

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

**Panama Canal Authority**

Financial statements for the year ended  
September 30, 2010 and Independent Auditors'  
Report dated November 26, 2010

# Panama Canal Authority

## Independent Auditors' Report and Financial Statements as of September 30, 2010

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## TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Panama Canal Authority:

#### **Report on the financial statements**

We have audited the accompanying financial statements of the Panama Canal Authority, which comprise the financial position as of September 30, 2010, and the statements of income, comprehensive income, changes in equity, and 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable according to the circumstances.

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Panama Canal Authority as of September 30, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



November 26, 2010  
Panama, Republic of Panama

# Panama Canal Authority

## Statement of financial position September 30, 2010 (In thousands of balboas)

	Notes	2010	2009
<b>Assets</b>			
Non-current assets:			
Properties, plant and equipment, net (includes construction in progress of the Canal expansion for B/.734,597 in 2010 and B/.362,399 in 2009)	5, 11	3,073,853	2,679,067
Accounts receivable	6	<u>400,481</u>	<u>481</u>
Total non-current assets		<u>3,474,334</u>	<u>2,679,548</u>
Current assets:			
Inventories, net	7	61,041	49,653
Trade and other receivables	6, 23	33,476	33,133
Other financial assets	8	561,261	57,457
Accrued interest receivable and other assets	9	22,617	7,604
Cash and bank deposits	10	<u>2,119,074</u>	<u>2,507,390</u>
Total current assets		<u>2,797,469</u>	<u>2,655,237</u>
Total assets		<u><u>6,271,803</u></u>	<u><u>5,334,785</u></u>
<b>Equity and liabilities</b>			
Equity:			
Contributed capital	11	1,904,473	1,904,968
Reserves	12	3,225,942	2,732,554
Other equity accounts – cash flow hedge	13,22	(150,226)	6,478
Unappropriated retained earnings	14	<u>470,603</u>	<u>434,120</u>
Total equity		<u>5,450,792</u>	<u>5,078,120</u>
Non-current liabilities:			
Borrowings	15	300,000	-
Other financial liabilities	16	<u>150,871</u>	<u>-</u>
Total non-current liabilities		<u>450,871</u>	<u>-</u>
Current liabilities:			
Trade and other payables	17, 23	221,345	125,903
Provision for marine accident claims	18	32,693	32,368
Accrued salaries and vacation payable		107,918	90,755
Other financial liabilities	16	3,056	-
Other liabilities	19	<u>5,128</u>	<u>7,639</u>
Total current liabilities		<u>370,140</u>	<u>256,665</u>
Total equity and liabilities		<u><u>6,271,803</u></u>	<u><u>5,334,785</u></u>

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

# Panama Canal Authority

## Income statement For the year ended September 30, 2010 (In thousands of balboas)

	Notes	2010	2009
Revenues:			
Toll revenues		1,482,086	1,438,175
Other Canal transit services		<u>319,732</u>	<u>379,224</u>
		1,801,818	1,817,399
Other revenues:			
Electric power sales		112,687	79,463
Potable water sales	23	22,534	20,247
Interest income		20,462	32,789
Miscellaneous		<u>14,602</u>	<u>12,138</u>
Total other revenues		<u>170,285</u>	<u>144,637</u>
Total revenues		<u>1,972,103</u>	<u>1,962,036</u>
Expenses:			
Salaries and wages		385,568	359,185
Employee benefits	23	51,423	49,661
Materials and supplies		51,041	51,596
Fuel		94,250	61,001
Transportation and allowances		1,714	1,333
Contracted services and fees		37,126	40,889
Insurance		8,820	11,141
Provision for marine accidents	18	5,044	7,410
Provision for obsolete inventory	7	247	590
Depreciation	5	74,585	73,430
Other expenses		<u>10,023</u>	<u>14,238</u>
		719,841	670,474
Capitalized labor and materials	20	<u>(55,804)</u>	<u>(61,635)</u>
Total expenses		<u>664,037</u>	<u>608,839</u>
Income before fees		1,308,066	1,353,197
Fees per net ton	17, 23	(342,220)	(344,320)
Panamanian Treasury (Tesoro Nacional) - public service fees	23	<u>(1,855)</u>	<u>(1,964)</u>
Net income		<u>963,991</u>	<u>1,006,913</u>

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

# Panama Canal Authority

## Statement of comprehensive income For the year ended September 30, 2010

(In thousands of balboas)

The policy of the Panama Canal Authority is to maintain its financial risk management hedge instruments according to their original terms. This statement of comprehensive income is included in compliance with IAS 1, as revised, which requires presenting what would have been the net income of the period in the hypothetical event that the Authority liquidated those hedge instruments at the end of the fiscal year and at the market rate of the moment.

