American Development Bank (BID)	Libor 6 months + 1.05	15-Nov-28	380,000	400,000
Japan Bank for International Cooperation (JBIC)	Libor 6 months + 0.75	15-Nov-28	760,000	800,000
			2,185,000	2,300,000
	Accrued interest payable		30,530	31,520
			2,215,530	2,331,520

These credit facilities were subscribed under the Common Terms Agreement, to partially finance the Canal Expansion Program. ACP made the first principal payment for B/.115,000 on May 15, 2019, and will pay the same amount semi-annually until final due date, November 15, 2028.

	2019	2018
Current borrowings	230,000	115,000
Non-current borrowings	1,955,000	2,185,000
Accrued interest payable	30,530	31,520
Total	2,215,530	2,331,520

(16) Borrowings, continued

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

	2019	**2018**
Total debt to EBITDA Ratio	1.6	1.8
Debt Service Coverage Ratio	6.3	10.6

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

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

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

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

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

  As of September 30, 2019, 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, 2019, are detailed as follows:

	2019	**2018**
Interest on loans	107,893	92,222
Cash flow hedges	13,806	16,655
Other expenses	782	733
Total interests, cash flow hedges and other financing costs	122,481	109,610
Less: amount of capitalized financing costs	(19,242)	(22,680)
Total financing costs	103,239	86,930

(17) Bonds Payable

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

	Interest Rate%	Maturity Date	2019	2018
Bond 2035	4.95	Jul-29-35	450,000	450,000
Less: discount and issuing costs			8,513	9,078
Plus: accrued interest payable			3,712	3,712
Total			445,199	444,634

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

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

(18) Other Financial Liabilities

Other financial liabilities are detailed as follows:

	2019	2018
Financial instruments designated as hedging instruments carried at fair value:		
Interest rate swaps	103,603	59,884
	103,603	59,884

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.

(19) Trade and Other Payables

Trade and other payables are as follows:

	2019	2018
Panamanian Treasury	44,370	42,786
Suppliers and others	122,117	177,080
	166,487	219,866

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, 2019, the total of such fees paid amounted to B/.532,583 (2018: B/.501,548).

(20) 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:

	2019	2018
Balance at beginning of the year	20,402	14,045
Provision for the year	508	10,240
Payments made	(7,028)	(3,883)
Balance at the end of the year	13,882	20,402

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

(21) Other Liabilities

Other liabilities are detailed as follows:

	2019	2018
Inventories – in transit	5,419	8,219
Miscellaneous claims	8,666	4,800
Advance payment from Ministerio de Obras Públicas (MOP)	33,663	30,297
Large Screen Cinema Corp	7,128	0
Others	4,047	3,894
	58,923	47,210

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

(21) Other Liabilities, continued

In June 2015, under contract No. CCO-15-001, the company Large Screen Cinema Corp. obtained the concession for the design, construction, operation and maintenance of a large-format cinema on an adjacent area of the Miraflores Visitor Center, for a period of 10 years, renewable for another period of 10 years at ACP´s option. According to the contract, once the construction phase was completed, the concessionaire transferred to the ACP the building as well as additional assets free of liens and charge. The transferred assets were recognized as Investment Property for an amount of B/.7,705 and a deferred liability was recognized, which will be amortized in a straight line during the term of the contract (10 years) to the Other Income account. As of September 30, 2019, the amortized amount of the liability (deferred income) is for B/.577, resulting in a balance of B/.7,128.

(22) Labor, Materials and Other Capitalized Costs

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

	2019		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	635,504	19,357	616,147
Employee benefits	79,723	459	79,264
Materials and supplies	69,022	5,117	63,905
Fuel	76,513	3,556	72,957
Depreciation	210,874	1,899	208,975
	1,071,636	30,388	1,041,248

	2018		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	618,077	25,105	592,972
Employee benefits	78,545	773	77,772
Materials and supplies	73,626	5,228	68,398
Fuel	73,624	2,818	70,806
Depreciation	210,714	1,765	208,949
	1,054,586	35,689	1,018,897

(23) Other Miscellaneous Revenues

Other miscellaneous revenues are detailed as follows:

	2019	2018
Ticket office	12,481	9,884
Government of Panama:		
Agreement Bayano - Mi ambiente	2,151	1,273
Agreement Rio Indio - Mi ambiente	5,083	4,244
Leasing to Government Ministries, Police, VUMPA, among others	3,269	5,501
Other revenues:		
Panamá International Terminal, S.A	3,207	2,928
Sales of excess properties	1,831	1,852
Telecommunications	4,296	4,185
Others	6,549	6,406
Total of other miscellaneous revenues	38,867	36,273

(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) Employee Benefits

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

	2019	2018
Benefit for employment retirement	381,266	331,591

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.

(25) Employee Benefits, continued

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

The requirements and criteria under the VRI are: 1) the employee receives the benefit of VRI only if complies with 10 years of service and retires at the required age (early or regular) as may be he or she established by the Caja del Seguro Social, 2) be not less than 10 years working in the Canal; 3) the employee accepts the VRI offer, 4) the employee terminates work no later than 60 calendar days after completing the required age, 5) files the termination of employment form through voluntary resignation, and 6) the employee has no investigation initiated against him for the alleged commission of serious offenses against the ACP regulations that could result in his dismissal; and 7) have a maximum of two years of labor discontinuity so that if a license or several licenses are accepted or approved and separated from the ACP for more than two years to hold public or private positions, they will lose their eligibility to receive the VRI.

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, 2019. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for age average of personnel, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate, in accordance with IFRS, the present value of the liability for both retirement plans.

During the actuarial study, the fair value of the liability was calculated as required by the IFRS at different interest rates and at different case scenarios which included historical data provided by the ACP to the independent actuary at September 30, 2019 using a discount rate equal to the yield curve for corporate bonds with investment grade issued by companies in the United States of America (AAA, AA, A).

