Mensaje del Presidente de la Junta Directiva

Message from the Chairman of the Board of Directors

Mensaje del Administrador

Message from the Administrator

Autoridad del Canal de Panamá, al servicio de la nación

Panama Canal Authority, serving the country

Los mejores resultados, compromiso con el país

The best results, commitment to the country

Ampliación, dos años después

Expansion, two years later

Bienestar integral, compromiso con los empleados

Well-being, commitment to employees

Ambiente, agua y energía, compromiso con la tierra

Environment, water and energy, commitment to the earth

Comunidad, compromiso con el desarrollo

Community, commitment to development

Voluntariado ACP, tiempo, trabajo y talento

ACP Volunteer, time, toil and talent

Gestión financiera

Financial management

Estados financieros auditados

Audited financial statements

< The murals that adorn the rotunda of the Panama Canal Administration Building were painted by New Yorker William B. Van Ingen, also celebrated for his murals in the U.S. Library of Congress and the Philadelphia Mint. They depict the monumental labor involved in building the Canal through four scenes: the Culebra Cut excavation, the Gatun Dam Spillway construction, the Miraflores locks construction and the building of one of the colossal lock gates. Together, these murals narrate the efforts, courage, and heroism of the multinational workforce that gouged through the Isthmus of Panama to unite the world’s two greatest oceans.
MESSAGE FROM
THE CHAIRMAN OF THE BOARD OF DIRECTORS

As Chairman of the Board of Directors of the Panama Canal Authority, position I hold since July 1, 2009, I am pleased to present a summary of the major achievements for fiscal year 2009, beginning on October 1, 2008 and ending on September 30, 2009.

It is important to stress that this period was characterized by the importance of maintaining day to day operations quality and efficiency levels while proceeding with the Canal Expansion Program. In spite of the global economic crisis, adequate revenue levels were maintained covering operating and investment expenses, increasing the contribution to the State, and carrying out regular investments and the Expansion Program; all together with expense reductions and without affecting the institution’s excellence standards.

Likewise, in-house employee training programs have continued to prepare the work force for the Expansion Program’s new challenges, as well as with the recruitment of personnel to enrich with new knowledge and perspectives; thus, supplementing and complementing the experience and excellence of Canal personnel.

During this period, the contract for the design and construction of the new locks was awarded with the participation of international consortia in a transparent best value competition, as well as other important contracts party of the Expansion Program. These actions have been deemed in a positive manner by Panamanians concerned about the expansion process as well as by the rest of the world.

Simultaneously, the Board of Directors addressed specific topics in order to help prepare the Panama Canal Authority for future challenges that may arise. To this end, amendments were made to the procurement, finance, and personnel administration regulations, together with the one that establishes criteria and guidelines applicable to the investment of the Canal’s liquidity.

These changes, as a whole, contribute to the effort to enable the Panama Canal to better carry out its objectives, with the aim of expanding the interoceanic waterway.

I thank the work force of the Canal for its support and commitment to this national effort that we are engaged in for the future of the country.

Rómulo Roux
Chairman of the Board of Directors
Panama Canal Authority
Rómulo Roux  President

Adolfo Ahumada  Director

Alfredo Ramírez, Jr.  Director

Mario J. Galindo H.  Director

Norberto R. Delgado D.  Director

Guillermo E. Quijano, Jr.  Director

Eduardo A. Quirós B.  Director

Guillermo O. Chapman, Jr.  Director

Rafael E. Bárcenas P.  Director
We are pleased to present to the Nation, our employees and associates, as well as our providers and customers, the 10th annual report on the performance of the Panama Canal Authority (ACP). For the past decade, ACP the company, forged with a clear vision of its role in the maritime industry and the future of our country, has contributed consistently and significantly to the Panamanian economy, fulfilling its mission of maximizing Panama’s geographic position in a sustainable manner.

The Panamanian administration of the Canal introduced structural changes that have yielded significant measurable returns: on one hand, corporate focus on customer service and meeting the needs of the industry. On the other hand, guaranteeing the interoceanic waterway’s safe, reliable and efficient operation. In such a way that both complement each other in order to capitalize on our geographic location. Panama’s privileged position unites the Atlantic and Pacific, serving as a link to global commerce and renders benefits for the maritime industry and the world.

Since we took full control of the waterway, ACP has given the Nation more than 4.9 billion dollars in direct contributions. During fiscal year 2009 (October 2008-September 2009), we handed 780.4 million dollars in direct contributions to the Treasury, which represent an 11.4 percent increase when compared to fiscal year 2008 (October 2007-September 2008).

After completing a rigorous contracting process that lasted more than 22 months, ACP awarded the contract for the design and construction of the new set of locks, the main component of the Canal Expansion Program. We are proud of the professionalism demonstrated by the technical staff who oversaw this process and the measures taken to guarantee its integrity. Today, this contract management process is observed internationally as a best practice model for the contracting of great infrastructure projects.

At the end of fiscal year 2009, with the exception of the fourth dry excavation contract, which should be awarded by the first quarter of fiscal year 2010, all of the components of the expansion project have been awarded and are currently underway.
Canal operations continue to comply with strict safety and reliability measures and experience significant improvements in Canal Waters Time and In-Transit Time to better serve our customers. This is possible due to the Permanent Modernization Program (PMP) at a cost, to date, of 1,570 million dollars accrued by the end of fiscal year 2009. The PMP has enabled us to invest in tie-up stations, new and improved tugboats, better locks lighting systems, in addition to ongoing work to straighten, widen and deepen the navigation channel.

We began the 21st century with a commitment to overcome all obstacles and demonstrate to the world that we have the technical and administrative capacity to manage and operate the waterway. Today, we remain steadfast to this commitment. We are also fully dedicated to managing the Canal in a socially responsible manner that honors the principles of the U.N. Global Compact and allows us to contribute with the conservation of the Canal’s watershed.

Almost a century after the construction of the Panama Canal, we are undertaking its expansion, our country’s most important infrastructure project, which when completed will help ensure the safety, reliability and efficiency of the waterway. We are also working hard to continually upgrade and modernize the Canal, seeking new opportunities and adding value for our clients and our country.

As we celebrate the 95th anniversary of the inauguration of the Canal, destiny has allowed us to fulfill the dreams of the generations of Panamanians that fought to recover our most strategic resource. Today, ACP is one of the country’s main pillars of progress, development and growth, and it is performing in an outstanding manner, consolidating itself as a leader in services to the world maritime industry.
Executive Vice presidents

Manuel Benítez
Operations

Francisco Loaiza
Human Resources

Francisco Miguez
Administration and Finance

Jorge L. Quijano
Engineering
and Programs Management

Esteban Sáenz
Environment, Water and Energy

Vice presidents

Luis Alfaro
Engineering

Alvaro Cabal
General Counsel

Ana María P. de Chiquilani
Corporate Affairs

Fernán Molinos
Corporate Communications

Rodolfo Sabonge
Market
Research and Analysis

Alberto Alemán Zubieta
Administrator

José Barrios Ng.
Deputy Administrator
ACP is an entity of the Government of Panama established under Title XIV of the Constitution of the Republic of Panama in charge exclusively of the operation, administration, maintenance, improvement and modernization of the Canal, as well as its activities and related services, according to constitutional rules of law. The Constitution, the Organic Law of June 1997 and the regulations issued by its Board of Directors establish the rules for its organization and operation. Due to its importance and nature, ACP has financial autonomy, patrimony and the right to manage it. The legal regime established for ACP intends to maintain the conditions that make the Canal a company that provides a pacific an uninterrupted service to the maritime community, world commerce, and Panama.

Corporate Strategy, A Commitment with the Country

Vision

World Leader in services to the maritime industry and in sustainable development for the conservation of the Panama Canal watershed.
Cornerstone of the global transportation system and driving force for the progress, development and growth of Panama.
Model of excellence, integrity and transparency in our conduct; committed to the integral development of our human resource team.

Mission

Our business. This enterprise is charged with operating, maintaining and improving the Panama Canal so that it remains the route of choice for our customers. We are the exclusive administrators of the Canal’s patrimony and do so in a manner that is profitable, efficient and competitive, with excellence, quality and transparency, while guaranteeing prompt, dependable, safe and uninterrupted interoceanic transit. We invest in training and technology; we grow in order to strengthen the corporation’s competitive position and assure its future viability. We manage and conserve the Canal’s water resources and participate actively in environmental protection, as well as in the sustainable development of the Canal watershed.
Our country. We bring wealth to Panama and contribute with our efforts to the nation’s welfare, development and progress, and to an improved standard of living for all Panamanians.
Our customers. We build lasting relationships with our customers, understanding and anticipating their needs, adding value and offering quality service.
Our people. We recognize that the Canal employee is the most important resource in achieving service excellence. We recruit and promote the very best. We value diversity and encourage teamwork, while continuously training our people, creating the opportunities for all individuals to contribute, learn, grow, and progress based on their merits, and to be fairly compensated for their contributions.

Strategic Destination

To be a driver of growth and sustainable development of the country in full integration with society.

Corporate Values

- HONESTY
- TRANSPARENCY
- COMPETITIVENESS
- LOYALTY
- RESPONSABILITY
- RELIABILITY
Code of Ethics and Conduct

ACP Ethics Program, under the slogan “Our Values: Feel Them, Live Them and Pass Them” is intended to promote appropriate behavior and to encourage public awareness to strengthen the transparency and integrity of our organization. In fiscal year 2009, ethics meetings were held aimed at all employees of the organization and 100.0 percent of the workforce was reached. A series of initiatives were developed to make employees aware of the importance of ethical values and performance based on the highest standards of integrity and transparency. ACP’s Code of Ethics and Conduct was distributed to all the workforce. This code can be accessed through the following address: www.pancanal.com.

Information Requests

- Number of information requests received.
  - 671 requests have been received from the beginning of fiscal year 2009 (October 1, 2008) up to date
- Number of requests solved or disapproved.
  - Of the 671 requests:
    - 205 are in the alimony category and 199 have been solved and 6 are in a waiting status to be settled in court
    - 466 are in the general request category (unions, employees, government agencies and general public). Of these, 439 have been solved, 21 are waiting for information in order to respond the requestors, 6 are in process being revised to be responded.
- To access the list of all the administrative actions presented for citizen participation, please go to the following address: www.pancanal.com under Rendition of Accounts /Accountability.

Strategic Objectives

Objective 1 - To increase profitability in a sustainable manner for the benefit of the country.
Objective 2 - To expand the range of services and products in order to exploit market opportunities.
Objective 3 - To implement business practices that enhance good corporate governance.
Objective 4 - To efficiently manage the volume and quality of the water resources of the Canal Watershed.
Objective 5 - To increase productivity through excellence in performance and the wellbeing of human resources.

Corporate Goals

Corporate Goal 1 – To obtain profit before interest, taxes, depreciation and amortization (EBITDA) ≥ B/.1,110 million up to September 30, 2009.
Corporate Goal 2 – To establish a new pricing structure up to September 30, 2009 depending on the phases established in the work plan.
Corporate Goal 3 – To provide a preliminary report of the Technical Cooperation Project up to September 30, 2009.
Corporate Goal 4 – To implement planned activities for the Third Set of Locks Project up to September 30, 2009, in compliance with the milestones of the established schedule.
Corporate Goal 5 – To make optimal use of the existing plant to meet transit demands, ensuring a service level compliance average ≥ 35 percent.
Corporate Goal 6 - To adapt the organization through the improvement of the processes identified up to September 30, 2009.
Corporate Goal 7 – To implement 100.0 percent the activities of the Sustainability and Corporate Social Responsibility Action Plan scheduled for fiscal year 2009.
Corporate Goal 9 – To prepare a talent management plan and to provide a generational shift and to meet emerging needs in the operation up to September 30, 2009.
Corporate Goal 10 – To improve the working environment ≥ 5.0 percent, measured by a satisfaction, commitment and work climate survey up to September 30, 2009.
Corporate Goal 11 – To ensure that the Corporate Performance Index (CDI) is ≥ 100, up to September 30, 2009.

Corporate Sustainability Pillars

Employees – To ensure employees welfare, provide opportunities for growth and development, and strengthen ACP’s ethical culture.
Environment – To promote sustainability of environmental resources of the Canal watershed.
Community – To contribute with integral social development of communities by the transferring of knowledge and the organization’s participatory aid.
Customers – To improve relations with customers by providing a safe and reliable service, and keeping communication channels open.
Suppliers – To promote diversity in the contractual process, and supervised compliance with suppliers in terms of quality and ethical conduct.
State – To contribute to the National Treasury and promote the sustainable development of the country. To contribute with the effective integration of the community and private and public institutions.
Panama Canal Authority

Organizational Structure

Board of Directors

Administrator
Deputy Administrator

Corporate Affairs

Office of Corporate Communications

Office of the Inspector General

Office of the General Counsel

Office of Market Research and Analysis

Department of Engineering and Programs Management
- Locks Project Management Division
- Project Management Division
- Engineering Division
- Resource Planning and Project Control Division
- Civil Works Contracts Management Division

Department of Operations
- Locks and Facilities Maintenance Division
- Transit Operations Division
- Transit Resources Division
- Dredging Division
- Fleet and Equipment Maintenance Division
- Security and Emergency Response Division

Department of Administration and Finance
- Financial and Risk Management Division
- General and Cost Accounting Division
- Procurement and Inventory Division
- Budget Administration and Control Division
- Technology Division

Department of Environment, Water and Energy
- Environmental Division
- Water Division
- Energy Division

Department of Human Resources
- Employee Relations Division
- Human Resources Services Division
- Organizational Capability Division

Transit Resources Division

Transit Operations Division

Dredging Division

Fleet and Equipment Maintenance Division

Security and Emergency Response Division

Financial and Risk Management Division

Procurement and Inventory Division

Budget Administration and Control Division

Technology Division

Environmental Division

Water Division

Energy Division

Employee Relations Division

Human Resources Services Division

Organizational Capability Division
Traffic
Fiscal year 2009 was a period of global downturn as a result of the recession in the United States, Japan, United Kingdom and the Eurozone. Due to substantial fiscal adjustments that shall be undertaken by developed countries, the global economy is not likely to return to the growth rates that prevailed in the years 2004 to 2007 in the near future. The largest economies have taken significant monetary and fiscal policy measures in order to mitigate the effects of the downturn.

The American economy — prime user of the Panama Canal— has been officially in recession since December 2007. This economic decline is one of the deepest since the Great Depression; a world crisis period from the end of 1929 through the 1930’s, which originated in the “sub-prime” mortgage crisis and the consequent credit crunch. However, trade flow through the Panama Canal, during fiscal year 2009 decreased slightly in spite of the United States slowdown and the drop in its imports, contrasting with a good performance in toll revenues.

The Chinese economy -second most important user of the Panama Canal- continued as one of the most dynamic in the world, despite the slowdown of their main export markets which significantly affected its foreign trade. China implemented a massive fiscal stimulus package in order to offset the impact of the global crisis. It is expected for Chinese exports and imports to remain as China’s development drivers and for its economic growth to improve in 2010 and 2011.

Panama Canal Transits

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Panama Canal Transits</th>
</tr>
</thead>
<tbody>
<tr>
<td>07</td>
<td>14,721</td>
</tr>
<tr>
<td>08</td>
<td>14,702</td>
</tr>
<tr>
<td>09</td>
<td>14,342</td>
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</tbody>
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< This panel shows a partially completed locks gate. Steel structure 65 feet wide and 7 feet thick, lock gates vary in height from 47 to 82 feet and weigh from 390 to 730 tons. The Canal uses some 80 of these gate leaves at the various locks.
In 2009, 299.1 million PC/UMS (Panama Canal / Universal Metric System), transited the Canal and represented a 3.4 percent reduction compared with fiscal year 2008. Due to the global economic slowdown produced by the world financial crisis, cargo reduction in the waterway can be considered of low relevance. On the other hand, toll revenues increased 9.2 percent mainly as a result of the implementation of programmed toll increments in the refrigerated cargo and passenger segments effective as of October 1, 2008, and for the rest of the segments as of May 1, 2009.

Ocean-going vessels recorded 12,855 transits, a 35.2 daily average. Transits for PANAMAX vessels, some registered a 1.2 percent decrease, as a result of a decrease in full container and vehicle carrier transits.
Toll revenues totaled B/.1,438.2 million, a 9.2 percent increase and, B/.120.7 million additional income over the previous year. Full container vessels transported 11.9 million TEU, generating B/.793.1 million, representing 55.1 percent of fiscal year 2008 total toll revenues.

On a daily basis, the waterway is transited by different types of vessels with a diversity of cargo allowing the Panama Canal to become the world’s most important commercial route. The 14,342 transits during fiscal year 2009 demonstrate the connection by giving access to more than 80 countries through 144 maritime routes. The main results of the different types of vessels are presented as follows.

**Full Container Segment**

The container vessel segment’s relevant statistics for fiscal year 2009 were 3,364 transits, B/.793.1 million in toll revenues, 118.3 million PC/UMS tons and 11.9 million billed TEUs. These figures reflect a 5.0 percent decrease in transits, 5.0 percent in PC/UMS tons and 11.3 percent increase in toll revenues over fiscal year 2008. The increase in toll revenues was mainly driven by the increase in toll rates from B/.63 per TEU to B/.72 per TEU, effective on May 1, 2009.

The sliding trend for this segment during fiscal year 2009 was primarily due to the global economic downturn that has severely affected the American economy, the most important destination of container cargo through the Panama Canal. In addition, less consumption of finished products, and a contraction of the demand, have impacted cargo volumes and world trade figures. Import
volumes in major American container ports are nearly 17.0 percent below the 2008 figures, and are comparable to 2003\textsuperscript{1} volumes.

During fiscal year 2009, several newly experienced changes took place in liner services and service rotation patterns, such as the change in route for vessels through the Cape of Good Hope in the return to Asia. Two services were merged, six services were canceled, one service reduced its vessel size and three new services were introduced.

In summary, the fiscal year started with thirty-eight services and ended with thirty-four. The decrease in traffic figures of full container vessels was the result of cost reduction measures taken by shipping lines which resulted in service restructuring, merging and or the suspension of some of their services.

**Dry Bulk Segment**

In fiscal year 2009 bulk carriers registered 59.6 million PC/UMS tons, a 17.6 percent increase in relation to the previous fiscal year. A 23.8 percent increase equivalent to B/.201.9 million in toll revenues reflected in reference to fiscal year 2008, due both to toll increases implemented on May 1, 2009 and the tonnage increase during the year. This segment reported 2,887 transits, an 11.0 percent increase compared to the previous fiscal year. On the other hand, commercial cargo in long tons for dry bulk carriers barely declined 1.0 percent, registering levels similar to those of fiscal year 2008.

Key movements in this segment, during fiscal year 2009, were grain shipments from American east coast ports to Asia, salt shipments to the northeast of the United States, and a significant increase in ballast transits through the Panama Canal. Soybean and sorghum shipments increased considerably during fiscal year 2009, maintaining grains as the most important commodity in the dry bulk segment. Salt shipments for melting road ice during the winter, from the west coast of South America to northeastern United States, increased during fiscal year 2009. On the other hand, coal, cement, clinker, ores and mineral shipments and iron and steel products declined because of the effects of the current economic crisis, especially in the United States economy.

Two elements related to the global maritime industry, such as freight rates and the oversupply of dry bulk carriers, were the main cause of the increase in northbound ballast transits repositioning for grain exports to Asia in the American east coast. In fiscal year 2009, around 25.0 percent of the total dry bulk transits were ballast, whereas in the last eight years, dry bulk ballast transits have been a mere 6.0 percent of total dry bulk transits.

**Liquid Bulk Segment**

Fiscal year 2009 was an exceptional year for the liquid bulk segment. In spite of the economic crisis that affected shipping markets, the traffic of tanker vessels through the Canal registered its best year in the last 12 years. In 2009, the liquid bulk segment totaled 2,317 transits, 48.2 million PC/UMS tons and B/.170.5 million in toll revenue. This represent increments of 12.1 in transits, 12.1 in PC/UMS tons and 23.7 percent in TEU, compared to fiscal year 2008.

\textsuperscript{1}“US imports show signs of life”, CI Online, September 2009
The aforementioned increase in liquid bulk vessel traffic, especially that with 100 feet and over beams, is due to an upsurge in the trade of various products. First, crude oil flow increased, particularly in the Venezuela – Nicaragua route, as a result of the new storage complex for crude and crude oil products inaugurated in March 2009 in the Port of Corinto. Moreover, crude oil and oil products exports from Venezuela to the west coast of Central and South America increased in light of the agreement of the framework of the ALBA².

On the other hand, Petroterminal de Panamá, the transisthrian pipeline operator, has temporarily closed due to efforts to reverse the flow from northbound to southbound; this action has spurred Ecuadorian oil exports through the Panama Canal. In addition, the exports of petrochemical products from the United States to Asia through the Panama Canal remained relatively high because of the United States dollar weakness and low production in China.

**Refrigerated Cargo Segment**

In fiscal year 2009, the refrigerated vessel segment totaled B/.69.2 million in toll revenues, a 4.9 percent increase compared to fiscal year 2008, mostly due to the increase programmed for the TEU toll charge. Other relevant fiscal year 2009 figures were 1,973 transits, 146,672 TEUs and 16.3 million PC/UMS tons, reflecting 9.0 percent declines, 3.5 percent and 6.7 percent, respectively, in relation to fiscal year 2008.

The downward trend for this segment during fiscal 2009 was mostly the result of the transition from conventional reefer vessels to refrigerated containers on container vessels in liner services, especially for the transportation of bananas from South America to Europe. This transition to a more efficient mode results in reductions of transit time, transportation cost and inventory cost. Furthermore, cargo owners improve cargo handling, which in turn ensures product quality and upholds the cool chain.

The economic crisis also minimized the demand for bananas during the year, with a resulting oversupply and adverse effect on export volumes.

The average age of the conventional reefer vessel fleet and the construction of this type of vessels will continue to threaten this segment’s sustainability.

**Specialized Service Segment - Vehicle Carrier**

Fiscal year 2009 was characterized by severe declines of the main traffic indicators in this segment. Transits totaled 469, tonnage registered 25.1 million, and toll revenues were B/.87.2 million, a decrease of 42.6, 36.9 and 28.8 percent, respectively, related to fiscal year 2008.

During 2009, auto companies worldwide faced the worst business conditions in recent history, including a collapse in demand amid a global financial crisis, tightening credit and lack of consumer confidence. While consumers faced unyielding credit conditions, shipping lines that transport automobiles and other rolling cargo through the Panama Canal, reported lower volumes. The slump in demand and the substantial fall in car sales, particularly in the United States, forced shipping lines to reduce vehicle shipments.

²Alternativa Bolivariana para las Américas
Specialized Service Segment - Passenger Vessels

Fiscal year 2009 was favorable for the passenger vessel segment. Transits totaled 237, a marginal difference of 1.7 percent below the previous cruise season. However, PC/UMS tonnage transits reached nearly 10.5 million tons which represent a 10.1 percent increase during fiscal year 2008. It is worth mentioning that the billed passenger capacity increased to 306,133 berths, a 17.5 percent rise over the 2007-2008 cruise seasons. Toll revenues were B/.39.1 million or 26.0 percent more than the year before. Billed passenger capacity accounted for ninety percent of this segment's toll revenues.

Despite the world economic recession and its adverse effect on tourism, the cruising activity via the Panama Canal maintained a positive pace during the 2008-2009 seasons, largely driven by vessels with ten-day or more sailing itineraries. These cruise vessels generally call at ports along both coasts of the United States.

Other Maritime Services

Other Maritime Services (OMS) revenues were B/.383.2 million, a 10.5 percent decrease related to fiscal year 2008. This decrease is due to the low utilization of the transit reservation system since January 2009. The impact of the economic crisis was reflected as a decrease in Canal service demands coupled with improved Canal services, thus a decrease in the number of vessels waiting in queue, a situation which combined with shipping companies’ efforts to reduce costs, resulted in a lower utilization of the transit reservation system. Revenues from the transit reservation system were B/.53.6 million less than those of fiscal year 2008. Revenues from the remaining OMS tariffs increased B/.11.1 million due to the March 2008 tariff increment.

Canal Waters Time and In Transit Time

Canal Waters Time (CWT), the time spent by vessels waiting and transiting the Panama Canal, averaged 23.1 hours in fiscal year 2009, an 8.4 hour improvement compared to the 31.6 hours of fiscal year 2008. The CWT average was aided by the decrease in traffic and an improvement in operations, which meant a smaller number of vessels waiting in queue in comparison to recent fiscal years.
Transit Time (ITT) for fiscal year 2009 averaged 10.1 hours, a 2.0 hours improvement over the 12.1 hours averaged for fiscal year 2008.