	Note	2010	2009
Net income		<u>963,991</u>	<u>1,006,913</u>
Other comprehensive income:			
Cash flow hedges:			
Interest rate swap	13	(147,636)	-
Light diesel	13	(3,235)	-
Time deposit in euros	13	<u>(5,833)</u>	<u>6,478</u>
Net (loss) gain on revaluation arising during the year		<u>(156,704)</u>	<u>6,478</u>
Total comprehensive income for the year		<u><u>807,287</u></u>	<u><u>1,013,391</u></u>

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

# Panama Canal Authority

## Statement of changes in equity For the year ended September 30, 2010

(In thousands of balboas)

	Notes	Contributed capital	Reserves	Other equity accounts – cash flow hedge	Unappropriated retained earnings	Total equity
<b>Balance as of September 30, 2008</b>		<b>1,904,968</b>	<b>2,159,761</b>	-	<b>343,852</b>	<b>4,408,581</b>
Transfer to Panamanian Treasury	14	-	-	-	(343,852)	(343,852)
Net income		-	-	-	1,006,913	1,006,913
Other comprehensive income:						
Cash flow hedge	13	-	-	6,478	-	6,478
Total comprehensive income for the year		-	-	6,478	1,006,913	1,013,391
Contributions to the investment program	12	-	507,868	-	(507,868)	-
Increase in equity reserves	12	-	64,925	-	(64,925)	-
<b>Balance as of September 30, 2009</b>		<b>1,904,968</b>	<b>2,732,554</b>	<b>6,478</b>	<b>434,120</b>	<b>5,078,120</b>
Transfer to Panamanian Treasury	14	-	-	-	(434,120)	(434,120)
Net income		-	-	-	963,991	963,991
Other comprehensive income:						
Cash flow hedge	13	-	-	(156,704)	-	(156,704)
Total comprehensive income for the year		-	-	(156,704)	963,991	807,287
Contributions to the investment program	12	-	487,247	-	(487,247)	-
Increase in equity reserves	12	-	6,141	-	(6,141)	-
Properties received from the Republic of Panama		3,432	-	-	-	3,432
Properties transferred to the Republic of Panama		(3,927)	-	-	-	(3,927)
<b>Balance as of September 30, 2010</b>		<b>1,904,473</b>	<b>3,225,942</b>	<b>(150,226)</b>	<b>470,603</b>	<b>5,450,792</b>

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

# Panama Canal Authority

## Statement of cash flows For the year ended September 30, 2010 (In thousands of balboas)

	Notes	2010	2009
<b>Cash flows from operating activities:</b>			
Net income		963,991	1,006,913
Depreciation	5	73,641	71,990
Loss on disposal of fixed asset		573	2,292
Provision for obsolete inventory	7	247	590
Provision for marine accidents	18	5,044	7,410
Changes in working capital:			
(Increase) decrease in trade and other receivables		(343)	1,818
Increase in inventories		(11,635)	(10,382)
(Increase) decrease in accrued interest receivable and other assets		(15,013)	14,775
Increase in trade and other payables		95,442	6,545
Payments of marine accident claims		(4,719)	(2,516)
Increase in accrued salaries and vacation payable		17,163	220
Increase in other current financial liabilities		3,056	-
Decrease in other liabilities		(2,511)	(6,129)
<b>Net cash provided by operating activities</b>		<u>1,124,936</u>	<u>1,093,526</u>
<b>Cash flows from investing activities:</b>			
Net increase of fixed assets		(469,495)	(314,639)
(Increase) decrease in other financial assets		(509,637)	419,447
Increase in non-current assets	6	(400,000)	(240)
Decrease (increase) in time deposits, over 90 days		369,036	(892,675)
<b>Net cash used in investing activities</b>		<u>(1,010,096)</u>	<u>(788,107)</u>
<b>Cash flows from financing activities:</b>			
Increase in long-term borrowings	15	300,000	-
Transfer to Panamanian Treasury	14	(434,120)	(343,852)
<b>Net cash used in financing activities</b>		<u>(134,120)</u>	<u>(343,852)</u>
Net decrease in cash and cash equivalents		(19,280)	(38,433)
Cash and cash equivalents at beginning of the year		212,225	250,658
Cash and cash equivalents at end of the year	10	<u>192,945</u>	<u>212,225</u>
<b>Investing activities that did not represent cash outflows:</b>			
Fixed assets - capitalized depreciation	5, 20	(944)	(1,440)
Properties received from the Republic of Panama		3,432	-
Properties transferred to the Republic of Panama		(3,927)	-
		<u>(1,439)</u>	<u>(1,440)</u>

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



# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### 1. General Information

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

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

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

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

### 2. Adoption of new and revised International Financial Reporting Standards

#### 2.1 Standards and interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations, which are applicable to the PCA's operations, have been adopted in the current period to expand the presented disclosures, and do not have an impact on the reported results or the financial position of the PCA. Details of other Standards and Interpretations adopted in these financial statements, but that have had no effect on the amounts reported, are set out in section 2.2.