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

(25) Employee Benefits, continued

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

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2018	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2019
Fair value of the benefits	331,591	27,050	8,442	31,572	45,755	381,266

The principal actuarial assumptions used are shown below:

	Age	2019 %	2018 %
Discount rate		2.9	4.1
Salary increase		3.75	3.75
Mortality			
Female	57 years	2.8	2.8
Male	62 years	5.9	5.9
Disability			
Female	57 years	1.2	1.2
Male	62 years	1.9	1.9

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

	2019
Maturity of the obligation:	
From 0 to 1 year	33,777
From 1 to 5 years	148,739
From 5 to 10 years	202,671
From 10 to 25 years	357,442
Beyond 25 years	83,284

At September 30, 2019, the average duration of the obligation for the defined benefit plans for voluntary retirement of employees (VRI/LRB) is approximately 7.72 years (2018: 7.78 years) at a discount rate of 2.9% (2018: 4.1%).

(25) Employee Benefits, continued

A quantitative sensitivity analysis for significant assumptions as of September 30, 2019 is as follows:

Assumption	Discount rate Increase 25 bps	Discount rate Decrease 25 bps	Increase of salary of 25 bps	Decrease of salary of 25 bps
Sensitivity level				
Impact on defined benefit obligation	(B/.7,588)	B/.8,095	B/.7,702	(B/.7,478)

Reiumbursement right to ACP

The ACP contracted a reimbursement policy, in accordance with IAS 19, to cover the defined benefit plans for voluntary retirement of employees. The policy ensures the ACP reimbursement of all payments made by the ACP in respect of defined benefit plans for voluntary retirement of employees during the term of the plan as long as the ACP makes annual installments to the insurance company as a guarantee deposit equal to the probable amount that the ACP would pay during the year for the retirement benefit plans. In addition, the reimbursement policy provides protection in each year of its term against the risk that the ACP suffers any financially incapacitating event to meet payment of obligations to its employees, for any reason, including illiquidity, if occurred during the term of the policy, as long as the ACP is current in the payments of the premium and the defined benefit plans for voluntary retirement are in effect. The policy does not cover the risk of default of the ACP that could arise from internal fraud, catastrophic physical risks, nuclear war, terrorism, and epidemics, which has been estimated at 3.3% of the total insured amount.

Changes in the reimbursement right to ACP during fiscal year 2019 are detailed as follows:

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2018	Reimbursement right cost of the year	Net interest	Reimbursements during the year	Actuarial adjustments	September 30, 2019
Reimbursement right to ACP	320,649	24,353	8,163	28,726	44,245	368,684

At September 30, 2019, the ACP paid the insurer B/.29,970 (2018: B/.27,350) 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 levels, performing various risk management activities 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.

(26) Risk Management, continued

The ACP's capital structure consists of net debt (borrowings and bonds as detailed in notes 16 and 17), compensated by cash and bank deposit balances, other financial assets (See note 9) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 12, 13, 14 and 15, respectively).

Historically, the ACP has operated with its own resources due to the high cash levels generated by its operations, enabling it to afford its costs of operation, investment, functioning, maintenance and modernization. On December 2008 it subscribed a common term financing agreement with five development agencies, which committed to grant financings totaling B/.2,300,000 in order to partially finance the Canal Expansion Program. More recently, in September 2015, it issued bonds on the international market totaling B/.450,000 in order to partially finance the building of the bridge on the Atlantic side of the Canal. (See notes 16 and 17).

Categories of financial instruments

	2019	2018
Financial assets		
Cash and cash equivalents (note 11)	57,832	60,339
Advances and other receivables to contractor, net (note 5)	0	840,111
Trade and other receivables (note 6)	41,363	54,227
Operations with settlement in progress	2,603	0
Other financial assets (note 9)	4,314,392	3,295,450
	4,416,190	4,250,127
Financial liabilities		
Financial instruments designated as hedging instruments (note 18)	103,603	59,884
Trade and other payables (note 19)	166,487	219,866
Borrowings (note 16)	2,215,530	2,331,520
Bonds payable (note 17)	445,199	444,634
	2,930,819	3,055,904

Accounting classification and fair values

The following table shows the book value and the fair value of financial assets and liabilities, including their fair value hierarchy levels.

(26) Risk Management, continued

	Book value				
September 30, 2019	**Fair value – hedging instruments**	**FVOCI – Debt securities**	**Financial assets at amortized cost**	**Financial liabilities**	**Total**
Financial assets measured at fair value					
Other financial assets:					
Corporate debt securities	0	2,770,136	0	0	2,770,136
Instruments designated in cash flow hedging relationship:					
Call option - Diesel	1,020	0	0	0	1,020
	1,020	2,770,136	0	0	2,771,156
Financial assets not measured at fair value					
Other financial assets:					
Time deposits, more than 90 days	0	0	1,515,512	0	1,515,512
Accrued interest receivable	0	0	27,724	0	27,724
	0	0	1,543,236	0	1,543,236
Trade and other receivables	0	0	41,363	0	41,363
Operations with settlement in progress	0	0	2,603	0	2,603
Cash and cash equivalents	0	0	57,832	0	57,832
	0	0	1,645,034	0	1,645,034
Financial liabilities measured at fair value:					
Other financial liabilities:					
Instruments designated in cash flow hedging relationship:					
Interest rate swaps	103,603	0	0	0	103,603
	103,603	0	0	0	103,603
Financial liabilities not measured at fair value:					
Bonds payable	0	0	0	445,199	445,199
Borrowings	0	0	0	2,215,530	2,215,530
Trade and other payables	0	0	0	166,487	166,487
	0	0	0	2,827,216	2,827,216

(26) Risk Management, continued

September 30, 2018	Fair value – hedging instruments	Available for sale	Held to maturity	Borrowings and receivables	Financial liabilities	Total
	Book value					
Financial assets measured at fair value						
Other financial assets:						
Corporate debt securities	0	2,042,558	0		0	2,042,558
Instruments designated in cash flow hedging relationship:						
Interest rate swaps	4,124	0	0	0	0	4,124
Diesel swap contracts	2,078	0	0	0	0	2,078
	6,202	2,042,558	0	0	0	2,048,760
Financial assets not measured at fair value						
Other financial assets:						
Time deposits, more than 90 days	0	0	1,230,000	0	0	1,230,000
Accrued interest receivable	0	0	16,690	0	0	16,690
	0	0	1,246,690	0	0	1,246,690
Advances and other receivables to contractors	0	0	0	840,111	0	840,111
Trade and other receivables	0	0	0	54,227	0	54,227
Cash and cash equivalents	0	0	60,339	0	0	60,339
	0	0	1,307,029	894,338	0	2,201,367
Financial liabilities measured at fair value:						
Other financial liabilities:						
Hedging instruments – interest rate swaps	59,884	0	0	0	0	59,884
	59,884	0	0	0	0	59,884
Financial liabilities not measured at fair value:						
Bonds payable	0	0	0	0	444,634	444,634
Borrowings	0	0	0	0	2,331,520	2,331,520
Trade and other payables	0	0	0	0	219,866	219,866
	0	0	0	0	2,996,020	2,996,020

