



**Financial Statements**

**(Translation of financial statements originally issued in Spanish)**

**Report**

**Autoridad del Canal de Panama**

*Year ended September 30, 2014  
with Independent Auditors' Report*



**Building a better  
working world**

**(Translation of financial statements originally issued in Spanish)**  
**Autoridad del Canal de Panama**  
**Financial Statements**  
**September 30, 2014**

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## **INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF AUTORIDAD DEL CANAL DE PANAMA**

(Translation of independent auditors' report originally issued in Spanish)  
(See explanation in the notes to the financial statements)

We have audited the accompanying financial statements of the Autoridad del Canal de Panama, which comprise the statement of financial position as of September 30, 2014, and the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial statements present fairly, in all material respects, the financial position of Autoridad del Canal de Panama as of September 30, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young*

November 24, 2014  
Panama, Republic of Panama

**Autoridad del Canal de Panama**  
**Statement of Financial Position**  
**September 30, 2014**

*(In thousands of balboas B/.)*

| <i>Notes</i> | Assets:                                      | 2014                         | 2013                 |
|--------------|--|------------------------------|----------------------|
|              | Non-current assets:                          |                              |                      |
|              | Properties, plant, and equipment:            |                              |                      |
| 12           | Properties, plant, and equipment, net        | <b>B/. 2,617,430</b>         | B/. 2,648,483        |
| 5            | Construction in progress                     | <u>4,547,682</u>             | <u>3,674,314</u>     |
| 5            | Total properties, plant, and equipment       | <b>7,165,112</b>             | 6,322,797            |
| 6            | Accounts receivable                          | <b>941,409</b>               | 810,567              |
| 23           | Reimbursement right to ACP                   | <b>219,982</b>               | -                    |
| 7            | Investment properties                        | <u>89,757</u>                | <u>-</u>             |
|              | Total non-current assets                     | <u><b>8,416,260</b></u>      | <u>7,133,364</u>     |
|              | Current assets:                              |                              |                      |
| 8            | Inventories, net                             | <b>84,205</b>                | 80,222               |
| 6, 25        | Trade and other receivables                  | <b>42,927</b>                | 34,657               |
| 9            | Other financial assets                       | <b>743,161</b>               | 640,912              |
| 10           | Accrued interest receivable and other assets | <b>12,961</b>                | 15,401               |
| 11           | Cash and bank deposits                       | <u>1,907,690</u>             | <u>1,525,040</u>     |
|              | Total current assets                         | <u><b>2,790,944</b></u>      | <u>2,296,232</u>     |
|              | Total assets                                 | <u><b>B/. 11,207,204</b></u> | <u>B/. 9,429,596</u> |
|              | Equity and liabilities:                      |                              |                      |
|              | Equity:                                      |                              |                      |
| 12           | Contributed capital                          | <b>B/. 1,905,210</b>         | B/. 1,905,223        |
| 13           | Contributions                                | <b>4,811,774</b>             | 4,309,164            |
| 13           | Reserves                                     | <b>849,445</b>               | 684,250              |
| 14           | Other equity accounts                        | <b>(137,325)</b>             | (131,845)            |
| 15           | Unappropriated retained earnings             | <u>653,821</u>               | <u>610,537</u>       |
|              | Total equity                                 | <u><b>8,082,925</b></u>      | <u>7,377,329</u>     |
|              | Non-current liabilities:                     |                              |                      |
| 16           | Borrowings                                   | <b>2,300,000</b>             | 1,450,000            |
| 23           | Employee benefits                            | <b>227,748</b>               | -                    |
| 18, 25       | Trade and other payables                     | <b>83,639</b>                | 62,319               |
| 17, 24       | Other financial liabilities                  | <u>136,788</u>               | <u>131,845</u>       |
|              | Total non-current liabilities                | <u><b>2,748,175</b></u>      | <u>1,644,164</u>     |
|              | Current liabilities:                         |                              |                      |
| 18, 25       | Trade and other payables                     | <b>192,494</b>               | 247,952              |
| 19           | Provision for marine accident claims         | <b>12,864</b>                | 16,689               |
|              | Accrued salaries and vacation payable        | <b>124,851</b>               | 121,468              |
| 17           | Other financial liabilities                  | <b>13,324</b>                | 13,007               |
| 20           | Other liabilities                            | <u>32,571</u>                | <u>8,987</u>         |
|              | Total current liabilities                    | <u><b>376,104</b></u>        | <u>408,103</u>       |
|              | Total equity and liabilities                 | <u><b>B/. 11,207,204</b></u> | <u>B/. 9,429,596</u> |

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

**Autoridad del Canal de Panama**  
**Income Statement**  
**For the year ended September 30, 2014**

*(In thousands of balboas B/.)*

| <i>Notes</i>                                     | <b>2014</b>                 | 2013                 |
|--|-----------------------------|----------------------|
| Revenues:  |                             |                      |
| Toll revenue                                     | <b>B/. 1,910,231</b>        | B/. 1,849,679        |
| Other Canal transit services                     | <b>413,700</b>              | 374,266              |
|  | <b><u>2,323,931</u></b>     | <u>2,223,945</u>     |
| Other revenue:                                   |                             |                      |
| Electric power sales                             | <b>246,123</b>              | 127,646              |
| 25 Potable water sales                           | <b>29,421</b>               | 28,597               |
| Interest earned                                  | <b>11,680</b>               | 16,693               |
| Miscellaneous                                    | <b>17,996</b>               | 14,404               |
| Total other revenue                              | <b><u>305,220</u></b>       | <u>187,340</u>       |
| Total revenue                                    | <b><u>2,629,151</u></b>     | <u>2,411,285</u>     |
| Expenses:  |                             |                      |
| Salaries and wages                               | <b>468,554</b>              | 474,099              |
| 25 Employee benefits                             | <b>61,649</b>               | 61,730               |
| Materials and supplies                           | <b>60,995</b>               | 59,573               |
| Fuel   | <b>196,296</b>              | 115,093              |
| Transportation and allowances                    | <b>1,926</b>                | 2,317                |
| Contracted services and fees                     | <b>76,580</b>               | 69,502               |
| Insurance  | <b>11,356</b>               | 10,505               |
| 19 Provision for marine accidents                | <b>1,196</b>                | 391                  |
| 8 Provision for obsolete inventory               | <b>4,018</b>                | 144                  |
| 5 Depreciation                                   | <b>91,269</b>               | 92,817               |
| Other expenses                                   | <b>14,112</b>               | 12,736               |
|  | <b><u>987,951</u></b>       | <u>898,907</u>       |
| 21 Labor, materials, and other capitalized costs | <b><u>(61,036)</u></b>      | <u>(72,256)</u>      |
| Total expenses                                   | <b><u>926,915</u></b>       | <u>826,651</u>       |
| Profit before fees                               | <b>1,702,236</b>            | 1,584,634            |
| 15,18,25 Fees per net ton                        | <b>(374,465)</b>            | (369,003)            |
| 15,25 Panamanian Treasury - public service fees  | <b><u>(2,378)</u></b>       | <u>(2,228)</u>       |
| Profit for the year                              | <b><u>B/. 1,325,393</u></b> | <u>B/. 1,213,403</u> |

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

**Autoridad del Canal de Panama**  
**Statement of Comprehensive Income**  
**For the year ended September 30, 2014**

*(In thousands of balboas B/.)*

| <i>Note</i>  | <b>2014</b>                 | 2013                        |
|--|-----------------------------|-----------------------------|
| <b>Profit for the year</b>   | <b><u>B/. 1,325,393</u></b> | <b><u>B/. 1,213,403</u></b> |
| <b>Other comprehensive income</b>  |                             |                             |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:        |                             |                             |
| Net (loss) gain in cash flow hedges - interest rate swap contracts                                   | (5,176)                     | 95,940                      |
| Net gain (loss) on cash flow hedges - diesel prices swap contracts                                   | <u>233</u>                  | <u>(15)</u>                 |
| <b>Net other comprehensive loss to be reclassified to profit or loss in subsequent periods</b>       | <b><u>(4,943)</u></b>       | <b><u>95,925</u></b>        |
| Other comprehensive income not to be reclassified to profit or loss of subsequent periods:           |                             |                             |
| Remeasurement losses of defined benefit plans  | <u>(537)</u>                | -                           |
| <b>Net other comprehensive losses not to be reclassified to profit or loss of subsequent periods</b> | <b><u>(537)</u></b>         | <b><u>-</u></b>             |
| 14 <b>Other comprehensive income/(loss) for the year</b>   | <b><u>(5,480)</u></b>       | <b><u>95,925</u></b>        |
| <b>Total comprehensive income for the year</b>   | <b><u>B/. 1,319,913</u></b> | <b><u>B/. 1,309,328</u></b> |

This statement of comprehensive income is included in compliance with the revised IAS 1, which requires presenting what would have been the profit of the year in the hypothetical event that the ACP liquidated those hedge instruments at the end of the fiscal year and at the market rate of the moment.

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

**Autoridad del Canal de Panama**  
**Statement of Changes in Equity**  
**For the year ended September 30, 2014**

*(In thousands of balboas B/.)*

|   | Contributed<br>capital      | Contributions               | Reserves                  | Other equity<br>accounts    | Unappropriated<br>retained<br>earnings | Total equity                |
|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|--|-----------------------------|
| <i>Notes</i> <b>Balance as of September 30, 2012</b>      | <b>B/. 1,904,473</b>        | <b>B/. 3,769,045</b>        | <b>B/. 621,503</b>        | <b>B/. (227,770)</b>        | <b>B/. 648,991</b>                     | <b>B/. 6,716,242</b>        |
| Profit for the year                                       | -                           | -                           | -                         | -                           | 1,213,403                              | 1,213,403                   |
| 14 Other comprehensive income:                            |                             |                             |                           |                             |  |                             |
| Cash flow hedges  | -                           | -                           | -                         | 95,925                      | -                                      | 95,925                      |
| Total comprehensive income of the year                    | -                           | -                           | -                         | 95,925                      | 1,213,403                              | 1,309,328                   |
| 15 Transfer to Panamanian Treasury                        | -                           | -                           | -                         | -                           | (648,991)                              | (648,991)                   |
| 13 Contributions  | -                           | 540,119                     | -                         | -                           | (540,119)                              | -                           |
| 13 Net increase in equity reserves                        | -                           | -                           | 62,747                    | -                           | (62,747)                               | -                           |
| 5 Properties transferred to ACP                           | 750                         | -                           | -                         | -                           | -                                      | 750                         |
| <b>Balance as of September 30, 2013</b>                   | <b><u>1,905,223</u></b>     | <b><u>4,309,164</u></b>     | <b><u>684,250</u></b>     | <b><u>(131,845)</u></b>     | <b><u>610,537</u></b>                  | <b><u>7,377,329</u></b>     |
| Profit for the year                                       | -                           | -                           | -                         | -                           | 1,325,393                              | 1,325,393                   |
| 14 Other comprehensive income:                            |                             |                             |                           |                             |  |                             |
| Cash flow hedges  | -                           | -                           | -                         | (4,943)                     | -                                      | (4,943)                     |
| Remeasurement of defined benefit plans actuarial loss     | -                           | -                           | -                         | (537)                       | -                                      | (537)                       |
| Comprehensive income for the year                         | -                           | -                           | -                         | (5,480)                     | 1,325,393                              | 1,319,913                   |
| 15 Transfer to Panamanian Treasury                        | -                           | -                           | -                         | -                           | (610,537)                              | (610,537)                   |
| 23 Adjustment to the opening balance of retained earnings | -                           | -                           | -                         | -                           | (3,767)                                | (3,767)                     |
| 13 Contributions  | -                           | 502,610                     | -                         | -                           | (502,610)                              | -                           |
| 13 Net increase in equity reserves                        | -                           | -                           | 165,195                   | -                           | (165,195)                              | -                           |
| 5 Properties transferred to the Republic of Panama        | (13)                        | -                           | -                         | -                           | -                                      | (13)                        |
| <b>Balance as of September 30, 2014</b>                   | <b><u>B/. 1,905,210</u></b> | <b><u>B/. 4,811,774</u></b> | <b><u>B/. 849,445</u></b> | <b><u>B/. (137,325)</u></b> | <b><u>B/. 653,821</u></b>              | <b><u>B/. 8,082,925</u></b> |