The improvement in CWT as well as in ITT was due to the decrease in traffic, lower utilization of the transit reservation system, and the enhancement in operational performance as a consequence of the implementation of capital projects such as the Gatun locks turntable, Cartagena tie-up station, the deepening and widening of the Culebra Cut, and the putting in force of the new agreement with the Panama Canal pilot’s union in June 2009.

**Dredging Operations**

As part of the Panama Canal Expansion Program, Dredging Division was able to complete 30 reaches, 12 in the Culebra Cut and 18 in the Gatun Lake, surpassing the goal of 26 deliverables, for a 115.4 percent execution rate.
Deliverables are sections of reaches in Culebra Cut and Gatun Lake, and have been defined as follows:

- Deliverables in Gatun Lake represent 1,000 meters (1km) for each reach, divided in east and west sections.
- Deliverables in Culebra Cut represent 200 meters for each reach, divided in east, center and west sections.

As part of the Modernization Program, Dredging Division was able to excavate 582.6 million cubic
meters of an estimated volume of 524.1 million cubic meters, representing a 111.0 percent execution rate. These results were achieved through improvements in the operations and maintenance processes implemented by Dredging Division.

**Customer Satisfaction**

ACP operates the interoceanic waterway with established processes and procedures, optimizing security, reliability and efficiency and the transit of vessels, while improving customer satisfaction value. Vessel transit services are rendered throughout the Panama Canal, from the entrance of the breakwater in the Atlantic Ocean to the sea buoy in the Pacific Ocean and vice versa, transiting through Gatun, Miraflores and Pedro Miguel Locks, and by Gamboa.

The Panama Canal Authority uses established practices to evaluate and measure customer satisfaction, our organization’s sensitivity towards our customer needs, and from an organizational perspective, determine the strategies to be implemented to achieve long term success.

Some of these practices are a satisfaction questionnaire of the services rendered by the Canal, addressed to ship masters every two years; the quarterly meeting of shipping agents and representatives of the Panama Maritime Chamber; and a structured procedure to manage claims, which serves as indicator in decision-making and continuous improvement processes.

The methodology of the studies conducted by the Panama Canal Authority lies in using a representative sample for the surveys and including questions related to essential aspects of the services we provide, such as; anchorages, boarding procedures, communication with the control tower, tugboats assistance, lockage procedures and safety of the waterway.

We provide a wide range of mechanisms that allow our customers to express their opinion, among those: periodic meetings with shipping agents and representatives of the Panama Maritime Chamber whereby they can express their opinions, concerns, and we have the opportunity to inform them on the decisions that affect them; advisories to shipping sent to shipping agents, owners and operators to determine the operational necessity to communicate relevant Canal traffic information, to include a monthly Canal operations summary with statistics, Canal maintenance notices, reservation system updates, among others. As well as notices to shipping, which are sent to the shipping agents, owners and operators once a year in order to provide updated information regarding the rules and regulations of the Panama Canal. In the same manner, we rely on communication accessibility by means of electronic mail, courtesy visits or formal meetings with the Administrator, Deputy Administrator, Office of Market Research and Analysis personnel, the Operations Department Executive Vice President, or with other ACP officials. As well as through acknowledgements received from our customers, whether through electronic mail, letters or telephone calls.

The results of the 2008 survey reflected an overall acceptance by giving 94.0 percent to customer satisfaction in the primary service of transiting the Panama Canal showing acceptance of the service that we provide. The areas with higher acceptance were the categories evaluated as aids to navigation (97.9 percent), tugboat assistance (96.3 percent), communication (96.6 percent) and pilot professional conduct during the performance of their duties (96.7 percent).

For ACP, it is of utmost importance to be vigilant of customer satisfaction practices from the perspective of excellent two-way communication, in order for customers to obtain the value and benefits of the Canal, and to increase our clientele and detect areas of improvement.
After many years of planning, preparations and preliminary work to lay strong foundations, the Expansion Program construction began to take full shape in fiscal year 2009, when momentous milestones were seen in all major components of the colossal undertaking.

Contracts worth millions were awarded for three of the four remaining major projects, while the bid documents were published for the last. Additional progress was made in several support contracts, which were published, awarded or completed during the year. Significant advances were also achieved in the financing and administration of the program as well as in safety, environmental and communication activities.

Pacific Access Channel (PAC)
The work for the PAC was divided into four dry excavation projects, with a major contract to cover the bulk of the work in each one. Supplementary work by the Panama Canal Authority (ACP) and additional contractors is also being performed to support the excavation.

Phase 1 Excavation (PAC1)
The contractor for PAC1, Constructora Urbana S.A., concluded the excavation of all 7.3 million cubic meters of material at Paraiso Hill, and only a small portion of the construction of the new BORinquen Road and drainage work remains to be done. The project is expected to be completed ahead of the contractual date of January 25, 2010.

< The panel depicted here shows the construction of a side-wall culvert at Miraflores Locks. The huge locks culverts that direct the flow of water are large enough to permit the passage of a train.
Phase 2 Excavation (PAC2)
The PAC2 contractor, CILSA-Minera María, removed some 7.3 million cubic meters of material from the access channel and completed the diversion of the Cocoli River. The contract progress rate is about 94.0 percent, leaving only 100,000 cubic meters to be excavated and the completion of part of the southern section of the Borinquen Road that will run along the west side of the channel.

Phase 3 Excavation (PAC3)
The PAC3 contract was awarded for B/. 36,659,978.12 to Constructora Meco S.A. on December 16, 2008. Since then, Constructora Meco has excavated about 1.9 million cubic meters of material in addition to completing the clearing of munitions and explosives of concern from an area of 190 hectares. This project reached 35.0 percent at the end of the fiscal year, moving way ahead of the planned volume.
Phase 4 Excavation (PAC4)
Bid documents were published in June 2009 for the purchase and delivery of about 15,000 metric tons of steel sheet pile for the cofferdam to separate the PAC4 excavation from Miraflores Lake and thus permit the dry construction of the Borinquen 1E dam. The ACP awarded the contract to the LB Foster Company on July 20, 2009, and the first delivery is expected in mid-October 2009.

On July 30, 2009, the ACP published the bid documents for the main PAC4 contract, which calls for, among other work, the excavation of approximately 26 million cubic meters of material, as well as the construction of the 1.8-kilometer-long cofferdam and the 2.3-kilometer-long Borinquen 1E dam. A site visit and pre-bid conference were held in August 2009 for about 30 companies from Panama, Latin America, the United States and Europe. The ACP expects to receive bids in December 2009 and to make the award in January 2010.

Building 12 and the fire station located to the west of Pedro Miguel are within the area for the dam and need to be relocated. The bid documents for the relocation of the fire station were published on September 21, 2009, and the award is expected to take place before the end of the year.

Transmission Towers
Work to relocate the 230-kilovolt power line to prevent its interference with the PAC excavation has been substantially concluded by the contractor, Eléctrica de Medellín LTDA, reaching 99.0 percent completion.

Navigational Channel Improvements
Pacific Entrance
Although the contract for the Pacific entrance was awarded during fiscal year 2008, the symbolic inauguration ceremony was held on November 17, 2008, with the presence of President Martín Torrijos. The contractor, Dredging International de Panamá S.A., has thus far removed approximately 4.6 million cubic meters of material, which represents about 53.0 percent of the total volume (excluding 157,000 cubic meters of sedimentation). A pre-blast survey and public-information activities were conducted in March 2009, prior to the start of the drilling and blasting phase, and the contractor met with the residents of the community of Diablo in April 2009 to explain the scope of the work to be performed. One of the world’s largest drilling and blasting vessels, the ten-tower “Yuan Dong 007,” carried out the blasting, completing all the work by September 25, 2009.

<table>
<thead>
<tr>
<th>Pacific Entrance Deepening and Widening (8.7 Mm³)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dredging Volumes – Actual vs Programmed through September 2009</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monthly Programmed</th>
<th>Monthly Actual</th>
<th>Actual Accumulated</th>
<th>Accumulated Programmed</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>1,156</td>
<td>183</td>
<td>7,416</td>
</tr>
<tr>
<td>200</td>
<td>439</td>
<td>155</td>
<td>2,295</td>
</tr>
<tr>
<td>300</td>
<td>786</td>
<td>526</td>
<td>6,724</td>
</tr>
<tr>
<td>400</td>
<td>4.6 Mm³</td>
<td>383</td>
<td>11,587</td>
</tr>
<tr>
<td>500</td>
<td>726</td>
<td>115</td>
<td>15,213</td>
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<tr>
<td>600</td>
<td>568</td>
<td>156</td>
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<td>700</td>
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<td>400</td>
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</tr>
<tr>
<td>1,200</td>
<td>100</td>
<td>156</td>
<td>47,081</td>
</tr>
</tbody>
</table>

Accumulated Volume in Thousands (m³)

Monthly Volume in Thousands (m³)
Gatun Lake and Culebra Cut
This element encompasses the deepening and widening of the navigational channels in Gatun Lake and the deepening of the Culebra Cut channel. The work will be performed primarily in-house by ACP forces and equipment. Previously managed under separate projects, the work in the cut and the lake was combined into a single project this fiscal year to increase efficiency. Since the work began, about 6.1 million cubic meters of material have been removed.

In September 2009, a milestone was reached with the conclusion of dredging in Tabernilla Reach, the first one to be completed.

Atlantic Entrance
Following work on specifications and other preparations, the ACP issued the bid documents for the Atlantic entrance dredging work in February 2009. Interested parties submitted questions in March 2009. The ACP conducted a site visit and pre-bid conference meeting for six dredging firms, along with construction companies, equipment suppliers and service providers, and potential bidders initiated geological site investigations in May 2009. After completing the site investigations in July 2009, five tenderers presented offers on September 10, 2009.

The contract was awarded on September 25, 2009, to the firm with the lowest bid, Jan De Nul n.v. (JDN) of Belgium, for B/. 89,617,317. The bid included an option to dredge down an additional 60 centimeters, and JDN offered to perform this work for B/. 16,411,600. The ACP had 45 days from the date of award to execute the option.

Post-Panamax Locks
Awarding the Main Contract
Several amendments were made to the Request for Proposals (RFP) for the design and construction of the new Panama Canal locks complexes, the key component of the Expansion Program. These changes were made as individual meetings were held with each of the prequalified consortia to provide the ACP with valuable information to improve the RFP. Final work on the tender process, including establishing internal evaluation teams and the development of protocols for external expert support, took place concurrently. The final amendments responded to inquiries from the consortia and ensured that the final RFP reflected the prevailing global economic situation.

On the date of the bid, March 3, 2009, the ACP received prices and technical proposals from three consortia: the C.A.N.A.L. group; the Bechtel-Taisei-Mitsubishi Corporation consortium; and Grupo Unidos por el Canal. The price proposals were delivered in sealed envelopes; the amount of funds allocated by the ACP to the project was also delivered in a sealed envelope. The proposals were signed by a notary public and by the ACP’s contracting officer and inspector general before being placed in a secured vault at a nearby branch of Banco Nacional de Panamá (Panama National Bank) for safekeeping during the technical evaluations.

The committee in charge of evaluating the technical proposals was made up by 15 ACP specialists with diverse and substantial experience. More than 40 local and international experts were called upon to support the committee, which worked in coordination with the contracting officer.

The entire selection process was designed and administered to be fair and transparent, as evidenced during the public ceremony held on July 8, 2009, to announce the technical scores, open the proposals and determine the overall scores (which featured weights of 55.0 percent for the
technical proposals and 45.0 percent for the price proposals. Based on its total best score and the subsequent validation of its price proposal (which was less than the amount allocated by ACP), Grupo Unidos por el Canal was awarded the contract on July 15, 2009, for B/. 3,221,631,384, and the order to commence was issued on August 25, 2009.

A representative of the external auditing firm witnessed that the results of the technical evaluation were faithful to the RFP criteria and ACP regulations. Furthermore, the consortia that were not selected exercised their right under the RFP to review the best-value proposal and ACP evaluation documents, but no protests were filed against the procurement process or the final award decision.

**Material-Testing Services**

In May 2009, ACP published bid documents for the contracting of independent quality-assurance testing services for the materials that will be used in the locks. In July 2009, eight prospective bidders participated in site visits and a preliminary meeting before the scheduled bid date. Four proposals were received and opened on September 25, 2009, and the contract was awarded to Laboratorios Contecon Urbar Panama S.A. on September 28, 2009.

**Preparations and Peripheral Activities**

Ongoing work was carried out to define and implement design and construction phase staffing, deployment, orientation and training plans for the project management team and to coordinate the interfaces between the locks project and other Expansion Program activities.

URS Holdings was awarded the contract for the environmental impact study for the Atlantic campsite for locks workers. The contractor presented a detailed work schedule, as well as environmental, safety and quality-control plans. The final study was completed and submitted to the ACP in January 2009 and forwarded to the Autoridad Nacional del Ambiente (National Environment Authority, or ANAM for its acronym in Spanish) in April 2009. Consorcio Post Panamáx (CPP) worked on the design-review criteria for the Borinquen dams and submitted its final gate design in April 2009.

**Financing and Administration**

**Financing**

After a yearlong process, the ACP and five multilateral agencies signed an agreement on December 9, 2008, that secured the financing of up to B/. 2,300 million for Expansion Program funding needs. Specific monitoring and reporting requirements were also established by participating multilateral institutions, and the credit facility lenders have received financial statements and reports in compliance with these requirements. The ACP also complied with its related financial responsibilities.

**Administration**

To ensure the proper management of the locks procurement process and other Expansion Program activities, ACP and CH2M Hill (the program-management consultant for the Expansion Program) managers and specialists worked throughout the year, guided by their “one team, one mission” slogan and their joint commitment to the success of the expansion effort. The use of other consultants and external advisory services also reflected this underlying commitment.

For example, the ACP has been working with Shearman & Sterling LLP (financial legal advisors) and Mizuo Corporate Bank (financial advisors) to obtain more favorable conditions for the administration of the Expansion Program financing.
Willis Limited developed risk-management policy terms for construction all risk and third-party liability coverage, resulting in the placement of temporary coverage for the locks project through December 2009, with continued efforts to secure permanent coverage. In addition, the contract for laboratory services tendered by ACP was included in the owner-controlled insurance program.

A review of the insurance provisions in the locks contract was conducted by Mayer Brown LLP. The consultant proposed changes to the contract documents for the new locks, provided opinions on contract provisions, made recommendations on appointments to the dispute adjudication board and offered advice on specific issues of interest. Mayer Brown also provided training for the expansion team legal staff and locks-project and program-level managers.

ACP has been using the Platts information service to keep abreast of fluctuations in the prices of reinforced steel, structural steel and diesel and to continually update strategy on the basis of this information.

Safety, Health and Industrial Hygiene
Evidencing the fundamental value of safety and health in the Expansion Program, managers signed a mission statement in which they committed to guarantee a program environment free of injuries, illnesses and related incidents. Standardized induction is offered to all ACP and CH2M Hill participants, with regular safety presentations for both internal and contracted field personnel. Fifty-three percent of the personnel assigned to the Expansion Program completed safety training during the period between the initiation of the training on July 28 and the end of the fiscal year on September 30, 2009. Inspections are carried out constantly to immediately detect and correct any hazardous conditions, and all incidents must be reported and investigated.

Environmental and Related Matters
Like the safety training, environmental induction is offered to all new expansion team members. Other elements of the far-reaching environmental efforts include the following.

Protection of Resources
Environmental, paleontological, archeological, historical and cultural preservation, monitoring, documentation, evaluation and reporting activities have continued throughout the year as part of the ongoing efforts in all the Expansion Program projects, supported by ACP environmental specialists, consultants and contractors. A contract for aerial photography to maintain environmental records of site conditions and changes was completed in September 2009.

Socioeconomic Efforts
In connection with the plan to increase Gatun Lake’s maximum operating level (now in the initial stages of analysis), a contract for B/. 197,500 was awarded to the Louis Berger Group Inc. for a socioenvironmental management plan. Following initial submittals in May and July 2009, the final report was submitted in September 2009, providing detailed analysis concerning the effects of raising the lake and recommendations on how to manage them. Similar efforts are being made to mitigate any adverse socioeconomic effects of other Expansion Program activities.

Wildlife Rescue and Relocation
All expansion contracts that involve the removal of vegetation include this requirement. Clearing of vegetation during the initial excavation stages is conducted in coordination with specialized
crews that ensure that mammals, birds, reptiles and amphibians are directed away from the area or captured and transferred to a similar site nearby that has not been disturbed or to a legally protected area. Approximately 360 animals were saved in this manner during fiscal year 2009.

Reforestation and Ecological-Compensation Payments
In compliance with Panamanian law and ANAM requirements, reforestation of areas equivalent to twice the amount of the affected forest track is being carried out in legally protected areas throughout the country. The planting of seedling plants during this fiscal year covered 270 hectares in several national parks and one research station.

Ecological-compensation payments are made to ANAM as a form of indemnity for the impact of Expansion Program work on the environment, with rates depending on the type of ecosystem affected. These payments amounted to B/.1.4 million in fiscal year 2009.

Public Relations, Communications and Historical Documentation
As one of the most important endeavors in the history of the Republic of Panama and an enormous engineering challenge of global dimensions, the Expansion Program is attracting great interest, both locally and internationally, as was demonstrated by the 12,575 visitors to the different project sites during the year.

Video productions, web-site notices and similar communications, along with press releases, presentations and informative material, are constantly prepared and offered to diverse groups to keep the general public informed, including heads of state, business leaders, journalists, students and other stakeholders. A new unit was created to manage specialized reporting requirements for the regular presentation of reports to organizations such as the ACP Board of Directors, Panama National Assembly and financing institutions. The ACP also answers inquiries through a toll-free telephone line (600-0714) and electronic mail address (ampliacion@pancanal.com).

Nearby communities and interested parties are informed of blasting operations and similar activities, and assistance is available to anyone wishing to file a complaint or claim related to the possible effects of such activities.

In recognition of the historical significance of the magnum opus, efforts have been undertaken to document the progress and noteworthy developments for posterity.
“A two-way commitment” is a phrase in which ACP summarizes the essence of human capital management in the Canal. On one hand, our employees are the main pillar which allows us to fulfill our responsibilities towards clients whom we serve and Panamanian society, the ultimate goal of all our efforts and longings. As a balance, on the other hand, the commitment of the employees with the Canal and its challenges are compensated by the institutional commitment to oversee the total wellbeing of all of its employees.

For this reason we strive to maintain a valuable offer to our employees which gives them satisfaction in carrying out their duties and, at the same time, stimulates their professional growth and total wellbeing. We strive to be one of the best institutions for which our current and future employees can work. All of the initiatives and programs which are carried out regarding employees are geared toward that objective.

Social Benefits for Full-Time Employees
Health and Total Wellbeing Programs

These are focused on the prevention and maintenance of the health of our work team. The primary care clinics and the physical examination centers are available to our workers at different areas of operation. During fiscal year 2009, over 24,000 instances of attention were provided, 2,143 physical examinations were given, and 425 first aid cases were attended. As part of our annual health awareness and prevention efforts, diverse campaigns were held; such as the Campaign for Detection of Breast Cancer (419), Blood Donation (105 donors), Prevention of Cervical-Uterine Cancer (569 employees were trained), and Prevention of HIV and AIDS (45). This year emphasis was made on the Prevention and Vaccination of Seasonal Influenza and the Prevention of Influenza AH1N1 and 5,407 employees participated. As part of the campaign, 1,066 employees received the flu vaccination in our attention centers. In addition, we continue to assist recovering employees through the Work Hardening Program, where with therapy and rehabilitation sessions we help the employee overcome certain types of muscular lesions.

The institutional absenteeism rate was reduced from 3.08 to 2.81 percent which is a decrease compared to the previous year.

<table>
<thead>
<tr>
<th>Rate (Percentage)</th>
<th>FY-07</th>
<th>FY-08</th>
<th>FY-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absenteeism</td>
<td>4.19%</td>
<td>3.08%</td>
<td>2.81%</td>
</tr>
</tbody>
</table>

This panel represents the construction of the Gatun Dam spillway is shown here. Gatun Lake was formed by the damming of the Chagres River, and the dam’s fourteen spillway gates maintain the lake at 85 feet above sea level. At the time of its formation, Gatun Lake was the largest manmade lake in the world.
Health, Life, and Accident Insurance Plan
In its effort to continuously improve private insurance plans which are offered to our employees, the ACP announced improvements during fiscal year 2009 in the following aspects: an increase in life insurance premium and payment of double compensation for accidents, an increase in the compensation for annual medical expenses, elimination of the co-payment for emergencies, and a lifting of the waiting period to be attended. In order to help employees make use of these benefits, around 1,000 employees were trained on topics regarding private medical insurance coverage and other procedures at the Caja de Seguro Social (Social Security - CSS).

Free Financial Counseling
We continue providing assistance on financial matters to employees who request it. During this year 72 seminars on personal financial management and 263 counseling sessions covering a total of 2,053 employees were given. The corporate “Infored” has also been utilized to expand this assistance, publishing guides and material of interest, and presentations continue to be given on personal finances in induction sessions for new workers. This information has been extended to employees and their families, and this year 80 Canal families received training on financial matters.

Discount Benefits at Local Businesses
In its search to positively impact employee wellbeing, this year ACP worked with local businesses that offer a variety of products and services to obtain discounts for its employees and their families for increased purchasing capability. Informative sessions were also offered to approximately 2,800 employees regarding the difference in the concepts of consumerism and thought-out purchases of articles and services that represent a necessity.

Recreational and Physical Activities
As in previous years, initiatives for healthy recreation and physical activities were carried out for employees and their families, such as aerobics classes, yoga, directed walks, volleyball and basketball games, and golf clinics, among others. As a tradition, we celebrated the Canal anniversary with interdepartmental athletic competitions in which 934 employees participated, among which were athletes, audience and cheerleaders. Likewise, to promote companionship between areas and between institutions, 8 internal sports leagues were formed, and our sports-loving employees participated in 19 governmental leagues. Families, children and Canal employee dependents participated in the now traditional Happy Summer or “Verano Feliz”, which consists of a series of sports, recreational, and educational activities, becoming the most enjoyable summer activity for 475 children.

Educational Assistance Program
Continuous education is backed by ACP as an institution. As part of the annual human capital management, we offer our employees opportunities to continue their education by attending courses and other academic instances which, as related to their duties, result in improved performance. Under this program, more that 500 enrollment reimbursements were processed.

Safety and Hygiene Program
At the national level, ACP has become an institution that promotes safety and hygiene at work. This year we got together 935 people (189 from the ACP and 746 from different areas of the country) for the Second Health and Employment Safety Congress entitled “Management and Competency of Health and Safety at Work”, and it was the main event in the country that commemorated the World Day for Safety and Health at Work. International and local speakers, public entities, and private businesses participated in the event.
Retirement Benefits
Contributing to internal organizational mobility and professional and personal growth, 134 employees accepted the voluntary retirement benefit. This is an economical benefit that the ACP offers its employees who retire from the company upon reaching retirement age.

Organizational Climate
With the participation of 7,345 employees (78.3 percent of the population), the second study on Organizational Climate, Satisfaction and Work Commitment was completed. Based on the results of the study, action plans at the corporate level and for the different areas were developed to address areas of interest for employees and to provide continuous follow-up on these topics.

Flexible Work Schedule
In those areas where operations permit, we have approved a flexible work schedule by adjusting the entry and departure hours to employees who request it so that they can fulfill certain personal and family obligations.

Permission for Parents or Tutors of Persons with Disability
Since the benefit of permissions for parents or tutors of persons with disabilities was implemented, employees have continued to apply for this initiative for social inclusion. This year 10 additional employees to the 24 already registered have requested to enter the program in order to take advantage of the administrative permissions of up to a maximum of 144 hours per calendar year which allows them to accompany their dependents with disabilities to their required medical appointments and treatments, without any charge to their vacation hours.

“Bringing up to date” . . . Employee Development and Learning
This year 97.0 percent of the total workforce participated in training and development programs to maintain their knowledge and abilities up to date in accordance with the expected productivity requirements. “Learning and Learning” is the tonic which permeates throughout the different job categories that exist in the Canal, this being the pillar of human capital management. The average hours of training per employee increased this year to 37 hours per year, 2 hours above last year’s average.