September 30, 2019	Level 1	Level 2	Level 3	Total
	Fair value			
Financial assets measured at fair value				
Other financial assets:				
Corporate debt securities	1,987,948	782,188	0	2,770,136
Instruments designated in cash flow hedging relationship:				
Call option - Diesel	0	1,020	0	1,020
	1,987,948	783,208	0	2,771,156
Financial assets not measured at fair value				
Other financial assets:				
Time deposits, more than 90 days	0	1,543,236	0	1,543,236
Trade and other receivables	0	0	41,363	41,363
Operations with settlement in progress	0	0	2,603	2,603
Cash and cash equivalents	0	0	57,832	57,832
	0	1,543,236	101,798	1,645,034
Financial liabilities measured at fair value:				
Other financial liabilities:				
Instruments designated in cash flow hedging relationship:				
Interest rate swaps	0	103,603	0	103,603
	0	103,603	0	103,603
Financial liabilities not measured at fair value:				
Bonds payable	0	0	518,841	518,841
Borrowings	0	0	2,224,602	2,224,602
Trade and other payables	0	0	166,487	166,487
	0	0	2,909,930	2,909,930

(26) Risk Management, continued

September 30, 2018	Fair value Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other financial assets:				
Corporate debt securities	1,577,164	465,394	0	2,042,558
Instruments designated in cash flow hedging relationship:				
Interest rate swaps	0	4,124	0	4,124
Diesel swap conttract	0	2,078	0	2,078
	1,577,164	471,596	0	2,048,760
Financial assets not measured at fair value				
Other financial assets:				
Time deposits, more than 90 days	0	1,246,690	0	1,246,690
Advances and other receivables to contractor	0	0	831,869	831,869
Trade and other receivables	0	0	54,227	54,227
Cash and cash equivalents	0	0	60,339	60,339
	0	1,246,690	946,435	2,193,125
Financial liabilities measured at fair value:				
Other financial liabilities:				
Hedging instruments – interest rate swap contracts	0	59,884	0	59,884
	0	59,884	0	59,884
Financial liabilities not measured at fair value:				
Bonds payable	0	0	467,114	467,114
Borrowings	0	0	2,355,208	2,355,208
Trade and other payables	0	0	219,866	219,866
	0	0	3,042,188	3,042,188

This table presents the fair value of each type of financial assets and liabilities in order to compare the information with their corresponding book values. In addition, it reconciles assets and liabilities with the different financial instrument categories as defined by the IAS 39 – Financial Instruments: Recognition and Measurement, before October 1, 2018, and with the different financial instrument categories as defined by the IFRS 9- Financial Instruments after on October 1, 2018.

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

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

(26) Risk Management, continued
Fair value measurement

i. Valuation techniques and unobservable significant inputs

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

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

(26) Risk Management, continued

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Diesel Price swaps	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable diesel prices are based on swap rates, future prices and interbank rates. Future cash flow are discounted with a yield curve constructed of similar sources that reflect the relevant interbank rates used by market participants for this purpose when valuing diesel swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated using credit margins derived from credit default swaps or bond prices.	None	None
Diesel purchase option contract	*Option Model:* the fair value is calculated using the Black Scholes Model, which determines the reasonable price or theoretical price of an option based on six variables: volatility, type of option, underlying price, time, strike price and risk free rate.	None	None
Corporate debt securities	*Market comparison*. Fair value is estimated considering recent or current quotes prices for identical instruments on an inactive market.	None	None

As of September 30, 2019, debt instruments classified at fair value with changes in other comprehensive income (previously classified as available for sale) were transferred from Level 1 to Level 2 due to the observable reference prices in an active market, where the entry data is directly or indirectly observable.

(26) Risk Management, continued

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 was to finance the Canal Expansion Program and the new bridge at the Atlantic side of the Canal. The ACP also has cash, bank deposits, operations with settlement in progress, trade and other receivables, and funds invested in short term debt instruments held until maturity. The ACP also contracts hedging instruments.

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

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

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

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

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

Market risk

ACP's activities are exposed primarily to financial risks due to variations of currency exchange, interest rates, and commodity prices out of its control. All ACP´s financial instruments are at fixed rate, with the exception of B/. 2,200,000 in borrowings which are at variable rate (see note 16). With the purpose of managing these risks exposures, the ACP subscribes a variety of hedge financial instruments approved by its Board of Directors based on the recommendations of the Liquidity and Hedging Committee, including:

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

- Diesel price options/swaps to mitigate the risk of fluctuations in the price of this commodity, which is required for the Canal's regular operations.

Exchange rate risk management

The ACP has established a policy to manage foreign currency risk related to its functional currency. The ACP only accepts payments in dollars of the United States of America and the investment criteria and applicable guidelines require that all deposits and investments in banks shall be in the dollars of the United States of America, or in other currencies authorized by the Board of Directors.

(26) Risk Management, continued

As of September 30, 2019 and September 30, 2018, the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Cash flow and fair value interest rate risk

The interest rate risk of the cash flow and the interest rate risk of fair value consist in the fact that future cash flows and the value of a financial instrument fluctuate due to changes in market rates.