IAS 1 (as revised in 2007) Presentation of Financial Statements

IAS 1 (2007) has introduced changes in terminology (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial instruments: Disclosures)

The amendments to IFRS 7 outline additional disclosures required with respect to fair value measurements and liquidity risk.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### 2.2 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS (2008 - 2009)

In addition to the changes affecting amounts reported in the financial statements described in 2.1 above, the improvements have led to a number of changes in the detail of the PCA's accounting policies – some of which are only changes in terminology, and some of which are substantive but have had no material effect on amounts reported. The majority of these amendments became effective January 1, 2009.

IAS 23 (as revised in 2007) Borrowing Costs

The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change had no impact on these financial statements because it has always been the PCA's accounting policy to capitalize borrowing costs incurred on assets that qualify for capitalization.

Embedded Derivatives (Amendments to IFRIC 9 and IAS39)

The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the fair value through profit or loss as permitted by the amendments to IAS 39 Financial Instruments: Recognition and Measurement of October 2008.

### 2.3 Standards and Interpretations issued not yet adopted

IFRS 9 – Financial Instruments

IFRS 9 will be in effect for periods beginning on or after January 1, 2013. For annual reporting periods beginning before January 1, 2012, an entity can choose not to restate comparative information.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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IFRS 9 – Financial Instruments, continue

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

IAS 7 (Amendments) – Statement of Cash Flows

Effective for annual periods beginning on or after January 1, 2010. The amendments (part of Improvements to IFRSs (2009)) specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows related to development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalization as part of an internally generated intangible asset (and, therefore, are recognized in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Modifications to IFRSs issued in 2010)

The amendments to IAS 1, clarify that an entity can elect to present the required analysis of the items in other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

The Administration anticipates that all above mentioned Standards and Interpretations will be adopted in the PCA's financial statements beginning in the following accounting periods. The Administration considers that the adoption of Standards and Interpretations applicable to future periods would not have a significant effect on the PCA's financial statements.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### 3. Significant accounting policies

#### 3.1 Statement of compliance

Panama Canal Authority financial statements, including the comparative figures have been prepared in accordance with the International Financial Reporting Standards (IFRS).

#### 3.2 Basis of presentation

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

##### 3.2.1 Monetary unit

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

##### 3.2.2 Foreign currency

Upon preparing the financial statements, the transactions in different currency to the functional currency of the entity (balboas B/.) are registered using the exchange rates ruling at the date in which the operating transactions were performed. At the end of each reporting period, the monetary transactions denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Exchange rate differences are recognized in the profit or loss of the period, except for differences as a result of transactions related to the effective hedge of the exchange rate risk. (See Note 3.11 regarding hedge accounting policy).

### 3.3 Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the PCA and those benefits can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

#### 3.3.1 Toll revenue

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

#### 3.3.2 Electric power sales revenue

Electricity sales revenue are recognized when the produced energy is invoiced to the clients according to the monthly liquidations prepared by the National Distribution Center (Centro Nacional de Despacho - CND), administrator of the electric market, based on the prices contracted by PCA and the sales stated by the CND on the occasional market.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### **3.3.3 Potable water sales revenue**

Potable water sales revenue is recognized when treated water is delivered based on prices contracted with the National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales).

### **3.3.4 Services rendered**

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

### **3.3.5 Interest**

Interest income on bank deposits and investments is recognized when incurred. Interest income is recognized when the PCA's right to receive the economic benefits associated to the transaction and the amount of revenue from ordinary activities can be measured reliably.

## **3.4 Borrowing cost**

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

## **3.5 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/or impairment.

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 property, plant and equipment, with different useful lives, are accounted separately.

Based on the accrual method, periodic maintenance, preservation and repair costs are expensed as incurred.

Depreciation is calculated on the asset acquisition cost, net of its residual value, using the straight-line method, 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.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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Construction in progress includes 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 property, plant and equipment and its depreciation will begin.

### 3.6 *Impairment of tangible assets*

At each reporting date, the PCA assesses whether there is an indication that an asset within its property, plant and equipment may be impaired. If any such indication exists, the PCA estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

### 3.7 *Inventories*

Inventories of materials, operating supplies, and fuel are presented at the lower of cost or net realizable value. Inventories are valued using the average cost method based on purchase cost, which after the allowance needed for obsolescence of material and supply inventory, does not exceed the realizable value.