<table>
<thead>
<tr>
<th>Average hours of annual training per employee per job category</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Support</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td>Manual Support</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Executive</td>
<td>94</td>
<td>45</td>
</tr>
<tr>
<td>Managerial</td>
<td>64</td>
<td>77</td>
</tr>
<tr>
<td>Professional</td>
<td>52</td>
<td>61</td>
</tr>
<tr>
<td>Supervisory</td>
<td>66</td>
<td>96</td>
</tr>
<tr>
<td>Technical</td>
<td>30</td>
<td>34</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>35</strong></td>
<td><strong>37</strong></td>
</tr>
</tbody>
</table>

Managerial Development Program
A series of videoconferences were offered on Excellence in Leadership, and Managerial Update Sessions were held on the current economic situation and its possible impact in the Panama Canal. Training continued to be reinforced in the area of risks and its implementation process, and executive coaching services were provided to 11 managers.

Specialized Technical-Professional Training Program
This year there were 1,208 professional training instances in the most recent technology and tendencies, focused on implementation of projects for the Administration of Programs Information System, Activity Based Budget, Explosives Design and Evaluation, Schottel Propulsion Systems, Primavera P6, P6 Web, PCM, among other topics. The specialized training investment increased to 608,243.00 balboas.
Operating Supervisor Development Program
This year 87 supervisors were added to the 80 graduates for a total of 167 in the two years this dynamic program has been in operation to strengthen the supervisors’ leadership competencies, for continuous improvement, and a business view of the operating area. This program grants a certificate as evidence of completion of training and the effort made.

Technical Craftsman Development Program
In order to develop employees with a high potential for jobs identified as critical for the Canal operation, such as Welder and Shipfitter, a group of 21 new craftsmen began intensive training which seeks to provide them with the highest craftsman qualifications. The strength of the program is not only in its training on theory, but in the practice in well-equipped workshops and in on-the-job training at the work sites, with the help of mentors in the Canal industrial areas.

Upward Mobility Program
This year 10 different programs were activated under this Program which provide opportunities for professional growth in the institution, such as Admeasurer, Maritime Traffic Controller, Fire Fighter FF-01, Electrical Equipment Repairer, Rigging Worker, and Motor Launch Operator in which 37 workers participated.

Multidiscipline Program
We offered 18 technical craftsmen the opportunity for voluntary development to acquire knowledge and develop skills that will allow them to obtain better competitive levels in positions of Rigger, Rigging Worker, and Crane Operator, among other disciplines.

Continuous Formation for Personnel
We continue to offer continuous training in the maritime, professional, industrial and safety areas in response to the changing requirements of the Canal operations and maintenance. There were 2,661 instances of maritime training, 8,505 for industrial training, and 17,737 for safety training with regard to professional development. In the industrial area topics such as Work Planning and Diagnosis and Analysis of Electrical Installations, focused on safe practices and risk prevention associated with the particular work area and correct use of electrical installations were reinforced for industrial electrician helpers, industrial electrician workers, and industrial electricians. In the area of human development, the soft competencies of supervision and leadership, teamwork and human relations were emphasized.

Programs for the Management of Abilities and Continuous Formation which promote worker employability and which support them in the management of the end of their professional careers

<table>
<thead>
<tr>
<th>Training Programs</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total instances of maritime training</td>
<td>2,422</td>
<td>3,134</td>
<td>2,661</td>
</tr>
<tr>
<td>Total instances of industrial and safety training</td>
<td>7,472</td>
<td>11,262</td>
<td>8,505</td>
</tr>
<tr>
<td>Total instances of training in the area of professional development</td>
<td>12,498</td>
<td>15,919</td>
<td>17,737</td>
</tr>
</tbody>
</table>

Together with INADEH and within our current interinstitutional agreement, courses were given for English, basic mathematics, linear drawing and blueprint reading for all those employees interested in strengthening these abilities after regular working hours.
Assistance for Maritime Formation and Research
This year ACP had an important international role with respect to the transfer of the knowledge and
technology of our corporate culture and objectives, in support of state universities, SENACYT and
the City of Knowledge by means of a successful MARSIM Conference (International Conference
on Marine Simulation and Ship Maneuverability). There were 219 participants which included
outstanding companies and institutions from different parts of the world grouped together, like the
United States, Norway, Japan, Korea, Germany, Holland, Taiwan, The Antilles, China, Canada,
Argentina, Spain, Portugal, Singapore, England, Malaysia, and Panama, dedicated to research,
innovation, and the development of maritime simulations. Likewise, the 2009 Annual General
Meeting of the International Marine Simulator Forum took place in Panama, and 70 representatives
of the maritime industry of Asia, Europe and America attended. Thanks to the efforts of this type
of training programs and its continuous offer, the ACP was awarded the 2009 Lloyds List Award for
excellence in Maritime Training, an award which covers different categories of companies that stand
out internationally in the maritime business.

Professional Career Programs
In support of our succession planning management, new professionals began working in the
areas of engineering and human resources. Under the Professional Career Program there is a
gradual development and a progressive acquirement of responsibility, covering natural terminations
(retirements) and/or growth in activities of certain areas in the organization.

Training for Employees with Hearing Disability
We develop training focused on teamwork techniques for employees who have hearing disability,
in which topics such as motivation, talent valuation and team synergy are included. There were 22
employees who participated. Within the Canal work force there are 82 disabled employees, out of
which 23 have a hearing disability.

“Continuous Improvement” . . . Promoting Productivity and Efficiency
The Human Resources Department was certified in the new ISO 9001:2008 standard and maintained
its validity at the international level with regards to quality standards and continuous improvement
of processes for increased effectiveness of services. As part of its offer of internal services and to
comply with organizational needs, support systems for efficient human resources management were
implemented.

• Oracle Learning Management
  This is a new system for the administration of training which makes the scheduling and
  follow-up of employee training in the areas of business more efficient and quick by means
  of a structured curriculum or program by occupation or position.

• Digitalization of Files
  We are digitalizing files and other frequently used documents to speed administrative
  processes, such as documentation for employees, recruitment, placement and
  occupational health.

• Information Kiosks
  We have increased the information kiosk network up to 14 at sites like the Gatun,
  Miraflores and Pedro Miguel Locks; the shipyard at Monte Esperanza; and the Dredging
  Division, among others. These new kiosks were constructed by ACP personnel, they
  have fingerprint readers to guarantee confidentiality of the information, and are a part
  of the internal communication strategy in the operating areas, giving field employees
  corporate information of interest, as well as personal information.

“Workforce Balance” ... National and Gender Representation
With a wide and interesting variety of occupations covering the different functions in the Canal, we
have a total of 9,700 employees, both permanent and temporary. Thanks to them the company
challenges and ambitious goals were reached successfully with excellent results, despite the world
economic crisis.
From the transit of ships to the most complex market analyses and of the global economic situation, moving through the maintenance duties of its infrastructure and its channels, following its maritime operations, the financial administration, risk and liquidity, electrical generation, the purification of water, conservation of the environment, the Canal widening, and even its human resources management and other administrative support functions, the ACP offered to men and women equally, from all the country’s provinces, jobs which are challenging, honorable, and directly connected to the progress and future of our country.

<table>
<thead>
<tr>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 or less</td>
<td>31 - 40</td>
</tr>
<tr>
<td>3,500</td>
<td>3,000</td>
</tr>
<tr>
<td>1,000</td>
<td>500</td>
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<tr>
<td>2,095</td>
<td>3,021</td>
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<tr>
<td>2,005</td>
<td>2,442</td>
</tr>
</tbody>
</table>

Total Men and Women by Age Range

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Age Men</th>
<th>Average Age Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>45</td>
<td>41</td>
</tr>
</tbody>
</table>

Average Age of the Work Force

<table>
<thead>
<tr>
<th>Year</th>
<th>Level of Supervision</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Executives/Managers</td>
<td>88</td>
<td>14</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>Supervisors/Leaders</td>
<td>913</td>
<td>125</td>
<td>1038</td>
</tr>
<tr>
<td></td>
<td>Do not supervise</td>
<td>7102</td>
<td>985</td>
<td>8087</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>8098</td>
<td>1125</td>
<td>9223</td>
</tr>
<tr>
<td>2006</td>
<td>Executives/Managers</td>
<td>83</td>
<td>14</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>Supervisors/Leaders</td>
<td>909</td>
<td>131</td>
<td>1040</td>
</tr>
<tr>
<td></td>
<td>Do not supervise</td>
<td>7072</td>
<td>994</td>
<td>8066</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>8064</td>
<td>1139</td>
<td>9203</td>
</tr>
</tbody>
</table>

Women in Supervisory Positions in Comparison to Men
Year | Level of Supervision | Male | Female | Total
--- | --- | --- | --- | ---
2007 | Executives/Managers | 79 | 14 | 93
| Supervisors/Leaders | 873 | 121 | 994
| Do not supervise | 7138 | 1014 | 8152
| Subtotal | 8090 | 1149 | 9239

2008 | Executives/Managers | 95 | 31 | 126
| Supervisors/Leaders | 851 | 103 | 954
| Do not supervise | 7362 | 1048 | 8410
| Subtotal | 8308 | 1182 | 9490

2009 | Executives/Managers | 79 | 24 | 103
| Supervisors/Leaders | 899 | 108 | 1007
| Do not supervise | 7451 | 1139 | 8590
| Subtotal | 8429 | 1271 | 9700

With employees representing the variety of provinces in our Isthmus, we had a rotation ratio of 2.5 percent, and we maintain wages that represent the level of responsibility for each of the different position category and above the minimum local wage rate were our operation take place, without differentiating gender, which has allowed us to be known as one of the leader organizations within the region that offers quality of employment stability.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY 07</th>
<th>FY 08</th>
<th>FY 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rotation Rate %</td>
<td>4.5%</td>
<td>3.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Permanent Employees</td>
<td>7842</td>
<td>7800</td>
<td>8152</td>
</tr>
</tbody>
</table>

Employees by Province of Birth

<table>
<thead>
<tr>
<th>Province</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bocas del Toro</td>
<td>136</td>
</tr>
<tr>
<td>Chiriquí</td>
<td>473</td>
</tr>
<tr>
<td>Comarca Ngobe Buglé</td>
<td>400</td>
</tr>
<tr>
<td>Cocle</td>
<td>220</td>
</tr>
<tr>
<td>Colón</td>
<td>2,758</td>
</tr>
<tr>
<td>Panamá</td>
<td>5,218</td>
</tr>
<tr>
<td>5,218 de los cuales 1,610 nacidos en el exterior</td>
<td>100</td>
</tr>
<tr>
<td>Naturalizados</td>
<td>51</td>
</tr>
<tr>
<td>Extranjeros</td>
<td>40</td>
</tr>
<tr>
<td>Darién</td>
<td>150</td>
</tr>
<tr>
<td>Comarca Emberá 1</td>
<td>11</td>
</tr>
<tr>
<td>Comarca Emberá 2</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>9700</td>
</tr>
</tbody>
</table>

During the fiscal year 761 employees worked in temporary projects (590 in the Pacific and 171 in the Atlantic), among which are highlighted the Straightening of Culebra Cut, Locks Landing System Effectiveness Improvements, Channel Deepening, Fleet and Equipment Maintenance, and the Expansion Program. A total of 629 employees were selected for permanent promotions and 522 temporary employees received permanent appointments in which obtained employment stability.
Performance Evaluation Management

All company permanent workers who have been working for a period of more than 90 days and temporary employees who have done so for one year or more receive an annual performance evaluation at the end of the fiscal year (September). Those workers who receive an evaluation that indicates that their performance is completely satisfactory or better are eligible to receive a productivity bonus, as long as the company reaches the objectives established for that period in the Corporate Performance Indicator (IDC).

Awards And Recognitions Granted

<table>
<thead>
<tr>
<th>Program</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-the-Spot Award</td>
<td>3,420</td>
<td>3,306</td>
<td>2,603</td>
<td>4,041</td>
</tr>
<tr>
<td>Special Act or Service Awards</td>
<td>279</td>
<td>414</td>
<td>689</td>
<td>553</td>
</tr>
<tr>
<td>Safety Awards</td>
<td>567</td>
<td>768</td>
<td>843</td>
<td>880</td>
</tr>
<tr>
<td>Years of Service Awards</td>
<td>1,687</td>
<td>1,654</td>
<td>1,586</td>
<td>1,492</td>
</tr>
<tr>
<td>Suggestion Awards (Implemented)</td>
<td>14</td>
<td>25</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Distinguished Service Awards</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Rodolfo Lammie Excellence Award</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>5,968</td>
<td>6,669</td>
<td>5,755</td>
<td>6,988</td>
</tr>
</tbody>
</table>

Recognizing Work Well Performed

A total of 6,988 employees received additional recognition for work well performed, distinguished for their relevant and/or notorious participation on initiatives, projects, studies and exaltation of corporate values to which we owe ourselves. Under the institutional Suggestion Program, 20 suggestions were received regarding water savings, which is of great importance to the company and the world. Four of the 20 suggestions were accepted for implementation, the employees were recognized, and their suggestions were made public to provide incentives for other employees to submit ideas, which upon implementation, would result in savings or continued improvement in our processes.

Labor Relations

Based on our labor regime which consists of standards that protect the right of free association, more than 90.0 percent of the employees are covered by a negotiating unit, and therefore, by a collective bargaining agreement. Recognition of employee rights and their exclusive representatives, considering their needs and in the interest of resolving conflicts that naturally arise in every employee-worker relation, in a cooperative environment with a good understanding between unions and the ACP, plays a prevailing role in the maintenance of a good working environment. As part of this work, the Collective Bargaining Agreement of the Fire Fighter Bargaining Unit was negotiated. It is valid until July 31, 2016, and together with the other already negotiated bargaining agreements, completes the updated standards required for the desired approach to attend organizational needs, as well as future projects and challenges, safeguarding the rights of employees.
In addition, we highlight the contribution of human resource management with the employee-worker dynamics in the administration of bargaining agreements, the attention given to labor claims, and the facilitation of workshops which contribute towards the transmission of knowledge on this topic. The primary focus of this is for timely agreements and resolutions, to promote the use of conflict resolution mechanisms proper of the ACP labor regime in managers, supervisors, workers and union representatives, under the premise and commitment to reach a resolution at the lowest possible level. On the other hand, important health and safety topics are covered under in force regulations and collective bargaining agreements.

### Percentage of Employees Covered by a Collective Bargaining Agreement

<table>
<thead>
<tr>
<th></th>
<th>FY-2007</th>
<th>FY-2008</th>
<th>FY-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employees</td>
<td>9,236</td>
<td>9,510</td>
<td>9,701</td>
</tr>
<tr>
<td>Total employees covered</td>
<td>8,666</td>
<td>8,831</td>
<td>8,857</td>
</tr>
<tr>
<td>Percentage of covered employees in relation to total employees</td>
<td>93.83%</td>
<td>92.86%</td>
<td>91.30%</td>
</tr>
</tbody>
</table>

In the same manner, in this fiscal year, a slight increase is given in the number of employees covered. Nevertheless, the percentage of employees covered in 2009 in regards to the total workforce decreased in 1.6 percent compared with the percentage that this same group represented from the total workforce in 2008.

### Professionals in Action Program

Human resources professionals wishing to transfer their accumulated experience from their years of work with the Canal implemented a program this year for future professionals in which 160 graduating students who will obtain a Bachelor’s Degree in Human Resources from different universities in the country participated. Through the program we make known how the ACP manages its human resources, good practices based on organizational values and principles, and the tools which are used in the management of our human capital.

### INADEH-ACP Alliance

As a result of the existing agreement between the ACP and INADEH which seeks to guarantee the level of quality and international recognition in graduates of the formative programs of interest to the Canal, the INADEH reported that 809 Heavy Equipment Operators have been trained, more than 66 professionals have received training to update their knowledge in the area of explosives, and 127 qualified welders have graduated. This year INADEH initiated evaluations to opt for the certification of Welding Processes by COMIMSA, which represents the American Welding Society (AWS), Mexico Chapter, with a first group in which 17 welders were certified in the Submerged Metal Arc Welding process. An agreement was signed in Washington with the International Brotherhood of Electrical Workers (IBEW) for the review of programs, identification of equipment for the workshops, and the certification of graduates in the area of electricity.

### Internal Communication… A Strategic Company Tool in the 21st Century

“By talking people understand each other”- there is nothing better than to maintain good communication with those around us to encourage an interchange of ideas and expectations, reach an alignment of efforts, and discard possible conflicts in our daily actions. Knowing the importance of maintaining proactive and open communication, Human Resources has offered sustained support in the implementation of solid and participative internal communication systems with the best use of technology in the different areas in the organization, giving value to the needs and the particular dynamics of each of these areas. This year internal communication systems were inserted in the administrative areas such as in Human Resources and Corporate Affairs, as well as in operating areas, such as the areas of Energy, Water and Environment. Various modes were incorporated, like face-to-face encounters with the supervisor and their work teams, managerial meetings every trimester with all of the personnel, and informative pages of updated corporate material –sharepoint- with access via Intranet. These systems become vital and are very effective when introducing changes in the manner of managing the organization and making functional changes in the different areas of the company.
Environment
Continuous Programs
Due to the many benefits that it offers, the Panama Canal Watershed stands for the main region of the country. The water produced and stored in this basin is intended for several uses such as drinking water production, the transiting of ships from one ocean to another, and power generation. Also, important economic activities such as agriculture, raising livestock, industrial production, fishing and tourism are carried out in this region. The Panama Canal Watershed is the home of six protected areas of great value for ecosystem protection.

The Panama Canal offers the maritime industry a valuable alternative to transport great volumes through a safe all-water, cost and time effective route. This, in turn, helps to reduce carbon dioxide (CO_{2}) emissions and contributes with international global warming reduction efforts.

In addition, ACP supports these international efforts by becoming a carbon-neutral organization, compensating emissions from its operations with ground-breaking sustainable watershed management initiatives—ranging from establishing reforestation projects to a long term sustainable development plan with Canal Watershed stakeholders.

The Panama Canal is an environmentally efficient route for the world’s maritime commerce and industry.

The Green Maritime Route of the World
The Panama Canal has offered the maritime industry a shortcut in terms of navigation time, which is reflected in lower costs and, ultimately, the reduction of CO_{2} emissions. From this perspective, the Canal has been a green route ever since it began operating in 1914. This is evident in routes such as from the east coast of the United States to Japan and the west coast of South America; from the west coast of South America to Europe; and from the west coast of Canada to Africa and Europe.

Some of the routes previously described would probably not be feasible without the existence of the Panama Canal. As of today, ACP is conducting a more in depth CO_{2} emissions analysis to determine, more accurately, what are the actual, specific contributions of the Canal route to the mitigation of greenhouse gases (GHG). This study will allow ACP to determine a measure of CO_{2} emissions of transiting vessels through the Panama Canal compared against competing routes, permitting the shippers to assign a “green” brand to their products.

Becoming Carbon Neutral
Anthropogenic CO_{2} emissions and other GHG’s are triggering climate change. Many organizations have long recognized the need to take direct action and have sought to minimize their GHG emissions by citing concerns about safeguarding institutional legitimacy and credibility, as well as a desire to do the right thing. A growing number are taking further steps to “offset” their remaining emissions and become carbon neutral, so is the case of the Panama Canal.

< This panel shows the excavation through the Continental Divide, shown here, required digging down some 270 feet through the lowest of this mountainous area to form the bottom of the Canal in Gaillard Cut. The Canal’s original width in the Cut was 300 feet, and trains were used to haul away some 262 million cubic yards of earth and rock from this area.
Carbon neutrality is defined as achieving net zero carbon footprints through a combination of emission reductions and carbon offsets. Organizations should seek to responsibly reduce emissions to the greatest possible extent before balancing the remaining emissions by offsets. Carbon footprint is the total amount of all direct and indirect GHG emissions associated with organizational activities, expressed in carbon dioxide equivalent (CO$_2$e). The footprint is calculated by creating an emissions inventory – a register of the source and amount of all greenhouse gases discharged over a given period of time.

ACP aims to establish itself as a carbon neutral organization in order to comply with its vision to be world leader in services for the maritime industry and to promote sustainable development for the conservation of the Panama Canal Watershed, and with its mission to manage and conserve the Canal’s water resources and participate actively in environmental protection, as well as in the sustainable development of the Canal watershed.

ACP seeks to proactively mitigate its activities and reduce its overall carbon footprints. Therefore, offsetting would be carried out in order to ensure that all of the organization’s GHG emissions are compensated through the implementation of projects that could generate sustainable carbon offsets.

Other objectives include:
- To reduce CO$_2$ emissions, contributing with international efforts to reduce global warming.
- To establish a CO$_2$ emissions baseline within ACP’s operations.
- To offset reduced emissions through the establishment of land use change activities yielding multiple benefits for impoverished communities and by quantifying CO$_2$ emissions of vessels transiting through the Panama Canal compared to competing routes.

In order to become carbon neutral, in the following months ACP will be conducting through the Environmental Division, the baseline study to establish the carbon footprint, and then measure the required investments to offset this carbon, make it balanced, and sustain carbon neutral status.

**Environmental Economic Incentives Program**

ACP conducts the Environmental Economic Incentives Program (PIEA, for its acronym in Spanish), as one of the pillars of its social commitment and environmental leadership. In fiscal year 2009, we started actions in different sites to preserve and improve water resources.

<table>
<thead>
<tr>
<th>MODALITY</th>
<th>HECTARES</th>
<th>AREA OF THE PROJECT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous Areas</td>
<td>185</td>
<td>Soberania National Park</td>
</tr>
<tr>
<td>Agroforestry</td>
<td>300</td>
<td>Subwatershed of Los Hules- Tinajones-Caño Quebrado and Cirí-Trinidad rivers</td>
</tr>
<tr>
<td>Silvopastoral</td>
<td>162</td>
<td>Subwatershed of Los Hules- Tinajones-Caño Quebrado and Cirí-Trinidad rivers</td>
</tr>
<tr>
<td>Total</td>
<td>647</td>
<td></td>
</tr>
</tbody>
</table>

This is done by protecting the forest cover and promoting better land use according to its potential, in watershed strategic sites. The program comprises four main components:
- Forest cover protection and land use improvement based on its potential.
- Recovery of overexploited lands by means of reforestation with silvopastoral and agroforestry techniques, under cleaner production and good agricultural practices in farms at the watershed; and reforestation in continuous sites, now covered with Saccharum spontaneum, which is usually in protected areas.
Reforestation of sites managed by the Autoridad Nacional del Ambiente (National Environmental Authority - ANAM for its acronym in Spanish) and ACP, which are located outside protected areas.

Forest enrichment reforestation inside protected areas.

For Canal watershed residents, in addition to environmental benefits, the reforestation programs with silvopastoral and agroforestry techniques will generate profits as productivity in cattle ranching and yields from permanent crops -such as coffee- increase. From reforestation activities, ACP will seek to sell carbon credits through Certified Emissions Reduction (CERs) for the benefit of the watershed communities to invest such resources in more reforestation activities, thus ensuring sustainability of the program and contribute to integrated management of the Canal watershed. This program is based on previous land planning actions through cadastre and land titling in the watershed. The cadastre and land titling program continues to be implemented in El Cacao area.

Water Resources Management
ACP is responsible for ensuring the water resources needed for growing human consumption in the cities of Panama, Colon, La Chorrera, and surrounding areas, as well as for the safe and efficient transit of ships from one ocean to another and generation of hydroelectric energy. To accomplish this, we need to monitor rainfall patterns and river runoff water volume that can be stored and used. Among the programs ACP has in place for the administration of water resources are: the Gatun and Alhajuela lakes management; operation and maintenance of the hydro-meteorological stations network; recording, processing and analyzing hydro-meteorological data collected from the stations network and the meteorological radar; and using such datum for estimating and forecast modeling to guide operation policies. This is the only way we are able to guarantee the water volume needed to offer our highest quality services, even during the dry season.

Among the main achievements of our Hydrological Resources Section are: (1) 80.0 percent advance in the establishment of a hydrometeorology and water quality data base; (2) the evaluation of suspended solids transported by Cocoli River and their impact on dredging works at the Panama Canal Expansion Project; (3) completion of the Discharge Curves Validation Project – which are essential for water resources management; and (4) the maintenance of communications towers that allow real-time information transmission from hydrological stations network to the central office.

In addition, we fully accomplished planned maintenance works for our dams, spillways, and auxiliary dam systems, in order to guarantee operational and structural security. We also completed the 2009 work plan for our Flood Control Program, allowing us to prevent the loss of lives and goods due to natural events, as well as to efficiently manage available water.