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

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

	2019					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and term deposits	0	30,000	1,500,001	43,744	0	1,573,745
Debt instruments -FVOCI	245,108	637,792	1,887,235	0	0	2,770,136
	245,108	667,792	3,387,236	43,744	0	4,343,881
Liabilities						
Borrowings	2,090,000	0	0	0	95,000	2,185,000
Bonds payable	0	0	0	0	450,000	450,000
	2,090,000	0	0	0	545,000	2,635,000
Interest rate swap hedges	(720,000)	0	40,000	320,000	360,000	0
Total interest rate sensitivities	(1,124,892)	667,792	3,347,236	(276,256)	(905,000)	1,708,881

	2018					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and time deposits	90,000	10,000	1,190,237	0	0	1,290,237
Debt instruments - FVOCI	144,563	817,922	1,080,073	0	0	2,042,558
	234,563	827,922	2,270,310	0	0	3,332,795
Liabilities						
Borrowings	2,200,000	0	0	0	100,000	2,300,000
Bonds payable	0	0	0	0	450,000	450,000
	2,200,000	0	0	0	550,000	2,750,000
Interest rate swap hedges	(2,200,000)	0	110,000	1,650,000	440,000	0
Total interest rate sensitivities	234,563	827,922	2,160,310	(1,650,000)	(990,000)	582,795

(26) Risk Management, continued

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

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

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

	Net interest income sensitivity			
	100bp increment		100bp reduction	
	2019	2018	2019	2018
At the end of the year	17,647	20,554	(17,647)	(20,554)

	Other comprehensive income sensitivity			
	100bp increment		100bp reduction	
	2019	2018	2019	2018
At the end of the year	27,977	60,953	(27,981)	(60,965)

Interest rate risk management

The ACP is exposed to interest rate risk because it borrowed funds at fixed and variable rate and issued bonds at fixed rates. This risk is managed with the use of interest rate swap contracts. Given market conditions, hedging activities are evaluated regularly in order to consider interest rate volatility and risk tolerance, ensuring that the most conservative hedging strategies are applied.

Interest rate swap contracts

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

In March 2018 the ACP contracted interest rate swap contracts without collateral, to protect the fiscal year 2019 budget in two B/.700,000 tranches, a total of B/.1,400,000, effective as of November 15, 2018 up to November 15, 2019.

(26) Risk Management, continued

These interest rate swap contracts totaling B/.1,400,000 consider the B/.70,000 semi-annual principal amortizations starting on May 15, 2019 up to the swap maturity on November 15, 2019.

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

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

Notional	Effective date	Maturity date
760,000	May-17-2010	Nov-15-2028
665,000	Nov-15-2018	Nov-15-2019
665,000	Nov-15-2018	Nov-15-2019

Interest rate swap, variable receipts and fixed payment	Average contracted fixed interest rate		Notional principal value		Fair value	
	2019	2018	2019	2018	2019	2018
Less than 1 year	2.71%	2.71%	665,000	700,000	(102)	1,415
Less than 1 year	2.75%	2.75%	665,000	700,000	(139)	1,125
5 years or more	4.67%	4.67%	760,000	800,000	(103,362)	(59,884)

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

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

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

(26) Risk Management, continued

Asset and liability derivative instruments designated as cash flow hedges
The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, as well as the book value of the hedge instruments:

	2019					2018				
		Expected cash flow					Expected cash flow			
(In thousands of B/.)	Book value	Total	1-6 months	6-12 months	More than 1 year	Book value	Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	0	0	0	0	0	4,124	9,034	6,415	166	2,454
Liabilities	(103,603)	(115,949)	(9,054)	(9,783)	(97,112)	(59,884)	(73,115)	(8,802)	(7,695)	(56,618)
Call option – Diesel										
Assets	1,020	0	0	0	0	2,078	2,315	1,027	1,288	0
	(102,583)	(115,949)	(9,054)	(9,783)	(97,112)	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)

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

	2019					2018				
		Expected cash flow					Expected cash flow			
(In thousands of B/.)	Book value	Total	1-6 Months	6-12 months	More than 1 year	Book value	Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	0	0	0	0	0	4,124	9,034	6,415	166	2,454
Liabilities	(103,603)	(115,949)	(9,054)	(9,783	(97,112)	(59,884)	(73,115)	(8,802)	(7,695)	(56,618)
Call option - Diesel										
Assets	1,020	0	0	0	0	2,078	2,315	1,027	1,288	0
	(102,583)	(115,949)	(9,054)	(9,783)	(97,112)	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)

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

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

(26) Risk Management, continued

Liquidity risk tables

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

	September 30, 2019						
	Book value	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 – 5 years	More than 5 years
Assets:							
Cash and cash equivalents	57,832	57,832	57,832	0	0	0	0
Time deposits, more than 90 days	1,543,236	1,555,307	895,832	628,602	30,883	0	0
Debt instruments - FVOCI	2,770,136	2,823,797	725,749	1,084,000	1,014,049	0	0
Trade and other receivables	41,360	41,360	41,360	0	0	0	0
	4,412,564	4,478,296	1,720,762	1,712,602	1,044,932	0	0
Liabilities:							
Borrowings	2,215,530	2,461,281	125,122	0	146,857	1,082,802	1,106,500
Bonds payable	445,199	778,656	0	11,138	11,138	78,063	678,319
Trade and other payables	166,487	166,606	166,606	0	0	0	0
	2,827,216	3,406,543	291,727	11,138	157,995	1,160,865	1,784,819
Hedging instruments:							
Diesel call option, fixed payment and variable receipt, net	1,020	0	0	0	0	0	0
Interest rate swap, fixed payment and variable receipt, net	(103,603)	(115,949)	(9,054)	0	(9,783)	(69,468)	(27,644)
Total – hedge instruments	(102,583)	(115,949)	(9,054)	0	(9,783)	(69,468)	(27,644)