### 3.8 *Provision for marine accidents*

Provisions are recognized when the PCA has a present obligation, either legal or implicit in nature, as a result of a past event, when 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 recovery of some or all economic benefits required to cancel a provision is expected, an account receivable is recognized as an asset if it is virtually certain the disbursement will be received and the amount of the account receivable can be reliably measured.

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

In conformity with the PCA's Organic law, Article 69, payments will only be made if claims are properly supported and accepted by the PCA during the administrative or judicial stage. The PCA will also make payments in compliance with final rulings of the Maritime Tribunal, in cases where the PCA is found liable.

### 3.9 *Financial assets*

Financial assets are classified in the following categories: held-to-maturity investments and trade and other receivables. Classification depends on the nature and purpose of the financial assets and is determined at initial recognition.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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The existing significant financial assets as of September 30 have been classified in the following categories:

### **3.9.1 Trade and other receivables**

Trade and other receivables are financial assets with fixed or determinable payments, which are not negotiated in an active market are classified as account receivable. Trade and other receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized using the effective interest rate method, except for receivables of a very short nature where the recognition of interest is insignificant.

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

Investments in commercial paper and debt instruments with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the PCA 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 method less any impairment.

### **3.9.3 Derecognition of financial assets**

A financial asset is derecognized when the contractual rights to receive cash flows from the asset have expired; or when the PCA has transferred the financial assets and substantially all the risks and benefits inherent in the ownership of the asset to another entity. If the PCA does not transfer and does not retain substantially all the risks and benefits of ownership but continues to control the transferred asset, the PCA recognizes its retained interest in the asset as well a liability for the amount it may have to pay. If the PCA retains substantially all the risks and benefits of ownership of the financial asset transferred, the PCA continues to recognize the financial asset and also recognizes a liability secured by the amount received.

### **3.9.4 Impairment of financial assets**

The PCA 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 an impact on the estimated future cash flows of the financial asset.

### **3.9.5 Recognition**

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

## **3.10 Financial liabilities**

Financial liabilities have been classified in the following categories:

### **3.10.1 Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, (or where appropriate, in a shorter period) to the net carrying amount on initial recognition.

### **3.10.2 Write-off of financial liabilities accounts**

The PCA removes accounts from financial liabilities when, and only when, they are discharged, cancelled, or expired.

### **3.11 Financial instruments**

The PCA subscribes to a variety of financial instruments to manage its exposure to interest rate risk, foreign currency risk and commodity price risk. Note 22 includes further explanation on financial instruments.

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 PCA designates certain financial instruments as either fair value hedges, or hedges of the exposure to changes in fair value of a recognized asset or liability or a previously unrecognized firm commitment; or cash flow hedges, 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.

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.

#### **3.11.1 Hedge accounting**

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

At the inception of the hedge relationship, the PCA documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the PCA documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 22 sets out details of the fair values of the financial instruments used for hedging purposes.

#### **3.11.2 Cash flow hedges**

The effective portion of changes in the fair value of financial instruments that are designated and qualify 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, and is included in the other gains and losses line item.



# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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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.

Hedge accounting is discontinued when the PCA revokes the hedging relationship, 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.

#### **4. 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) and the estimates for the provision for marine accident claims (note 18).

# Panama Canal Authority

## Notes to financial statements September 30, 2010

(In thousands of balboas)

### 5. Properties, plant and equipment

Property, plant and equipment are detailed as follows:

	<b>Building</b>	<b>Structures</b>	<b>Equipment</b>	<b>Land</b>	<b>Constructions in progress</b>	<b>Total</b>
<b>Cost</b>						
Balance as of October 1, 2008	92,494	701,728	868,582	1,022,767	273,635	2,959,206
Additions	375	47,856	28,251	-	240,753	317,235
Adjustments:						
Other	(434)	(16)	(706)	-	-	(1,156)
Loss recognition on asset retirements	-	(2)	(302)	-	-	(304)
Retirements	(7)	(1,279)	(14,964)	-	-	(16,250)
Balance as of September 30, 2009	92,428	748,287	880,861	1,022,767	514,388	3,258,731
Additions	860	5,936	46,424	-	417,220	470,440
Adjustments:						
Other	-	-	-	-	-	-
Loss recognition on asset retirements	-	-	(311)	-	-	(311)
Reclassifications	328	(711)	383	-	-	-
Retirements	(1,033)	(49)	(9,434)	-	-	(10,516)
Property transfers:						
To the Republic of Panama	(1,463)	-	-	(3,907)	-	(5,370)
From the Republic of Panama	12	52	-	3,368	-	3,432
Balance as of September 30, 2010	91,132	753,515	917,923	1,022,228	931,608	3,716,406
<b>Accumulated depreciation</b>						
Balance as of October 1, 2008	(28,912)	(153,610)	(337,974)	-	-	(520,496)
Depreciation	(2,953)	(25,553)	(44,924)	-	-	(73,430)
Adjustments	-	-	-	-	-	-
Retirements	7	120	14,135	-	-	14,262
Balance as of September 30, 2009	(31,858)	(179,043)	(368,763)	-	-	(579,664)
Depreciation	(2,194)	(26,531)	(45,860)	-	-	(74,585)
Adjustments	-	-	-	-	-	-
Reclassifications	(84)	313	(229)	-	-	-
Retirements	1,032	49	9,172	-	-	10,253
Property transfers:						
To the Republic of Panama	1,443	-	-	-	-	1,443
From the Republic of Panama	-	-	-	-	-	-
Balance as of September 30, 2010	(31,661)	(205,212)	(405,680)	-	-	(642,553)
<b>Net book value</b>						
Balance as of September 30, 2010	59,471	548,303	512,243	1,022,228	931,608	3,073,853
Balance as of September 30, 2009	60,570	569,244	512,098	1,022,767	514,388	2,679,067

# Panama Canal Authority

## Notes to financial statements

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Construction in progress is detailed as follows:

	<b>Investment program - Canal expansion</b>	<b>Investment program - others</b>	<b>Constructions in progress total</b>
Balance as of October 1, 2008	113,634	160,001	273,635
Net change	233,835	(8,012)	225,823
Interest, commissions and other financing expenses	<u>14,930</u>	<u>-</u>	<u>14,930</u>
Balance as of September 30, 2009	362,399	151,989	514,388
Net change	360,204	45,022	405,226
Interest, commissions and other financing expenses	<u>11,994</u>	<u>-</u>	<u>11,994</u>
Balance as of September 30, 2010	<u>734,597</u>	<u>197,011</u>	<u>931,608</u>

The PCA recognized losses as a result of the retirement or disposal of assets of B/.574 (2009: B/.2,292). During 2010, the main assets that were retired included digital servers for Scada system; trunk radio system and buildings in the Gatun area demolished due to Canal Expansion activities. During 2009, the main assets that were retired included a barge tie-up station, hydraulic excavator with its spare parts, vehicles and printing equipment.

A portion of the depreciation of B/.944 (2009: B/.1,440) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period (See note 20).

During the fiscal year ended September 30, 2010, the PCA transferred properties in the amount of B/.3,927 and received properties in the amount of B/.3,432 to the Government of Panama.

The following estimated useful lives were used to calculate depreciation:

Buildings	25 – 75 years
Structures	5 – 100 years
Equipment	3 – 75 years

## 6. Accounts receivable

### 6.1 Non-current

Non-current accounts receivable are detailed as follows:

	<b>2010</b>	<b>2009</b>
Advance payment to the contractor	400,000	-
Others	<u>481</u>	<u>481</u>
	<u>400,481</u>	<u>481</u>

# Panama Canal Authority

## Notes to financial statements

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(In thousands of balboas)

Non-current accounts receivables of B/.400,481, (2009:B/.481) is comprised of two interest-free loans of B/.400,000 granted to Grupo Unidos por el Canal (GUPC) as advance payments for mobilization ( B/.300,000) and installation (B/.100,000) . These advances are to be collected by withholdings between 10% and 19% from progress payments to be made by the PCA to GUPC for work performed. This receivable is guaranteed with bank guarantee letters received from two financial institutions with international credit ratings of Aa1 Moodys and Standard and Poors AA, and will be reimbursed to the PCA 45 days before September 30, 2013, and March 31, 2014, respectively, unless GUPC extends the validity of each letter of credit.

On June 3, 2008, the PCA and Distribución Eléctrica Metro Oeste, S.A. (EDEMET) signed a Construction and Reimbursement of Timeline agreement to supply the electricity needed to operate the Mendoza's Potable Water Treatment Plant and Pump Station (Planta Potabilizadora y Estación de Bombeo de Mendoza) owned by the PCA. EDEMET shall reimburse the PCA the sum of B/.481 as agreed. The power supply line will be EDEMET's property, thereby making EDEMET responsible for its operation and maintenance.

EDEMET shall reimburse the PCA the amount of B/.481 whenever the projected annual power consumption and minimum monthly demand supply for the plant are met. The life of that reimbursement agreement shall be 5-years, beginning on the date in which EDEMET completes the project. Annual repayments will represent 25% of the total cost paid at the end of each subsequent year to the termination of the project until completing the fifth anniversary of that date.