In 2009, we completed the construction of a hydrology station on East Indio River, in the Alhajuela Lake subwatershed. Information collected by this station will increase the certainty in forecasting lake levels in following hours and days, improving short and mid term water management decision making. Hydrology stations also offer benefits beyond ACP operations: knowledge of river conditions which is important for the community and the Sistema Nacional de Protección Civil (National Civil Protection System), since it allows to plan and take timely actions for mitigation and prevention of disasters produced by possible floods.

Data collected from the East Indio River increase efficiency for the water resources assigned to the generation of hydroelectric power at Madden’s Main Hydroelectric Station. This will result in economic benefits for the country, while further optimizing the participation of this station in the satisfaction of national electric power demand, with the added value that the water used will increase its availability for the operation of the Canal through Gatun Lake.
Water Quality Monitoring in the Canal Watershed

Population growth, the increase of human activities, and changes in land use along reservoirs, streams and rivers in the watershed have a potential impact on the quality and quantity of water resources. Through the water quality surveillance and monitoring program in the Canal watershed, water quality data is systematically collected. This provides information to assess the characteristics of this resource and make the best decisions to ensure availability. On a monthly basis, 24 physical, chemical, biological and microbiological water quality characteristics are determined and used as reference to identify vulnerable areas and assess the effectiveness of actions taken by ACP or other agencies to protect, mitigate or reverse negative impacts on the resource.

During fiscal year 2009, we collected 969 water samples at 66 sites located at priority lakes, rivers and subwatersheds. This year comparative calculations for the water quality index (ICA, for its acronym in Spanish) were conducted to classify water quality for the Gatuncillo River Subwatershed as excellent, good, average, poor and very poor, covering the 2003-2009 period. Results show that Gatuncillo River water is good and can be used for different activities. Historically, ICA calculations for the Canal watershed classify water quality as “good” (about 80.0 percent), followed by “excellent” and “average” (about 10.0 percent for each). There are no results in the poor values. These results have been evaluated and compared with the proposed national quality standard for natural waters.

The Miraflores and Mount Hope water treatment plants produce potable water for ACP facilities and for the area within Panama and Colon. ACP, in compliance with the national health legislation, must monitor and analyze water quality. A daily, monthly, quarterly, annual, biannual and other samplings are carried out including specific analysis requested by the Autoridad de los Servicios Publicos (Authority of Public Services - ASEP). These tests include metals, organic compounds, pesticides, cyanobacteria, Cryptosporidium, Giardia and other biological indicators. The water quality control program includes a total of 1,900 monthly average analyses for the Miraflores water treatment plant and 800 analyses for the Mount Hope plant, for a total of approximately 2,700 monthly analyses.

In addition, preventive and corrective maintenance were performed on the volatile organic compounds (VOC) analysis system, located on the Paraiso water intake, which supplies the Miraflores plant. This system detects 61 organic compounds in real time, ensuring immediate response in case of hydrocarbons and other organic compound spills, and consumers’ protection.

Materials and Waste Management Program

Important efforts have been completed to control wastes generated by ACP through the promotion of a more efficient use of supplies and materials, the reduction in waste generation while strengthening the resource recovery through processes like the use and reduction and substitution of materials, reutilization and recycling of residues, commercialization or proper disposal of wastes. The figure below shows a 50.0 percent reduction in municipal wastes that has been sustained for the last three fiscal years.
There are other products that are being recycled or commercialized by ACP. As an example, there was a significant increase in the amount of used oil allocated to thermoelectric generation; solvent use has diminished due to greater utilization of water blasting as a cleaning aid; and ferrous and non ferrous metals are commercialized by the Excess Disposal Unit.

### Power Generation

The fundamental objective of the Energy Division is to ensure that the power supply to operate the Canal is reliable and competitively priced. The reliability goal is achieved through a system of continuous maintenance of hydroelectric power plants, substations, transmission lines, power distribution systems and repair of electrical equipment in general. ACP is ISO 9001 certified since 2004. This certification is the result of the pursuit of excellence in service quality. Competitiveness is the result of modernization of power generation management. Another important task on our hands is the power generation operation of Gatun and Madden hydroelectric and of Miraflores thermal plants. The optimal operation of these facilities, in coordination with the hydrometeorology staff, allows ACP to be in control of lake levels to prevent flooding and to take advantage of excess water for power generation.

ACP operates two hydroelectric and one thermal generation power stations. After meeting the Canal’s demand, surplus energy is sold through contracts to distribution companies in the national power market and in the spot market. The summary for fiscal year 2009 is shown below:

**National Electric Market Share**

<table>
<thead>
<tr>
<th>Product</th>
<th>FY09</th>
<th>FY08</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP</td>
<td>556,017</td>
<td></td>
</tr>
<tr>
<td>Other Agents</td>
<td>5,344,098</td>
<td></td>
</tr>
<tr>
<td>Total Electrical Market</td>
<td>5,901,715</td>
<td></td>
</tr>
</tbody>
</table>

**ACP Energy Sales**

<table>
<thead>
<tr>
<th>Product</th>
<th>FY09</th>
<th>FY08</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP</td>
<td>127,222</td>
<td></td>
</tr>
<tr>
<td>Contracts</td>
<td>245,347</td>
<td></td>
</tr>
<tr>
<td>Spot Market</td>
<td>320,697</td>
<td></td>
</tr>
<tr>
<td>Total *</td>
<td>693,266</td>
<td></td>
</tr>
</tbody>
</table>
ACP Energy Production

<table>
<thead>
<tr>
<th>Type</th>
<th>Production (kWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro</td>
<td>237,573</td>
</tr>
<tr>
<td>Thermal</td>
<td>497,229</td>
</tr>
<tr>
<td>Total</td>
<td>734,802</td>
</tr>
</tbody>
</table>

Nota * y **: La diferencia entre los totales son las pérdidas técnicas.

ACP Thermal Generation

<table>
<thead>
<tr>
<th>Type</th>
<th>Production (kWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steamers</td>
<td>120,414</td>
</tr>
<tr>
<td>Engines</td>
<td>376,726</td>
</tr>
<tr>
<td>Gas Turbines</td>
<td>89</td>
</tr>
<tr>
<td>Total</td>
<td>497,229</td>
</tr>
</tbody>
</table>

ACP Hydro Generation

<table>
<thead>
<tr>
<th>Type</th>
<th>Production (kWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madden</td>
<td>190,384</td>
</tr>
<tr>
<td>Gatun</td>
<td>47,189</td>
</tr>
<tr>
<td>Total</td>
<td>237,573</td>
</tr>
</tbody>
</table>

Operation, tasks the installation of minor equipment and preventive and emergency maintenance works in the various ACP system plants developed normally during fiscal year 2009.

Energy Saving Program

This program was established by the Office of the Administrator in 2006. Its main objective is to improve energy efficiency in projects, works and activities carried out within ACP’s facilities. In addition, ACP created an energy committee to ensure compliance with the Administrator’s directive, as it was designed for this program.

Energy policies are applied to designs, acquisition specifications, as well as operation and maintenance procedures in order to minimize long-term costs and environmental impact.

Some of the program’s achievements have been:

1. Energy saving through the application of specific measures and energy administration at the Corozal West Industrial Complex.
   - Twenty remote and real-time energy consumption meters were installed. Five energy and power meters were installed to register, control and follow-up energy consumption at the Fleet and Equipment Maintenance Division in the Atlantic Sector. This is one of the first initiatives on energy control directed towards ACP’s operations area in ACP.
   - Some improvements in the illumination system were made to building 561 in West Corozal, resulting in a 20.0 percent monthly reduction in energy consumption.

2. Energy saving campaign oriented to administrative and home activities. Conferences were offered to about 4,500 ACP’s employees. Besides, a course on “The Efficiency of Energy Resources” was designed to be offered on a permanent basis as of 2010.

3. ACP’s global energy reduction:
   At a rate of US$ 0.14 per kWh for ACP’s internal clients, energy savings have been the following:
   - Fiscal year 2008 US$ 745,399.90
   - Fiscal year 2009 US$ 738,192.00

During this period ACP has also conducted studies to determine opportunities for energy generation from renewable resources. One alternative would be based on wind power, considering the installation of an aeolian park at the north entrance of the Panama Canal (Atlantic). The other alternative would be based on tide power, using water from the Miraflores Locks.
Water
During fiscal year 2009 significant advances were achieved in the construction of the Mendoza Water Plant Project, making it possible to deliver potable water to the city of La Chorrera. Additionally, major projects were completed in this area:

- Chlorine analyzers were replaced for Miraflores and Monte Esperanza. This project improved chlorine dosage precision and in order to comply with the requirements of Comision Panameña de Normas Industriales y Tecnicas (COPANIT) and Autoridad Nacional de los Servicios Públicos (ASEP).

- Installation of a remote station for the Cardenas water tank. Miraflores operators can get information to control water tank levels and prevent spills.

- Pump replacement at Arraijan Pump Station through a commercial project conducted with Instituto de Acueductos y Alcantarillados Nacionales (IDAAN). This project increased by 2.0 millions of gallons per day the volume of drinking water delivered to Arraijan and nearby communities.

- Replacement of a 30 inch valve at Balboa Pump Station. This new valve improves reliability of the system.

- Improvement of the Smithsonian’s drinking water system in Barro Colorado Island. The necessary supplies were delivered to provide an immediate solution to the drinking water situation in Barro Colorado.

- Removal of the East and West Colon and Arco Iris systems retention valves within the Monte Esperanza Water Plant distribution system. This project improved significantly the operation of the distribution system to Colon City.

Similarly, this year ACP accomplished several goals regarding water matters which can be summarized:

- Recertification under ISO 9001 Quality Management System: proving that ACP counts with a continuous improvement assurance system and guarantees customer satisfaction.

- In March 2009, the Miraflores Filtration Plant broke its historical record by producing 55 million gallons per day for a week. This extraordinary production helped to solve the water shortage that had been affecting Panama City.

- During 2009 ACP took part in several presentations within the institution, during which, for the first time, a model of a water filtration plant, capable of treating raw water and producing drinking water, was exhibited. To complement this idea, a scale model of a distribution system that interacts with the SCADA program was built.

- Agreement between ACP, Universidad Tecnologica de Panama (Panama State Technical University-UTP) and DELFT University from Holland: with this agreement ACP authorizes UTP to conduct a study for the development of drinking water quality prediction model at the Miraflores Filtration Plant.

- Active participation in social activities with residents of Mendoza and surrounding communities.

Continuous improvement was evident in the set of indicators in fiscal year 2009 when compared with fiscal year 2008.
Amount of Water Delivered to IDAAN
On the Pacific side the amount of water delivered to IDAAN during fiscal year 2009 increased.

Water Saving Campaign
This year ACP launched a campaign directed to its internal customers for education purpose and to encourage water saving. This campaign achieved a 12.0 percent reduction of water consumption in ACP facilities.
This was the result of the following initiatives:
• Informational brochures and promotional material were distributed to create awareness about the need to save water.
• Conferences with related institutions such as Instituto de Acueductos y Alcantarillados Nacionales (IDAAN, for its acronym in Spanish), Ministerio de Salud (MINSA, for its acronym in Spanish), and Autoridad Nacional de los Servicios Públicos (ASEP, for its acronym in Spanish). Over 70 ACP employees from different divisions attended the conferences.
• Water saving tips were provided through the Intranet via ACP-info.
• A hotline was installed for reporting water leaks within ACP facilities.
• A water saving suggestions contest was created. The best suggestions received awards.
• A water saving contest was created in buildings where there is greater water consumption.

Effluent Water Quality Monitoring
To comply with corporate regulations we monitor periodically various facilities and installations, such as the effluents from the Gatun and Madden Hydroelectric Plants and the Miraflores Power Plant. Domestic and industrial wastewater of ACP facilities were also monitored in order to determine parameters like pH, alkalinity, total coliform bacteria, temperature, total hydrocarbons, oil and grease, among others.

Environmental Education
Guardians of the Watershed
With this program, ACP and the Ministerio de Educacion (Ministry of Education - MEDUCA) aim to increase awareness in the education community schools within the Panama Canal watershed and surrounding areas, about the conservation of water resources through environmental groups called “Guardians of the Watershed”. The objective of the program is to train leaders to support the environmental management in Watershed communities.

This program is based on the following lines of action:
• Environmental training - two workshops and 20 on site training sessions were completed, addressing themes such as waste and integrated water resources management;
• Guardians of the Watershed missions - 85 schools participated in two missions for water quality analysis and waste management;
• Production and distribution of educational materials on themes such as environmental education and the Panama Canal watershed - educational materials were distributed to 99 schools and six new educational concepts were created: two manuals on environmental issues, a set of environmental specifications, a summary of the Environmental Report of the Panama Canal watershed, and four posters.

Corporate Environmental Education
During 2009 the “3R's Campaign” was initiated, whose components are aimed towards raising awareness among ACP’s employees over the importance of personal participation in implementing adequate practices on waste management, energy reduction, water conservation, and emission reduction.
This campaign has been identified with the term Eco Lógicas, basing its concept on the fact that human ideas related to species and environment conservation should be based on common sense. The Eco Lógicas call for the application of the 3R’s strategy, which means first, reduction of resource use, second, reuse of materials or extending their life cycle, and third, recycling, a process in which materials pass through a transformation to be made usable again. The results of the program can be seen, among other aspects, in the reduction of energy consumption (see Energy Program) and the reduction of waste production.

As part of this campaign, articles and interviews in “Tu Canal” have been published with the printing of 9,500 copies and two articles in “El Faro”, with the printing of 96,000 copies per edition. In the same manner on a weekly basis guidelines and practical information has been disseminated under the “Eco Lógicas” format to more than 4,600 electronic e-mails. Also advertising videos have been produced for the TV program “Tu Canal al Día” (Your Canal Up To Date), with an audience of 140,000 people.

Next year the environmental education program will be focused on promoting good environmental operating practices and the establishment of “green spots” or recycling stations at strategic locations within ACP’s facilities.

Environmental Fairs and Events
Every year ACP celebrates special dates to highlight the importance of our natural surroundings. Through educational and artistic activities the institution promotes actions directed to the conservation of natural resources adequate use of water and energy, and air, water and soil pollution prevention. Some of the dates celebrated by the institution are the World Water Day, Earth Day, Environment Day, Natural Resources Month, Inter-American Water Day, International Day for Cleaning Rivers, Beaches and Coasts, Environmental Awareness Day, and others.

Among the major activities carried out during 2009 in environmental education are the following:

- Three training seminars called “Paint Your Reusable Bag”, directed to ACP employees and their families and to students and teachers working in the communities of Salamanca, Buena Vista and Gatunccillo. The first group had a participation of about 200 people, while the second group had 250 students and 50 teachers. The objective of this activity was to reduce the use of plastic bags and to promote the use of bags made of vegetal fibers to prevent water pollution.
- A seminar called ‘My Role in the Environment’, which used a methodology similar to the others. In this event participated 62 ACP employees and their dependants and 71 teachers from the education regions of West Panama, Metropolitan Panama, and San Miguelito, and from the communities of Chilibre and Las Cumbres. In this case, the teachers were in charge of transmitting their experience to their students.

Interinstitutional Coordination
Plan for the Sustainable Development and Integrated Management of Water Resources in the Panama Canal Watershed
Due to the importance of the Panama Canal for the country, ACP has carried out an open and clear dialogue with the community for the preparation of the “Plan for the Sustainable Development and Integrated Management of the Water Resources in the Panama Canal Watershed (DS-GIRH)”. This process has been under the responsibility of the InterInstitutional Commission for the Panama Canal Watershed (CICH). The main purpose of the DS-GIRH Plan is to guide policies, programs, projects, activities and investments within the watershed under a scheme of effective cooperation.

Immediately after the main document for the DS-GIRH Plan was prepared and approved in 2008, annual operation plan were designed for seven regions of subwatersheds1, its investment plans for three years and project profiles for each region. All these products have been designed on a result-control scheme basis. In addition, we completed the design of a follow-up and evaluation system for the Plan. Through a series of indicators to measure programs results, impact on the resources state and tendencies. Besides, the system will provide feedback for the implementation and the decision-making processes and for the plan’s periodic revision.

1 The “Plan for the Sustainable Development and Integrated Management of the Water Resources in the Panama Canal Watershed” establishes 7 work regions which are organized according to homogeneous subwatersheds: (1) Chagres River; (2) Trans-Isthman Corridor – Chilibre, (3) Trans-Isthman Corridor – Colón, (4) West Panama, (5) Capira, (6) Gatún, and Mirafores. These regions present particular characteristics of land use, economic activities, and environmental and social problems.
Sustainability State of the Panama Canal Watershed

Under the initiative of the International Hydrologic Program (IHP) of the United Nations Educational, Scientific and Cultural Organization (UNESCO) for Latin America and the Caribbean, through the initiative Hydrology for the Environment, Life and Polity (HELP), and with the sponsorship and participation of several Panamanian government institutions, ACP recently achieved the results of the application and calculation of the watershed Sustainability Index (WSI) for the Panama Canal watershed.

The WSI index represents a significant accomplishment, given the importance of the Panama Canal watershed for the country and the rest of the world. The index was applied to estimate the sustainability of the watershed considering present and future scenarios. Several specialists from different government institutions and non-government organizations participated in this process, including the Ministerio de Comercio e Industrias (Ministry of Commerce and Industries - MICI), Ministerio de Educación (Ministry of Education - MEDUCA), Autoridad Nacional del Ambiente (National Authority of the Environment - ANAM), Instituto de Acueductos y Alcantarillados Nacionales (National Institute of Water Supply and Sewage - IDAAN), Concejo Nacional para el Desarrollo Sostenible (National Council for Sustainable Development - CONADES), and others.

The index reflected a 0.74 value (from a possible maximum of 1.0). This result is rated as a “medium sustainability state”. The main strengths found in the Panama Canal watershed were the high quality of the surface waters, the extended cover of natural forests, and the existence of an effective water management policy for the area. On the other hand, the limitations observed in relation to the watershed sustainability were socioeconomic problems common to developing societies, the growth of human activities and the per capita water access.

Overall results of the WSI indicates that environmental health of the Panama Canal is very good. They also provide evidence that actions carried out towards the Canal Watershed conservation have yield positive results.

In addition, these results highlight the need to promote new initiatives under the “Plan for the Sustainable Development and Integrated Management of the Water Resources in the Panama Canal Watershed”, which was completed with the participation of local authorities, communities, grassroots and environmental organizations, farmers, academic and scientific community in our country.

This plan includes a series of projects aimed at enhancing local population’s quality of life, while protecting valuable watershed natural resources –including water. One of the components is targeted to potable water supply and sanitation, which will also impact positively the watershed Sustainability Index in the near future.

<table>
<thead>
<tr>
<th>Year</th>
<th>PN Chagres (km²)</th>
<th>PN Soberania (km²)</th>
<th>MN Barro Colorado (km²)</th>
<th>PN Camino de Cruces (km²)</th>
<th>PN Altos de Campana (km²)</th>
<th>AR Lago Gatun (km²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>985.5</td>
<td>194.5</td>
<td>81.9</td>
<td>26.0</td>
<td>19.8</td>
<td>1.2</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Forest Area in Panama Canal Watershed (in hectares)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2003</th>
<th>1998</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>172,533.70</td>
<td>168,051.67</td>
<td>161,280.60</td>
<td>172,533.70</td>
</tr>
</tbody>
</table>

Source: ACP Forest Covers 2008
Air Emission Control Program

ACP started in 2006 the Atmospheric Emission Control Program (PCEA for its acronym in Spanish) to comply with internal regulations and create a database that will allow establishment of an air quality index (ICAIRE for its acronym in Spanish). Through its Specialized Analysis Institute (IEA), the University of Panama monitors the quality of the air in areas under ACP’s administration and characterizes emissions from the Miraflores Thermoelectric Plant (PTM for its acronym in Spanish) and ACP’s vehicles.

In fiscal years 2007, 2008, and 2009 emission from ACP vehicles fleet were measured. This year a study was carried out on 300 vehicles, from a total fleet of 662, to measure their emissions (241 gasoline and 59 diesel). It was determined that 100.0 percent of the diesel vehicles and 95.0 percent of the gasoline vehicles comply with the maximum emission limit stated in ACP regulation 2610-EAC-112 and the Executive Decree No. 38 of June 3, 2009.

In years 2007, 2008, and 2009 the emissions from PTM were evaluated. The results revealed that evaluated parameters were below the maximum limits established in ACP’s and the World Bank. Another study was also conducted in 2009 to measure air quality in 7 areas administered by the ACP; the results were within the limits established by the ACP norm 2610-ESM-109 and the proposed regulations by ANAM. The following graphic shows the results of Miraflores station in years 2007, 2008 and 2009, regarding particulate materials less than 10 micra (PM10).

As stated before, currently ACP and the University of Panama are working together in the development of the Air Quality Index (ICAIRE, for its acronym in Spanish), which will provide reference information about the levels of particulate material less than 10 micra (PM10) and its relation to human health. The air quality database compiles values from 2007 to date, with the purpose to develop policies, programs, management of tolls and actions for ACP, in order to prevent air pollution.

Also, ACP bought nine hybrid vehicles to evaluate their environmental and economic benefits, especially in air emissions reduction. In addition, ACP will conduct environmental awareness programs at schools throughout the country on the impact that greenhouse gases emissions pose on our planet. ACP becomes the first government agency to use these new generation vehicles.

As a result of the efforts of the Environment Division, in the continuous growth of the maintenance and operation of the Canal, this year the recertification was achieved for the norm ISO 14001. This was possible through the efforts, commitment and professionalism of all employees in the Environment Division, who have maintained without interruptions the quality system since the year 2003.

This recertification was issued by Lloyds Register Quality Assurance Inc., corporation under the Lloyds Register Group, with vast experience of 249 years in the maritime industry.

The certification under the norm ISO 14001 is a further proof of ACP as a forefront organization. ACP not only satisfies its clients, but also adds value in the development of activities that protect the well being of the environment and natural resources in the areas of responsibility.

2The procedures and methodologies used by the IEA are approved by the National Environmental Authority (ANAM), as well as by the Environmental Protection Agency of the United States of America (USEPA) and accredited by the European Environmental Agency (AEMA).
3The University of Panama, through Law 36 of May of 1996, assumes responsibility to monitor the air quality in the national territory.
ACP has taken into consideration the fact that the Expansion Project is of international interest and that the number of visitors interested in learning about its development and evolution has increased in order to provide its watershed communities the opportunity to get training in arts and crafts. This will allow them to get the necessary skills to create representative tokens of the historical moment we are living.

In this context and as part of the Environment Conservation and Labor Training Program, ACP has joined efforts with Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano (National Vocational Training Institute for Human Development – INADEH) and the Ministerio de Educación (Ministry of Education - MEDUCA) in order to develop community training programs in arts and crafts and to promote entrepreneurship. To execute the trial program, as a part of INADEH’s currícula during fiscal year 2009, a module on basalt sculpture was included. Basalt is an igneous rock that is being extracted from the excavation of the Expansion Program of the Panama Canal. This module is intended to create art pieces by community members of the watershed inspired specifically by activities, operations or images of the day by day of the Panama Canal.

This program is intended to: (1) support artisan development programs through training in order to strengthen economically productive units among families, neighborhoods, or schools so that it may result in basic or complementary income in a productive chain setting (2) stimulate entrepreneurship; regional, financial, and operational autonomy (3) manage effective training of local agents as planning and execution facilitators for artisan development; and (4) support the conservation of regional culture by means of memorabilia.

The first community to be selected for this program was Nuevo Caimitillo, which is located within Chagres National Park and in the Chagres and Alhajuela hydric region. The Alhajuela Lake subwatershed has 4,484 inhabitants, out of which 14.4 percent are indigenous. According to gender, 54.0 percent are male and 46.0 percent are female. According to the 2000 census, Nuevo Caimitillo has a population of 1007, and it represents the second populated nucleous in the Alahuela Lake subwatershed.

Education levels among this population are low, 26.0 percent has no schooling and 51.0 percent has elementary education. There is only one mid level school in Nuevo Caimitillo that offers education from first to ninth grade, one classroom per grade.

< Part of the circular panel that shows the story of the heroic effort that produced one of the supreme achievements of all time, the construction of a water passage between the world’s two greatest oceans across the isthmus of Panama.>
The first group consisted of 17 housewives, single parents in many cases, and without permanent income. This group complied with the basalt sculpture course and a special management module. They are in the process of teaming up in order to make this activity formal.