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

**Autoridad del Canal de Panama**  
**Statement of Cash Flows**  
**For the year ended September 30, 2014**

*(In thousands of balboas B/.)*

| <i>Notes</i>  | <b>2014</b>                | 2013               |
|---|----------------------------|--------------------|
| <b>Cash flows from operating activities:</b>                                      |                            |                    |
| Profit for the year   | <b>B/. 1,325,393</b>       | B/. 1,213,403      |
| 5 Depreciation  | <b>88,708</b>              | 89,719             |
| 23 Movements in defined benefit plans, net of reimbursement right                 | <b>3,462</b>               | -                  |
| 5 Loss on disposal of fixed asset   | <b>731</b>                 | 481                |
| 8 Estimation of obsolete inventory  | <b>4,018</b>               | 144                |
| 19 Provision for marine accidents   | <b>1,196</b>               | 391                |
| Changes in working capital:   |                            |                    |
| (Increase) decrease in trade and other receivables                                | <b>(8,270)</b>             | 8,334              |
| Increase in inventories   | <b>(8,001)</b>             | (7,365)            |
| Decrease in accrued interest receivable and other assets                          | <b>2,440</b>               | 125                |
| Decrease in trade and other payables  | <b>(55,458)</b>            | (55,117)           |
| 19 Payments of marine accident claims   | <b>(5,021)</b>             | (3,937)            |
| Increase in accrued salaries and vacation payable                                 | <b>3,383</b>               | 7,514              |
| Increase in other current financial liabilities                                   | <b>317</b>                 | 931                |
| Increase (decrease) in other liabilities  | <b>23,584</b>              | (198)              |
| <b>Net cash provided by operating activities</b>                                  | <b><u>1,376,482</u></b>    | <u>1,254,425</u>   |
| <b>Cash flows from investing activities:</b>                                      |                            |                    |
| Net increase in property, plant and equipment                                     | <b>(1,021,524)</b>         | (1,390,619)        |
| Increase in other financial assets  | <b>(102,249)</b>           | (217,469)          |
| 7 Increase in non-current assets, receivables                                     | <b>(130,842)</b>           | (211,938)          |
| (Increase) decrease in time deposits, over 90 days                                | <b>(12,511)</b>            | 585,310            |
| <b>Net cash used in investment activities</b>                                     | <b><u>(1,267,126)</u></b>  | <u>(1,234,716)</u> |
| <b>Cash flows from financing activities:</b>                                      |                            |                    |
| 16 Increase in long-term borrowings   | <b>850,000</b>             | 450,000            |
| Increase in trade and other payables  | <b>21,320</b>              | 29,863             |
| 15 Transfer to Panamanian Treasury  | <b>(610,537)</b>           | (648,991)          |
| <b>Net cash provided by (used in) financing activities</b>                        | <b><u>260,783</u></b>      | <u>(169,128)</u>   |
| Net increase (decrease) in cash and cash equivalents                              | <b>370,139</b>             | (149,419)          |
| Cash and cash equivalents at beginning of the year                                | <b>453,538</b>             | 602,957            |
| 11 Cash and cash equivalents at end of the year                                   | <b><u>B/. 823,677</u></b>  | <u>B/. 453,538</u> |
| <b>Investment activities that did not represent cash outflows:</b>                |                            |                    |
| 7 Reclassification from properties, plant, and equipment to investment properties | <b>B/. (89,757)</b>        | B/. -              |
| 5, 21 Fixed assets - capitalized depreciation                                     | <b>(2,561)</b>             | (3,098)            |
| 5 Properties transferred to the Republic of Panama                                | <b>13</b>                  | -                  |
| 5 Properties transferred to ACP   | <b>-</b>                   | (750)              |
|   | <b><u>B/. (92,305)</u></b> | <u>B/. (3,848)</u> |
| <b>Interests:</b>   |                            |                    |
| Received  | <b>B/. 41,742</b>          | B/. 29,798         |
| Paid  | <b>B/. 61,934</b>          | B/. 53,865         |

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



## **Explanation Added for Translation into English**

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

### **1. General information**

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

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

With the expiration of the 1977 Torrijos-Carter Treaty at noon on December 31, 1999, the 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 transit of vessels of all nations and whose use will be subject to the requirements and conditions established by the Political Constitution of Panama, the Organic Law of the ACP and its management.

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

### **2. Statement of compliance**

The financial statements of Autoridad del Canal de Panama, including the comparative figures, have been prepared in accordance with the International Financial Reporting Standards (IFRS), disseminated by the International Accounting Standards Board (IASB).

### **3. Basis of presentation of the financial statements**

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

#### ***Functional currency***

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

#### ***Foreign currency***

In preparing the financial statements, transactions in currencies other than the entity's functional currency (balboas B/.) are recorded using the exchange rates prevailing at the dates of transactions are conducted. At the end of each reporting period, monetary items denominated in foreign currencies are converted at the exchange rates prevailing at that time.

Exchange rate differences are recognized in the profit or loss of the period, except for differences as a result of transactions related to hedge of the exchange rate risk.

### **4. Significant accounting policies**

#### ***Revenue recognition***

Revenue is recognized to the extent that it is probable that economic benefits will flow to the ACP and the revenue can be reliably measured, regardless of when the payment is being received. Specific recognition criteria described below must be met before revenue is recognized:

#### ***Toll revenue***

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

#### ***Electric power sales revenue***

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

#### **4. Significant accounting policies (continued)**

##### *Potable water sales revenue*

Potable water sales revenue is recognized when treated water is delivered based on prices contracted with the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN).

##### *Services rendered*

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

##### *Interests*

For all financial instruments measured at amortized cost, interest income is recognized using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount of the financial asset or liability. Interest income is included in a separate line in the income statement.

##### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of the assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as expenses when incurred. Borrowing costs consist of interest and other costs that ACP incurs in connection with the borrowing of funds.

##### *Properties, plant, and equipment*

Properties, plant, and equipment held for use in the production or supply of goods or services, or for administrative purposes, are presented in the statement of financial position at their acquisition cost or production cost, net of accumulated depreciation and impairment, if any.

Replacements and improvements of complete elements that increase the useful life of the asset or its economic capacity are accounted for as an increase in the cost of the properties, plant, and equipment, with the respective retirement of any replaced element. Parts of properties, plant, and equipment, with different useful lives, are accounted separately.

Periodic maintenance, preservation and repair costs are expensed as incurred, based on the accrual method.

**Autoridad del Canal de Panama**  
**Notes to Financial Statements**  
**September 30, 2014**

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*(In thousands of balboas B/.)*

**4. Significant accounting policies (continued)**

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

The following estimated useful lives were used to calculate depreciation:

|            |               |
|------------|---------------|
| Buildings  | 25 – 75 years |
| Structures | 5 – 100 years |
| Equipments | 3 – 75 years  |

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

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

***Investment properties***

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

Investment properties are derecognized either when they are disposed of or when no future benefits are expected from their use or disposal. Any gain or loss from the disposal of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment properties only when there is a change in use of the asset.

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

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

#### **4. Significant accounting policies (continued)**

##### ***Impairment of non-financial assets***

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

##### ***Cash and cash equivalent***

Cash and cash equivalent comprises cash and highly liquid short term investments which their maturity are equal or less than three months since the acquisition date as of the date of the financial position. These financial assets are valued at fair value with changes in operating results as of the date of the financial position, without deducting transaction costs that could be incurred when they are sold or disposed. For cash flows purposes, ACP presents the cash and cash equivalent net of overdrafts, if any.

##### ***Inventories***

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

##### ***Provisions***

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

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

When the reimbursement of some or all economic benefits required to cancel a provision is expected, an account receivable is recognized as an asset, but only when the reimbursement is virtually and the amount of the account receivable can be reliably measure.

#### **4. Significant accounting policies (continued)**

##### *Provision for marine accidents and other claims*

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

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

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

The ACP will pay for claims that are properly supported and approved by ACP, in its administrative stage or judicial stage, according to Article 69 of the Organic Law or pursuant to a final ruling by the maritime tribunal. In those cases where the ACP may be liable as a result of a claim of a contract, if the contract contains an arbitration clause, the claim will be heard by the Conciliation and Arbitration Center of the Chamber of Commerce, Industries and Agriculture of Panama (Centro de Conciliación y Arbitraje de la Cámara de Comercio, Industrias y Agricultura de Panama). If there is no arbitration clause, the case will be resolved by the Third Chamber of the Supreme Court.

##### *Employee benefits*

In defined benefit plans for the voluntary retirement of employees, an actuarial liability is recognized not only for the legal obligation under the formal terms of the plan, but also for the implied projections of constructive nature arising from expectations created by informal practices as required under IAS 19. These actuarial projections, of constructive nature, do not constitute a legal obligation for the ACP.

#### **4. Significant accounting policies (continued)**

##### *Voluntary retirement plans*

The ACP provides two unfunded defined benefit plans for voluntary retirement of employees. The cost of providing these benefits is determined using the projected unit credit method. Actuarial gains and losses are fully recognized in the period they occur in the statement of comprehensive income. The liability for defined benefits comprises the present value of both, the actual and constructive obligations of defined benefits. Under IAS 19 (2011), the ACP determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into consideration any changes in the benefit liability during the period as a result of benefit payments.

##### *Defined benefit contribution plan*

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

##### ***Reimbursement right to ACP***

The reimbursement right to ACP is recognized at fair value as a separate asset when it is virtually certain that a third party will reimburse some or all of the disbursements required to settle a defined benefit obligation. Changes in the fair value of the right to reimbursement are disaggregated and recognized in the same way as for changes in the fair value of plan assets. The components of defined benefit cost are recognized net of the amounts relating to changes in the carrying amount of the right to reimbursement.

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

##### ***Financial assets***

Financial assets are classified in the following categories: held-to-maturity investments, accounts receivables and hedging financial instruments recorded at realizable value. Classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

##### *Trade and other receivables*

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

#### **4. Significant accounting policies (continued)**

##### *Held-to-maturity investments*

Investments in commercial paper and debt instruments with fixed maturities are classified as held-to-maturity when the ACP has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method less any impairment. The amortized cost is calculated taking into account any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

##### *Derecognition of financial assets*

The ACP derecognizes a financial asset only when the contractual rights to receive the cash flows from the asset have expired; or when the ACP has transferred substantially all the risks and rewards of ownership of the financial asset to another entity. If the ACP neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but keeps control of the transferred asset, the ACP recognizes retained interest in the asset as well a liability for the amounts it may have to pay. If the ACP retains substantially all the risks and rewards of ownership of the financial asset transferred, the ACP continues to recognize the financial asset and also recognizes a liability secured by the amount received.

##### *Impairment of financial assets*

The ACP assesses whether there is objective evidence that a financial asset is impaired at each reporting date. A financial asset is impaired if there is evidence that as a result of one or more events that occurred after the initial recognition of the asset, there has been a negative impact on the estimated future cash flows of the financial asset.

##### *Recognition*

The ACP utilizes the liquidation date for the recognition of financial assets transactions.

##### *Financial liabilities*

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

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



#### **4. Significant accounting policies (continued)**

##### *Borrowings*

Borrowings are initially recognized at fair value at their respective contractual dates, including the costs attributable to the transaction. After its initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

##### *Trade and other payables*

Accounts payable do not earn interest and are booked at their face value. The ACP does not make payments or transfers of funds to any legal or natural person, whether public or private, except for services contracted by the ACP, for property it may acquire, or for an obligation it has legally contracted. The ACP is exempt from the payment of any national or municipal levy, tax, duty, fee, rate, charge or contribution, with the exemption of Social Security payments, educational insurance, workmen's compensation, and fees for public services.

##### *Other financial liabilities*

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

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

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

##### *Hedge accounting*

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

#### **4. Significant accounting policies (continued)**

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

##### *Cash flow hedges*

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

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

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

##### *Derecognition of financial liabilities*

The ACP derecognizes financial liability when they are expired, cancelled, or met ACP's obligations.

##### *Changes in accounting policies*

The accounting policies used in preparing the financial statements for the year ended September 30, 2014 are the same as those applied in the financial statements for the year ended September 30, 2013, except for the following standard which is applicable to periods beginning on or after January 1<sup>st</sup>, 2013:

#### **4. Significant accounting policies (continued)**

##### *IAS 19 Employee Benefits*

The amendments to IAS 19 require that labor termination plans without a definite end date, such as the Voluntary Retirement Incentive (VRI) and the Labor Retirement Benefit (LRB) programs are classified as long-term defined retirement benefit plans due to the existence of an obligation, legal or constructive, and therefore an actuarial liability should be recognized. For defined benefit plans, the amendment eliminates the need to defer the recognition of actuarial adjustments as gains or losses in the income statement. The amounts to be recorded as gains or losses are limited to the cost of benefits (VRI and LRB) of current and past fiscal years and the interest costs of plan administration. All actuarial adjustments should be recognized as a change in the statement of comprehensive income. The amendment to IAS 19 was effective for accounting periods beginning on or after January 1<sup>st</sup>, 2013. The ACP concluded that it was impracticable to determine the effects arising from changes to IAS 19 on the comparative information for the years prior to September 30, 2013, therefore, the amendment was adopted by the ACP from 1 October of 2013.