(26) Risk Management, continued

	September 30, 2018						
	Book value	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 – 5 years	More than 5 years
Assets							
Cash and cash equivalents	60,339	61,656	61,656	0	0	0	0
Time deposits	1,246,690	1,246,693	1,029,601	116,758	100,334	0	0
Securities available for sale	2,042,558	2,094,170	247,324	782,487	1,064,359	0	0
Trade and other receivables	54,227	54,227	54,227	0	0	0	0
Advances and other receivables to contractors	840,111	840,111	547,959	0	0	292,152	0
	4,243,925	4,296,857	1,940,767	899,245	1,164,693	292,152	0
Liabilities							
Borrowings	2,331,520	(2,821,312)	(10,450)	0	(158,768)	(1,223,819)	(1,428,275)
Bonds payable	444,634	(811,969)	0	(11,138)	(11,138)	(89,100)	(700,594)
Trade and other payables	219,866	(219,866)	(219,866)	0	0	0	0
	2,996,020	(3,853,147)	(230,316)	(11,138)	(169,905)	(1,312,919)	(2,128,869)
Diesel Price swap, fixed payment and variable receipt, net	2,078	2,315	409	618	1,288	0	0
Interest rate swap, fixed payment and variable receipt, net	(55,760)	(64,082)	(2,387)	0	(7,530)	(34,831)	(19,334)
Total	(53,682)	(61,767)	(1,978)	618	(6,242)	(34,831)	(19,334)

In order to finance the Canal Expansion Program for a total of B/.2,300,000, the ACP entered a Common Terms Agreement with five multilaterals credit agencies. Currently 4.3% of the debt (B/.95,000) has a fixed effective rate of 5.31%, while the remaining 95.7% (B/.2,090,000) has a variable average effective rate of 2.44%. The effective rate for the financing, calculated as a weighted average of both, its fixed and variable portions, is 2.56%.

For the financing of the new bridge across the Atlantic Side of the Canal, bonds totaling B/.450,000 were issued at a fixed rate of 4.95% (effective rate of 5.14%) payable semi-annually in January and July of each year. The interest rate swap contracts subscribed with ACP's counterparties stipulate that the ACP will not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

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

	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
September 30, 2019							
Variable interest rate loans	2.44%	0	110,000	110,000	880,000	990,000	2,090,000
Fixed interest rate loans	5.31%	0	5,000	5,000	40,000	45,000	95,000
Fixed interest rate bonds	5.14%	0	0	0	0	450,000	450,000
		0	115,000	115,000	920,000	1,485,000	2,635,000

(26) Risk Management, continued

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

Maritime operations
The ACP uses approximately between 10 and 14 million gallons of light diesel on its vessel transit and dredging operations. Since October 20, 2009, risk management for diesel price fluctuations is performed mainly within the fiscal year, period that is considered representative for the implementation of appropriate commercial policies. In order to manage the risk, the ACP performs specific hedging transactions covering approximately 80% of the expected volume.

In august 2018, the ACP purchased a diesel swap contract to protect its fiscal year 2019 operational diesel budget for 11.1 million gallons with a monthly notional of 922,100 gallons, paying a light diesel price of B/.2.0885 per gallon and receiving the monthly average variable price, in order to hedge its operational diesel price fluctuation risk. At the end of fiscal year 2019 the registered accumulated annual fuel consumption totaled 13.6 million gallons.

Energy generation
The ACP generates power for the consumption of the Canal's operations, while excess capacity is sold in the domestic electricity market. Until September 2019, the ACP consumed 24% of the power generated, while the remaining 76% was sold to the electric market. Power generated by hydroelectric and thermal plants was 22% and 78%, respectively.

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

Operational fuel price risk sensitivity analysis
As of September 30, 2019, the current price index for light diesel purchases made by the ACP was B/.2.08 per gallon. As of September 30, 2019 the light diesel operational expense registered a real decrease of B/.835.

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 international credit risk rating, capital/leverage coverage, country risk, liquidity index, impairment, performance and credit risk. In the case of sovereign issuers, the country risk factor is the only one considered.

(26) Risk Management, continued

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

Credit risk refers to the risk that one of the parties does not comply with its contractual obligations, resulting in financial loss to the ACP. To address this risk, ACP's policies only allow depositing funds in banking institutions and financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-2 by Standard & Poors, P-2 by Moody's Ratings, or F-2 by Fitch Ratings. Additionally, these policies allow for a total investment of up to seven percent of the portfolio in financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-3 by Standard & Poors, P-3 by Moody's Bank Deposit Ratings, or F-3 by Fitch Ratings.

Credit quality analysis

The tables below show the credit quality analysis of the different type of financial assets the ACP maintains, which were classified based on their international risk rating from risk rating agencies, and the impairment reserves calculated using on their 12 month expected loss of such assets:

Advances and other receivables to contractors

The total recovery of the advances for B/. 847,630 was received from the contractor GUPCSA as a result of the arbitration awards in favor of the ACP.

The movement in the expected credit impairment loss related to the advances and other receivables to contractors is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	526
Balance as of October 1, 2018, according to IFRS 9	526
Net remeasurement of the loss provision	0
Financial assets derecognized	(526)
New financial assets acquired	0
Balance as of September 30, 2019	0

(26) Risk Management, continued

Trade and other receivables

As of September 30, 2019, the 12 month expected loss for the trade and other receivables totaled B/.2. This provision does not contemplate credit losses related to the Panamanian Treasury, as the ACP has the right to exercise at any moment a discount from its annual payments to the Panamanian Treasury corresponding to any defaulted balance outstanding.

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	37
Balance as of October 1, 2018, according to IFRS 9	37
Net remeasurement of the loss provision	0
Financial assets derecognized	(37)
New financial assets acquired	2
Balance as of September 30, 2019	2

The ACP considers that its accounts receivable portfolio has a low credit risk based on the external credit ratings of its counterparties.

The evaluation of the account receivables expected credit loss utilized a similar approach to the one used on the debt instruments.

Operations with settlement in progress

As of September 30, 2019, the 12 month expected credit loss of operations with settlement in progress totaled B/.3.

The ACP considers that operations with settlement in progress have a low credit risk based on the external credit ratings of its counterparties.

The evaluation of the operations with settlement in progress expected credit loss utilized a similar approach to the one used on the debt instruments.

(26) Risk Management, continued

The movement in the expected credit impairment loss related to the operations with settlement in progress is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	0
Balance as of October 1, 2018, according to IFRS 9	0
Net remeasurement of the loss provision	0
Financial assets derecognized	0
New financial assets acquired	3
Balance as of September 30, 2019	3

Bank deposits

As of September 30, 2019, 100% (2018: 100%) of the demand and time bank deposits were placed with investment grade financial institutions.