In order to continue supporting this formalization process, ACP together with Cámara Marítima de Panamá (Panama’s Maritime Chamber - CMP) held a second golf tournament ACP – CMP, in order to collect funds for sustainability projects for Panama Canal Watershed communities, in addition to reinforcing friendship bonds with its principal customers. The funds collected in the 2009 tournament will be used to equip a shop with all the necessary tools for this first group of ladies artisan activity, in order to achieve the expected results.

Reaching Out to the Community

Lasting memories of memorable events such as touching the lock walls, receiving advice from a world known music artist or witnessing the construction of one of the major infrastructure works of the 21st century are some of the milestones that ACP’s communications management has left in the country in the year 2009.

Milestones such as the celebration of the Canal’s 95th Anniversary, the first decade of Panamanian administration, and the beginning of the Canal Expansion Project, scheduled to conclude in 2014 for the celebration of the waterway’s centennial, mark the ACP’s current outreach in the community.

In fiscal year 2009, ACP conducted specific activities and programs for different audiences, such as children, youngsters, students, associations, mass media, and urban and rural audiences.

Media relations were strengthened by means of 67 national press releases that promoted ACP activities. The Expansion Project boosted world interest in the Canal as confirmed by the attendance of 285 international journalists and the distribution of 60 press releases.

Expansion activities such as tenders and work-in-progress inspection, prompted 19 press conferences with an average participation of 12 media in addition to Canal maintenance and modernization while celebrating 95 years of operations. Other activities included in a partial transit through Miraflores Locks and four seminars on the contracting process of the new set of locks and ACP’s environment programs as well as closer interaction of ACP’s Administration with media directors and commentators as part of our commitment and accountability policy. This was complemented with invitations to two progress report presentations on the Expansion Program given to the National Assembly as required by Law 28 of 2006.

Proactive media relations were also conducted in rural areas, where three briefing tours covered seven cities in the countryside. ACP officials participated in 46 programs in 20 regional radio stations. These tours were supported by two mobile exhibits in buses.

Communication Channel

ACP continued using its revamped means of communication especially geared to the Panamanian public.

El Faro, the organization’s official publication, in its second year, features a new monthly magazine format, with a distribution of 1.1 million copies, 96,000 every month, which are inserted in the country’s national newspapers: La Prensa and Crítica. In addition, El Faro is distributed in the ACP Infocenters throughout the country. According to national surveys, after being redesigned, it features a new style that has been widely accepted among its readers.
The national television program “Tu Canal al Día” had 12 broadcasts in commercial and educational channels, showing updated information on the waterway. The audience responded favorably to the new content and presentations as evidenced by a rating increase, from eight to ten points, or almost 137,000 spectators per program.

**The People’s Canal (El Canal de Todos)**
The possibility of touching the lock walls and getting a close look at the operations of the waterway is a lasting memory for almost 35,000 students from schools throughout the country, as well as teachers and college students who visited and toured the waterway as part of the program “The People’s Canal”. This program is an opportunity for Panamanians, mainly young people, to get to learn firsthand about the Panama Canal. This year, the program was extended nationwide, as a result of the visits of mobile exhibits in buses to the communities.

**Information Centers**
One of the most important challenges for ACP is its contribution to bridge the existing digital gap in our country. A total of 16 Infocenters, located in different points of the national territory, attest to our commitment of promoting the well-being, development and growth of Panama. In fiscal year 2009, 177,431 people visited the centers, where they had free Internet access.

Thousands of children, youngsters, and adults benefit from these centers. These centers are equipped with computers to help them do their homework. Those who are not computer savvy, receive help at no cost.

In the 16 Infocenters located in eight provinces, ACP also contributed to the organization of seminars and workshops offered to 160,000 users.

**A Space for Culture**
There was also time for entertainment and culture. Approximately 50,000 people attended eight concerts, in which national artists performed as part of ACP’s Summer Cultural Program in the cities of Panama, Colon, Chitre, and David. These were unprecedented shows produced specially for the occasion; two musicals portrayed the history of “pindin”, national folklore rhythm, as well as urban rhythms.

ACP contributed to Panamanian musical history when it united on stage, Samy and Sandra Sandoval, representatives of the national folkloric music, with acclaimed pianist Danilo Perez, in a memorable performance. The tour “Between Two Oceans” included music clinics and auditions in the countryside, giving young people the opportunity to share with a musician of international importance such as Danilo Perez, while giving others the opportunity to obtain scholarships to study music in countries such as England and the United States.

ACP welcomed thousands of spectators and musicians from around the world for the Panama Jazz Festival 2009. Held in the Ascanio Arosemena Training Center from January 12 through 17, 2009; this year’s festival honored late Panamanian bassist and composer Clarence Martin.

Festival performers included jazz legends Chucho Valdés, Wayne Shorter, Danilo Pérez, Marco Pignataro, and Edna Golandsky. The program also featured educational workshops and concerts by students including Panamanian saxophonist Jahaziel Arrocha of the Berklee College of Music Quartet.
Young Leaders Program

With this year’s participants, the Young Leaders Program reached 222 students who have shared this experience of getting closer to the Canal by becoming ACP’s Goodwill Ambassadors. Several of them showed their leadership by excelling in other initiatives such as essay and speech contests.

The program, developed in 2008, is aimed at promoting solidarity, social responsibility, ethics, and a feeling of national pride in Panama’s youth.

In addition to the participation of young students, the program was extended in 2009 to encompass the training of 110 leaders in the township of Chilibre and Colon City, organized by the Watershed Management Unit.

This year the youngsters participated in a voluntary program during the summer, which benefited more than 500 children, young people and adults through reinforcement courses in Mathematics, English, Computer Science, Painting, Arts and Crafts, and Storytelling.

Likewise, a large number of these young leaders supported ACP’s participation in fairs and exhibits in different parts of the country.

Regional Fairs

ACP tried to reach all the corners of the country. The Canal achieved great acknowledgment, as it does every year, with its participation in 61 regional, national and school fairs in which approximately 55,000 people obtained updated information on the waterway, its expansion, its environmental programs, and job opportunities. In addition, ACP went overseas by participating in seven international fairs in which approximately 2,300 people visited its exhibits.

Finally, an example of the Canal’s impact on tourism, which is one of the activities that drives Panama’s economy, is the attendance of more than 400,000 tourists to the Miraflores and Gatun Visitor Centers, this last one located in the Province of Colon. These are the two windows which showcase the Panama Canal to the world and the country.

Organization and Community Involvement

ACP has included in its corporate strategy, the development of a partnership with Canal Watershed communities in order to work jointly for the integrated administration of its water resources. It has gradually succeeded in structuring a territorial vision of the watershed, through a planning process with local committees.

During this period, special emphasis has been given to the establishment of three new advisory councils to continue the process begun in Los Hules, Tinajones and Caño Quebrado micro watersheds. New advisory councils are Chagres-Alhajuela; Colon-Transithmian Corridor; and Ciri-Trinidad. This step has been accompanied with the definition of management and action plans. With the Advisory Councils we seek to strengthen the relationship between social, interinstitutional and political actors towards a decision-making scheme that satisfies the diverse interests in the region, enabling social action from local scope.

Environmental Conservation Program and Training for Work

With a partnership between ACP and the Ministerio de Educacion (the Ministry of Education - MEDUCA) and the Instituto Nacional de Formación Profesional y Capacitacion para el Desarrollo Humano (National Vocational Training Institute for Human Development - INADEH), this program seeks to invest in human resources from the Canal Watershed communities. During four consecutive
years, ACP has lead this program in 14 subwatersheds within the Canal Watershed, offering it to a population of approximately 3,000 residents who have been actively involved in job training and environmental awareness process.

During this period, 53 courses were organized and taught in 23 schools and community facilities, thus benefiting 860 residents of 150 communities. Courses were designed to cover two main components: one on trades or skills such as masonry and electricity, and the other address environmental topics that allow course participants to learn notions and concepts on natural resources in the Canal Watershed, and their individual and collective commitment to this natural heritage.

Caves Fair
During the last three years, the local committees of the Chilibrillo and Chilibre subwatersheds have been organizing the Caves Fair. This event incorporates the participation of local organizations and government institutions and promotes community commitment to protect natural resources, especially water.

Summer Program at Chilibre
The pilot program “Summer Season: Environment and Culture” is an initiative that began through the coordination of several entities, such as the University of Panama, the Community Board, local committees of the Chilibre and Chilibrillo subwatersheds, and ACP. The purpose of the program is to promote awareness among young residents of the Canal Watershed in an environmental culture, strengthening such values as respect for nature, responsibility and care for water resources.

Our Canal and its Watershed
ACP developed, jointly with Junior Achievement Panama, for the seventh year, the program “Our Canal and its Watershed”, directed to elementary schools students and facilitated by 60 employees from ACP. The purpose of this program is to encourage entrepreneurship and a comprehensive vision of how to use the Canal Watershed resources for a sustainable development. In fiscal year 2009 1,613 students from 26 rural and suburban schools, were benefited with a total of 7,584 children and 260 courses from this program.

Development of New Professionals
Committed to human and socioeconomic development in our country, we have developed several programs which sponsor the transfer of best practice knowledge to future professionals in our organization and particularly the knowledge and experience generated by the Third Set of Locks Project.

Student Program
Our institution is projecting itself as a learning laboratory for our country’s seedbed of professionals. During the fiscal year 2009, we hired 416 students to work during their vacation period and had 524 internships, of which 163 (31.0 percent) were university students, 198 (38.0 percent) were from high school, 32 (6.0 percent) from vocational schools, and 131 (25.0 percent) from nautical schools.

Academic Excellence Program (PEXA)
This year we offered 23 students with excellent academic performance the opportunity to be in contact with professional work, supporting them in their professional growth, reaffirming their specific vocation, and developing their competencies to apply for future jobs. Both the operating sector and the administrative that is leading the widening project receive these students and assigned them a variety of projects.
ACP's Corporate Volunteer Program took off this year in order to join efforts among its employees, who have always been characterized by their solidarity and humanitarian qualities towards their fellow employees and the community. This first year more than 700 volunteers worked together in order to implement transcendental projects that have had great impact upon the workforce, their families, the community and society as a whole.

Taking into consideration that the Social Responsibility management and corporate volunteering model is transversal to all the organization, in other words, it doesn't apply to a particular functional area and it must reflect upon each and every department; a team was created to coordinate this endeavor, as part of the functions of the Office of Corporate Affairs. This team called CIRSE (for its acronym in Spanish) has to facilitate the decision making process regarding the topic. This committee is made up by members of Human Resources; Environment, Water and Energy; and Management and Finance departments; and the Offices of Corporate Communications and Corporate Affairs.

Responsibilities pertaining the CIRSE committee are as follows:

1. Looking after the compliance and execution of the goals that have been included in the Volunteering and Social Responsibility Strategic Plan.

2. Integrating programs and actions regarding volunteering and corporate social responsibility. Ensure their alignment to the general strategic plan while establishing indicators that may measure performance and add value.

3. Recommending alliances and agreements that contribute to improve the volunteering and corporate social responsibility objectives.

4. Evaluate and approve or reject volunteering and corporate social responsibility project requests.

In the same manner, volunteering and corporate social responsibility guidelines that integrate all aspects and procedures to be taken into account for the approval of projects by the CIRSE, were put into effect.

< Part of the circular panel that shows the story of the heroic effort that produced one of the supreme achievements of all time, the construction of a water passage between the world's two greatest oceans across the isthmus of Panama.>
A symbolic recognition system was established with the volunteer network based on the number of hours dedicated to these activities consisting in awarding a bronze colored pin to initiating volunteers, a silver pin to volunteers with 100 hours of volunteer work, and a golden pin to those with 200 hours in projects approved by the CIRSE. The volunteer network is expected to grow 10.0 percent for fiscal year 2010.

ACP’s volunteer network began with the revamping of the Children to the Canal Program with a camp model that integrates in all its activities a message of self improvement for underprivileged children from all parts of the Republic of Panama.

**Children to the Canal Camp Program.**
This yearly program offers 150 underprivileged children, from all the provinces of Panama, the opportunity to visit the Panama Canal. Children have the chance to learn, first hand, this great Panamanian engineering work and visit the three floors of exhibitions in the visitor center in Miraflores that presents different topics such as the history, water and the biodiversity in the area, as well as the Canal’s operation and the Expansion Project.

This camp runs in collaboration with more than 300 volunteers and it consists in lodging the children, parents and teachers for three nights and four days.

In addition in getting to know the Canal, the children are offered the opportunity to visit important places such as: the presidency, the Old Quarter, Smithsonian’s Tropical Research Institute’s marine exhibition, Old Panama, the coastal strip, Omar Park, and Amador Causeway.

To complement the children’s visit, volunteers offer their work, time and talent in the coordination of artistic activities such as; dancing classes, acrylic painting, arts and crafts, and sports activities which include karate and soccer classes with Panama’s national soccer league. The children also get check ups from ACP health professionals and listen to lectures on first aid and dental health.

Having fun is a fundamental reason for which there was a movie and show with fluorescent puppets with values as the main topic.

This camp ends with a great get together celebration, where employees of the different departments make entertainment booths with fun activities so that the guests and volunteers with their families can play and learn in a setting where the main messages are values and self improvement. Within this closing activity we had the opportunity of sharing and learning from important figures and examples of self improvement such as Roberto Durán boxing world champion, Persival Piggott and Ubaldo Guardia of the national soccer team, César Barria who swam across the Strait of Gibraltar, and Alonso Edwards, silver medalist at the Berlin World Championship in Athletics.

During fiscal year 2009, ACP’s corporate volunteering program became stronger with the creation of programs with great impact on the workforce.

**Canal Families Seminar**
The Canal Families Seminar was created in order to promote policies, programs and activities that bring forth a positive work environment and a balance between ACP employees’ professional and family lives.
This seminar’s main objective is to strengthen the family relationship between the ACP employees and their dependents and to help Canal employees share their knowledge and experience with their dependents in a fun and family oriented environment. Among the activities there are presentations for separate groups of children and teenagers on important topics such as: first aid, personal safety, nutrition, drugs and alcohol, financial planning, taking care of the environment, energy and water saving, relationships during courtship, defensive driving, and the Expansion Program. These topics were covered by more than 50 volunteers of different disciplines who offer their work, knowledge and time at honorem in order to share these valuable topics with each child, teenager and parent.

The closing of this seminar consists of a rally in which by means of games and outdoor family activities ACP’s corporate values are shared: transparency, honesty, competitiveness, loyalty, and trustworthiness.

This first year there were three seminars that benefited 615 persons, represented by 167 Canal families, from the Atlantic and Pacific areas.

Self Improvement Program – Academic Leveling Course “Teacher at Home”
Once the ACP employees education statistics were analyzed, and it was noted that 12.3 percent have not completed middle or secondary schooling, ACP decided to implement an academic leveling course through the Teacher at Home Program. This program has been directed and tested by Instituto Panameño de Educación por Radio (Education through Radio Institute of Panama -IPER) and it was adapted to the needs of ACP employees so that under ACP and IPER’s supervision, they can finish their schooling as part of their self improvement. This first year ACP covered text books as well as the enrollment fees for more than 80 interested employees. All the same, a complete compact disk set was provided, that includes the course information required to complete each and everyone of the three-month programs that make up the 2009 school year. In addition, more than 100 employees responded to ACP’s call for tutors to work with the participants and support them with the different courses. This is how this group of volunteer tutors became part of the corporate volunteer network who offer their work, time, and talent in order to help each student achieve this valuable goal. The volunteer tutors have weekly meetings with the participants of the program in order to assist them with their learning process and applying the respective exams.

For fiscal year 2010 we expect employee participation to increase 20.0 percent in the Academic Leveling Program. For this year IPER hopes to include a high school program as part of its curricula, in order to be ready to have the first high school graduations of ACP employees.

Lets Give a Smile Concert
As support to the Operation Smile Foundation – Panama and to more than 200 children with facial deformities that this foundation tries to operate on by the end of 2009, ACP organized a special classical music concert presented by the students of Instituto Nacional de Música (National Institute of Music). Different objectives were achieved with this event: Operation Smile Panama’s mission was supported with the funds collected from the sale of 500 tickets to ACP employees, their relatives and friends; cultural activities were promoted, as well as the talent of the students of Instituto Nacional de Música.
Day for Education

Once a Canal employee takes on the initiative of being part of an activity, he knows how to do it with the necessary enthusiasm and empathy required to make it successful. This was the case of a Day for Education – Let’s Return to the Classrooms, organized by the Ministerio de Educación (Ministry of Education - MEDUCA) in which the volunteers got together in a common cause for the wellbeing of future generations who will be responsible for continuing with the mission of taking our country to better days. That mission can only be achieved by taking to a next level the quality of education and giving each student of our country the opportunity to have the classrooms and the education they deserve.

At the moment of mass communication, we received the response of our employees who supported the cause and made it an integral part of the activities of the Volunteer Program, for those who give their time, talent and work to favor any socially oriented action.

Filled with enthusiasm, more than 270 employees and dependents assumed as their own the challenge of visiting 71 schools of the districts of Capira, La Chorrera and Arraiján. ACP volunteers showed their dedication, commitment, sacrifice and will as they visited some hard to reach schools located in remote areas to find out their needs and with their contribution take the first steps to benefit Panamanian children with a better education.

Repairs and Donations in the Schools of the Canal Watershed

Repairs and Donations of La Colorada School in La Chorrera
Together with Kimberly Clark Panamá, after a hand washing campaign and in the setting of hygiene improvement for the well being of present and future generations, ACP coordinated jobs to improve La Colorada School in La Chorrera. These jobs consisted in the donation of B/.10,000.00 by Kimberly Clark to purchase the necessary materials to restructure and repair this education center. These facilities will also be equipped with Kimberly Clark items for free. A computer room that had not been finished was completed and the kitchen’s structure was improved. The labor was provided by the students of the ACP-INADEH Training for Work Program and with the help of the school’s principal and members of the community.

Repairs of Aminta Martinez School, in Cerro Cama, La Chorrera
Once again the Canal employees joined efforts to carry on a socially oriented activity that required great effort, to procure materials as well as in the organization and execution of the project. After it was approved by the CIRSE, volunteers with ACP’s support together with the parents of the Aminta Martinez School in Cerro Cama (Panama Canal Watershed) managed to improve the school’s condition and were able to purchase and install the ceiling in all of the classrooms.

Repairs and Donations for Communities
Donations of Affected Communities in Chiriquí and Bocas del Toro
ACP empathized with the suffering of hundreds of Panamanian brothers and sisters of the provinces of Chiriqui and Bocas del Toro who lost their homes and personal belongings after the heavy rain and overflowing of rivers during the past November 2008. The volunteer network made a call for donations of basic need items and food; and coordinated its delivery through the Office of the First Lady of the Republic.

Repairs and Donations for Hogar Divino Niño in Corozal.
This project was coordinated by Maintenance Division volunteers and consisted in providing general
ACP volunteers provided their work and knowledge to perform deep cleaning tasks of all the air conditioning units (compressors and evaporators), fabrication and installation of screens on the windows, repairing of window monitors and wood doors, replacement of electric outlet covers, unblocking of sanitary pipes, fixing faucets and painting the internal walls of the home.

This activity created a bond between Canal employees and their dependents with the children and the foundation who participated in the tasks and shared entertaining moments at the end of the day.

Housing Repairs and Donations for Mr. Alcibiades Benavides at Arraiján
ACP’s volunteers joined efforts to improve Mr. Benavides’ quality of life, a 74 years old elder, who has lived for over 20 years in a tinplate house of approximately 16 square feet, located at the edge of a creek. Because of the overflowing of the river the tiny house has been flooded on several occasions.

Once ACP volunteers shared their knowledge and work, they built Mrs. Benavides a new house in a higher ground. This will be a home that he will enjoy with dignity for the rest of his days. They carried out all the work to gather donations, in order to finance the civil engineering, soldering, installations and conditioning works for this new home, which was all created with the distinguish ACP’s employees trade-mark of perfection.

Ecological Rally
ACP’s volunteer network of employees joined forces through an ecological rally to promote environmental topics, raising a voice of awareness targeting issues such as the garbage topic and a better usage of resources by re-usage, reduction and recycling of materials, all directed to the Balboa community.

Over fifty volunteers, gathered the garbage in the Balboa and Ancon area bringing the awareness message to all the families and organizations located in the surrounding area, among some other activities.

18th Annual Beach, Coasts and Rivers Cleaning
With the joint collaboration of over 400 volunteers of ACP’s volunteer network and dependents; community members of the Canal watershed, and society members in general; all managed to recollect a total amount of 17,570 pounds of trash.

ACP participated in the cleaning of Amador Causeway and in Los Hules-Tinajones, Caño Quebrado, Paja, Gatuncillo, Limón, and Agua Sucia sub-watersheds; all of them within the Canal watershed.

Each year, ACP participates in Panama’s Interinstitutional Committee for the Cleaning of Beaches, Coasts and Rivers; and specially sponsors the cleaning of the riverbanks within the Canal watershed do to its commitment in order to preserve and guarantee water resources for human consumption and the Panama Canal’s operation.
In spite of the abrupt global recession, whose impact on trade and maritime transportation was mainly felt during fiscal year 2009, ACP generated revenues and contributed to the National Treasury with amounts that exceeded estimates, even though total revenues were slightly below the estimated figure. ACP achieved this good performance as a result of timely and effective actions to manage expenses, improve the quality of services rendered and strengthen relations with the market it serves. Fiscal year 2009 was characterized by a particularly difficult macroeconomic scenario, with a fast world economic slowdown, a reduction in consumption, credit contraction of finance institutions, and high volatility of primary commodity prices, which caused a reduction in maritime trade of some main routes the Canal serves. This resulted in a reduction of tonnage through the Canal.

Revenues
During fiscal year 2009, total revenues were B/.1,962.0 million, as shown in the following graphic.

This 2.2 percent difference, as compared to the previous fiscal year, is mainly the result of lower revenues due to the sale of electric power and less interests earned, in spite of the 9.2 percent increase in toll revenues, which reached B/. 1,438.2 million or 73.3 percent of the total income.
As additional reference, total revenues in fiscal year 2009 were 17.2 percent over the estimated figure for the year in the Panama Canal Master Plan 2005-2025. The Panama Canal Master Plan continues to be the framework and strategic guide for the Canal’s long-term investments and development.

The increase in tolls is the result of the scheduled toll increase implemented during this fiscal year, which partly offset the 3.4 percent decrease in tonnage transiting through the waterway. Revenues for transit-related services decreased B/.48.9 million, 11.0 percent less than the invoiced services during the previous year, due to a smaller number of transits and reduced use in the reservation system. These maritime services generated revenues for B/.379.2 million during fiscal year 2009, and account for 19.0 percent of the total revenues of the period.

Other Canal revenues represented 7.4 percent of total revenues, with B/.144.6 million, or 44.7 percent less than the B/.261.5 million of this budget line in fiscal year 2008. This decrease corresponds mainly to a reduction of 44.4 percent in electric power sales, which totaled B/.79.5 million in fiscal year 2009, as a result of changes in the contracting energy practices in the national electric market. ACP’s liquidity management contributed B/.32.8 million in interest income for time deposits and investments in securities, as compared to the B/.70.9 million generated during fiscal year 2008. The variation with respect to interests earned during 2008 is the result of a reduction in interest rates due to the international financial situation. Average performance of the liquidity portfolio during fiscal year 2009 was 1.45 percent, as compared to 3.93 percent for the same period the previous year.

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1 The Master Plan was the document that was drafted and disclosed at a national and international level with the purpose of submitting to public debate the arguments and technical grounds of the Canal Expansion proposal.
2 The last phase of Agreement No. 132 of April 24, 2007, whereby the rules of admeasurement and tolls of the Panama Canal are modified and an adjustment period of Canal fees for the years 2007, 2008, and 2009, become effective.
3 Includes, among others, revenues for transit reservations, and for tugboat, linehandler, locomotive, and pilotage services, etc.
4 Users who want this service pay an additional reservation fee which guarantees transiting on a specific date as scheduled.
5 Other revenues correspond to revenues for sale of electric power, water, interests earned, and miscellaneous revenues.
Expenses
Total operating expenses were B/.535.4 million in fiscal year 2009, B/.17.8 million (3.2 percent) less compared with the previous fiscal year (see Income Statement graph), equivalent to 27.3 percent of total revenues. In response to the sudden worsening of the world economic situation, effective and timely expense management generated adjustments and cost containment of B/.110.9 million in relation to the budget.