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

##### **Standards issued but not yet in effect**

Standards and interpretations issued but not yet in effect at the date of issuance of the financial statements are detailed below. ACP expects that these standards and interpretations could have an impact on the reported disclosures, the financial position or the results when applied in a future date. The ACP has the intention to adopt these standards when they are entered into effect:

##### *IFRS 9 Financial Instruments*

On July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not mandatory. IFRS 9 is effective for annual periods beginning on or after January 1<sup>st</sup>, 2018, with early adoption permitted. Early adoption of IFRS 9 is permitted if the application date is before February 1<sup>st</sup>, 2015.

The ACP is analyzing the changes and not expected to have a significant impact on its financial position.

#### **4. Significant accounting policies (continued)**

##### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1<sup>st</sup>, 2017 with early adoption permitted.

The ACP is assessing the impact on IFRS 15 and expects to implement it in its adoption date.

##### **Improvements to IFRSs**

##### ***IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1<sup>st</sup>, 2016, with early adoption permitted.

These amendments will have no impact on ACP since it does not use the revenue-based method to calculate its depreciation.

##### ***IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1<sup>st</sup>, 2014.

This amendment will have no impact on ACP since its defined benefit plans do not have contributions from employees or third parties.

#### **4. Significant accounting policies (continued)**

##### ***IAS 32 Offsetting Financial Assets and Financial Liabilities***

Amendment to IAS 32 clarifies that compensation can occur both during the normal course of business, as well as in the event of bankruptcy or insolvency of a counterparty to the contract, including the reporting entity. The amendment also clarifies that offsetting rights are not subject to future events. The amendment is applicable to annual periods beginning on or after January 1<sup>st</sup>, 2014.

##### ***IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendment***

Amendment to IAS 36 clarifies the disclosure requirements in respect of fair value less costs of disposal. The amendment eliminates the requirement to disclose the recoverable amount for each cash-generating unit. The amendment is applicable to annual periods beginning on or after January 1<sup>st</sup>, 2014.

##### ***IAS 39 Novation of Derivatives and Continuation of Hedge Accounting — Amendment***

The amendments to IAS 39 exempt the requirement to discontinue hedge accounting in certain circumstances where derivatives are novated to a central counterparty entity, because of laws or regulations, or the introduction of laws or regulations. A novation indicates that the parties to a contract agree to replace its original counterparty with a new one. It requires entities to implement the amendments for annual periods beginning on or after January 1, 2014.

##### ***Annual improvements from the 2010-2012 and 2011-2013 Cycles***

The following list of improvements to standards is effective from July 1, 2014:

***IFRS 13 Fair Value Measurement.*** The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39, as applicable. This amendment has no impact on the ACP.

***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets.*** The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amount of the asset. This amendment has no impact on the ACP.

***IAS 24 Related Party Disclosures.*** The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment has no impact on the ACP.

**4. Significant accounting policies (continued)**

*IAS 40 Investment Property.* The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. This amendment has no impact on the ACP.

**Critical accounting judgments and key sources of estimation uncertainty**

These financial statements are prepared in conformity with IFRS which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include the determination of the useful life of fixed assets (note 5), fair value of financial instruments (note 24), the estimated actuarial liability for the defined benefit plans for employee retirement (note 23), the right to reimbursement on these plans (note 23), and the estimates for the provision for marine accident claims and contingencies (notes 19 and 27, respectively).

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(In thousands of balboas B/.)

**5. Properties, plant, and equipment**

Property, plant, and equipment are detailed as follows:

| <i>Cost</i>                             | <u>Buildings</u>                     |          | <u>Structures</u> |           | <u>Equipment</u> |           | <u>Land</u> |           | <u>Construction in progress</u> |           | <u>Total</u> |           |
|---|--------------------------------------|----------|-------------------|-----------|------------------|-----------|-------------|-----------|---------------------------------|-----------|--------------|-----------|
|   | <i>Balance as of october 1, 2012</i> | B/.      | 94,064            | B/.       | 771,531          | B/.       | 1,236,900   | B/.       | 1,022,228                       | B/.       | 2,695,222    | B/.       |
| <b>Additions</b>                        |                                      | 20,051   |                   | 91,892    |                  | 212,924   |             | 89,757    |                                 | 979,092   |              | 1,393,716 |
| <b>Adjustments:</b>                     |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| Loss recognition on asset retirements   |                                      | -        |                   | -         |                  | (261)     |             | -         |                                 | -         |              | (261)     |
| <b>Retirements</b>                      |                                      | (39)     |                   | (7)       |                  | (9,608)   |             | -         |                                 | -         |              | (9,654)   |
| <b>Property transfers:</b>              |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| From the Republic of Panama             |                                      | 82       |                   | -         |                  | 668       |             | -         |                                 | -         |              | 750       |
| <i>Balance as of september 30, 2013</i> |                                      | 114,158  |                   | 863,416   |                  | 1,440,623 |             | 1,111,985 |                                 | 3,674,314 |              | 7,204,496 |
| <b>Additions</b>                        |                                      | 2,158    |                   | 19,591    |                  | 130,488   |             | -         |                                 | 873,368   |              | 1,025,605 |
| <b>Adjustments:</b>                     |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| Other                                   |                                      | -        |                   | -         |                  | (1,521)   |             | (89,757)  |                                 | -         |              | (91,278)  |
| Loss recognition on asset retirements   |                                      | -        |                   | (80)      |                  | (66)      |             | -         |                                 | -         |              | (146)     |
| <b>Retirements</b>                      |                                      | (65)     |                   | (162)     |                  | (11,626)  |             | -         |                                 | -         |              | (11,853)  |
| <b>Property transfers:</b>              |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| To the Republic of Panama               |                                      | -        |                   | -         |                  | (50)      |             | -         |                                 | -         |              | (50)      |
| <i>Balance as of september 30, 2014</i> | B/.                                  | 116,251  | B/.               | 882,765   | B/.              | 1,557,848 | B/.         | 1,022,228 | B/.                             | 4,547,682 | B/.          | 8,126,774 |
| <br><i>Accumulated Depreciation</i>     |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| <i>Balance as of october 1, 2012</i>    | B/.                                  | (35,384) | B/.               | (259,262) | B/.              | (503,671) |             | -         |                                 | -         | B/.          | (798,317) |
| <b>Depreciation</b>                     |                                      | (2,686)  |                   | (26,302)  |                  | (63,829)  |             | -         |                                 | -         |              | (92,817)  |
| <b>Retirements</b>                      |                                      | 39       |                   | 7         |                  | 9,389     |             | -         |                                 | -         |              | 9,435     |
| <i>Balance as of september 30, 2013</i> |                                      | (38,031) |                   | (285,557) |                  | (558,111) |             | -         |                                 | -         |              | (881,699) |
| <b>Depreciation</b>                     |                                      | (2,484)  |                   | (21,904)  |                  | (66,881)  |             | -         |                                 | -         |              | (91,269)  |
| <b>Retirements</b>                      |                                      | 45       |                   | 90        |                  | 11,133    |             | -         |                                 | -         |              | 11,268    |
| <b>Property transfers:</b>              |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| To the Republic of Panama               |                                      | -        |                   | -         |                  | 38        |             | -         |                                 | -         |              | 38        |
| <i>Balance as of september 30, 2014</i> | B/.                                  | (40,470) | B/.               | (307,371) | B/.              | (613,821) | B/.         | -         | B/.                             | -         | B/.          | (961,662) |
| <br><i>Net Book Value</i>               |                                      |          |                   |           |                  |           |             |           |                                 |           |              |           |
| <i>Balance as of september 30, 2014</i> | B/.                                  | 75,781   | B/.               | 575,394   | B/.              | 944,027   | B/.         | 1,022,228 | B/.                             | 4,547,682 | B/.          | 7,165,112 |
| <i>Balance as of september 30, 2013</i> | B/.                                  | 76,127   | B/.               | 577,859   | B/.              | 882,512   | B/.         | 1,111,985 | B/.                             | 3,674,314 | B/.          | 6,322,797 |

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*(In thousands of balboas B/.)*

**5. Properties, plant, and equipment (continued)**

Construction in progress is detailed as follows:

|  | Investment<br>Program - Canal<br>Expansion |                  | Investment<br>Program - Others |                | Construction in<br>progress total |                  |
|--|--|------------------|--------------------------------|----------------|-----------------------------------|------------------|
| Balance as of october 1, 2012                          | B/.  | 2,338,215        | B/.                            | 357,007        | B/.                               | 2,695,222        |
| Net change   |  | 975,951          |                                | (52,239)       |                                   | 923,712          |
| Interests, commissions and other<br>financing expenses |  | 55,380           |                                | -              |                                   | 55,380           |
| Balance as of september 30, 2013                       |  | <u>3,369,546</u> |                                | <u>304,768</u> |                                   | <u>3,674,314</u> |
| Net change   |  | 786,167          |                                | 20,757         |                                   | 806,924          |
| Interests, commissions and other<br>financing expenses |  | 66,444           |                                | -              |                                   | 66,444           |
| Balance as of september 30, 2014                       | <u>B/.</u>                                 | <u>4,222,157</u> | <u>B/.</u>                     | <u>325,525</u> | <u>B/.</u>                        | <u>4,547,682</u> |

During fiscal year 2014, the ACP recorded losses of B/.731 (2013: B/.481) as a result of the derecognition of assets. Main assets derecognized included hydraulic shear, switches, concrete duct and alarm system. During 2013, main assets derecognized included infrared camera, boat, tractors, spectrometer, centralized security system and tugboats.

Depreciation of B/.2,561 (2013: B/.3,098) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

During fiscal year 2014, a land of B/.89,757 was transferred to investment properties (see note 7).



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**6. Accounts receivable**

**Non-current**

Non-current accounts receivable are detailed as follows:

|  | 2014               | 2013               |
|--|--------------------|--------------------|
| Grupo Unidos Por El Canal, S.A. (GUPCSA)                   |                    |                    |
| Mobilization   | B/. 247,959        | B/. 247,959        |
| Plant  | 300,000            | 300,000            |
| Reinforced steel   | -                  | 1,654              |
| Suppliers of key project materials                         | 68,279             | 68,279             |
| Specific suppliers   | 147,417            | 148,903            |
| Lock gates   | 42,754             | 19,132             |
| Specified expenditures                                     | <u>100,000</u>     | <u>-</u>           |
| Sub-total  | <u>906,409</u>     | 785,927            |
| Others:  |                    |                    |
| Miraflores thermal power plant                             | -                  | 2,323              |
| Construction of bridge over the Atlantic side of the Canal | <u>35,000</u>      | <u>22,317</u>      |
| Sub-total  | <u>35,000</u>      | <u>24,640</u>      |
|  | <u>B/. 941,409</u> | <u>B/. 810,567</u> |

Grupo Unidos Por El Canal, S. A. (GUPCSA): these receivables represent outstanding balances of advance payments for the following items:

*Mobilization and Plant:*

Advance payment for mobilization for B/.247,959, with an original amount of B/.300,000, fully secured by an irrevocable letter of credit issued by a bank with a credit rating of A granted by Standard & Poor. According to the contract, this advance payment was originally to be repaid by withholdings of 10% from each payment certificate from the ACP to the contractor until 50% of the advance payment for mobilization has been repaid and then by withholdings of 15% from each payment certificate from the ACP to the contractor until the advance payment for mobilization has been repaid in full, commencing with the payment certificate in which the total of all certified interim payments exceeds 10% of the accepted contract amount.

On August 10, 2012, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide for a temporary deferral of the repayment of the advance payment for mobilization and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on February 14, 2013, June 24, 2013 and December 20, 2013.

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*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

On August 1, 2014, it was agreed by the parties to make a variation to the contract to maintain the temporary deferral of the repayment of the advance payment for mobilization. This variation introduced various conditions with which GUPCSA must comply in order to ACP to extend the temporary deferral of the repayment of the advance payment for mobilization and provide that the advance payment for mobilization must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

The contract provides that the letter of credit provided by GUPCSA must remain valid and enforceable until the advance payment for mobilization has been repaid in full. If the advance payment for mobilization has not been fully repaid 45 days prior to the specified expiry date of the letter of credit, which is currently December 31, 2015, no later than 30 days before such expiry date, GUPCSA is obliged to extend the validity of the letter of credit for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

As of September 30, 2014, the ACP has withheld to GUPCSA B/.52,041.

Advance payment for plant for B/.300,000, secured by two irrevocable letters of credit, one for B/.100,000 issued by a bank with credit rating of A granted by Standard & Poor and the other for B/.200,000 issued by a bank with credit rating of BBB- granted by Standard & Poor. According to the contract, this advance payment was originally to be repaid by withholdings of 19% from each payment certificate from the ACP to the contractor until the advance payment for plant would have been repaid in full, commencing with the payment certificate in which the aggregate of all certified interim payments would exceed 50% of the accepted contract amount.

On February 14, 2013 at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide for a temporary deferral of the repayment of the advance payment for plant and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on June 24, 2013 and December 20, 2013.

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for plant. This variation introduced various conditions with which GUPCSA must comply in order to extend the temporary deferral of the repayment of the advance payment for plant and provide that the advance payment for plant must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the letters of credit for the outstanding amount.