### 6.2 Trade and other receivables

Trade and other current receivables are detailed as follows:

	2010	2009
Transit-related services	6,121	10,056
Electric power sales	14,111	16,989
National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales)	4,319	3,461
Other government entities	1,838	1,370
Other services	<u>7,087</u>	<u>1,257</u>
	<u>33,476</u>	<u>33,133</u>

Aging of past due but not impaired receivables:

	2010	2009
60 - 90 days	18	59
90 - 120 days	<u>95</u>	<u>116</u>
	<u>113</u>	<u>175</u>

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

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### 7. Inventories, net

Inventories are detailed as follows:

	2010	2009
Supplies and materials	56,441	44,438
Fuel	11,221	11,920
Provision for obsolete inventory	<u>(6,621)</u>	<u>(6,705)</u>
	<u>61,041</u>	<u>49,653</u>

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

	2010	2009
Balance at the beginning of the year	6,705	6,505
Increases	247	590
Charges	<u>(331)</u>	<u>(390)</u>
Balance at the end of the year	<u>6,621</u>	<u>6,705</u>

### 8. Other financial assets

Other financial assets are detailed as follows:

#### Financial assets Derivatives designated and effective as hedging instruments carried at fair value

	2010	2009
Financial assets measured at amortized cost		
Investments in bonds (i)	545,103	-
Financial assets designated as hedging instruments carried at amortized cost with changes in other comprehensive income		
Time deposit in euros (ii)	<u>16,158</u>	<u>57,457</u>
Balance at the end of the year	<u>561,261</u>	<u>57,457</u>

- (i) Bonds' annual interest rate of return is 1.2063% payable at the end of each term with a maximum maturity date of up to one year.
- (ii) Hedge instrument comprises a time deposit in Euros with the exclusive purpose to cancel obligations contracted in this currency for the construction of a dredge. The dredge is to be received in fiscal year 2011. The financial instrument was translated using Bloomberg's currency exchange rate in EUR-USD at the close of September 2010 and 2009, respectively.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

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Other financial assets measured at amortized cost consist of bonds which have been purchased with the intention to be held until maturity. The PCA's investments are comprised of short-term investment grade instruments.

Article 44 of the PCA's Organic Law establishes that the PCA'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. All the PCA's time deposits are in banks with international credit ratings equivalent to investment grade.

### 9. Accrued interest receivable and other assets

Accrued interest receivable and other assets are detailed as follows:

	2010	2009
Prepayments	5,826	2,095
Others:		
Interest receivable	15,261	5,509
Payment interest-purchase of financial instrument	<u>1,530</u>	<u>-</u>
	<u>22,617</u>	<u>7,604</u>

### 10. Cash and bank deposits

Cash and bank deposits are comprised of the following:

	2010	2009
Cash on hand	36	49
Deposits in current accounts	40,255	27,129
Deposits in saving accounts	125,054	120,046
Time deposits with original maturities under 90 days	<u>27,600</u>	<u>65,001</u>
Total cash and cash equivalents	192,945	212,225
Time deposits with original maturities over 90 days not exceeding one year	<u>1,926,129</u>	<u>2,295,165</u>
	<u>2,119,074</u>	<u>2,507,390</u>

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

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### 11. Contributed capital

Article 316 of the Political Constitution of the Republic of Panama states that the PCA has its own patrimony and the right to manage it.

Upon the transfer of the Canal to the Republic of Panama at noon on December 31, 1999, the PCA became the administrator of all personal and real estate property identified in the Organic Law of the PCA as the patrimony necessary to operate and maintain the Canal.

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

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

### 12. Reserves

Changes in reserves are detailed as follows:

	2010	Increase (decrease)	2009	Increase (decrease)	2008
<b>Reserves for:</b>					
Canal expansion	91,306	-	91,306	-	91,306
Investment projects - others	49,300	(15,700)	65,000	40,000	25,000
Catastrophic risks	36,000	-	36,000	-	36,000
Social and environmental program of the Canal watershed	-	(10,000)	10,000	-	10,000
Contingencies and working capital	160,409	1,841	158,568	889	157,679
Enterprise capitalization	297,907	30,000	267,907	24,036	243,871
	634,922	6,141	628,781	64,925	563,856
<b>Contributions for:</b>					
Investment programs	2,591,020	487,247	2,103,773	507,868	1,595,905
	<u>3,225,942</u>	<u>493,388</u>	<u>2,732,554</u>	<u>572,793</u>	<u>2,159,761</u>

#### 12.1 Canal expansion

The Board of Directors approved an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the PCA for determined projects during the implementation of the program. The PCA did not increase this reserve for fiscal years 2010 and 2009.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### *12.2 Investment projects - others*

The Board of Directors approved an equity reserve for the investment programs of the Panama Canal. The funds of this reserve are segregated based on earning levels, according to the PCA's financing needs for particular projects during the programs' execution. During fiscal year 2010, the Board of Directors approved a decrease to this reserve of B/.15,700 while in fiscal year 2009 it approved an increase of B/.40,000 for a total reserve of B/.49,300 (2009: B/.65,000).