Fuel expenses for electric power generation was 40.6 percent less than budgeted and fuel expenses for transit operations were 35.9 percent less than estimated, mainly due to the reduction in the oil price in the international market. Also, there was a reduction of 8.7 percent in the fuel volume used for electricity generation as compared to the previous year. Likewise, a lower level of oceangoing transits (-2.2 percent), as a result of world economic slowdown, resulted in a reduction of diesel consumption in Canal operations.

Financial expenses for B/.14.9 million are included for the first time in the Panama Canal Authority’s financial statements as a result of the contracted financing with the multilateral and bilateral credit institutions to cover part of the Expansion Program. This amount corresponds to financing administrative expenses but does not include interests because at present, ACP has covered Expansion Program costs with its own resources and still has not disbursed funds of the contracted loan.

Tabla 1. Vertical and Horizontal Analysis of Income and Expenditure of Fiscal Year 2009
(in thousands of balboas)

<table>
<thead>
<tr>
<th></th>
<th>FY 2008 Real</th>
<th>FY 2008 Vertical Analysis</th>
<th>FY 2009 Real</th>
<th>FY 2009 Vertical Analysis</th>
<th>&quot;VS FY 2009&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toll revenues</td>
<td>B/. 1,317,475</td>
<td>65.6%</td>
<td>B/. 1,438,175</td>
<td>73.3%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Transit related services</td>
<td>428,104</td>
<td>21.3%</td>
<td>B/. 379,224</td>
<td>19.3%</td>
<td>(11.4%)</td>
</tr>
<tr>
<td>Total transit related revenues</td>
<td>1,745,579</td>
<td>87.0%</td>
<td>1,817,399</td>
<td>92.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Other revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric power sales</td>
<td>142,895</td>
<td>7.1%</td>
<td>79,463</td>
<td>1.0%</td>
<td>(44.4%)</td>
</tr>
<tr>
<td>Potable water sales</td>
<td>19,709</td>
<td>1.0%</td>
<td>20,247</td>
<td>1.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>27,987</td>
<td>1.4%</td>
<td>12,139</td>
<td>0.6%</td>
<td>(56.6%)</td>
</tr>
<tr>
<td>Total other revenues</td>
<td>160,581</td>
<td>9.5%</td>
<td>111,848</td>
<td>5.7%</td>
<td>(41.3%)</td>
</tr>
<tr>
<td>Interest income</td>
<td>70,275</td>
<td>3.5%</td>
<td>32,789</td>
<td>1.7%</td>
<td>(93.3%)</td>
</tr>
<tr>
<td>Total revenues</td>
<td>2,007,045</td>
<td>100.0%</td>
<td>1,962,036</td>
<td>100.0%</td>
<td>(2.2%)</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>354,959</td>
<td>17.7%</td>
<td>359,185</td>
<td>18.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>49,402</td>
<td>2.5%</td>
<td>49,681</td>
<td>2.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>41,407</td>
<td>2.1%</td>
<td>51,596</td>
<td>2.6%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Power Generation Fuel</td>
<td>69,906</td>
<td>3.5%</td>
<td>41,517</td>
<td>2.1%</td>
<td>(40.6%)</td>
</tr>
<tr>
<td>Operational Fuel</td>
<td>30,381</td>
<td>1.5%</td>
<td>19,484</td>
<td>1.0%</td>
<td>(35.9%)</td>
</tr>
<tr>
<td>Transportation, meals, and lodging abroad</td>
<td>680</td>
<td>0.03%</td>
<td>611</td>
<td>0.03%</td>
<td>(10.2%)</td>
</tr>
<tr>
<td>Allowances and local transportation</td>
<td>686</td>
<td>0.03%</td>
<td>722</td>
<td>0.04%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Services rendered by third parties</td>
<td>41,030</td>
<td>2.0%</td>
<td>40,889</td>
<td>2.1%</td>
<td>(0.3%)</td>
</tr>
<tr>
<td>Insurance</td>
<td>10,020</td>
<td>0.5%</td>
<td>11,141</td>
<td>0.6%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Provision for marine accident claims</td>
<td>642</td>
<td>0.03%</td>
<td>7,410</td>
<td>0.4%</td>
<td>1054.3%</td>
</tr>
<tr>
<td>Provision for obsolete inventory</td>
<td>772</td>
<td>0.04%</td>
<td>590</td>
<td>0.03%</td>
<td>(23.6%)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>8,998</td>
<td>0.4%</td>
<td>14,238</td>
<td>0.7%</td>
<td>58.2%</td>
</tr>
<tr>
<td>Sub-total</td>
<td>608,063</td>
<td>30.3%</td>
<td>597,044</td>
<td>30.4%</td>
<td>(1.9%)</td>
</tr>
<tr>
<td>Capitalized labor and materials (Regular)</td>
<td>(31,580)</td>
<td>(1.6%)</td>
<td>(15,729)</td>
<td>(0.8%)</td>
<td>(50.2%)</td>
</tr>
<tr>
<td>Capitalized labor and materials (Expansion)</td>
<td>(24,131)</td>
<td>(1.2%)</td>
<td>(45,906)</td>
<td>(2.2%)</td>
<td>90.2%</td>
</tr>
<tr>
<td>Total expenses of operation</td>
<td>553,172</td>
<td>27.6%</td>
<td>535,409</td>
<td>27.3%</td>
<td>(3.2%)</td>
</tr>
<tr>
<td>Fee per net ton</td>
<td>(355,034)</td>
<td>(17.7%)</td>
<td>(344,320)</td>
<td>(17.5%)</td>
<td>(3.0%)</td>
</tr>
<tr>
<td>Public service fees to Panamanian Treasury</td>
<td>(1,874)</td>
<td>(0.1%)</td>
<td>(1,964)</td>
<td>(0.1%)</td>
<td>4.8%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(68,503)</td>
<td>(3.4%)</td>
<td>(73,430)</td>
<td>(3.7%)</td>
<td>7.2%</td>
</tr>
<tr>
<td>Net Income/(Loss)</td>
<td>1,028,462</td>
<td>51.2%</td>
<td>1,006,913</td>
<td>51.3%</td>
<td>(2.1%)</td>
</tr>
</tbody>
</table>

Financing contracted is for B/.2.3 billion with the following agencies: Inter-American Development Bank, Andean Development Corporation, Japan Bank for International Cooperation, European Investment Bank, and International Finance Corporation.
Net Income Dividends, Surplus, and Contribution to the National Treasury

During fiscal year 2009, ACP generated an EBITDA\(^7\) of B/.1,080 million, or 1.5 percent less than in the previous fiscal year. This variation is a result of a decrease in the revenues for electric power sales and transit-related services. The EBITDA reached an annual growth rate of 11.1 percent in the last three years, as is shown in the following graph.

ACP generated earnings available for distribution, which surpass the estimates forecasted for fiscal year 2009. However, net income decreased 2.1 percent to B/.1,006.9 million from B/.1,028.5 million reported the previous year, as is shown in the following graph.

From this net income, B/.572.8 million were retained to finance the investment programs and establish equity reserves provided for by law, while the remaining B/.434.1 million were paid as dividends to the National Treasury, significantly exceeding the minimum pay required by Law 28 of July 17, 2006\(^8\), as is shown in the following graph.

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\(^7\)EBITDA (for its English acronym) corresponds to earnings before interest, taxes, depreciation, and amortization.

\(^8\)Law 28 of July 17, 2006 – During the construction of the project, payments by the Panama Canal Authority to the National Treasury for surpluses shall not be less than those made in such concept for Panama Canal Authority Fiscal Year 2005 (B/.268,850 million). The total amount of the transfers in concept of fees per net ton and surpluses shall not be less than the total amount of the transfers made for Panama Canal Authority Fiscal Year 2006 (B/.568,129 million).
Assets
ACP total assets for fiscal year-end 2009 were B/. 5,335 million, with 49.8 percent in current assets and 50.2 percent in net fixed assets. Current assets were B/. 2,655.2 million, 19.6 percent more than in fiscal year 2008. These assets have had an average annual growth rate of 20.1 percent in the last three years, while net fixed assets grew at an annual rate of 9.4 percent over the same period. This increase in assets is the result of the capital reinvestment plan established in the Regular Investment and Canal Expansion Programs.

Equity and Reserves
ACP’s total equity has increased at an annual rate of 14.6 percent from 2007 to 2009, as a result of an effective execution of its strategic objectives focused on the generation of value in a growing and sustainable way.

Payments to the State for fee per net ton and fee for public services reached B/.346 million this fiscal year 2009. These payments are equal to 17.6 percent of the total revenue or 24.3 percent of the earnings before fees and depreciation.

The total contribution to the National Treasury was B/.780.4 million, widely exceeding the minimum required by Law 28 of July 17, 2006 (B/.568 million) and exceeding in 42.1 percent the amount foreseen in the Panama Canal Master Plan 2005-2025 for B/.595 million. Between fiscal year 2000 and 2009, total contributions to the National Treasury amounted to B/. 4,719.0 million, and reflect an annual growth rate of 18.7 percent.

In fiscal year 2009, ACP established a deposit in Euros aimed at reserving necessary funds to pay for the rest of the sum agreed to in the procurement contract of a modern suction dredge, purchased at €63.5 million. It is currently being manufactured and will be delivered in fiscal year 2011. Consequently, in fiscal year 2009, the ACP’s Balance Sheet includes an account which corresponds to the coverage\(^9\) of B/.57.6 million to mitigate the risk associated to the fluctuation of the currency exchange rate.

Equity and Reserves
ACP’s total equity has increased at an annual rate of 14.6 percent from 2007 to 2009, as a result of an effective execution of its strategic objectives focused on the generation of value in a growing and sustainable way.

Article 44 of the ACP Financial Regulation provides for the establishment of hedging contracts to neutralize or mitigate the risks associated to the fluctuation of: commodities procured by the Authority or its contractors as a result of the functioning, maintenance, operation, modernization and expansion of the Canal; the types of interests agreed to in loans or government loans, or other credit obligations acquired by the Authority; and foreign currency exchange rates with respect to national currency in the Republic of Panama when the Authority would have entered into obligations agreed to in foreign currency.
Article 41 of the ACP’s Organic Law provides for the retention of net profits for the period, funds necessary to cover investment, modernization, and Canal expansion costs, as well as equity reserves considered necessary. Equity reserves established for fiscal year 2009 are shown in Table 2.

Table 2. Reserves for Fiscal Year 2009  
(in thousands of balboas)

<table>
<thead>
<tr>
<th>Equity reserve</th>
<th>Monto</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Reserve for Contingencies and Working Capital 10</td>
<td>0.9</td>
</tr>
<tr>
<td>Reserve for Capitalization of the Authority 11</td>
<td>24.0</td>
</tr>
<tr>
<td>Reserve to complete the funds required to purchase the suction dredge which is being manufactured.</td>
<td>40.0</td>
</tr>
<tr>
<td>Provisions for the Investment Program (Regular and Expansion)</td>
<td>507.9</td>
</tr>
<tr>
<td>Total</td>
<td>B/.572.8</td>
</tr>
</tbody>
</table>

Liabilities
At the closing of fiscal year 2009, ACP reported current liabilities for B/.256.7 million, of which B/.125.9 million correspond to accounts payable and B/.90.8 million to labor liability (accrued salaries and vacation pay).

Since December 7, 2008, ACP has contracted the necessary loans to finance up to 43.8 percent (B/.2.3 billion) of the Canal Expansion Program with multilateral and bilateral agencies listed in Table 3.

Table 3. Multilateral and Bilateral Agencies  
(in millions of balboas)

| European Investment Bank (EIB)                                    | B/.500 |
| Japan Bank for International Cooperation (JBIC)                  | B/.300 |
| Inter-American Development Bank (IADB)                          | B/.400 |
| International Finance Corporation (IFC)                          | B/.300 |
| Corporacion Andina de Fomento (CAF)                              | B/.300 |
| Total                                                             | B/.2,300|

The contract loans will have a 20-year maturity, with a ten-year grace period, commitment and underwriting fees, and type of interest agreed are based on market conditions and time of disbursements.

Financial Indicators
Liquidity Indicator
ACP achieved a better position of its working capital at the closing of fiscal year 2009. Current ratio increased 17.0 percent with regards to the previous fiscal year, with current assets equal to 10.3 times current liabilities. Since 2000, treasury management has generated B/. 312.0 million in revenues for interests earned, with an annual average liquidity growth of 27.9 percent.

![Liquidity Chart]

10 Legal framework - Agreement No. 69 of December 16, 2003, and consists in maintaining a reserve equivalent to 30 days of total income or average invoicing of the Canal (net interests earned).
11 Legal framework: Agreement No. 119 of July 27, 2006, and consists in maintaining such a reserve that the annual balance of the total reserve does not exceed 15% of the fixed assets and the annual sum to be reserved does not exceed 15% of transit revenues.
12 The Cabinet Council, through Cabinet Resolution No. 178 of October 13, 2008, approved the request submitted by the Panama Canal Authority-Board of Directors and authorized it to proceed with the contracting of loans with multilateral and bilateral credit agencies.
Activity Indicators
The increase recorded by the net fixed assets, mainly in the construction sector in construction projects currently underway, as a result of investment projects under execution, produced a net fixed asset turnover of 73.0 percent; in other words, each Balboa corresponding to ACP’s net fixed assets, produces 0.73 cents in revenues.

Leverage Indicators
Historically, ACP has shown a balance sheet free of long-term debt, reporting only current liabilities, which represent only 5.1 percent of its equity.

Profitability Indicators
ACP’s profitability indicators are kept at acceptable levels, considering the world economic situation, confirming the Canal’s capacity to generate wealth under a scenario of severe contraction of international trade. Return on sales remained at 51.0 percent during fiscal year 2009, thanks to timely expenditure management actions. Return on total assets and return on equity were 19.0 and 20.0 percent, respectively. Both record a slight decrease as compared to the previous fiscal year as a result of the increase in the assets acquired due to the execution of the Regular Investment and Canal Expansion Programs.
Understanding and Description of the Indirect Economic Impacts and its Scopes.

In the context of the Expansion Program of the Panama Canal and its Referendum, ACP contracted the services of a local consulting company responsible of performing a “study of the Economic impact of the Canal in the national scope”. The findings that the consulting company, altogether with the support of ACP, found on the matter were very interesting. It became clear with the results of the study that:

- The contribution of the Canal to the Gross Internal Product (GIP) is greater to the expressed one in the National Accounts published by the General Controllership of the Republic of Panama.
- The Canal is the epicenter of a logistics and transportation conglomerate.
- The activity of the Canal, altogether with the other activities that this conglomerate produces as well; have a multiplying effect on the rest of the activities of the economy, in terms of the GIP, use and income for the government.

Direct Contribution of the Canal to the Gross Internal Product and its Multiplying Impact

In the period from 2000 to 2008 the contribution of the Canal to the GIP has been in average 4.8 percent according to the General Controller of the Republic. However, according to the study this contribution exceeds 10.0 percent when including the multiplying impact that happens when the workers spent their salaries in the purchase of goods and services, as well as if the multiplying impact is considered over the suppliers of merchandises and services. A relevant conclusion of the study was that each foreign dollar received by the Canal is a contribution of 1.27 dollars on the GIP, which means that the impact on the GIP over the rest of the activities is of 0.27 cents.

The Canal is the Epicenter of a Logistic and Transportation Conglomerate

A conglomerate is a group of sectors in the economy, that although each one makes a different economic activity, they are related among each other, they benefit from the presence of the other do to the produced synergies, in terms of economic impact or “spillovers”. The conglomerates or clusters usually have an epicenter. The epicenter is that one activity that if it did not exist, then the...
conglomerate would not exist either. In the case of the logistic and transportation conglomerate of Panama, the epicenter is the Panama Canal, because without the existence of this, then the group of activities agglutinated around this one would not exist either or its existence would be very meager. The following are activities of the logistic and transportation conglomerate such as: transfer of containers ports, railroad, shipping lines, shipping agencies, shipyards, bunker, shipchandlers, boats and piloting services, Colon’s Free Zone, aerial hub of load and passengers, supporting bank services to the activities of logistic and transportation, Zones Processors of Export, Agency of Panama – Pacific Special Economic Area, City of Knowledge, Merchant Marine, Marine Court, Marine University, qualification and classification of ships, among others.

**Economic Contribution of the Logistic and Transportation Conglomerate in the National Scope**

The study determined that over a third of the country’s GIP is generated by this logistic and transportation conglomerate, been the Panama Canal the epicenter of it. In terms of employments, the magnitude of the contribution is similar, that is to say, contributes with over a third of the total of jobs in the country. Also determine that it constitutes over 15.0 percent of the income of the government. Over an 80.0 percent of Panama’s exports are made by this conglomerate, which means that it is an export conglomerate, been mainly of services. In Panama the US Dollar is the currency in use, which means that this conglomerate contributes mostly to the monetary base of the country for domestic transactions and in the usage of currencies for international transactions.

**New Study to Measure Impacts**

After the study on “The economic impact of the Canal on national scope”, steps were taken in to begin improving measurements, having a better understanding on the interaction of the Canal with each one of the activities and to obtain the permanent coordination between the diverse public organizations in this measurement effort. The public organizations involved in this effort are: The Panama Canal Authority (ACP), Ministerio de Economía y Finanzas (Ministry of Economy and Finances - MEF), Autoridad Marítima de Panamá (Maritime Authority of Panama – AMP), and the Instituto Nacional de Estadística y Censo (National Institute of Statistic and Census - INEC). This inter-institutional team has been denominated as the IMEM (Inter-Institutional Measurement and Estimation Module).

For this intention the Inter-American Development Bank (IDB) will grant to the Republic of Panama a “non-reimbursable financial cooperation”. Once the financial resources were obtained, ACP carried out the bidding process to select the consulting company responsible of the new study. Previous to the bidding, the public entities in charge of the permanent coordination of the measurement effort signed an agreement of formal cooperation on the matter. This new measurement study is considered to last sixteen months.

It is expected that this study will produce the design of a “satellite account” of the logistic and transportation conglomerate, which would be under the domain of the INEC for its permanent measurement through the years. This satellite account will reflect information about the specific impacts of the logistic and transportation conglomerate over the GIP and the employments on diverse sectors of the economy; as well as consumption, investment and the income of the government; among other variables. Another expected outcome to be obtained from this new measurement is the development of a Computerized General Equilibrium Model (CGE), which would allow making simulations of the impact of the public policies on the development of the conglomerate as well of the conglomerate on the society, in terms of the growth and income distribution of the population.
Panama Canal Authority

Independent Auditors’ Report and Financial Statements September 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Panama Canal Authority

Report on the financial statements

We have audited the accompanying financial statements of the Panama Canal Authority, which comprise the balance sheet as at September 30, 2009, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies applied and other explanatory notes.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable according to the circumstances.

Auditor’s responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Panama Canal Authority as at September 30, 2009, and the results from its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(Signed by Deloitte)

December 17, 2009
Panama, Republic of Panama
## Panama Canal Authority

### Balance sheet

**September 30, 2009**

*(In thousands of balboas)*

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Properties, plant and equipment, net</td>
<td>4, 16</td>
<td>2,679,067</td>
<td>2,438,710</td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents, and bank deposits</td>
<td>5</td>
<td>2,507,390</td>
<td>1,653,148</td>
</tr>
<tr>
<td>Investment securities (held to maturity)</td>
<td>6, 19</td>
<td>-</td>
<td>470,426</td>
</tr>
<tr>
<td>Hedge instrument</td>
<td>7</td>
<td>57,457</td>
<td>-</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>8</td>
<td>33,614</td>
<td>35,192</td>
</tr>
<tr>
<td>Inventories, net</td>
<td>9</td>
<td>49,653</td>
<td>39,861</td>
</tr>
<tr>
<td>Accrued interest receivable and other assets</td>
<td>7,604</td>
<td>7,604</td>
<td>22,379</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>2,655,718</td>
<td>2,221,006</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>5,334,785</td>
<td>4,659,716</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributed capital</td>
<td>16</td>
<td>1,904,968</td>
<td>1,904,968</td>
</tr>
<tr>
<td>Retained earnings:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserved</td>
<td>10</td>
<td>2,732,554</td>
<td>2,159,761</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>11</td>
<td>434,120</td>
<td>343,852</td>
</tr>
<tr>
<td>Adjustment for hedge instrument valuation</td>
<td>7</td>
<td>6,478</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>5,078,120</td>
<td>4,408,581</td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>12</td>
<td>125,903</td>
<td>119,358</td>
</tr>
<tr>
<td>Provision for marine accident claims</td>
<td>13</td>
<td>32,368</td>
<td>27,474</td>
</tr>
<tr>
<td>Accrued salaries and vacation payable</td>
<td></td>
<td>90,755</td>
<td>90,535</td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
<td>7,639</td>
<td>13,768</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>256,665</td>
<td>251,135</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td>5,334,785</td>
<td>4,659,716</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### Panama Canal Authority

#### Income statement

**For the year ended September 30, 2009**

*(In thousands of balboas)*

<table>
<thead>
<tr>
<th>Notes</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toll revenues</td>
<td>1,438,175</td>
<td>1,317,475</td>
</tr>
<tr>
<td>Other Canal transit services</td>
<td>379,224</td>
<td>428,103</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>1,817,399</strong></td>
<td><strong>1,745,578</strong></td>
</tr>
<tr>
<td>Other revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric power sales</td>
<td>79,463</td>
<td>142,895</td>
</tr>
<tr>
<td>Potable water sales</td>
<td>20,247</td>
<td>19,709</td>
</tr>
<tr>
<td>Interest income</td>
<td>32,789</td>
<td>70,875</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>17</td>
<td>12,138</td>
</tr>
<tr>
<td><strong>Total other revenues</strong></td>
<td><strong>144,637</strong></td>
<td><strong>261,467</strong></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>1,962,036</strong></td>
<td><strong>2,007,045</strong></td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>359,185</td>
<td>354,959</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>49,661</td>
<td>49,402</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>51,596</td>
<td>41,407</td>
</tr>
<tr>
<td>Fuel</td>
<td>61,001</td>
<td>100,287</td>
</tr>
<tr>
<td>Transportation and allowances</td>
<td>1,333</td>
<td>1,366</td>
</tr>
<tr>
<td>Contracted services and fees</td>
<td>40,889</td>
<td>41,030</td>
</tr>
<tr>
<td>Insurance</td>
<td>11,141</td>
<td>10,020</td>
</tr>
<tr>
<td>Provision for marine accidents</td>
<td>13</td>
<td>7,410</td>
</tr>
<tr>
<td>Provision for obsolete inventory</td>
<td>9</td>
<td>590</td>
</tr>
<tr>
<td>Other expenses</td>
<td>14,238</td>
<td>8,998</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>535,409</strong></td>
<td><strong>553,172</strong></td>
</tr>
<tr>
<td>Capitalized labor and materials</td>
<td>14</td>
<td>(61,635)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>535,409</strong></td>
<td><strong>553,172</strong></td>
</tr>
<tr>
<td>Income before fees and depreciation</td>
<td>1,426,627</td>
<td>1,453,873</td>
</tr>
<tr>
<td>Fees per net ton</td>
<td>12</td>
<td>(344,320)</td>
</tr>
<tr>
<td>Panamanian Treasury (Tesoro Nacional) - public service fees</td>
<td></td>
<td>(1,964)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4</td>
<td>(73,430)</td>
</tr>
<tr>
<td>Net income</td>
<td>15</td>
<td>1,006,913</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these financial statements.*
### Statement of changes in equity
For the year ended September 30, 2009
(In thousands of balboas)

<table>
<thead>
<tr>
<th>Notes</th>
<th>Contributed</th>
<th>Retained Earnings</th>
<th>Adjustment for hedge instrument valuation</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital</td>
<td>Reserved</td>
<td>Unappropriated</td>
<td></td>
</tr>
<tr>
<td>Balance as of September 30, 2007</td>
<td>1,904,968</td>
<td>1,475,151</td>
<td>486,414</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to Panamanian Treasury</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>(486,414)</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>1,028,462</td>
<td>-</td>
</tr>
<tr>
<td>Contributions to the investment program</td>
<td>10</td>
<td>-</td>
<td>579,032</td>
<td>(579,032)</td>
</tr>
<tr>
<td>Increase in equity reserves</td>
<td>10</td>
<td>-</td>
<td>105,578</td>
<td>(105,578)</td>
</tr>
<tr>
<td>Balance as of September 30, 2008</td>
<td>1,904,968</td>
<td>2,159,761</td>
<td>343,852</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to Panamanian Treasury</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>(343,852)</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>1,006,913</td>
<td>-</td>
</tr>
<tr>
<td>Cash flow hedge</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contributions to the investment program</td>
<td>10</td>
<td>-</td>
<td>507,868</td>
<td>(507,868)</td>
</tr>
<tr>
<td>Increase in equity reserves</td>
<td>10</td>
<td>-</td>
<td>64,925</td>
<td>(64,925)</td>
</tr>
<tr>
<td>Balance as of September 30, 2009</td>
<td>1,904,968</td>
<td>2,732,554</td>
<td>434,120</td>
<td>6,478</td>
</tr>
</tbody>
</table>

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

Statement of cash flows
For the year ended September 30, 2009
(In thousands of balboas)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>1,006,913</td>
<td>1,028,462</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>4</td>
<td>71,990</td>
</tr>
<tr>
<td>Loss on disposal of fixed asset</td>
<td>2,292</td>
<td>1,114</td>
</tr>
<tr>
<td>Provision for obsolete inventory</td>
<td>9</td>
<td>590</td>
</tr>
<tr>
<td>Provision for marine accidents</td>
<td>13</td>
<td>7,410</td>
</tr>
<tr>
<td>Severance payable</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,578</td>
<td>1,920</td>
</tr>
<tr>
<td>Inventories</td>
<td>(10,382)</td>
<td>(5,265)</td>
</tr>
<tr>
<td>Accrued interest receivable and other assets</td>
<td>14,775</td>
<td>3,772</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(1,880)</td>
<td>47,157</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>1,093,286</td>
<td>1,134,754</td>
</tr>
<tr>
<td>Net increase of fixed asset</td>
<td>(314,639)</td>
<td>(266,311)</td>
</tr>
<tr>
<td>Net decrease (increase) in investments</td>
<td>6</td>
<td>470,426</td>
</tr>
<tr>
<td>Net increase in time deposits, over 90 days</td>
<td>(892,675)</td>
<td>(238,586)</td>
</tr>
<tr>
<td>Hedge instrument</td>
<td>7</td>
<td>(50,979)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(787,867)</td>
<td>(640,161)</td>
</tr>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>(38,433)</td>
<td>8,179</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
<td>250,658</td>
<td>242,479</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of the year</td>
<td>212,225</td>
<td>250,658</td>
</tr>
<tr>
<td>Investing activities that did not represent cash outflows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets - capitalized depreciation</td>
<td>4, 14</td>
<td>(1,440)</td>
</tr>
</tbody>
</table>

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

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

The PCA, in coordination with government entities designated by law, is also responsible for the management, maintenance, use and conservation of the water resources of the Canal watershed, including lakes and their tributary streams.