	September 30, 2019			September 30, 2018
	Amortized cost			
	Cash and cash equivalents 12 month ECL	Time deposits, more than 90 days 12 month ECL	Total	Held to maturity
Aaa to Aa3	29,868	204,845	34,713	380,000
A1 to A3	26,793	550,875	577,668	705,063
Baa1	0	0	0	200,091
Baa2	1,186	788,003	789,189	5,084
Gross book value (2018: amortized cost prior to impairment	57,847	1,543,723	1,601,570	
Loss provision	(15)	(487)	(502)	
Amortized cost	57,832	1,543,236	1,601,068	
Book value	57,832	1,543,236	1,601,068	1,290,238

The "cash and cash equivalent" category includes all demand deposits accounts, savings accounts, overnight accounts, as well as those time deposits with a short term maturity, meaning less than 90 days.

The credit impairment loss provision was calculated based on the expected 12 month credit loss, considering each counterparty's default probability, the proportion of the position which would be lost if the loss materialized, and the exposed amount itself.

(26) Risk Management, continued-

The calculation of the bank deposit's additional expected credit loss provision is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	493
Balance as of October 1, 2018, according to IFRS 9	493
Net remeasurement of the loss provision	0
Financial assets derecognized	(493)
New financial assets acquired	502
Balance as of September 30, 2019	502

Investment securities measured at fair value with changes in other comprehensive income

The ACP's investment portfolio consists of debt instruments classified at fair value with changes in other comprehensive income, acquired with the intention to be held for a period less or equal to one year, which are susceptible to being sold in order to attend the liquidity needs or changes in interest rates, which may impact significantly the debt service. Such instruments are measured and reported at fair value, but they do not impact the income statement.

	September 30, 2019				**September 30, 2018**
	Fair value with changes in other comprehensive income				
	12 month ECL	**Lifetime ECL - without credit impairment**	**Lifetime ECL - with credit impairment**	**Total**	**Securities available for sale**
Aaa to Aa3	6,005	0	0	6,005	67,729
A1 to A3	391,218	0	0	391,218	398,367
Baa1	533,938	0	0	533,938	543,798
Baa2	1,249,437	0	0	1,249,437	715,859
Baa3	587,052	0	0	587,052	318,054
Gross book value (2018: amortized cost before impairment	2,767,650	0	0	2,767,650	0
Loss provision	(583)	0	0	(583)	0
Amortized cost	2,767,067	0	0	2,767,067	0
Book value	2,770,136	0	0	2,770,136	2,043,538

(26) Risk Management, continued

The expected credit loss provision for the Investment securities measured at fair value with changes in other comprehensive income is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	754
Balance as of October 1, 2018, according to IFRS 9	754
Net remeasurement of the loss provision	0
Financial assets derecognized	(754)
New financial assets acquired	583
Balance as of September 30, 2019	583

Measurement of the gain or impairment loss

ACP recognizes the gains or impairment losses of the financial instruments measured at fair value with changes in other comprehensive income based on the difference between the book value carried at amortized cost and the fair value of the instruments, as stated below:

	September 30, 2019		
	Fair Value	Amortized Cost	Unrealized gain or loss
Aaa to Aa3	6,017	6,005	12
A1 to A3	391,751	391,218	533
Baa1	527,112	526,603	509
Baa2	1,566,611	1,565,665	946
Baa3	278,644	278,160	484
	2,770,136	2,767,650	2,484

Credit Risk Concentration

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

	2019
Basic materials	136,055
Communications	206,094
Consumer, cyclical	299,836
Consumer, non-cyclical	690,162
Energy	295,353
Financials	667,349
Industry	158,525
Technology	69,358
Services	247,403
Total	2,770,136

(26) Risk Management, continued

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. ACP's exposure and the credit ratings of its counterparties are reviewed continuously. The credit exposure is controlled by counterparty limits that are quarterly reviewed quarterly through the "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. International credit risk rating
2. Capital/leverage coverage
3. Country risk
4. Liquidity index
5. Impairment
6. Performance
7. Credit risk

Banking institutions and issuers 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

(27) Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 requires the reclassification and remeasurement of the ACP's financial assets based on established business models, and on the characteristics of the contractual cash flow of the financial asset.

The main objective of the ACP's business model for investment securities is to receive contractual capital and interest flows and be able to sell at any time due to liquidity needs or due to interest rate changes.

As of October 1, 2018, the classification and measurement of financial instruments held as of September 30, 2018, are as follows:

- Trade and other receivables measured at amortized cost under IAS 39, maintain this measurement under IFRS 9.
- Advances and other receivable to contractor measured at amortized cost under IAS 39, maintain this measurement under IFRS 9.
- Cash and cash equivalents and time deposits over 90 days that are classified as financial instruments held to maturity and measured at amortized cost under IAS 39, maintain this measurement under IFRS 9.
- Debt instruments classified as available for sale under IAS 39 were classified as FVOCI under IFRS 9, unless their contractual flows are not only principal and interest payments in which case they are classified as FVTPL.
- Derivatives held to manage risks that are measured at fair value under IAS 39, maintain this measurement under IFRS 9.

(27) Adoption of IFRS 9 Financial Instruments, continued

The following table shows the original measurement categories under IAS 39 for the ACP's financial assets and liabilities as of September 30, 2018 and its new classification and value under IFRS 9 as of October 1, 2018:

	Original classification IAS 39	New classification IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Financial assets:				
Cash and cash equivalents	Held to maturity	Amortized cost	60,283	60,281
Advances and other receivable to contractor	Loans and receivable	Amortized cost	840,111	839,585
Trade and other receivables	Loans and receivable	Amortized cost	54,227	54,190
Time deposits over 90 days	Held to maturity	Amortized cost	1,230,000	1,229,509
Corporate debt securities	Available-for-sale	FVOCI	2,042,558	2,042,558
Interest rate swaps	Fair value	FVOCI	4,124	4,124
Call option - Diesel	Fair value	FVOCI	2,078	2,078
Total financial assets			4,233,381	4,232,325
Financial liabilities:				
Bonds payable	Financial liabilities	Financial liabilities	440,922	440,922
Borrowings	Financial liabilities	Financial liabilities	2,300,000	2,300,000
Trade and other payable	Financial liabilities	Financial liabilities	219,866	219,866
Interest rate swaps	Fair value	FVOCI	59,884	59,884
Total financial liabilities			3,020,672	3,020,672