The contract provides that the letters of credit must remain valid and enforceable until the advance payment for plant has been repaid in full. If the advance payment for plant has not been repaid in full 45 days prior to the specified expiry date of the letters of credit, which is currently December 31, 2015, no later than 30 days before such expiry date, GUPCSA is obliged to extend the validity of the letters of credit for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

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*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

As of September 30, 2014, no amounts have been withheld by the ACP to GUPCSA.

*Reinforced steel:*

On July 26, 2012, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to allow an advance payment for increases in the price of reinforced steel in the amount of B/.19,632 (120.041 tm). According to the contract, this advance payment, would be repaid by GUPCSA to the ACP by withholding the amount that would otherwise have been payable to the contractor for the adjustment amount due in each period in respect of reinforcing steel from each payment certificate from the ACP to the contractor until the advanced would has been fully paid, commencing from the first adjustment date following July 26, 2012. This advance payment was fully guaranteed with a payment bond issued by Nacional de Seguros de Panama y Centroamerica, S.A.

As of September 30, 2014, this advance payment has been fully repaid by GUPCSA.

*Key Suppliers:*

On August 29, 2012, at the request of GUPCSA, the parties agreed a variation to the contract to enable the ACP to make advance payments to GUPCSA, to be used for payments of certain key suppliers for invoices dated between May 2012 and the contractor's application for interim payment of December 2012 up to a maximum amount of B/.82,500 or up to a cut-off date of December 23, 2013, whichever occurs earlier. As of September 30, 2014, the amount of the advance by ACP to GUPCSA was B/.68,279.

According to the contract, this advance payment was originally to be repaid by withholdings of 5% from each payment certificate from the ACP to the contractor, commencing with the payment certificate issued in response to the January 2013 interim application for payment until the advance payment was repaid in full. On November 23, 2012 at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide for a temporary deferral of the repayment of the advance payment for key suppliers and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on February 14, 2013, June 24, 2013, December 20, 2013, March 13, 2014 and June 16, 2014, on the condition of attainment by GUPCSA of various production targets and conditions in order to extend the temporary deferral of the repayment of the advances.

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*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for key suppliers. This variation provided for a further temporary deferral of the repayment of the advance payment for key suppliers to December 31, 2015 and also introduced various conditions with which GUPCSA must comply in order to extend this further temporary deferral of the repayment of the advance payment for key suppliers beyond December 31, 2015. These conditions relate to the provision of security document(s) (the type or combination of which is at the discretion of GUPCSA) and the attainment of certain new agreed performance milestones and functional completion by GUPCSA, the concepts of which were also added to the contract by the variation on August 1, 2014. If GUPCSA complies with these conditions then the amendments provide that the advance payment for key suppliers must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the applicable security document(s) for the outstanding amount.

The contract provides that the security for the advance payment must remain valid and enforceable until the advance payment for key suppliers has been repaid in full. If the security provided consists of a letter of credit or a bond, and the advance payment for key suppliers has not been repaid in full 45 days prior to the specified expiry date of the letter of credit or the bond, as applicable, no later than 30 days before such applicable expiry date, GUPCSA is obliged to extend the validity of such security instrument for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

*Specified suppliers:*

On December 24, 2012, at the request of GUPCSA, the parties agreed a variation to the contract to enable the ACP to make advance payments to the contractor of the amounts to be paid by the contractor to certain specified suppliers up to a maximum amount of B/.150,000 or up to a cut-off date of April 30, 2013, whichever occurs earlier. As of September 30, 2014, the amount remitted by ACP to GUPCSA was B/.147,417.

According to the contract, the advance payment for specified suppliers was originally to be repaid by equal withholdings from each payment certificate from the ACP to the contractor, commencing with the payment certificate of January 2014 to be issued in February 2014. On June 24, 2013, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide provisions and timing for a temporary deferral of the repayment and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on June 28, 2013, March 13, 2014 and June 16, 2014.

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*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for specified suppliers. This variation provided for a further temporary deferral of the repayment of the advance payment for specified suppliers to December 31, 2015 and also introduced various conditions with which GUPCSA must comply in order to extend this further temporary deferral of the repayment of the advance beyond December 31, 2015. These conditions relate to the provision of security document(s) (the type or combination of which is at the discretion of GUPCSA) and the attainment of certain new agreed performance milestones and functional completion by GUPCSA, the concepts of which were also added to the contract by the variation on August 1, 2014. If GUPCSA complies with these conditions then the amendments provide that the advance payment for specified suppliers must be repaid in full by December 31, 2018, at the latest, otherwise the ACP shall be entitled to claim under the applicable security document(s) for the outstanding amount.

The contract provides that the advance payment guarantees as well as the additional security documents required under the contract must remain valid and enforceable until the advance payment for specified suppliers has been repaid in full. If the security provided consists of a letter of credit or a bond, and the advance has not been repaid in full 45 days prior to the specified expiry date of the letter of credit or the bond, as applicable, no later than 30 days before such applicable expiry date, GUPCSA is obliged to extend the validity of such security instrument for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

*Lock gates:*

On June 28, 2013, at the request of GUPCSA, the parties agreed to a variation to the contract to enable the ACP to make advance payments to the contractor of the amounts to be paid by the contractor to the lock gates fabricator in the amount of B/.19,132, amount disbursed by the ACP to GUPCSA.

According to the contract, this advance was originally to be repaid by equal withholdings from each payment certificate from the ACP to the contractor, commencing with the payment certificate of December 2013 to be issued in January 2014, in order that the advance would be repaid in full by the payment certificate of May 2014 issued in June 2014. On May 15, 2014, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide provisions and timing for a temporary deferral of these advances. This advance is fully secured by a payment bond issued by Zurich American Insurance Company, Inc., known as the Plant and Material Security, until its expiry date which is February 28, 2015 and, from and after such expiry date, by the advance payment guarantee.

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*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

On August 1, 2014, it was agreed by the parties to make a further variation to the contract to provide for a further temporary deferral of the repayment of the advance payment for lock gates. This variation provided for a further temporary deferral of the repayment of the advance payment for lock gates to December 31, 2015 and also introduced various conditions with which GUPCSA must comply in order to extend this further temporary deferral of the repayment of these advances beyond December 31, 2015. These conditions relate to the provision of security document(s) (the type or combination of which is at the discretion of GUPCSA) and the attainment of certain new agreed performance milestones and functional completion by GUPCSA, the concepts of which were also added to the contract by the variation on August 1, 2014. If GUPCSA complies with these conditions then GUPCSA will have until December 31, 2018 to cancel the advance payment for lock gates, otherwise the ACP shall be entitled to claim under the applicable security document(s) for the outstanding amount.

The advance payment for lock gates may also be protected by a letter of credit or a bond. The contract provides that the Plant and Material Security or the Advance Payment Guarantees, as applicable, as well as the additional security documents required under the contract must remain valid and enforceable until the advance payment for lock gates has been repaid in full. If the security provided consists of a letter of credit or a bond, and the advance payment for lock gates has not been repaid in full 45 days prior to the specified expiry date of the letter of credit or the bond, as applicable, no later than 30 days before such applicable expiry date, GUPCSA is obliged to extend the validity of such security instrument for a period of not less than one year (or such lesser period as may be agreed between GUPCSA and the ACP), otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

As of September 30, 2014, the ACP has withheld B/.6,378 (2013: B/.-).

Second advance payment for lock gates: On August 7, 2014, at the request of GUPCSA, the parties agreed to a variation to the contract to enable the ACP to make further advance payments to the contractor of amounts to be paid by the contractor to the lock gates fabricator on or after August 1, 2014 up to a maximum amount of B/.30,000. As of September 30, 2014, the amount remitted by ACP to GUPCSA was B/.30,000. The second advance payment for lock gates is fully secured by a payment bond issued by Nacional de Seguros de Panama y Centroamerica, S.A., until its expiry date which is December 31, 2015.

According to the contract, the second advance payment for lock gates – is due to be repaid by withholdings of B/.2,000 from each payment certificate from the ACP to the contractor, commencing with the payment certificate of September 2014 to be issued in October 2014, in order that the second advance payment for lock gates – will be repaid in full by the payment certificate of November 2015 issued in December 2015, otherwise the ACP shall be entitled to claim under the payment bond for the outstanding amount.

As of September 30, 2014, no amounts have been withheld by the ACP.

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*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

*Specified expenditures:*

On March 13, 2014, at the request of GUPCSA, the parties agreed to a variation to the contract to enable each party to contribute B/.100,000 to allow GUPSA to pay amounts owned to suppliers and subcontractors. In this variation ACP agreed to make advance payments for B/.100,000 if GUPCSA also contributed B/.100,000 for this purpose. As of September 30, 2014, the amount remitted by ACP to GUPCSA was B/.100,000. On March 20, 2014, June 26, 2014 and August 1, 2014, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to amend the provisions relating to the advance payment for specified expenditures. The advance payment for specified expenditures is fully secured by the advance payment guarantees.

According to the contract, the advance payment for specified expenditures for B/.100,000 is due to be repaid to the ACP in the certificate of November 2015 issued in December 2015, otherwise the ACP shall be entitled to claim under the advance payment guarantees for the outstanding amount.

As of September 30, 2014, no amounts have been withheld by the ACP.

Others:

*Miraflores Thermal Power Plant:*

The contract for the expansion at the Miraflores Thermal Power Plant was awarded to Hyundai Heavy Industries Co., Ltd., for an amount of B/.114,859, which includes the incorporation of heat recovery system of the gas exhaust. The contract establishes the ACP to advance 20% of the contract original value, which represents B/.22,780 paid in August 2011. This receivable is guaranteed by an irrevocable letter of credit for 100% of the value of this advanced payment by the Korea Exchange Bank. This advance will be amortized through agreed deductions from payments to Hyundai Heavy Industries Co., Ltd. for work performed.

*Construction of bridge over the Atlantic side of the Canal:*

The contract for the construction of the bridge over the Atlantic side of the Canal was awarded to the company Vinci Construction Grands Projects on October 26, 2012. During the year 2014, the name of the contractor changed to Puente Atlántico, S.A. Advances are for a maximum amount of B/.35,000 which will be made in three payments; the first for B/.20,000, second for B/.10,000 subdivided into two sub-payments of B/.5,000 each and the third for B/.5,000. As of September 30, 2014, the ACP disbursed to the contractor B/.37,317 in concept of advances and cost of performance and payment bonds. The advance of B/.35,000 is secured by irrevocable letters of credit in effect for the full amount of the advance. In the event that advances have not been recovered by the ACP 45 days before the expiration of the corresponding irrevocable letters of credit, the contractor shall, at the latest 30 days prior to the expiration of the letters, extend the validity thereof for one period not less than one year or the ACP may request the bank payment of corresponding letters. According to the contract, this advance payment will be repaid by withholdings from each payments from the ACP to the contractor for work performed.

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**6. Accounts receivable (continued)**

As of September 30, 2014, the amount withheld from payments to the contractor is B/.2,317 (2013: B/.-) for the payment of cost recovery of the aforementioned bonds, according to the contract. Once the construction progress of the project exceeds 10% of the contract, the withholdings related to the B/.35,000 advance payment will begin.

**Trade and other receivables**

Trade and other current receivables are detailed as follows:

|  | <b>2014</b>              | 2013                     |
|--|--------------------------|--------------------------|
| Transit-related services                                     | <b>B/. 3,766</b>         | B/. 6,853                |
| Electric power sales   | <b>29,516</b>            | 17,427                   |
| Instituto de Acueductos y Alcantarillados Nacionales (IDAAN) | <b>5,321</b>             | 5,457                    |
| Other government entities                                    | <b>1,643</b>             | 1,366                    |
| Other services   | <b>2,681</b>             | 3,554                    |
|  | <b><u>B/. 42,927</u></b> | <b><u>B/. 34,657</u></b> |

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

Aging of past due but not impaired receivables:

|               | <b>2014</b>          | 2013                 |
|---------------|----------------------|----------------------|
| 60 - 90 days  | <b>B/. 43</b>        | B/. 10               |
| 90 - 180 days | <b>56</b>            | 79                   |
|               | <b><u>B/. 99</u></b> | <b><u>B/. 89</u></b> |



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**7. Investment properties**

Investment property is a land with an area of 464,759.71 square meters, located in the extreme south (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities. The land was purchased a year ago by referencing independent appraisals, so it is considered that the fair value has not changed significantly. The following table presents details of investment properties at September 30, 2014:

|              | <u>Beginning<br/>of the year</u> | <u>Additions</u>  | <u>Year end</u>   |
|--------------|----------------------------------|-------------------|-------------------|
| <b>Cost:</b> |                                  |                   |                   |
| Land         | B/. -                            | B/. 89,757        | B/. 89,757        |
|              | <u>B/. -</u>                     | <u>B/. 89,757</u> | <u>B/. 89,757</u> |

Initially, this area was recognized as part of property, plant, and equipment for the purpose of using the land to develop complementary business activities to Canal operations. Later, after multiple studies, was reclassified to investment property when it was authorized to develop on this land, a container transshipment port that would be operated by a concessionaire.