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

As of September 30, 2009, the PCA had a total of 9,671 (2008: 9,447) employees, of which 8,147 (2008: 7,797) were permanent and 1,524 (2008: 1,650) were temporary.

The main PCA offices are located at the Administration Building #101, Balboa, Republic of Panama.

The financial statements of the Panama Canal Authority for the period ended as of September 30, 2009, were approved by the Board of Directors and authorized for their issuance on December 17, 2009.
2. Adoption of New and Revised International Financial Reporting Standards

At the date of these financial statements, the following standards and interpretations were issued but not yet in effect:

<table>
<thead>
<tr>
<th>Standard and Interpretation</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 1 (Revised) - Presentation of Financial Statements</td>
<td>January 1, 2009</td>
</tr>
<tr>
<td>IFRS 8 - Operating segments, replaces IAS 14, Segment reporting</td>
<td>January 1, 2009</td>
</tr>
<tr>
<td>IAS 23 (Revised) - Borrowing costs</td>
<td>January 1, 2009</td>
</tr>
<tr>
<td>IAS 32 (Amendment) Financial Instruments</td>
<td>January 1, 2009</td>
</tr>
<tr>
<td>IFRIC 14 - The limit on a defined benefit asset, minimum funding requirements and their interaction</td>
<td>January 1, 2009</td>
</tr>
</tbody>
</table>

The Administration considers that the adoption of these standards and interpretations applicable to future periods, would not have an important effect in PCA’s financial statements.
3. Significant accounting policies

3.1. Statement of compliance

PCA’s financial statements, including the comparatives figures, have been prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standard Board (“IASB”) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

3.2. Basis of presentation

The financial statements have been prepared under the historical cost basis, except for the recognition of changes in foreign currency of hedge instruments. PCA applied accounting policies consistent with those applied in the prior year.

3.3. Use of estimates

These financial statements are prepared in conformity with IFRS which requires management to make estimates and assumptions. These assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include the provision for marine accident claims, provision for obsolete inventory of materials and supplies, and the determination of the useful life of fixed assets.

3.4. Properties, plant, and equipment

Items of properties, plant, and equipment with a value of B/.5 or more are recorded at cost. The cost of items that are not capitalized or under B/.5 is expensed as incurred.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

- Buildings: 25 - 75 years
- Structures: 5 - 100 years
- Equipment: 3 - 75 years
The assets’ useful lives are reviewed periodically to ensure that the depreciation period is consistent with the expected economic benefit of the components of properties, plant, and equipment.

The gain or loss resulting from the retirement or disposal of an asset is the difference between the net proceeds and the net book value of the asset. The gain or loss is reflected in the statement of income when incurred, except for buildings and properties that were received from the Government of Panama, which are charged against equity when they are demolished or returned to the Government of Panama once it is determined they have no operating use for the PCA.

Maintenance and repairs are expensed as incurred, while major improvements are capitalized. Dredging costs incurred for recurrent maintenance of the waterway, as a result of landslides and erosion, are expensed. Dredging costs for substantial improvements to the waterway are capitalized and depreciated over their estimated useful lives.

Construction in progress represents plant and properties under construction and includes the cost construction and other direct costs. These assets are depreciated when completed and placed in operation.

3.5. Impairment of long term assets

Assets that are subject to amortization are reviewed annually to identify any impairment losses, whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which an asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s net selling price and its value in use.

3.6. Financial instruments

The financial assets and liabilities are recognized in the balance sheet of the PCA when they become a contractual obligation of the instrument.

- Cash, cash equivalents and bank deposits - Consist of cash on hand, deposits in current and saving accounts, and time deposits, free of liens and with original maturity dates of less than 90 days or over 90 days not exceeding one year.
Panama Canal Authority

Notes to financial statements
September 30, 2009
(In thousands of balboas)

- Accounts receivable - Accounts receivable are recorded at their face value.

- Classification of financial assets and liabilities into current or non-current - Financial assets and liabilities are classified according to their maturity date on the balance sheet. Current assets and liabilities are those with a maturity date that is less than or equal to twelve months. Non-current assets and liabilities are those with a maturity date greater than twelve months.

- Write-off of financial assets - Financial assets are written off only when the contractual rights to receive cash flows have expired; or where in the transfer of financial assets, substantially all the risks and benefits inherent in ownership of the asset were transferred to another entity. If the entity does not transfer and does not retain substantially all the risks and benefits of ownership and continues to control the transferred asset, the entity recognizes its retained interest in the asset as well as a liability for the amount it may have to pay. If the entity retains substantially all the risks and benefits of ownership of the financial asset transferred, the entity continues to recognize the financial asset and also recognizes a liability secured by the amount received.

- Impairment of financial assets - Financial assets are assessed at the end of each reporting period to determine whether there is evidence of impairment. 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 an impact on the estimated future cash flows of the financial asset.

- Accounts payable - Accounts payable do not earn interests explicitly and are recorded at their face value.

- Write-off of financial liabilities - The entity removes financial liabilities when, and only when, the entity’s obligations are discharged, cancelled or expired.

3.7. Investment securities

Purchases of investments are recognized on the settlement date, the date on which PCA pays and receives the asset.

Investment securities are acquired with the intention to be held to maturity and are recorded at amortized cost. Amortized cost is the initial cost of the investment, adjusted by the cumulative amortization of any discount or premium on acquisition. The amortization of the discount or premium is recognized as an increase or decrease of interest income in the statement of income.
3.8. Hedge instrument

The entity recognizes at fair value all assets or liabilities arising from operations with derivative financial instruments on the balance sheet, independently of the purpose for holding them. Fair value is determined based on quoted market prices and, when not traded in an active market, is determined by using valuation techniques accepted in the financial sector.

When hedging instruments are contracted with the aim of hedging risks and comply with all hedging requirements, their designation is documented at the beginning of the hedging relationship, describing the objective, characteristics, accounting recognition, and how effectiveness will be measured, as applicable to that operation.

Hedging instruments designated as hedges recognize changes in valuation according to the type of hedging involved: (1) for fair value hedges, fluctuations in the fair value of the derivative, as well as fluctuations of the hedged item are valued at fair value and are recognized in profit and loss; (2) for cash flow hedges, the effective portion is temporarily recognized in equity as comprehensive income and recycled in the income statement when the hedge item affects profit or loss; the ineffective portion is recognized immediately in profit and loss.

The entity shall discontinue the hedge accounting when the derivative expires, is sold, terminated or exercised, when the hedging instrument does not achieve a high effectiveness to compensate for the changes in fair value or cash flows of the hedged item, or when the entity decides to cancel the hedge designation.

In cash flows hedges, when hedge accounting is discontinued, the amounts recorded in equity as comprehensive income shall remain in equity until the forecasted transaction or firm commitment affect profit and loss. When a forecasted transaction or firm commitment is no longer expected to occur, the cumulative gains or losses that were reported in equity as comprehensive income are immediately transferred to the income statement. If the hedging of a forecasted transaction had been shown as effective and later does not comply with the effectiveness test, the accumulated effects in the comprehensive income equity account are carried proportionally to the income statement to the extent that the forecasted asset or liability affects the profit and loss.
All investments, deposits and/or certificates of deposits of the PCA, are denominated in the currency of the United States of America, or in other currencies exclusively for payment to vendors for contracts awarded in such currencies, without the intention of speculating and with the sole purpose of mitigating the foreign currency exchange risk. Topics related to foreign exchange rate volatility are documented with the purpose of mitigating the risk related to payments of the awarded contracts. Deposits are renewed for remaining balances as periodic payments are made and interests are generated. Interests are considered part of the hedge, and are capitalized to the deposit until the entire contract is paid. To determine the prospective effectiveness, a historic correlation is made between the variations in the exchange rate of the deposit with the variations experienced by the commitment of the purchase contracted. The method used to determine the retrospective effectiveness is the dollar off-set method for cumulative changes.

3.9. **Inventories**

Inventories of materials, operating supplies, and fuel are presented at the lower of cost and net realizable value. Inventories are valued based on the average cost method according to the valuation of suppliers which after the allowance for obsolescence of materials and supplies inventory, does not exceed the realizable value.

3.10. **Allowance for obsolete materials and supplies**

The inventory of supplies and materials is evaluated annually to determine the adequacy of stock levels. If determined to be excessive, these should be reduced due to obsolescence, impairment, diminishment of quality, slow turnover or as a result of not being useful for the operation and functioning of the Canal.

If any inventory item of supplies and materials complies with the previously mentioned characteristics, the allowance is adjusted to its reasonable value to recognize the probable loss.

3.11. **Revenue recognition**

Revenues are recognized when it is probable that future economic benefits will flow to the PCA and those benefits can be measured reliably. The following specific criteria have to be complied before revenues are recognized:
Toll revenue
The toll revenue is recognized once vessels complete their transits through the Canal.

Electric power sales revenue
The PCA has the capacity to produce both hydropower and thermal power to generate electricity needed for canal operations. Excess production is sold in the open market through contracts with distributors of electricity and other third parties.

Potable water sales revenue
The PCA has the capacity to produce and supply potable water for consumption within its facilities. Surplus production is sold to the National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales).

Services rendered
Revenues from other services are recognized when services are rendered.

Interest
Interest income on bank deposits and investments are recognized as accrued.

3.12. Embedded derivatives
Derivatives may be embedded in other contractual agreement (a “host contract”). The entity accounts for the embedded derivative separately when the host contract is not carried at fair value by means of profit or loss, and if because of the characteristics of the embedded derivative it is not closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification and are presented on the balance sheet together with the host contract.

3.13. Monetary unit
The PCA maintains its accounting records and financial statements in balboas (B/.). The balboa, monetary unit of the Republic of Panama, is at par and has free exchange with the U.S. dollar. The Republic of Panama does not issue paper money and in its place utilizes the U.S. dollar as legal currency.

Assets and liabilities denominated in foreign currencies are converted to balboas (B/.), at the exchange rate prevailing at the end of the period.
3.14. Critical judgment in the application of accounting policies

Fixed assets:

To determine the useful life of fixed assets, a catalog of property, plant, and equipment units is used. This catalog is an internal guide that identifies the basis to determine the elements of a fixed asset, based upon the criteria established in the International Financial Reporting Standards.

This catalog details all the assets according to function and useful life, within the main objective of unifying the criteria used in the classification of capital assets and the estimation of depreciation expense.

Marine accident claims:

The PCA records a provision for marine accidents as soon as a known probable economic obligation is derived from any particular incident. Such provision includes an estimate of costs for repairs, dry dock, damages to cargo and inspection, among others. These elements constitute the basis to record the initial liability which is updated based on inspections or presentation of properly supported claims.

The PCA will make payments for claims that are properly supported and accepted by the PCA during the administrative or judicial stage or in conformity with the Organic Law, Article 69. The PCA will also make payments in compliance with final rulings of the Maritime Tribunal, in cases where the PCA may be liable.
4. Properties, plant and equipment, net

Properties, plant and equipment are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>1,022,767</td>
<td>-</td>
<td>-</td>
<td>1,022,767</td>
</tr>
<tr>
<td>Buildings</td>
<td>92,494</td>
<td>375</td>
<td>(441)</td>
<td>92,428</td>
</tr>
<tr>
<td>Structures</td>
<td>701,728</td>
<td>47,856</td>
<td>(1,297)</td>
<td>748,287</td>
</tr>
<tr>
<td>Equipment</td>
<td>868,582</td>
<td>28,251</td>
<td>(15,972)</td>
<td>880,861</td>
</tr>
<tr>
<td>Constructions in progress</td>
<td>273,635</td>
<td>240,753</td>
<td>-</td>
<td>514,388</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,959,206</td>
<td>317,235</td>
<td>(17,710)</td>
<td>3,258,731</td>
</tr>
</tbody>
</table>

| **Accumulated depreciation** | | | | |
| Buildings | 28,912 | 2,953 | (7) | 31,858 |
| Structures | 153,610 | 25,553 | (120) | 179,043 |
| Equipment | 337,974 | 44,924 | (14,135) | 368,763 |
| **Total Accumulated depreciation** | 520,496 | 73,430 | (14,262) | 579,664 |

| **Net value** | 2,438,710 | 243,805 | (3,448) | 2,679,067 |

(In thousands of balboas)
Panama Canal Authority

Notes to financial statements
September 30, 2009
(In thousands of balboas)

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beginning Balance</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>1,022,581</td>
</tr>
<tr>
<td>Buildings</td>
<td>87,705</td>
</tr>
<tr>
<td>Structures</td>
<td>602,784</td>
</tr>
<tr>
<td>Equipment</td>
<td>786,324</td>
</tr>
<tr>
<td>Constructions in progress</td>
<td>194,275</td>
</tr>
<tr>
<td></td>
<td>2,693,669</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>26,186</td>
</tr>
<tr>
<td>Structures</td>
<td>130,614</td>
</tr>
<tr>
<td>Equipment</td>
<td>297,176</td>
</tr>
<tr>
<td></td>
<td>453,976</td>
</tr>
<tr>
<td>Net value</td>
<td>2,239,693</td>
</tr>
</tbody>
</table>

The PCA recorded losses as a result of retirements or disposals of assets of B/.2,292 (2008: B/.1,114). During 2009, the main assets that were retired included a barge tie up station, hydraulic excavator with its spare parts, vehicles and printing equipment. During 2008, the main assets that were retired included diesel motors, communication equipment, elevators, vehicular equipment, pumps, containers, film processors, surveillance and intrusion detection systems.

A portion of the depreciation of B/.1,440 (2008: B/.2,323) corresponding to equipment utilized in investment projects was capitalized as properties, plant and equipment during the period (See note 14).

5. Cash, cash equivalents and bank deposits

Cash, cash equivalents and bank deposits are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>49</td>
<td>33</td>
</tr>
<tr>
<td>Deposits in current accounts</td>
<td>27,129</td>
<td>22,455</td>
</tr>
<tr>
<td>Deposits in saving accounts</td>
<td>120,046</td>
<td>64</td>
</tr>
<tr>
<td>Time deposits with original maturities under 90 days</td>
<td>65,001</td>
<td>228,106</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>212,225</td>
<td>250,658</td>
</tr>
<tr>
<td>Time deposits with original maturities over 90 days not exceeding one year</td>
<td>2,295,165</td>
<td>1,402,490</td>
</tr>
<tr>
<td>Total bank deposits</td>
<td>2,507,390</td>
<td>1,653,148</td>
</tr>
</tbody>
</table>

Article 44 of the Organic Law states that PCA’s funds may be placed in short-term investment grade instruments and may not be used to buy other types of financial investment instruments issued by Panamanian or foreign public or private entities, or to grant loans to such entities or to the Panamanian Government. All PCA investments in time deposits are placed in investment grade banks.

6. Investment securities (held to maturity)

During fiscal year 2008, investments consisted of bonds which were acquired with the intention of being held to maturity. All PCA investments were short-term and had been placed in investment grade instruments. Following is a description of these investments:
Panama Canal Authority

Notes to financial statements
September 30, 2009
(In thousands of balboas)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Book Value</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Investment securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in multilaterals</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments in commercial paper and financial bonds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments in commercial paper and non-financial bonds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Changes in investments held to maturity are stated as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>470,426</td>
<td>335,162</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>649,170</td>
</tr>
<tr>
<td>Redemptions</td>
<td>(470,426)</td>
<td>(513,906)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>-</td>
<td>470,426</td>
</tr>
</tbody>
</table>

7. Hedge instrument

In fiscal year 2009, the hedge instrument consisted of a time deposit in Euros whose objective was to hedge the exposure to variability in foreign exchange rates as a result of the obligation to pay for the fabrication and acquisition of a dredge in this currency. The delivery of the dredge is planned for fiscal year 2011.

The fair value of the financial instrument was measured using the Bloomberg exchange rate in EUR-USD at the closing of September 30, 2009.
The hedge instrument activity is detailed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge instrument - time deposit</td>
<td>50,979</td>
<td>-</td>
</tr>
<tr>
<td>Hedge instrument valuation adjustment</td>
<td>6,478</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>57,457</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

8. Accounts receivable

Accounts receivable are detailed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit-related services</td>
<td>10,056</td>
<td>6,427</td>
</tr>
<tr>
<td>Electric power sales</td>
<td>16,989</td>
<td>23,934</td>
</tr>
<tr>
<td>National Institute of Pipelines and Sewerage</td>
<td>3,461</td>
<td>2,190</td>
</tr>
<tr>
<td>(Instituto de Acueductos y Alcantarillados Nacionales)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other government entities</td>
<td>1,370</td>
<td>1,140</td>
</tr>
<tr>
<td>Other services</td>
<td>1,738</td>
<td>1,501</td>
</tr>
<tr>
<td></td>
<td><strong>33,614</strong></td>
<td><strong>35,192</strong></td>
</tr>
</tbody>
</table>

9. Inventories, net

The inventories are detailed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies and materials</td>
<td>44,438</td>
<td>37,428</td>
</tr>
<tr>
<td>Fuel</td>
<td>11,920</td>
<td>8,938</td>
</tr>
<tr>
<td>Provision for obsolete inventory</td>
<td>(6,705)</td>
<td>(6,505)</td>
</tr>
<tr>
<td></td>
<td><strong>49,653</strong></td>
<td><strong>39,861</strong></td>
</tr>
</tbody>
</table>
Change in the provision for obsolete inventory of supplies and materials is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>6,505</td>
<td>6,400</td>
</tr>
<tr>
<td>Increase</td>
<td>590</td>
<td>772</td>
</tr>
<tr>
<td>Charges</td>
<td>(390)</td>
<td>(667)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>6,705</td>
<td>6,505</td>
</tr>
</tbody>
</table>

10. Retained earnings reserved

Article 41 of 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 the Regulations, any surplus shall be forwarded to the National Treasury in the following fiscal period.

Changes in reserved retained earnings are detailed as follows:

<table>
<thead>
<tr>
<th>Reserved for:</th>
<th>September 30, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance at the beginning of the year</td>
</tr>
<tr>
<td>Canal expansion</td>
<td>91,306</td>
</tr>
<tr>
<td>Investment projects - others</td>
<td>25,000</td>
</tr>
<tr>
<td>Catastrophic risks</td>
<td>36,000</td>
</tr>
<tr>
<td>Social and environmental program of the Canal watershed</td>
<td>10,000</td>
</tr>
<tr>
<td>Contingencies and working capital</td>
<td>157,679</td>
</tr>
<tr>
<td>Enterprise capitalization</td>
<td>243,871</td>
</tr>
<tr>
<td></td>
<td>563,856</td>
</tr>
<tr>
<td>Contributions for:</td>
<td></td>
</tr>
<tr>
<td>Investment programs</td>
<td>1,595,905</td>
</tr>
<tr>
<td></td>
<td>2,159,761</td>
</tr>
</tbody>
</table>
Panama Canal Authority

Notes to financial statements
September 30, 2009
(In thousands of balboas)

<table>
<thead>
<tr>
<th>Reserves for:</th>
<th>Balance at the beginning of the year</th>
<th>Increase</th>
<th>Decrease</th>
<th>Balance at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canal expansion</td>
<td>35,300</td>
<td>56,006</td>
<td>-</td>
<td>91,306</td>
</tr>
<tr>
<td>Investment projects - others</td>
<td>-</td>
<td>25,000</td>
<td>-</td>
<td>25,000</td>
</tr>
<tr>
<td>Catastrophic risks</td>
<td>36,000</td>
<td>-</td>
<td>-</td>
<td>36,000</td>
</tr>
<tr>
<td>Social and environmental program of the Canal watershed</td>
<td>10,000</td>
<td>-</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>Contingencies and working capital</td>
<td>142,978</td>
<td>14,701</td>
<td>-</td>
<td>157,679</td>
</tr>
<tr>
<td>Enterprise capitalization</td>
<td>234,000</td>
<td>9,871</td>
<td>-</td>
<td>243,871</td>
</tr>
<tr>
<td></td>
<td>458,278</td>
<td>105,578</td>
<td>-</td>
<td>563,856</td>
</tr>
<tr>
<td>Contributions for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment programs</td>
<td>1,016,873</td>
<td>579,032</td>
<td>-</td>
<td>1,595,905</td>
</tr>
<tr>
<td></td>
<td>1,475,151</td>
<td>684,610</td>
<td>-</td>
<td>2,159,761</td>
</tr>
</tbody>
</table>

The equity reserves established up to date are as follows:

**Reserve for Canal expansion**

The Board of Directors approved an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the PCA for determined projects during the implementation of the program. The Board of Directors approved a reserve of B/.56,006 for fiscal year 2008, whereas in fiscal year 2009, the PCA did not increase this reserve.

**Reserve for investment projects - others**

The Board of Directors approved an equity reserve for the investment programs in the Panama Canal. The funds of this reserve are segregated based on the earning levels, according to PCA’s financing needs for particular projects during programs execution. During fiscal year 2009, the Board of Directors approved a reserve of B/.40,000 for a total reserve of B/.65,000 (2008: B/.25,000).
Panama Canal Authority

Notes to financial statements
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Reserve for catastrophic risks
The Board of Directors approved an equity reserve to cover the deductibles of the catastrophic risks insurance policies with a maximum amount of B/.36,000. The PCA did not increase this reserve for fiscal years 2009 or 2008.

Reserve for the social and environmental program of the Canal watershed
The Board of Directors approved the establishment of a reserve to finance the social and environmental program of the Canal watershed. The purpose of this program is to preserve natural resources and promote the development and integral management of the watershed. During fiscal years 2009 and 2008, the PCA did not make appropriations to this reserve.

Reserve for contingencies and working capital
The Board of Directors approved an equity reserve for contingencies and working capital based on the PCA’s level of revenues. The amount of this reserve is based on the average of 30 days of Canal revenues or billing, and is funded in stages, periodically, as agreed by the Board of Directors. During fiscal year 2009, the Board of Directors approved the increase of this reserve by B/.889 (2008: B/.14,701) for a total reserve of B/.158,568 (2008: B/.157,679).