The following table summarizes the changes in equity items that were modified as a result of the adoption of IFRS 9 as of October 1, 2018:

	Impact of adoption of IFRS 9 in the opening balance
Other equity accounts:	
Balance as of September 30, 2018	(56,959)
Recognition of expected credit losses for corporate debt securities at FVOCI	754
Balance as of October 1, 2018	(56,205)
Earnings available to distribute:	
Balance as of September 30, 2018	1,199,101
Recognition of expected credit losses for advances and other receivable to contractor	(526)
Recognition of expected credit losses for trade and other receivables	(37)
Recognition of expected credit losses for deposits over 90 days	(491)
Recognition of expected credit losses for corporate debt securities at FVOCI	(754)
Recognition of expected credit losses for cash and cash equivalents	(2)
Changes due to adoption of IFRS 9	(1,810)
Balance as of October 1, 2018	1,197,291

(27) Adoption of IFRS 9 Financial Instruments, continued

The following table reconciles the carrying value under IAS 39 to the carrying value under IFRS 9 on October 1, 2018:

Financial instruments	Carrying Value IAS 39 September 30, 2019	Reclassification	Remeasurement	Carrying value IFRS 9 October 1, 2018
Financial Assets				
Amortized cost				
Advances and other receivable to contractor				
Brought forward: Loans and receivables	840,111			
Remeasurement			(526)	
Carried forward: Amortized cost				839,585
Trade and other receivables				
Brought forward: Loans and receivables	54,227			
Remeasurement			(37)	
Carried forward: Amortized cost				54,190
Deposits over 90 days				
Brought forward: Held to maturiy	1,230,000			
Remeasurement			(491)	
Carried forward: Amortized cost				1,229,509
Cash and cash equivalents				
Brought forward: Held to maturiy	60,283			
Remeasurement			(2)	
Carried forward: Amortized cost				60,281
Total amortized cost	2,184,621	0	(1,056)	2,183,565
Fair Value OCI				
Corporate debt securities				
Brought forward: Available for sale	2,042,558			
Reclassified to: Fair Value OCI		2,042,558		
Carried forward: FVOCI				2,042,558
Interest rate swaps	4,124			4,124
Diesel swap contracts	2,078			2,078
Total fair value OCI	2,048,760	2,042,558	0	2,048,760
Financial liabilities				
Amortized cost				
Bonds payable	440,922			440,922
Borrowings	2,300,000			2,300,000
Trade and other payables	219,866			219,866
Total amortized cost	2,960,788	0	0	2,960,788
Fair value OCI				
Interest rate swaps	59,884			59,884
Total fair value OCI	59,884	0	0	59,884

(27) Adoption of IFRS 9 Financial Instruments, continued

The following table summarizes the additional impairment requirements as a result of the adoption of IFRS 9 as of October 1, 2018:

Loss allowance as of September 30, 2018 under IAS 39	
Additional impairment recognized at October 1, 2018 on:	
Advances and other receivable to contractor	526
Trade and other receivables	37
Time deposits over 90 days	491
Corporate debt securities	754
Cash and cash equivalents	2
Loss allowance as of October 1, 2018 under IFRS 9	1,810

(28) Related Party Transactions

Commercial transactions

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

	Sale of goods and services Year ended		Purchase of goods and services Year ended	
	2019	2018	2019	2018
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	36,174	34,265	0	0
Other government entities	10,637	15,514	0	0
Caja de Seguro Social	0	0	79,723	78,545
Fees paid to Panamanian Treasury	0	0	534,521	503,686
	46,811	49,779	614,244	582,231

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	
	2019	2018	2019	2018
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,656	7,545	0	0
Other government entities	14,198	9,079	7,189	3,855
Advance payment from Ministerio de Obras Públicas (MOP)	0	0	33,663	30,297
Caja de Seguro Social	0	0	32,756	31,123
Public service fees	0	0	44	175
Panamanian Treasury – fees per net ton	0	0	44,370	42,786
	21,854	16,624	118,022	108,236

(28) Related Party Transactions, continued

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

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

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

Compensation and benefits to key executives

The ACP paid as of September 30, 2019 a total of B/.4,481 (2018: B/.3,391) for remuneration and benefits to its key management personnel. The Board of Directors compensation add a total of B/.467 (2018: B/.459). It is the responsibility of the Administration to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

(29) Commitments

The commitments for construction contracts in process and purchase orders, which are pending of delivery approximately amounted to B/.132,025 as of September 30, 2019 (2018: B/.230,485) as follows:

	2019	**2018**
Investment programs:		
Canal expansion	631	11,584
Others	70,188	150,812
Sub-total	70,819	162,396
Operations	61,206	68,089
	132,025	230,485

The commitments of the expansion program include the contracts awarded during the twelve months ending on September 30, 2019 B/.824 (2018: B/.17,314).

This balance also include CH2M HILL PANAMA S DE R L Technical Claim Support and Other Services related to the Third Set of Locks Contract for B/.1 (2018: B/.0).

Commitments of the investment program-others includes: Damen Shipyards Gorinchem VB for the replacement of the Titan Dredger for B/.37,010 (2018: B/.0); Puente Atlántico, S.A. for the construction of a bridge across the Canal at the Atlantic Side for B/.3,654 (2018: B/.40,084); and China Tiesiju Civil Engineering Group CO LTD for construction of new workshops and administrative offices of the Energy Division in Miraflores for B/.3,341 (2018: B/.0).

(29) Commitments, continued

The operating commitments include contracts awarded: for purchases of inventory for B/.17,482 (2018: B/.24,148), to Willis Towers Watson for the multi-year insurance policy for three years for B/.13,970 (2018: B/.0); Vinson & Elkins LLP for special legal advice services in the field of contracts for the Canal Expansion Program and jurisdictional representation for B/.3,959 (2018:B/.0); Mayer Brown LLP for Canal Expansion Program legal services for B/.3,019 (2018:B/.0).