**8. Inventories, net**

Inventories are detailed as follows:

|                                  | <b>2014</b>       | 2013              |
|----------------------------------|-------------------|-------------------|
| Supplies and materials           | B/. 76,049        | B/. 73,308        |
| Fuel                             | 15,456            | 11,014            |
| Provision for obsolete inventory | (7,300)           | (4,100)           |
|                                  | <u>B/. 84,205</u> | <u>B/. 80,222</u> |

Change in the estimation for obsolete inventory of supplies and materials is as follows:

|                                      | <b>2014</b>      | 2013             |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | B/. 4,100        | B/. 4,715        |
| Increases                            | 4,018            | 144              |
| Write-off                            | (818)            | (759)            |
| Balance at the end of the year       | <u>B/. 7,300</u> | <u>B/. 4,100</u> |

The amount of material and supplies, recognized in the income statement during fiscal year 2014, was B/.34,540 (2013: B/.37,330).

The amount of fuel, recognized in the income statement during fiscal year 2014, was B/.184,858 (2013: B/.102,284).

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**9. Other financial assets**

Other financial assets are detailed as follows:

|   | <b>2014</b>               | 2013                      |
|---|---------------------------|---------------------------|
| Financial assets measured at amortized cost |                           |                           |
| Investments in securities                   | <b><u>B/. 743,161</u></b> | <b><u>B/. 640,912</u></b> |

At September 30, 2014, securities' annual interest rate of return is 0.64% (2013: 0.89%) payable at the end of each term with a maximum maturity date of up to one year.

Securities are measured at amortized cost and were acquired with the intention to be held to maturity. All ACP's investments are comprised of short-term investment grade instruments.

The Organic Law establishes that the ACP's funds must be placed in short-term investment grade debt instruments and may not be used to buy other types of investment instruments issued by Panamanian or foreign public or private entities, nor to grant loans to said entities or to the National Government.

**10. Accrued interest receivable and other assets**

Accrued interest receivable and other assets are detailed as follows:

|                     | <b>2014</b>              | 2013                     |
|---------------------|--------------------------|--------------------------|
| Interest receivable | <b>B/. 10,179</b>        | B/. 12,548               |
| Prepayments         | <b><u>2,782</u></b>      | <u>2,853</u>             |
|                     | <b><u>B/. 12,961</u></b> | <b><u>B/. 15,401</u></b> |

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**11. Cash and bank deposits**

Cash and bank deposits are comprised of the following:

|  | <b>2014</b>                        | 2013                               |
|--|------------------------------------|------------------------------------|
| Cash on hand   | <b>B/. 40</b>                      | B/. 43                             |
| Deposits in current accounts   | <b>92,382</b>                      | 79,336                             |
| Deposits in saving accounts  | <b>200,055</b>                     | 260,070                            |
| Time deposits with original maturities under 90 days                       | <b><u>531,200</u></b>              | <u>114,089</u>                     |
| Total cash and cash equivalents  | <b>823,677</b>                     | 453,538                            |
| Time deposits with original maturities over 90 days not exceeding one year | <b><u>1,084,013</u></b>            | <u>1,071,502</u>                   |
|  | <b><u><u>B/. 1,907,690</u></u></b> | <b><u><u>B/. 1,525,040</u></u></b> |

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. At September 30, 2014, the investment of these resources has the priority to cover all ACP obligations and earns interest rates which vary between 0.1% and 1.0% (2013: 0.13% and 1.01%).

As of September 30, 2014 and 2013, there were no restrictions over the balance of cash and bank deposits.

**12. Contributed capital**

Article 316 of the Political Constitution of the Republic of Panama states that the ACP has its own patrimony and the right to manage it. Upon the transfer of the Canal to the Republic of Panama at noon on December 31, 1999, the ACP became the administrator of all goods and real estate property identified in the Organic Law of the ACP as the 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; for its recognition, a conservative method was used to reflect an estimated fair value for each asset subsequently registered in the Public Registry.

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**13. Reserves and contributions for investment programs and inventories**

Changes in reserves and contributions are detailed as follows:

|                                   | 2014                 | Increase<br>(decrease) | 2013                 | Increase<br>(decrease) | 2012                 |
|-----------------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|
| <b>Reserves:</b>                  |                      |                        |                      |                        |                      |
| Canal expansion                   | B/. 186,572          | B/. -                  | B/. 186,572          | B/. 30,000             | B/. 156,572          |
| Catastrophic risks                | 36,000               | -                      | 36,000               | -                      | 36,000               |
| Contingencies and working capital | 215,130              | 18,300                 | 196,830              | 540                    | 196,290              |
| Enterprise capitalization         | 261,743              | (3,105)                | 264,848              | 32,207                 | 232,641              |
| Strategic for investment programs | 150,000              | 150,000                | -                    | -                      | -                    |
|                                   | <u>849,445</u>       | <u>165,195</u>         | 684,250              | 62,747                 | 621,503              |
| <b>Contributions for:</b>         |                      |                        |                      |                        |                      |
| Investment programs               | 4,801,774            | 492,610                | 4,309,164            | 540,119                | 3,769,045            |
| Inventories                       | 10,000               | 10,000                 | -                    | -                      | -                    |
|                                   | <u>B/. 5,661,219</u> | <u>B/. 667,805</u>     | <u>B/. 4,993,414</u> | <u>B/. 602,866</u>     | <u>B/. 4,390,548</u> |

***Canal expansion***

The ACP maintains 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 ACP for determined projects during the execution of the Program. In fiscal year 2014, this reserve had no changes while in 2013, the increase of this reserve was of B/.30,000.

***Catastrophic risks***

The ACP maintains an equity reserve to cover the deductibles of the catastrophic risks insurance policies with a maximum amount of B/.36,000.

***Contingencies and working capital***

The ACP maintains an equity reserve for contingencies and working capital which is calculated based on the ACP's level of revenues and is defined as 30 days of average revenues or billing of the Canal. During fiscal year 2014, it was approved to increase this reserve by B/.18,300 (2013: B/.540) for a total reserve of B/.215,130 (2013: B/.196,830).

***Enterprise capitalization***

The ACP maintains an equity reserve for capitalization with the purpose to ensure and facilitate the long-term financial projection of the ACP. During fiscal year 2014, it was approved to decrease this reserve by B/.3,105 and in 2013, it was approved to increase it by B/.32,207.

### **13. Reserves and contributions for investment programs and inventories (continued)**

#### ***Strategic for investment programs***

In fiscal year 2014, the ACP established an equity reserve for B/.150,000 to maintain strategic sustainability and competitiveness of the Canal, ahead ensuring the availability of funds to meet additional needs of existing investment projects and to take advantage of growth opportunities requiring the implementation of new investment projects.

#### ***Contributions for investment programs***

At September 30, 2014, the ACP increased the funds of the investments programs by B/.492,610 (2013: B/.540,119) for a contributed total of B/.1,551,859 (2013: B/.1,444,134) for the Investment program – others and B/.3,249,915 (2013: B/.2,865,030) for the Investment program – Canal expansion. This reserve includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period.

#### ***Contributions for inventories***

In fiscal year 2014, the ACP established a contribution for B/.10,000 to cover the increase in the value of inventory. This increase was caused by rising prices of commodities and higher volume of purchases.

The Organic Law establishes that, after covering the costs for operation, investment, modernization, and expansion of the Canal, as well as the necessary reserves provided by the Law and Regulations, any surplus shall be forwarded to the National Treasury in the following fiscal period.

### **14. Other equity accounts – components of other comprehensive income**

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

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

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**14. Other equity accounts – components of other comprehensive income (continued)**

|   | 2014                 | 2013                 |
|---|----------------------|----------------------|
| Balance as of Octubre 1   | B/. (131,845)        | B/. (227,770)        |
| Cash flow hedges:   |                      |                      |
| Interest rate swap contracts:   |                      |                      |
| Reclassification of losses during the year to cost in progress            | 35,005               | 33,699               |
| Net (loss)/gain of not-yet matured contracts                              | (40,181)             | 62,241               |
| Diesel prices swap contracts:   |                      |                      |
| Net gain/(loss) of not-yet matured contracts                              | <u>233</u>           | <u>(15)</u>          |
|   | (4,943)              | 95,925               |
| Actuarial valuations:   |                      |                      |
| Net loss in actuarial valuations of defined post-employment benefit plans | <u>(537)</u>         | <u>-</u>             |
| Net (loss) gain arising during the year                                   | <u>(5,480)</u>       | <u>95,925</u>        |
| Balance as of September 30  | <u>B/. (137,325)</u> | <u>B/. (131,845)</u> |

**15. Unappropriated retained earnings**

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 13, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.653,821 to the Panamanian Treasury which corresponds to the year ended September 30, 2014 (2013: B/.610,537). (See note 28).

In compliance with Law 28 of July 17, 2006, during the construction period of the third set of locks, the payments to the Panamanian Treasury 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.

|  | 2014                 | 2013               |
|--|----------------------|--------------------|
| Payments to the Panamanian Treasury:           |                      |                    |
| Unappropriated retained earnings (see note 28) | B/. 653,821          | B/. 610,537        |
| Fees per net ton                               | 374,465              | 369,003            |
| Public service fees                            | <u>2,378</u>         | <u>2,228</u>       |
| Total  | <u>B/. 1,030,664</u> | <u>B/. 981,768</u> |

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**16. Borrowings**

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

|   | <b>2014</b>                 | 2013                        |
|---|-----------------------------|-----------------------------|
| Japan Bank for International Cooperation (JBIC) | <b>B/. 800,000</b>          | B/. 800,000                 |
| European Investment Bank (EIB)                  | <b>500,000</b>              | 200,000                     |
| Inter-American Development Bank (IADB)          | <b>400,000</b>              | 400,000                     |
| CAF Development Bank of Latin America (CAF)     | <b>300,000</b>              | 50,000                      |
| International Finance Corporation (IFC)         | <b>300,000</b>              | -                           |
| Balance at the end of the year                  | <b><u>B/. 2,300,000</u></b> | <b><u>B/. 1,450,000</u></b> |

Financing from JBIC, IADB, CAF, IFC and a tranche of EIB are subscribed at a floating rate (6-month Libor plus margin), and a tranche of EIB is subscribed at a fixed rate; all with semi-annual payments to principal beginning on May 15, 2019, and ending in November 2028.

The ACP complies with reporting to the five development agencies about the financial obligations of the Common Terms Agreement concerning the verification of the financial covenants over this debt related to two debt indicators to be maintained: Total Debt to EBITDA Ratio and the Debt Service Coverage Ratio.

**17. Other financial liabilities**

Other financial liabilities are detailed as follows:

|   | <b>2014</b>               | 2013                      |
|---|---------------------------|---------------------------|
| Financial instruments designated as hedging instruments carried at fair value |                           |                           |
| Interest rate swaps   | <b>B/. 150,066</b>        | B/. 144,573               |
| Commodities swap- Locks   | -                         | 279                       |
| Commodities swap-bridge over the Atlantic                                     | <b>46</b>                 | -                         |
|   | <b><u>B/. 150,112</u></b> | <b><u>B/. 144,852</u></b> |
| Current   | <b>B/. 13,324</b>         | B/. 13,007                |
| Non-current   | <b>136,788</b>            | 131,845                   |
|   | <b><u>B/. 150,112</u></b> | <b><u>B/. 144,852</u></b> |

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**17. Other financial liabilities (continued)**

On April 18, 2012, the ACP subscribed a hedge contract with J.Aron & Co. (Goldman Sachs) for 18.1 million gallons of light diesel used in the channel operations. The hedge was contracted to transfer the risk of variability of future cash flows attributable to variability in the diesel price index from April 26, 2012 to July 25, 2014.

On November 21, 2013, the ACP subscribed a hedge contract with J.Aron & Co. (Goldman Sachs) for 674,208 gallons of light diesel used in the Canal operations. The hedge was contracted to transfer the risk of variability of future cash flows attributable to variability in the diesel price index from December 11, 2013 to December 10, 2014.

In order to transfer the variability risk of the future cash flows related to the volatility of the interest rate paid in the borrowing associated to the Canal Expansion Program, the ACP subscribed an interest rate swap contract which pays at a fixed rate and receives at a floating rate.

**18. Trade and other payables**

Trade and other payables are as follows:

|                      | <b>2014</b>               | 2013               |
|----------------------|---------------------------|--------------------|
| Panamanian Treasury  | <b>B/. 32,314</b>         | B/. 31,336         |
| Suppliers and others | <b><u>243,819</u></b>     | <u>278,935</u>     |
|                      | <b><u>B/. 276,133</u></b> | <u>B/. 310,271</u> |
| Current              | <b>B/. 192,494</b>        | B/. 247,952        |
| Non current          | <b><u>83,639</u></b>      | <u>62,319</u>      |
|                      | <b><u>B/. 276,133</u></b> | <u>B/. 310,271</u> |

The balances payable to the Panamanian Treasury correspond to the fees per net ton pending for payment.