Enterprise capitalization
The Board of Directors approved a reserve for Enterprise capitalization. The purpose of this reserve is to ensure and facilitate the long-term financial projection of the Enterprise. This reserve will be funded in stages, according to the periodicity agreed by the Board of Directors. During fiscal year 2009, the Board of Directors approved the increase of this reserve by B/.24,036 (2008: B/.9,871) for a total of B/.267,907 (2008: B/.243,871).

Contributions to investment programs
The Board of Directors approved an increase in funds to investment programs for B/. 507,868 (2008: B/.579,032).

11. Unappropriated retained earnings

Article 41 of the Organic Law establishes that after covering the costs for the investment program and the reserves detailed in Note 10, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the PCA should transfer the total amount of B/.434,120 to the Panamanian Treasury which corresponds to the year ended September 30, 2009 (2008: B/.343,852).
In compliance with Law 28 of 2006, during the construction period of the third set of locks, the PCA will continue to make increasing payments to the Panamanian Treasury based on Canal tonnage fees and any operational surplus. Any payments based on an operational surplus shall not be less than those made to the Panamanian Treasury in 2005 for the amount of B/.268,850. The combined payments based on Canal tonnage fees and operational surpluses shall not be less than the payments effected in fiscal year 2006 for the amount of B/.568,128.

12. Accounts payable

The accounts payable are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panamanian Treasury</td>
<td>26,753</td>
<td>27,460</td>
</tr>
<tr>
<td>Suppliers and others</td>
<td>99,150</td>
<td>91,898</td>
</tr>
<tr>
<td></td>
<td>125,903</td>
<td>119,358</td>
</tr>
</tbody>
</table>

Article 39 of the Organic Law establishes that the PCA shall pay annually 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 PCA. The total of such fees amounted to B/. 344,320 (2008: B/.355,034) for the year ended September 30, 2009.

The balance payable to the Panamanian Treasury is mainly represented by the fee per net ton payment that is outstanding at September 30, 2009.

13. Provision for marine accident claims

The provision for marine accident claims of B/.32,368 (2008: B/.27,474), represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the PCA expects to be liable.

The PCA carries out investigations to determine the cause of each marine accident. When the cause of the accident is determined, the PCA records, if applicable, a provision based on an estimate of the vessel’s permanent and temporary repair costs that in the opinion of management, is the PCA’s responsibility. The amount of the provision is reviewed at the balance sheet date, and if necessary, it is adjusted to reflect the best estimate at that moment.
Panama Canal Authority

Notes to financial statements
September 30, 2009
(In thousands of balboas)

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>27,474</td>
<td>29,883</td>
</tr>
<tr>
<td>Provision for the year</td>
<td>7,410</td>
<td>642</td>
</tr>
<tr>
<td>Payments made</td>
<td>(2,516)</td>
<td>(3,051)</td>
</tr>
<tr>
<td>Balance at end of the year</td>
<td>32,368</td>
<td>27,474</td>
</tr>
</tbody>
</table>

The increase in the provision is included as an expense of the current period under “Provision for Marine Accidents.”

14. Capitalized labor and materials

During the execution of the Investment Program - others and Investment Program - Canal expansion, the PCA utilizes the services of contractors as well as its own resources and equipment.

In both Investment Programs, the internal cost transfers of labor, materials and supplies, use of equipment (fuel, maintenance and depreciation), and other expenses attributable to the investments made with the PCA’s own resources and equipment are originally recorded as operating expenses as incurred. These costs are later credited in the income statement of the period in which they were incurred and charged to the construction in progress account of properties, plant and equipment.

The direct costs incurred for personal services in the Investment Program - Canal expansion, and the contracted services in the investment projects of both programs, are charged directly to the construction in progress account of property, plant and equipment.
The most significant projects of the investment program that have been executed with PCA’s own resources and equipment are detailed as follows:

<table>
<thead>
<tr>
<th>Investment Program - Others:</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widening and straightening of the Gaillard (Culebra) Cut</td>
<td>8,870</td>
<td>9,147</td>
</tr>
<tr>
<td>Deepening of Gatun Lake and Gaillard (Culebra) Cut</td>
<td>-</td>
<td>6,768</td>
</tr>
<tr>
<td>Rehabilitation of tow tracks</td>
<td>-</td>
<td>2,025</td>
</tr>
<tr>
<td>Rehabilitation of barges 403 y 407</td>
<td>389</td>
<td>1,500</td>
</tr>
<tr>
<td>Replacement of turntables in Gatun Locks</td>
<td>-</td>
<td>798</td>
</tr>
<tr>
<td>New tie-up Station for vessels in Cartagena Hill</td>
<td>-</td>
<td>672</td>
</tr>
<tr>
<td>Procurement and installation of hydraulic operators for the rising stem valves</td>
<td>-</td>
<td>645</td>
</tr>
<tr>
<td>Purchase of tow components</td>
<td>3,457</td>
<td>-</td>
</tr>
<tr>
<td>Project administration system</td>
<td>706</td>
<td>-</td>
</tr>
<tr>
<td>Replacement of the vehicular gates with a vehicular bridge</td>
<td>466</td>
<td>-</td>
</tr>
<tr>
<td>Other various projects</td>
<td>1,841</td>
<td>2,576</td>
</tr>
<tr>
<td></td>
<td>15,729</td>
<td>24,131</td>
</tr>
</tbody>
</table>
### Investment Program - Canal Expansion:

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dredging of Gatun Lake</td>
<td>39,135</td>
<td>24,370</td>
</tr>
<tr>
<td>Deepening of Gaillard (Culebra) Cut</td>
<td>-</td>
<td>4,500</td>
</tr>
<tr>
<td>Dredging at the Pacific entrance</td>
<td>3,417</td>
<td>-</td>
</tr>
<tr>
<td>Dry excavation No. 4 of the North Pacific channel</td>
<td>713</td>
<td>803</td>
</tr>
<tr>
<td>Program administration</td>
<td>628</td>
<td>-</td>
</tr>
<tr>
<td>Construction of new field offices for the new Locks</td>
<td>440</td>
<td>-</td>
</tr>
<tr>
<td>Excavation project No. 2</td>
<td>392</td>
<td>-</td>
</tr>
<tr>
<td>Disposal site studies in the Atlantic Side</td>
<td>321</td>
<td>-</td>
</tr>
<tr>
<td>Studies and specifications in all Locks</td>
<td>-</td>
<td>299</td>
</tr>
<tr>
<td>Other various projects</td>
<td>860</td>
<td>1,608</td>
</tr>
<tr>
<td><strong>Total capitalized</strong></td>
<td>45,906</td>
<td>31,580</td>
</tr>
</tbody>
</table>

### 15. Income taxes

The PCA 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.

### 16. Contributed capital

Article 316 of the Political Constitution of the Republic of Panama states that, PCA 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, PCA became the administrator of all personal and real estate property identified in the Organic Law of PCA as the patrimony necessary to operate and maintain the Canal.
This patrimony is divided into two groups: the inalienable patrimony, comprised of land, lakes, rivers, dams, locks and anchorages, as established in Article 2 of the Organic Law; and the economic patrimony, comprised of all those installations, buildings, structures and equipment that support the operation of the Canal, as established in Article 33 of the same Law.

In compliance with these requirements, the Government of Panama transferred the related land and buildings to PCA. In order to record the assets transferred by the Government of Panama as part of PCA’s patrimony, a conservative method was used to reflect an estimated fair value for each asset subsequently registered in the Public Registry.

17. Other miscellaneous revenues

In May 1999, the Panama Canal Commission, prior to its dissolution and liquidation, transferred B/.10,000 to PCA to establish a severance fund for compensation payments that would cover the time of service of former Panama Canal Commission (PCC) employees hired by the PCA who could be involuntarily terminated from their positions after being contracted. During fiscal year 2008, the Board of Directors authorized the Administration to reverse this provision as there had been no involuntary employee terminations which have required the disbursement. This provision of B/.10,000 was reversed and recorded as “other miscellaneous revenues” in fiscal year 2008.

18. Remunerations and benefits to key managers

The PCA paid remunerations and benefits to key managers for a total of B/. 2,183 (2008: B/.1,487). During fiscal year 2009, various managers received payment of a portion of their benefits corresponding to fiscal year 2008. Additionally, during fiscal year 2009, various managers were promoted to key positions.

19. Risk Management of Financial Instruments

Investment securities
During fiscal year 2008, investment consisted of bonds which had been acquired with the intention of being held to maturity. All PCA investments were short-term and have been placed in investment grade instruments.
Hedge instrument
In fiscal year 2009, the cash flow hedge instrument consisted of a time deposit in Euros. The objective of this instrument was to hedge the exposure to volatility in Euro rates as a result of the obligation of payment in this currency for the fabrication and acquisition of a dredge.

Risk management of investments in securities and hedge instrument
Article 44 of the Financial Management Regulation, in accordance with Article 190 of the Regulation on PCA Purchasing and Contracts, establishes that PCA could hedge contracts with specialized institutions in an effort to mitigate the risks associated with fluctuations of:

- Prices of commodities acquired by the PCA or its contractors for the purpose of the functioning, maintenance, operation, modernization and the expansion of the Canal.
- Interests rates on loans or other credit obligations assumed by the PCA.
- The exchange rates of foreign currencies in relation to the ones of legal tender in the Republic of Panama when the PCA has incurred obligations in foreign currencies.

The specialized institutions which provide these services must have a risk qualification in conformity with the established Policies Applicable to the Contracting of Risk Mitigation Services through Hedge Financial Instruments.

The Board of Directors established through Agreement No. 170 of October 30, 2008, that all investments of the PCA, deposits and/or certificates of deposits, be made in currencies of the United States of America or in other currencies, exclusively for the payment to vendors for contracts awarded under conditions and payments with such currencies, without the intention of speculating and only to mitigate the currency exchange risk.

With the purpose of minimizing financial risks, the Board of Directors, through Agreement No. 179 of January 28, 2009, determined not to invest in other financial instruments different from time deposits, until December 31, 2009.

On May 19, 2009, through Agreement No. 185, the Board of Directors established that investments in financial instruments could not be done, without a corresponding approved investment policy for such instruments.
On September 24, 2009, through Agreement No. 195, the Board of Directors established criteria and guidelines for the investment of liquid assets, which authorize the investment in financial instruments through the application of the Banking Institutions and Financial Instruments Risk System.

The PCA’s Finance Committee of the Board of Directors is responsible for presenting a conservative investment policy to the Board of Directors for its consideration with the purpose of preserving the capital and generating a reasonable return at low risk levels.

The PCA’s Liquidity Investment Committee is responsible for executing the investment policy as approved by the Board of Directors.

The main risks that have been identified by the PCA include credit risks, counterparty risks, market risks, and liquidity risks.

19.1 **Credit Risk**

The risk that the debtor or issuer of a financial asset may fail to make any payments, completely and on time, pursuant to the terms and conditions agreed at the time of acquisition. To mitigate credit risk, the investment policy establishes limits per industry and per issuer per the results of the categorization of the Risk Assessment System adopted by the PCA. The Risk Assessment System includes the following factors: short-term risk rating, financial leverage ratios, economic factor, liquidity index, and deterioration index.

19.2 **Counterparty Risk**

The risk that counterparty may fail to liquidate the transactions involved in the purchase of securities. The PCA has no counterparty risks as all of its securities are purchased by means of the delivery versus payment method through a compensation system in a custody account.

19.3 **Market Risk**

The risk that the value of a financial asset will drop due to changes in interest rates, in foreign currency exchange rates, or due to the impact of other financial variables which are beyond the control of the PCA.

The PCA’s investment policy establishes that all PCA investments and deposits shall be made in the legal tender of the United States of America, except in the event that the obligation exists to pay vendors in foreign currency.
19.3.1 Exchange Rate Risk Management Policy

The PCA has established a policy to manage its foreign exchange rate risk in relation to its currency for operations. The PCA is required to hedge all or a portion of the exposure to foreign exchange rate risk through its Treasury Department. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Administration places deposits in the same currency the liability or commitment is denominated.

The Administration’s policy is to hedge all expected cash flows, mainly for equipment purchases denominated in a currency that is not the functional currency. As of September 30, 2009, the PCA had a commitment to purchase a dredge for €38.9 million. For the purpose of hedge accounting, this purchase meets the requirements to be considered an exposure associated with “highly probable” forecasted transactions. When the future purchase takes place the PCA will adjust the amount of the non financial item that was hedged.

Sensitivity to exchange rate risk

The foreign exchange rate dollar/euro at the closing of September 30, 2009, was 1.4640 (Source: Bloomberg). If the currency had weakened/strengthened against the US dollar by 0.10, with all other risk factors held constant, the unrealized gain/loss that would have to be recorded in the equity account - adjustment for valuation of the hedging instrument – would have been B/.3.9 million.

19.3.2 Commodity price risk management policy

The PCA is exposed to the risk of fluctuations of commodity prices, mainly from the fuel used in maritime operations and power generation activities and for the sale of surplus energy to Panama’s National Grid, to the extent that such variations cannot be transferred to PCA customers.

The PCA uses approximately 10 million gallons of diesel annually for ship transit operations. As of October 20, 2009, the risk of diesel price fluctuations is managed mainly during the fiscal year, as this period is considered to be representative of the implementation of appropriate commercial policies. This process is carried out by means of specific hedging activities for 80% of the forecasted volume, with the objective of maintaining an economic balance of commodities.
The PCA’s power generation activity is used for internal consumption as well as for third-party commercialization. The PCA consumes approximately 20% of the energy produced while the remaining 80% is sold to third parties. The energy is produced by hydroelectric plants (28%) and by thermal plants (72%). In fiscal year 2009, internal consumption represented 18.4% of production, while the surplus sold in Panama’s energy market represented the remaining 81.6%. Thermal generation is exposed to the risk of fuel price variation. The major part of the exposure to this residual risk is managed by means of periodically renegotiated contractual clauses that have the objective of achieving economic balance for the consumption of the related fuel.

**Sensitivity to fuel price risk associated with operations**

As of September 30, 2009, the prevailing diesel price index for purchases of the PCA was B/.1.74 per gallon. With an estimated annual consumption of 10 million gallons, assuming a variation that increases the diesel price to B/.2.30 per gallon during fiscal year 2010, the fuel expense would increase or decrease of approximately B/.3.5 million, as long as the price remains under the price agreed upon in the hedging instrument.

**19.3.3 Escalation clauses in contracts related to the Canal Expansion and Modernization Program**

As mentioned in Note 20, the PCA has different commitments related to the Canal Expansion and Modernization Program. These commitments include escalation clauses related to the main commodities that will be used during construction such as: reinforced steel, cement, structural steel, and light diesel. The clauses use as adjustment reference factors, price indexes of the commodities’ fair value, a fixed reference price for each material, the quantities or maximum volume, and target dates for escalation performance.
The maximum volume amounts to which the PCA is exposed during the execution of this project are the following:

<table>
<thead>
<tr>
<th>Raw material</th>
<th>Agreed volume (thousands)</th>
<th>Reference fixed price</th>
<th>Fair value reference index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinforced steel</td>
<td>279.0 metric tons</td>
<td>$575 per metric ton</td>
<td>Reinforcing Bar - Platts Steel Market Daily”</td>
</tr>
<tr>
<td>Structural steel</td>
<td>67.2 metric tons</td>
<td>$1,000 per metric ton</td>
<td>“Plate - Platts Steel Market Daily”</td>
</tr>
<tr>
<td>Cement</td>
<td>1,278.6 short tons</td>
<td>$100 per short ton</td>
<td>“Portland and Other Cements, Commodity Code 13220161” del US Bureau of Labor Statistics.</td>
</tr>
<tr>
<td>Light diesel (Third Set of Locks contract)</td>
<td>60,000 gallons</td>
<td>$1.40 per gallon</td>
<td>US Gulf Coast Diesel No.2 Oil de Platts Latin American Wire</td>
</tr>
<tr>
<td>Light diesel (Pacific Access Channel excavation contracts)</td>
<td>2,054 gallons</td>
<td>$1.7580 per gallon</td>
<td>Import Parity Price for light diesel as described by Panamanian Energy Secretary</td>
</tr>
</tbody>
</table>

For the life of the project, the PCA shall determine the fair value of the commodities to be used during the periods established in its proposal, for the purpose of then determining the difference with the referenced fixed price. This price difference shall be multiplied by the agreed volumes to obtain the amount over that which the PCA must pay or charge the contractor during periodic payments for work progress. In addition, the contract for the construction of the locks allows for the covering of a portion of the incremental cost associated exclusively with local labor, as it was conceived to cover solely the cost overrun of Panamanian labor.

**Sensitivity to the risk associated with escalation clauses in the contracts related to the Canal Expansion and Modernization Program**

To analyze the effect of a possible variation in the price of light diesel on the cost of the Canal expansion and modernization program, an analysis was performed assuming an upward variation that takes the price of diesel to a value of B/.2.30 per gallon during fiscal year 2010. For an estimated total consumption of 4.7 million gallons during that period, and while keeping all other variables constant, this variation impacts the fuel expense item in approximately B/.3.1 million.

For fiscal year 2010, no consumption of cement, reinforced steel, or structural steel has been forecasted.
19.4 Liquidity management policy

The risk that an entity will have difficulties in meeting commitments associated with financial liabilities.

The PCA’s Treasury monitors on a daily basis the available liquidity levels after fulfilling the PCA’s funding needs and to avoid overdrafts.

In regards to liquidity management, the Authority is exposed to the effects of market interest rate fluctuations on its short-term investments, which result in variations in interest earnings. To partially mitigate this risk, the liquidity is placed for terms of up to 12 months, depending on expectations about interest rates.

### Liquidity investment as of September 30, 2009

<table>
<thead>
<tr>
<th>(millions of balboas)</th>
<th>Up to 30 days</th>
<th>31 to 90 days</th>
<th>91 to 180 days</th>
<th>181 to 270 days</th>
<th>271 to 365 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Time deposits</td>
<td>-</td>
<td>65</td>
<td>1,274</td>
<td>794</td>
<td>227</td>
<td>2,360</td>
</tr>
</tbody>
</table>

Sensitivity to interest rate risk

To calculate the effect of a possible variation of reference interest rates (Libor) on time deposits, an analysis was performed as of September 30, 2009, assuming variations of 25 basis points lower/higher. With all other variables held constant, this variation would impact the Authority’s net income due to the increase or decrease in revenues from interests earnings in the amount of B/. 4.9 million.

20. Contingent liabilities and commitments

### Contingent liabilities

PCA has received claims and is a defendant in various legal proceedings mainly related to marine accidents. The PCA’s contingent liabilities amounted to approximately B/.1,763 (2008: B/.1,903) corresponding to marine accident claims. The opinion of management and its legal advisors is that the outcome of these matters is not likely to have a material adverse effect on the PCA’s financial position.
Commitments

Commitments as a result of incomplete construction contracts and undelivered purchase orders amounted to approximately B/.3,757,000 (2008: B/.554,000), as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment programs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canal Expansion</td>
<td>3,435,000</td>
<td>230,000</td>
</tr>
<tr>
<td>Others</td>
<td>259,000</td>
<td>276,000</td>
</tr>
<tr>
<td>Operations</td>
<td>63,000</td>
<td>48,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,757,000</strong></td>
<td><strong>554,000</strong></td>
</tr>
</tbody>
</table>


On July 15, 2009, the PCA awarded the design-build contract for the Canal Expansion Program’s major component, the third set of locks, to Grupo Unidos por el Canal (GUPC), for B/.3,221,631. GUPC is composed by the corporations Sacyr Vallehermoso S.A. (Leader) (Spain), Impregilo S.p.A. (Italy), Jan de Nul n.v (Belgium) and Constructora Urbana, S.A. (Panama).

On August 11, 2009, the consortium submitted the B/.400,000 performance bond as well as the B/.50,000 payment bond as required by the PCA, and the PCA subsequently issued the order to proceed by which GUPC is requested to initiate all related work by August 25, 2009 and deliver the project within a period of 1,883 days.

The PCA will make a B/.300,000 advance and mobilization payment to GUPC during the first quarter of 2010, once the contractor has complied with all the requirements established in the contract terms and conditions.

Canal Expansion Finance Contracts

Article 319 of the Political Constitution of the Republic of Panama and the Organic Law, whereby the Panama Canal Authority is organized, establish that the Board of Directors is entitled to authorize, upon duly reasoned and supported proposal by the Administrator, the acquisition of loans and other credit obligations to make investments upon approval by the President’s Cabinet and within the terms provided by this Law and the Political Constitution of the Republic.
On October 10, 2008, the Board of Directors agreed to request the approval of the President’s Cabinet for the contract of loans and other credit obligations to cover the financial needs of the Expansion Program in the amount of B/.2,300,000. Consequently, the President’s Cabinet, by means of Cabinet Decree No. 178 of October 13, 2008, approved the request and, in turn, on October 14, 2008, the Board of Directors authorized the Administration to proceed with the loan contracts in accordance with the terms and with the following multilateral and bilateral agencies:

Terms:
- Financing will be provided without guarantees or recourse to the Panamanian Government.
- Financing will not be subject to the binding commitment of obtaining goods or services from any particular source.
- Lenders shall not intervene in the operation or management of the Canal.
- Financing will not have an effect on payments to the National Treasury, pursuant to Law No. 28 of 2006.
- Loans maturity will not be less than twenty years, with a ten year grace period.
- Interest rate and commitments and underwriting fees will be accorded based on market conditions and at the moment of their disbursements.

The following multilateral and bilateral agencies are committed to granting loans to the PCA, as detailed below:

- The European Investment Bank (EIB), for B/.500,000.
- The Japan Bank for International Cooperation (JBIC), for B/.800,000.
- The Inter-American Development Bank (IDB), for B/.400,000.
- The International Finance Corporation (IFC), for B/.300,000.
- The Andean Development Corporation (ADC), for B/.300,000.

These resources will be available until December 9, 2014. At the date of this report, these loans have not been disbursed.
21. Fair value of financial instruments

The following assumptions were used by Management to estimate the fair value of each financial instrument category in the balance sheet:

a. **Cash, cash equivalents, and bank deposits** - The book value approximates its fair value due to its liquidity and short-term maturity.

b. **Accounts receivable** - Accounts receivable are recorded at their face value, which approximates its fair value due to its short-term maturity.

c. **Investment in securities** - Its book value is adjusted to its fair value based on market values obtained from public sources.

d. **Inventories** - These are recorded at acquisition cost, adjusted by an allowance for slow-moving or obsolete materials and supplies, and do not include profit margin.

e. **Accounts payable** - The book value of accounts payable corresponds to the cost of the transaction performed, which approximates its fair value due to its short-term maturity.

These estimates are subjective in nature, involve uncertainties and critical judgment elements, and therefore, cannot be precisely established. Any change in assumptions or criteria can significantly affect the estimates.

22. Subsequent Events

**Contracts for Hedging Services**

The PCA’s Board of Directors approved the management process to use hedging strategies aimed at mitigating the risks related to price volatility of commodities used in the operation, maintenance, and expansion of the Canal, as well as those of capital investments, interest rates, and foreign exchange rates other than the ones of legal tender in Panama.

On September 30, 2009, the Board of Directors authorized the Administration to proceed with the contracting of hedging services for the purchase of light diesel for operations up to 9.0 million gallons, for a term of up to a year and with a maximum unit price (CAP) of B/.2.30, with the purpose of mitigating potential fluctuations in the price of this commodity. On October 20, 2009, the PCA contracted a volume of 8,522,727 gallons, which corresponds to the total purchase foreseen for fiscal year 2010.
At present, the PCA is considering the possibility of contracting hedging services to transfer to a third party the risk assumed with these escalation clauses, in order to stabilize the needs, the cost of financing, and mitigate the risk of contract over-run of the main contract. The derived instruments implicit in the contract for the design and construction of the PCA Third Set of Locks need not be separated from the main contract, since they are clearly and closely related to the economic characteristics and the risks of the main contract due to the fact that the implicit derivative has a reasonable value commonly associated to the reasonable value of the main contract. Also, the price clauses related to the indexes do not have any level of leverage and the notional volume is clearly defined and specified in the main contract.
For more information on the Panama Canal, visit the Balboa Administration Building Information Office or call (507) 272-7602 or (507) 272-7677. The Miraflores Locks Visitors Center is open daily from 9 a.m. to 5 p.m. Internet users can visit the ACP website www.pancanal.com or send an e-mail to info@pancanal.com

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