Bond:

The ACP subscribes the following contracts for the purchase of energy, which are guaranteed with a compliance bond issued by a bank with investment grade A+ from Standards & Poors. ACP and Gas Naturgy for B/.3,285, ACP and ENSA for B/.2,503, and ACP and ETESA por B/.800.

(30) Contingent Liabilities

As of September 30, 2019, two of the arbitrations filed by GUPCSA and its shareholders (other than CUSA) against the ACP under the rules of the International Chamber of Commerce (ICC), concluded with arbitration awards in favor of the ACP: (i) arbitration No.1 of the Cofferdam, and; ii) arbitration No.5 of the advance payments.

Additionally, there are in process: (i) 2 arbitrations where the amounts claimed by GUPCSA to date total B/.1,210,296; and, (ii) 1 arbitration where the provisional amount, as set out in the Terms of Reference by GUPCSA, is between B/.1,500,000 to B/.2,000,000. The amount of these claims (which could change) will be confirmed when GUPCSA files its Statements of Claim.

The foregoing constitutes the contingent liability of the ACP resulting from the claims of GUPCSA, in relation to the Third Set of Locks. This contingent liability has no provisioned funds. The following describes general information about the status of these arbitrations:

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 then referred this dispute to arbitration in March 2015, in two separate arbitration proceedings, which resulted in a consolidated arbitration Case ICC No. 20910/ASM//JPA (C-20911/ASM//JPA). GUPCSA requested the inclusion, in this second arbitration, of Dispute 13A for B/.99,000, previously decided and rejected in its entirety in favor of the ACP by the DAB. GUPCSA and its shareholders (other than CUSA) claim from the ACP a total of B/.430,296 plus interest 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. Likewise, the ACP claims Delay Damages (as provided for in the Contract) in an amount of B/.54,600 corresponding to 182 days. The closing hearing was held on October 12 and 13, 2019 and the Arbitration Award is expected by the beginning of the second half of 2020.

(30) Contingent Liabilities, continued

The Lock Gate Arbitration

In December 2016, GUPCSA submitted arbitration ICC No.22465/ASM//JPA, which included disputes 15, 6 and 13C regarding the design of gates and labor cost adjustments. In July 2017, GUPCSA submitted arbitration ICC No. 22966/JPA concerning the same claims. Subsequently, both arbitrations were consolidated in the arbitration ICC No. 22465/ASM//JPA (C-22966/JPA). On October 8, 2019, the Case Management Conference was held in which the Terms of Reference ("TOR") were signed and the procedural calendar was set. GUPCSA must present its Statement of Claim on March 16, 2020. The amount claimed as stated by GUPCSA in the TOR, amounts to B/.780,000.

The Disruption and other claims arbitration

In December 2016, GUPCSA submitted arbitration ICC No. 22466/ASM//JPA which, it is understood, includes all of GUPCSA's claims up to the date of Taking Over that have not already been included in arbitration, and which includes the claim for disruption (Claim 78) and some new claims that had not been the subject of the contractual dispute resolution procedure required prior to Arbitration. In July 2017, GUPCSA submitted arbitration ICC No. 22967/JPA concerning the very same claims. Subsequently, in both arbitrations, the same arbitral tribunal was constituted and arbitration ICC Case No. 22967 / JPA was consolidated with the arbitration ICC No. 22466/ASM//JPA. A second procedural hearing took place on May 2, 2019. The claims were divided into two large groups: 1 and 2, and a procedural calendar was agreed for each group. GUPCSA must present its Statements of Claim during 2020. The provisional amount claimed in this arbitration, as stated by GUPCSA in The Terms of Reference, is between B/.1,500,000 to B/.2,000,000. However, the amount will be updated by GUPCSA at the time of submission of its Statements of Claim.

Others:

During fiscal year 2019, the ACP received marine claims for an amount of B/.3,184.

On the other hand, miscellaneous claims were received in the amount of B/.10,755.

The ACP maintains to date (September 30, 2019) claims related to various construction contracts, for an amount of B/.8,690.

In addition, there are six claims related to the Contract for the Construction of a Bridge across the Canal at the Atlantic side, which are compiled in a single arbitration process for an amount of B/.218,031, which includes the costs of the process.

(30) Contingent Liabilities, continued

On November 18, 2016, the ACP learned that a bailiff (*huissier de justice*) in France had ordered a branch in Paris of a Bank whose parent company is in the United Kingdom, a cautionary measure on a time deposit of approximately B/.49,356 that the ACP maintained in that Bank´s branch in New York. As a result of the above, the Bank's branch in Paris accepted the order and froze the ACP monies deposited at the branch in New York. The measure imposed was based on an arbitration award issued on January 27, 2005 in favor of the plaintiff and against the Panama Transit and Land Transportation Authority and, subsidiarily, the Republic of Panama. The plaintiff alleges in its claim that the ACP was jointly and severally liable with the Republic of Panama for this obligation. The ACP, which is an autonomous legal entity with its own assets, as established by the Political Constitution of the Republic of Panama, is not part of the controversy that originated this award and is not in solidarity with the Republic of Panama; therefore, the ACP rejected the legitimacy of the precautionary measure and filed a request to lift it and requested its dissociation of the process, since ACP was not part of the dispute. On April 26, 2017, a judge issued his decision ordering the lifting of the cautionary measure, so that all of the funds subject to the injunction were released and transferred to the ACP. This decision was confirmed by the Court of Appeal of Paris, by judgment issued on May 24, 2018. On May 24, 2019, the plaintiff filed a recourse of “Cassation” before the French Court of Cassation against the decision of the Court of Appeals of Paris, so the ACP filed its opposition to such recourse. To date, it is pending that the Court of Cassation set a date for the substantiation of the opposition and then issues its decision.

The notes contained herein are related to claims against the ACP, therefore, cannot and should not be considered as support or proof of acceptance of responsibility on the part of the ACP. In the opinion of the Administration and its legal counsel, the determination of these matters will not have adverse effects of a significant nature on the financial position of the ACP.

(31) Events that Occurred after the Reporting Period

The Board of Directors approved at its meeting on December 12, 2019, the transfer to the National Treasury of the operating and functioning economic surplus corresponding to fiscal year 2019 by the amount of B/.1,251,892. (See note 15).

CANAL DE PANAMÁ