The Organic Law establishes that the ACP shall annually pay the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by the ACP. At September 30, 2014, the total of such fees amounted to B/.374,465 (2013: B/.369,003).



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**19. Provision for marine accident claims**

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

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

|                                  | <b>2014</b>              | 2013                     |
|----------------------------------|--------------------------|--------------------------|
| Balance at beginning of the year | <b>B/. 16,689</b>        | B/. 20,235               |
| Provision for the year           | <b>1,196</b>             | 391                      |
| Payments made                    | <b>(5,021)</b>           | (3,937)                  |
| Balance at end of the year       | <b><u>B/. 12,864</u></b> | <b><u>B/. 16,689</u></b> |

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

**20. Other liabilities**

Other liabilities are detailed as follows:

|  | <b>2014</b>              | 2013                    |
|--|--------------------------|-------------------------|
| Inventories – in transit                             | <b>B/. 14,973</b>        | B/. 4,010               |
| Miscellaneous claims                                 | <b>2,421</b>             | 2,594                   |
| Outstanding checks and others                        | <b>14,573</b>            | 1,929                   |
| Instituto de Acueductos y Alcantarillados Nacionales | <b>604</b>               | 454                     |
|  | <b><u>B/. 32,571</u></b> | <b><u>B/. 8,987</u></b> |

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**21. Labor, materials and other capitalized costs**

The most significant projects of the investment program that have been executed with ACP own resources and equipment are detailed as follows:

|  | 2014                     |     | 2013          |
|--|--------------------------|-----|---------------|
| <b>Investment Program</b>  |                          |     |               |
| Widening and straightening of the Gaillard (Culebra) Cut                                     | <b>B/. 17,021</b>        | B/. | 23,936        |
| Assets administration system   | -                        |     | 324           |
| Bridge over the Canal in the Atlantic  | <b>1,800</b>             |     | 852           |
| Expansion of the thermoelectric plant at Miraflores  | -                        |     | 3,319         |
| Complementary projects of dredging at the entrance of the Canal                              | <b>432</b>               |     | 4,395         |
| Sewer treatment project at ACP   | <b>845</b>               |     | 1,093         |
| Widening of the Pacific entrance of the Canal at 300 square meters                           | -                        |     | 1,117         |
| Widening of the north reach of Bas Obispo and Gamboa tie-up station                          | <b>5,818</b>             |     | 759           |
| Management system demand for transit services  | <b>1,162</b>             |     | -             |
| Financial system's budget and strategic planning   | <b>386</b>               |     | -             |
| Enterprise architecture of the ACP (RENOVA)- design and implementation                       | <b>326</b>               |     | -             |
| Relocation of North Overhaul and Ground transportation facilities to Mount Hope dockyard     | <b>176</b>               |     | -             |
| Platform of the middle layer (SOA) and data switches   | <b>143</b>               |     | -             |
| Replace and repair plumbing line for potable water   | -                        |     | 438           |
| Replace of RMC dredge for new hydraulic backhoe dredge                                       | -                        |     | 319           |
| Other various projects   | <b>1,572</b>             |     | 1,610         |
|  | <b><u>29,681</u></b>     |     | <u>38,162</u> |
| <b>Investment Program - Canal Expansion</b>  |                          |     |               |
| Dredging of Gatun Lake   | <b>26,224</b>            |     | 27,041        |
| Dredging at the Pacific entrance   | -                        |     | 1,203         |
| Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen's dam | <b>1,300</b>             |     | 1,304         |
| Program administration   | <b>844</b>               |     | 857           |
| Increase of maximum operational level of Gatun Lake  | <b>983</b>               |     | 1,530         |
| Design and construction of post-panamax locks  | <b>1,974</b>             |     | 1,985         |
| Environmental administration   | <b>30</b>                |     | 51            |
| Disposal site studies in the Atlantic Side   | -                        |     | 123           |
| Other various projects   | -                        |     | -             |
|  | <b><u>31,355</u></b>     |     | <u>34,094</u> |
|  | <b><u>B/. 61,036</u></b> | B/. | <u>72,256</u> |

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**22. Income taxes**

The ACP is not subject to income taxes, as stated in Article 43 of the Organic Law which exempts it from the payment of all national or municipal taxes, except for the employer's contribution of social security, educational insurance, workmen's compensation, fees for public services, and the fee per net ton.

**23. Employees benefits**

At September 30, 2014, the constructive and formal liability of the employee benefit programs was as follows:

|                                   |                           |
|-----------------------------------|---------------------------|
|                                   | <b>2014</b>               |
| Benefit for employment retirement | <b><u>B/. 227,748</u></b> |

In July 2012, the ACP established the Voluntary Retirement Incentive program (VRI) at the required retirement age for permanent employees and managers of the ACP. Before the establishment of the VRI, there was another program named the Labor Retirement Benefit (LRB) which continues to be active. The employee shall select between one program and the other, but in no case will be able to choose both. These programs were established for an indefinite period of time and could be suspended or modified by the Board of Directors. The LRB remains an option because it is included as such in collective bargaining agreement of the ACP, even though, the probability that the employees choose the LRB is very low since the benefits provided by VRI are higher.

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

The requirements and criteria under the VRI are: 1) the employee receives the benefit of VRI only if it complies with 10 years of service and retires to the required age (early or regular) as may be established by the Caja del Social Social, 2) be not less than 10 years working in the Canal; 3) accepts the offer of VRI, 4) terminates work no later than 60 calendar days after completing the required age, and 5) files the termination of employment form through voluntary resignation.

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**23. Employees benefits (continued)**

From fiscal 2014, the ACP changed its accounting policy for recognition of its liability to employees for post-employment benefits following the implementation of the amendment to IAS 19. The change was adopted prospectively and not retrospectively since it was not practicable to estimate the ACP economic and financial impact of adopting this amendment retrospectively. Therefore, the adoption of the new policy was applied prospectively and its net impact was recorded in the retained earnings initial balance of fiscal period 2014 for B/.3,737.

The ACP contracted independent actuarial services in order to estimate the present value of the total cash flow expected to be paid by the ACP in the event that the plan is maintained through the years and to determine the accrued liability at October 1, 2013 and September 30, 2014. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for average age of staff, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate the present value of the liability, in accordance with IFRS, for both retirement plans.

During the actuarial study, the fair value of the liability was calculated at different interest rates and at different case scenarios which included historical data provided by the ACP to the independent actuary at October 1, 2013 and September 30, 2014 using a discount rate equal to the yield curve for corporate bonds for investment grade securities issued by companies in the United States of America (AAA, AA, A). This study produced a result of B/.193,435 and B/.227,748, respectively.

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

|                            | Statement of<br>Financial<br>Position | Income Statement  |              |               | Statement of<br>Comprehensive<br>Income | Statement of<br>Financial<br>Position |
|----------------------------|---------------------------------------|-------------------|--------------|---------------|---|---------------------------------------|
|                            | Oct. 1, 2013                          | Benefits<br>costs | Net interest | Benefits paid | Actuarial<br>adjustments                | Sept. 30, 2014                        |
| Fair value of the benefits | B/.193,435                            | B/.28,647         | B/.5,620     | B/.15,699     | B/.15,745                               | B/.227,748                            |

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**23. Employees benefits (continued)**

The principal actuarial assumptions used are shown below:

|                 | <u>Age</u>   | <u>2014</u> |
|-----------------|--------------|-------------|
|                 |              | %           |
| Discount rate   |              | <b>3.5</b>  |
| Salary increase |              | <b>1.5</b>  |
| Mortality       |              |             |
| Female          | 57 years old | <b>2.8</b>  |
| Male            | 62 years old | <b>5.9</b>  |
| Disability      |              |             |
| Female          | 57 years old | <b>1.2</b>  |
| Male            | 62 years old | <b>1.9</b>  |

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

|                            | <u>2014</u>      |
|----------------------------|------------------|
| Maturity of the obligation |                  |
| From 0 to 1 year           | <b>B/.19,934</b> |
| From 1 to 5 years          | <b>71,545</b>    |
| From 5 to 10 years         | <b>176,243</b>   |
| From 10 to 25 years        | <b>323,988</b>   |
| Beyond 25 years            | <b>45,907</b>    |

At September 30, 2014, the average duration of the obligation for the defined benefit plans post-employment (VRI/LRB) is approximately 6.3 years at a discount rate of 3.5%.

A quantitative sensitivity analysis for significant assumptions as of September 30, 2014 is as follows:

| Assumption                           | Discount rate |          | Cost of Salaries |            |
|--------------------------------------|---------------|----------|------------------|------------|
|                                      | Increase      | Decrease | Increase         | Decrease   |
| Sensitivity level                    | 25 pbs        | 25pbs    | 25 pbs           | 25pbs      |
| Impact on defined benefit obligation | (B/.3,356)    | B/.3,491 | B/.4,912         | (B/.4,768) |

### **23. Employees benefits (continued)**

At the end of fiscal year 2014, the ACP contracted the issuance of a reimbursement policy, in accordance with IAS 19, to cover the defined benefit plans for voluntary retirement of employees.

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

### **24. Risk management**

#### **Financial risk management**

The ACP maintains a conservative and prudent financial policy oriented to preserve its capital and generate optimal performance with low risk, for which various risk management activities are performed throughout the year, including: analysis, evaluation and risk mitigation. This allows management to plan and make decisions that enhance the economic contribution and operational excellence, improving the chances of achieving the strategic goals.

The ACP's capital structure consists of net debt (borrowings as detailed in note 16), compensated by cash and bank deposit balances (note 11) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 12, 13, 14 and 15, respectively).

Historically, the ACP has operated with its own resources due to its high levels of cash generated by its operations. However, on December 9, 2008 the ACP subscribed to a common term agreement with development agencies, which committed to grant borrowings totaling B/.2,300 with the purpose of partially finance the Canal Expansion Program (see note 16).

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**24. Risk management (continued)**

**Categories of financial instruments**

|  | <b>2014</b>                 | 2013                        |
|--|-----------------------------|-----------------------------|
| <b><i>Financial assets</i></b>                                       |                             |                             |
| Cash and bank deposits (Note 11)                                     | <b>B/. 1,907,690</b>        | B/. 1,525,040               |
| Amortized cost:  |                             |                             |
| Trade and other receivables (Note 6)                                 | <b>42,927</b>               | 34,657                      |
| Other financial assets at amortized cost (Note 9)                    | <b>743,161</b>              | 640,912                     |
|  | <b><u>B/. 2,693,778</u></b> | <b><u>B/. 2,200,609</u></b> |
| <b><i>Financial liabilities</i></b>                                  |                             |                             |
| Financial liabilities designated as hedging instruments<br>(Note 18) | <b>B/. 150,112</b>          | B/. 144,852                 |
| Amortized cost:  |                             |                             |
| Trade and other payables (Note 18)                                   | <b>276,133</b>              | 310,271                     |
| Borrowings (Note 16)   | <b>2,300,000</b>            | 1,450,000                   |
|  | <b><u>B/. 2,726,245</u></b> | <b><u>B/. 1,905,123</u></b> |

**Financial risk management objectives**

ACP's main financial liability consists of borrowings and trade accounts payable. The main purpose of these financial liabilities is to finance the Canal Expansion Program. The ACP also has trade and other receivables, cash and bank deposits which originate directly from its operations and optimizes the performance of its funds through its investment in debt instruments with short maturities which are held until maturity. The ACP also contracts hedging instruments.

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

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

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

## **24. Risk management (continued)**

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

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

### **Market risk**

ACP activities are primarily exposed to financial risks due to variations of currency exchange, interest rates, and commodity prices. With the purpose of managing exposure to these risks, the ACP subscribes a variety of hedge financial instruments, including:

- Interest rate swaps to mitigate the risk of interest rate increases.
- Diesel price swaps to mitigate the risk of fluctuations in the price of this commodity used in the third set of locks contract for the Expansion Program and the contract of the construction of a bridge across the Canal at the Atlantic side.
- Option contracts for future diesel purchases to mitigate the risk of fluctuations in the price of light diesel required in the Canal's regular operations.

### **Exchange rate risk management**

The ACP has established a policy to manage foreign currency risk related to its functional currency. This policy indicates that all investments, and bank deposits, shall be in the currency of the United States of America, or in other currencies authorized by the Board of Directors.

As of September 30, 2014 the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

### **Interest rate risk management**

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

#### *Interest rate swap contracts*

Since March 2010, the ACP established interest rate swap contracts, without collateral, to fix the floating interest rate of the B/.800,000 variable rate loan. Of the B/.800,000, B/.200,000 were disbursed on March 1, 2010; B/.300,000 on October 29, 2010, and B/.300,000 on April 13, 2011. Biannual amortizations of B/.40,000 are programmed to start on May 15, 2019 until loan maturity on November 15, 2028.