### *12.3 Catastrophic risks*

The Board of Directors approved an equity reserve to cover the deductibles of the catastrophic risks insurance policies with a maximum amount of B/.36,000. As a result, the PCA did not increase this reserve for fiscal years 2010 and 2009.

### *12.4 Social and environmental program of the Canal watershed*

The Board of Directors approved the establishment of a reserve to finance the social and environmental program of the Canal watershed. The purpose of this program is to preserve natural resources and promote the development and integral management of the watershed. During fiscal years 2010, the Board of Directors approved the cancellation of this reserve. In fiscal year 2009, the PCA did not make appropriations for this reserve.

### *12.5 Contingencies and working capital*

The Board of Directors approved an equity reserve for contingencies and working capital based on the PCA's level of revenues. The amount of this reserve is based on the average of 30 days of Canal revenues or billing, and is funded in stages, periodically, as agreed by the Board of Directors. During fiscal year 2010, the Board of Directors approved the increase of this reserve by B/.1,841 (2009: B/.889) for a total reserve of B/.160,409 (2009: B/.158,568).

### *12.6 Enterprise capitalization*

The Board of Directors approved a reserve for Enterprise capitalization. The purpose of this reserve is to ensure and facilitate the long-term financial projection of the Enterprise. This reserve will be funded in stages, according to the periodicity agreed by the Board of Directors. During fiscal year 2010, the Board of Directors approved the increase of this reserve by B/.30,000 (2009: B/.24,036) for a total of B/.297,907 (2009: B/.267,907).

### *12.7 Contributions to investment programs*

The budget approved by the Board of Directors includes an increase in funds of the investment programs of B/.487,247 (2009: B/.507,868) for a contributed total of B/.867,338 (2009: B/.893,373) for the Investment program – others and B/.1,723,682 (2009: B/.1,210,400) for the Investment program – Canal expansion.

Article 41 of the Organic Law establishes that, after covering the costs for operation, investment, modernization, and expansion of the Canal, as well as the necessary reserves provided by the Law and Regulations, any surplus shall be forwarded to the National Treasury in the following fiscal period.



# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### 13. Other equity accounts – cash flow hedge

Other equity accounts are comprised entirely of the unrealized gain (loss) from the valuation of cash flow hedge instruments, as required by IAS 39.

Adjustments to the other comprehensive gains (losses) are as follows:

	2010	Increase (decrease)	2009
Time deposit in Euros	645	(5,833)	6,478
Variability in interest rates	(147,636)	(147,636)	-
Variability in diesel prices	(3,235)	(3,235)	-
	<u>(150,226)</u>	<u>(156,704)</u>	<u>6,478</u>

#### Time deposit in Euros (dredge contract payment)

In March 2008, the PCA signed a € 63.5 million contract for the manufacturing of a cutter suction dredge. Payments for this contract were agreed to be in Euros.

In order to mitigate the Euro-Dollar exchange rate variability risk, in November of 2008 the PCA established a deposit in Euros for the balance of the contract at that time (€ 38.9 million /US \$60.6 million), eliminating its exposure to the exchange rate risk. These funds are used exclusively to make payments to the contractor. At September 30, 2010, the contract's balance is € 15.5 million (2009: € 38.9 million).

The B/. 645 reflected in other equity accounts corresponds to the gain in market value resulting from the accumulated variation between the exchange rate and the amount deposited as of September 30, 2010.

#### Financing for the Canal Expansion Program

On December 9, 2008, the PCA signed a loan agreement for US \$2,300,000 with five multilateral agencies to finance a portion of the Expansion Program. Of the total financing amount, US \$500,000 were agreed at a fixed rate, and US \$1,800,000 at a floating rate. In March 2010, the PCA received its first loan disbursements in the amount of US \$100,000 at a fixed rate, and US \$200,000 at a variable rate. Based on the expansion program's implementation schedule, subsequent variable rate disbursements have been scheduled for US \$300,000 in November 2010, and US \$300,000 in April 2011.

To eliminate the interest rate fluctuation risk on loans obtained at floating rates, the PCA signed an interest rate swap agreement in March 2010. This hedge instrument was competitively placed through three specialized entities for the amount of US \$800,000.