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**24. Risk management (continued)**

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

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

Cash flow hedges

(Effective date: May 15, 2010, maturity: Nov 15, 2028)

| <b>Contracts with floating interest rates and outstanding fixed payment rates</b> | <b>Average contracted fixed interest rate</b> |                    | <b>Notional principal value</b> |                    | <b>Fair value</b>  |                      |
|---|---|--------------------|---------------------------------|--------------------|--------------------|----------------------|
|   | <b><u>2014</u></b>                            | <b><u>2013</u></b> | <b><u>2014</u></b>              | <b><u>2013</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b>   |
|   | 5 years or more                               | <b>4.67%</b>       | 4.67%                           | <b>B/. 800,000</b> | B/. 800,000        | <b>B/. (150,055)</b> |

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

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

*Interest rate sensitivity analysis*

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

As of September 30, 2014, for each basis point increase/decrease in the Libor rate curve through the remaining term of the contract, the unrealized loss on the interest rate swap contract would decrease/increase by B/.768.3. This amount was calculated based on the DV01 indicator generated by Bloomberg's valuation model tool used in the valuation of interest rate swap contracts.

As of September 30, 2014, the ACP expects that the Libor rate would increase its value by 30 basis points through the remaining term of the contract during fiscal year 2015, representing an equity increase of B/.23,048.

## **24. Risk management (continued)**

### **Fuel price risk**

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

#### *Maritime operations*

Annually the ACP uses approximately 10 to 12 million gallons of light diesel on its vessel transit operations. Since October 20, 2009, risk management for price fluctuations on this commodity is mainly performed during the fiscal year, period that was considered significant for the implementation of appropriate commercial policies. The risk management is performed through specific hedging transactions that covers approximately 80% of the estimated volume.

For fiscal year 2014, the ACP purchased a hedge instrument (cap) establishing a maximum price of B/.3.22 per gallon for 9,130 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations, of which 11.31 million gallons were consumed by September 2014.

#### *Energy generation*

Power generation is related to the consumption of the Canal operations, while excess capacity is sold in the domestic electricity market. Until September 2014, the ACP consumed 13% of the energy produced, while the remaining 87% was sold to the electricity market. Hydroelectric plants produced 12% of the energy and thermal plants 88%.

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

#### *Operational fuel price risk sensitivity analysis*

As of September 30, 2014, the current price index for light diesel purchases made by the ACP was B/.3.09 per gallon. With an estimated consumption for fiscal year 2015 of 12.35 million gallons, assuming an upward variation trend that increases diesel prices to B/.3.19 per gallon during fiscal year 2015, fuel expenses would show an increase of approximately B/.4.4 million. Up to date an exercise price of the hedging instrument for the 2015 fiscal year has not been established.

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**24. Risk management (continued)**

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

As mentioned in Note 26, the ACP had different commitments related to the Canal Expansion Program. These commitments included adjustment clauses related to the main commodities that were used during construction, such as: reinforced steel, cement, structural steel, and light diesel. The clauses use, as adjustment references, representative price indexes of the commodities' fair value, a fixed reference price for each commodity, the quantities or maximum volume, and the target dates for adjustment calculations.

The maximum quantities the ACP was exposed to at the signature of the contracts were:

| <b>Commodity</b>   | <b>Agreed volume<br/>(thousands)</b> | <b>Fixed<br/>reference<br/>price</b> | <b>Fair value<br/>reference index</b>  |
|--|--------------------------------------|--------------------------------------|--|
| Reinforced steel   | 279.0 metric tons                    | B/.575 per metric ton                | “Reinforcing Bar - Platts Steel Market Daily”  |
| Structural steel   | 67.2 metric tons                     | B/.1,000 per metric ton              | “Plate - Platts Steel Market Daily”  |
| Cement   | 1,278.6 short tons                   | B/.100 per short ton                 | “Portland and Other Cements, Commodity Code 13220161” from the US Bureau of Labor Statistics |
| Light Diesel (Third Set of Locks contract)                 | 60,000 gallons                       | B/.1.40 per gallon                   | US Gulf Coast Diesel No.2 Oil from Platts Latin American Wire<br>Due date July 2014          |
| Light Diesel (Pacific access channel excavation contracts) | 2,054 gallons                        | B/.1.7580 per gallon                 | Diesel's Import Parity Price from the Secretariat of Energy for Light Diesel                 |

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**24. Risk management (continued)**

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

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

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

**Light diesel**

On April 18, 2012, ACP conducted a hedging transaction for 18.1 million gallons of light diesel to cover the risk of variability in future cash flows attributable to variability in the diesel price index from April 26 2012 to July 25, 2014. The instrument was set at a swap price of B/.3.1347/gal.

The variation of light diesel prices did not affect the ACP's income statement or its equity, as it was capitalized as part of the Expansion Program.

**Reinforced steel and cement**

For these commodities, under market conditions, it had not been feasible to obtain financial hedge services to allow the mitigation of future cash flows risk due to price variability. For this reason, the ACP was exposed to price fluctuations, assuming the risk of price increases or benefiting from decreasing prices.

The following table shows the quantities established in the lock design and construction contract and the estimated adjustments at the beginning of fiscal year 2014:

| <b>Commodity</b> | <b>Unit</b> | <b>Quantity</b> | <b>Total adjustment<br/>(in thousands)</b> |
|------------------|-------------|-----------------|--|
| Reinforced steel | Metric Ton  | 5,726           | B/.1,288                                   |
| Cement           | Short Ton   | 34,597          | B/.(256)                                   |

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**24. Risk management (continued)**

*Reinforced Steel*

During fiscal year 2014, the scaling adjustment for reinforced steel totaled B/.691, representing B/.597 less than the estimate at the beginning of fiscal year 2014. In the same fiscal year the contract's escalation period ended, and for this reason there is no exposure to price variations of reinforced steel for the remaining execution of the contract for the design and construction of the locks.

*Cement*

During fiscal year 2014, the scaling adjustment for cement resulted in a credit totaling B/. 153 in favor of ACP, B/.103 less than the amount estimated at the beginning of fiscal year. In the same fiscal year the escalation period agreed under the contract was culminated, and for this reason there is no exposure to price variations of cement for the remaining execution of the contract for the design and construction of the locks.

*Diesel*

During fiscal year 2014 the ACP was exposed to changes in the price of diesel under the terms established in the contract to build the bridge over the Canal in the Atlantic, thereby assuming the risk of rising prices as well as the benefit of the fall in prices.

The following table shows the quantities established in such construction contract and the accumulated adjustments during the fiscal year 2014:

| <b>Commodity</b>   | <b>Unit</b> | <b>Quantity</b> | <b>Total adjustment<br/>(in thousands)</b> |
|--------------------|-------------|-----------------|--|
| Low sulphur diesel | Gallons     | 716,810         | B/. (162.22)                               |

At the end of fiscal year 2014 the monthly average price for diesel was B/.2.73 per gallon, which is B/.0.42 less than the contract's reference price. If the same price is maintained during fiscal year 2015, it would represent a credit in favor to the ACP for B/.299,942.

## **24. Risk management (continued)**

### **Credit risk management**

It refers to the risk that the borrower or issuer of a financial asset may not comply, completely and on time, with any payment to be made in accordance with the terms and conditions agreed upon when the obligation was acquired. To mitigate the credit risk, the liquidity investment policy establishes limits by industry and limits by issuer, as the result of the categorization of the Risk

Assessment System adopted by the ACP, which includes the following factors: short-term risk rating, issuer leverage index, economic factor, liquidity index, and deterioration index.

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

Credit risk refers to the risk that one of the parties does not comply with its contractual obligations, resulting in financial loss to the ACP. ACP’s policies only allow depositing funds in banking institutions and financial instruments that have more than one short-term international investment quality risk rating of at least the following: A-2 by Standard & Poors, P-2 by Moody's Bank Deposit Ratings, or F-2 by Fitch Ratings.

The ACP is not allowed to place its funds in banks or financial instruments when one of its ratings is lower than what is indicated herein, except for the Banco Nacional de Panamá (National Bank of Panama). ACP’s exposure and the credit ratings of its counterparties are reviewed continuously. The credit exposure is controlled by counterparty limits that are reviewed quarterly through the use of an own financial model called “Risk Assessment System for Banking Institutions and Financial Instruments”.

The maximum limits for funds deposits in each bank institution and financial instruments are assigned according to the assessment of the following weighted factors:

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

Banking institutions are rated in three categories within the ACP’s risk system:

- A. Up to B/.100 millon
- B. Up to B/.80 millon
- C. Up to B/.60 millon

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**24. Risk management (continued)**

In addition to the credit risk of the treasury portfolio, the ACP maintains a credit risk from advances made to GUPCSA under the Contract for the Design and Construction of the Third Set of Locks, as explained in note 6. On the B/.906,409 advance payment receivable from GUPCSA, ACP has bank and insurance guarantees, as well as withholding applied to the work in progress for approximately 75%. The unsecured balance is covered under a joint and several guarantee by each of the four companies in the consortium for B/.250,000, which make them accountable and obliges each them for the outstanding advanced balance as if they were acquired on an individual basis. The fundamental analysis applied to the four companies in the consortium indicated that one or more of these companies are able to repay the total of this obligation.

**Liquidity risk management**

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

**Interest and liquidity risk tables**

To finance the expansion program, the ACP has a credit facility with five development financial institutions. Currently 4.35% of the debt is contracted at fixed effective rate of 5.31%, and the remaining 95.7% shows a moving average effective rate of 3.10%. The effective rate for the financing is 3.20%.

|                           | <b>Weighted average<br/>effective interest<br/>rate (%)</b> | <b>1 month<br/>or less</b> | <b>1 - 3<br/>months</b> | <b>1 - 5 years</b> | <b>More than 5<br/>years</b> | <b>Total</b>         |
|---------------------------|---|----------------------------|-------------------------|--------------------|------------------------------|----------------------|
| <b>September 30, 2014</b> |   |                            |                         |                    |                              |                      |
| Variable interest loan    | 3.10%   | B/. -                      | B/. -                   | B/. 110,000        | B/. 2,090,000                | B/. 2,200,000        |
| Fixed interest loan       | 5.31%   | -                          | -                       | 5,000              | 95,000                       | 100,000              |
|                           |   | <u>B/. -</u>               | <u>B/. -</u>            | <u>B/. 115,000</u> | <u>B/. 2,185,000</u>         | <u>B/. 2,300,000</u> |

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**24. Risk management (continued)**

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

| <b>2014</b>      |     | <b>Up to 1 month</b> | <b>1 - 3 month</b>  | <b>3 months - 1 year</b> | <b>1 - 5 years</b> | <b>More than 5 years</b> | <b>Total</b> |          |     |          |     |                  |
|------------------|-----|----------------------|---------------------|--------------------------|--------------------|--------------------------|--------------|----------|-----|----------|-----|------------------|
| Time deposits    | B/. | 355,600              | B/.                 | 175,600                  | B/.                | 1,084,013                | B/.          | -        | B/. | -        | B/. | 1,615,213        |
| Securities       |     |                      |                     |                          |                    |                          |              |          |     |          |     |                  |
| Held-to maturity |     | -                    | 4,627               | 738,534                  | -                  | -                        | 743,161      |          |     |          |     |                  |
|                  | B/. | <u>355,600</u>       | B/.                 | <u>180,227</u>           | B/.                | <u>1,822,547</u>         | B/.          | <u>-</u> | B/. | <u>-</u> | B/. | <u>2,358,374</u> |
| <b>2013</b>      |     | <b>Up to 1 month</b> | <b>1 - 3 months</b> | <b>3 months - 1 year</b> | <b>1 - 5 years</b> | <b>More than 5 years</b> | <b>Total</b> |          |     |          |     |                  |
| Time deposits    | B/. | 35,000               | B/.                 | 79,088                   | B/.                | 1,071,503                | B/.          | -        | B/. | -        | B/. | 1,185,591        |
| Securities       |     |                      |                     |                          |                    |                          |              |          |     |          |     |                  |
| Held-to maturity |     | -                    | -                   | 640,912                  | -                  | -                        | 640,912      |          |     |          |     |                  |
|                  | B/. | <u>35,000</u>        | B/.                 | <u>79,088</u>            | B/.                | <u>1,712,415</u>         | B/.          | <u>-</u> | B/. | <u>-</u> | B/. | <u>1,826,503</u> |

The ACP has used all the creditors financing for the Canal Expansion Program. The ACP expects to comply with its obligations with the cash flows from future operations.

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

|                             | <b>Less than 3 months</b> | <b>3 a 12 months</b> | <b>1 - 5 years</b> | <b>More than 5 years</b> |     |                |     |                  |
|-----------------------------|---------------------------|----------------------|--------------------|--------------------------|-----|----------------|-----|------------------|
| <b>September 30, 2014</b>   |                           |                      |                    |                          |     |                |     |                  |
| Trade and other payables    | B/.                       | 192,494              | B/.                | -                        | B/. | 83,639         | B/. | -                |
| Other financing liabilities |                           | 13,324               |                    | -                        |     | -              |     | 136,789          |
| Borrowings                  |                           | -                    |                    | -                        |     | 115,000        |     | 2,185,000        |
|                             | B/.                       | <u>205,818</u>       | B/.                | <u>-</u>                 | B/. | <u>198,639</u> | B/. | <u>2,321,789</u> |
| <b>September 30, 2013</b>   |                           |                      |                    |                          |     |                |     |                  |
| Trade and other payables    | B/.                       | 247,952              | B/.                | -                        | B/. | 62,319         | B/. | -                |
| Other financing liabilities |                           | 13,007               |                    | -                        |     | -              |     | 131,845          |
| Borrowings                  |                           | -                    |                    | -                        |     | -              |     | 1,450,000        |
|                             | B/.                       | <u>260,959</u>       | B/.                | <u>-</u>                 | B/. | <u>62,319</u>  | B/. | <u>1,581,845</u> |



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**24. Risk management (continued)**

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

**Financing structure**

Financing disbursed and available:

|   | <b>2014</b>                 |     | 2013             |
|---|-----------------------------|-----|------------------|
| <b>Amount disbursed</b>                         |                             |     |                  |
| Japan Bank for International Cooperation (JBIC) | <b>B/. 800,000</b>          | B/. | 800,000          |
| European Investment Bank (EIB)                  | <b>500,000</b>              |     | 200,000          |
| Inter-American Development Bank (IADB)          | <b>400,000</b>              |     | 400,000          |
| CAF Development Bank of Latin America (CAF)     | <b>300,000</b>              |     | 50,000           |
| International Finance Corporation (IFC)         | <b>300,000</b>              |     | -                |
|   | <b><u>2,300,000</u></b>     |     | <u>1,450,000</u> |
| <b>Available amount</b>                         |                             |     |                  |
| European Investment Bank (EIB)                  | -                           |     | 300,000          |
| International Finance Corporation (IFC)         | -                           |     | 300,000          |
| CAF Development Bank of Latin America (CAF)     | -                           |     | 250,000          |
|   | <b><u>-</u></b>             |     | <u>850,000</u>   |
|   | <b><u>B/. 2,300,000</u></b> | B/. | <u>2,300,000</u> |

**Fair value of financial instruments measured at amortized cost**

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

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**24. Risk management (continued)**

|  | 2014                        |                             | 2013                        |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | Carrying Amount             | Fair Value                  | Carrying Amount             | Fair Value                  |
| <i>Financial assets</i>                                  |                             |                             |                             |                             |
| <b>Financial assets measured at amortized cost:</b>      |                             |                             |                             |                             |
| Investment in securities                                 | <u>B/. 743,161</u>          | <u>B/. 742,777</u>          | <u>B/. 640,912</u>          | <u>B/. 640,930</u>          |
| <i>Financial liabilities</i>                             |                             |                             |                             |                             |
| <b>Financial liabilities measured at amortized cost:</b> |                             |                             |                             |                             |
| Floating rate borrowings                                 | <u>B/. 2,200,000</u>        | <u>B/. 2,204,051</u>        | <u>B/. 1,350,000</u>        | <u>B/. 1,297,414</u>        |
| Fixed rate borrowings                                    | <u>100,000</u>              | <u>114,975</u>              | <u>100,000</u>              | <u>109,713</u>              |
|  | <u><b>B/. 2,300,000</b></u> | <u><b>B/. 2,319,026</b></u> | <u><b>B/. 1,450,000</b></u> | <u><b>B/. 1,407,127</b></u> |

**Valuation techniques and assumptions applied in order to measure fair value**

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding hedging instruments) is determined in accordance with generally accepted fixed pricing models based on discounted cash flow analysis using prices from current observed market transactions and quotes for similar instruments.
- The fair value of derivative instruments is calculated using quoted prices. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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**24. Risk management (continued)**

**Fair value measurements recognized in the statement of financial position**

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

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from indicators other than quoted prices included within Level 1 which are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include indicators for the assets or liabilities that are not based on observable market data (unobservable indicators).

|  | <b>2014</b>    |                    |                |                    |
|--|----------------|--------------------|----------------|--------------------|
|  | <b>Level 1</b> | <b>Level 2</b>     | <b>Level 3</b> | <b>Total</b>       |
| <b>LIABILITIES:</b>  |                |                    |                |                    |
| <b>Financial liabilities at fair value with changes in other comprehensive</b> |                |                    |                |                    |
| Hedged financial instruments   | <u>B/. -</u>   | <u>B/. 150,112</u> | <u>B/. -</u>   | <u>B/. 150,112</u> |

|  | <b>2013</b>    |                    |                |                    |
|--|----------------|--------------------|----------------|--------------------|
|  | <b>Level 1</b> | <b>Level 2</b>     | <b>Level 3</b> | <b>Total</b>       |
| <b>LIABILITIES:</b>  |                |                    |                |                    |
| <b>Financial liabilities at fair value with changes in other comprehensive</b> |                |                    |                |                    |
| Hedged financial instruments   | <u>B/. -</u>   | <u>B/. 144,852</u> | <u>B/. -</u>   | <u>B/. 144,852</u> |

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**25. Related party transactions**

**Commercial transactions**

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

|   | <u>Sale of goods and services</u> |                          | <u>Purchase of goods and services</u> |                           |
|---|-----------------------------------|--------------------------|---------------------------------------|---------------------------|
|   | <u>Year ended</u>                 |                          | <u>Year ended</u>                     |                           |
|   | <b>2014</b>                       | 2013                     | <b>2014</b>                           | 2013                      |
| Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN) | <b>B/. 29,421</b>                 | B/. 28,597               | <b>B/. -</b>                          | B/. -                     |
| Other government entities   | <b>3,030</b>                      | 2,807                    | -                                     | -                         |
| Employee benefits   | -                                 | -                        | <b>61,649</b>                         | 61,730                    |
| Purchase of land to Ministerio de Economía y Finanzas                                     | -                                 | -                        | -                                     | 89,757                    |
| Public service fees   | -                                 | -                        | <b>2,378</b>                          | 2,228                     |
| Panamanian Treasury - fees per net ton  | -                                 | -                        | <b>374,465</b>                        | 369,003                   |
|   | <b><u>B/. 32,451</u></b>          | <b><u>B/. 31,404</u></b> | <b><u>B/. 438,492</u></b>             | <b><u>B/. 522,718</u></b> |

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

|   | <u>Amounts owed by the Republic of Panama</u> |                         | <u>Amounts owed to the Republic of Panama</u> |                          |
|---|---|-------------------------|---|--------------------------|
|   | <b>2014</b>                                   | 2013                    | <b>2014</b>                                   | 2013                     |
| Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN) | <b>B/. 5,321</b>                              | B/. 5,457               | <b>B/. -</b>                                  | B/. -                    |
| Other government entities   | <b>1,643</b>                                  | 1,366                   | -   | -                        |
| Employee benefits   | -   | -                       | <b>12,726</b>                                 | -                        |
| Public service fees   | -   | -                       | <b>198</b>                                    | 177                      |
| Panamanian Treasury - fees per net ton  | -   | -                       | <b>32,314</b>                                 | 31,336                   |
|   | <b><u>B/. 6,964</u></b>                       | <b><u>B/. 6,823</u></b> | <b><u>B/. 45,238</u></b>                      | <b><u>B/. 31,513</u></b> |

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

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**25. Related party transactions (continued)**

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

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

**Compensation and benefits to key executives**

The ACP paid a total of B/.3,280 (2013: B/.3,352) for remuneration and benefits to its key management personnel. It is the responsibility of the Administration to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

**26. Commitments**

Commitments as a result of incomplete construction contracts and undelivered purchase orders amounted to approximately B/.1,363,187 (2013: B/.2,018,000), as follows:

|                      | <b>2014</b>                 | <b>2013</b>                 |
|----------------------|-----------------------------|-----------------------------|
| Investment programs: |                             |                             |
| Canal Expansion      | <b>B/. 941,744</b>          | B/. 1,525,000               |
| Others               | <b>385,266</b>              | 463,000                     |
| Sub-total            | <b>1,327,010</b>            | 1,988,000                   |
| Operations           | <b>36,177</b>               | 30,000                      |
|                      | <b><u>B/. 1,363,187</u></b> | <b><u>B/. 2,018,000</u></b> |

Total commitments include the Panama Canal expansion program contracts awarded during the fiscal year totaling B/.21,015 (2013: B/.22,343).

Contracts awarded during fiscal year 2014, include extension of insurance period coverage for Third Set of Locks granted to insurance broker Willis Limited for B/.1,807, cleaning of unexploded ordnance (UXO) at Cerro Valdes Borrow site on the west side of the Canal to Fatutto for B/.2,433 and legal services for Canal Expansion Program to Mayer Brown LLP for B/.11,114.

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**26. Commitments (continued)**

Contracts awarded during fiscal year 2013, include miter gate hydraulic cylinders to IHC Vremac Cylinders BV for B/.3,602, procurement of medium voltage cables for the third set of locks to Conductores Monterrey S.A. de C.V for B/.3,848 and construction of 25 range towers in Gatun Lakes to Ingenieria Continental, S.A. for B/.6,455.

Fiscal year 2014 balance includes the design-build contract for the Canal Expansion Program's major component, the third set of locks, to Grupo Unidos por el Canal, S.A. (GUPCSA) of B/.830,277 (2013: B/.1,408,126).

**27. Contingent liabilities**

At September 30, 2014, the ACP has received claims from GUPCSA for a total of B/.1,690,000. These claims are at different stages of the dispute resolution process provided for in the contract for the design and construction of the third set of locks. Two of these claims concerning concrete mix designs and aggregates were denied by the ACP. As at September 30, 2014, GUPCSA had referred these claims for B/.464,000 to the Dispute Adjudication Board (DAB) for their resolution. Consequently, hearings were scheduled between the end of September and the beginning of October 2014 from which it is expected to have a DAB decision by the end of 2014. The ACP has also received another claim for the amount of B/.898,000 due to the alleged disruption and delay, as a result of various circumstances, which is still under valuation by the ACP after additional information and evidence submitted by GUPCSA. GUPCSA also submitted other claims for an aggregate amount of B/.92,000 which have been denied by the ACP. Some of these claims could be submitted to the DAB for its decision within the next few months.

The contractor submitted claims for B/.138,000 which were rejected entirely by the DAB. GUPCSA has submitted a notice of dissatisfaction before the DAB following the denial of its claim concerning the Pacific temporary cofferdam. That claim has now been referred to the International Court of Arbitration of the International Chamber of Commerce in December 2013 for an amount of B/.180,000 which its final hearing has been programed for December 2015.

ACP has received claims related to other investment projects for an aggregate amount of B/.36,000 which are at different stages and have been rejected in their entirety by the ACP; others are pending of a resolution by the Contracting Officer of the ACP.

The notes contained herein relating to claims against the ACP cannot and should not be considered as support or evidence of acceptance of responsibility on the part of the ACP. In the opinion of the Administration and its General Counsel, the outcome of these actions will not have significant adverse effects on the financial position of ACP.

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**28. Events that occurred after the reporting period**

On November 24, 2014 meeting, the Board of Directors approved the transfer to the Treasury of the operating and functioning economic surplus corresponding to fiscal year 2014 in the amount of B/.653,821. (See note 15).

Panama Canal Expansion Program was scheduled to begin operations in late 2014. The project of the Design and Construction of the Third Set of Locks, the main component of the Program, whose contractual completion date should be completed by early November of the current year, has a gap that has delayed the completion of the works until early 2016. Consequently, on November 13, 2014, the ACP gave the contractor GUPCSA, a formal notice of claim regarding the completion of the works after the contractual period, therefore the Contractor shall pay to the ACP the sum of B/.300 for each day that elapses between the contractual date of completion of the work and the date specified in the certificate of acceptance of the work, up to a maximum of B/.54.600. In that same notice of claim, the ACP clarifies that because the parties agreed by a variation to the Contract under the "Delay Damages Dispute Procedure", that the contractor will not be deducted these amounts until an arbitration decision, under procedures of the International Chamber of Commerce (ICC), exist. However, the ACP will maintain the right to claim the full amounts for damages and/or delay damages to which it is entitled to.

**29. Reclassifications**

Some items in the statement of cash flows for the year ended September 30, 2013 have been reclassified to conform to the 2014 presentation.

**30. Approval of financial statements**

The financial statements of the Autoridad del Canal Panama for the period ended as of September 30, 2014, were approved by the Board of Directors and authorized for issuance on November 24, 2014.