The rate fixed for the financing of US\$800,000 through the hedge transaction was 5.42% for 18.5 years. This rate is 83 points lower than the 6.25% rate that was originally estimated in the Master Plan for the Expansion Program.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### Diesel adjustment in the locks design and construction contract

In July 2009, the PCA awarded the contract for the design and construction of the third set of locks to the consortium “Grupo Unidos por el Canal.” The contract includes adjustment clauses in the event of fluctuations in the price of the diesel to be used in the work.

With the purpose of mitigating the volatility risk of the light diesel price agreed upon in the contract for the locks’ design and construction, in April 2010, the PCA competitively hired the bidder with the lowest price to provide a hedge instrument to transfer some of this risk to the financial markets. This transaction guarantees the fuel costs in the lock’s contract to the PCA for the first two years of execution.

The B/. 3,235 shown in other equity accounts corresponds exclusively to the hedge instrument’s market value as of September 30, 2010, and it is the result of the projected cash flow exchange of future diesel prices compared to the fixed price agreed in the swap, which does not represent a real impairment of equity.

The PCA has covered the following forecasted cash flows, which mainly vary with the interest rates and diesel prices. The periods in which these cash flows are expected to occur and their expected impact on gain or loss, without considering any hedging adjustment, is shown as follows:

	<u>Total</u>	<u>1 año</u>	<u>1 - 5 años</u>	<u>Más de 5 años</u>
Cash flow covered	<u>368,802</u>	<u>18,938</u>	<u>68,853</u>	<u>281,011</u>
Period expected to impact results	<u>368,802</u>	<u>-</u>	<u>21,831</u>	<u>346,971</u>

### 14. Unappropriated retained earnings

Article 41 of the Organic Law establishes that after covering the costs for the investment program and the reserves detailed in Note 12, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the PCA should transfer the total amount of B/.470,603 to the Panamanian Treasury which corresponds to the year ended September 30, 2010 (2009: B/.434,120). (See note 26)

In compliance with Law 28 of 2006, during the construction period of the third set of locks, the PCA will continue to make increasing payments to the Panamanian Treasury based on Canal tonnage fees and any operational surplus. Any payments based on an operational surplus shall not be less than those made to the Panamanian Treasury in 2005 for the amount of B/.268,850. The combined payments based on Canal tonnage fees and operational surpluses shall not be less than the payments effected in fiscal year 2006 for the amount of B/.568,128.

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### 15. Borrowings

Financing received for the Canal Expansion Investment Program, with its amortized cost at September 30, 2010, is detailed as follows:

	2010	2009
Japan Bank for International Cooperation (JBIC)	200,000	-
European Investment Bank (EIB)	<u>100,000</u>	<u>-</u>
Balance at the end of the year	<u><u>300,000</u></u>	<u><u>-</u></u>

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

### 16. Other financial liabilities

Other financial liabilities are detailed as follows:

	2010	2009
Financial instruments designated as hedging instruments carried at fair value		
Interest rate swaps	150,692	-
Commodity swap	<u>3,235</u>	<u>-</u>
	<u><u>153,927</u></u>	<u><u>-</u></u>
Current	3,056	-
Non-current	<u>150,871</u>	<u>-</u>
	<u><u>153,927</u></u>	<u><u>-</u></u>

In order to cover the variability risk of the future cash flows related to the volatility of the interest rate swap used for the financial needs of the Canal Expansion Program, the PCA's Board of Directors approved the contract of the interest rate swap, which pays at a fixed rate and receives at a variable rate, according to Resolution No. ACP-JD-RM 10-411 of February 22, 2010. (See note 22.7.1).

## Panama Canal Authority

### Notes to financial statements

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(In thousands of balboas)

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#### 17. Trade and other payable

Trade and other payables are as follows:

	2010	2009
Panamanian Treasury	27,944	26,753
Suppliers and others	<u>193,401</u>	<u>99,150</u>
	<u>221,345</u>	<u>125,903</u>

The balance payable to the Panamanian Treasury is mainly represented by the fee per net ton pending payment.

Article 39 of the Organic Law establishes that the PCA 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 PCA. The total of such fees amounted to B/.342,220 (2009: B/.344,320).

#### 18. Provision for marine accident claims

The provision for marine accident claims of B/.32,693 (2009: B/.32,368), represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the PCA expects to be liable.

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

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

	2010	2009
Balance at beginning of the year	32,368	27,474
Provision for the year	5,044	7,410
Payments made	<u>(4,719)</u>	<u>(2,516)</u>
Balance at end of the year	<u>32,693</u>	<u>32,368</u>

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

# Panama Canal Authority

## Notes to financial statements

September 30, 2010

(In thousands of balboas)

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### 19. Other liabilities

Other liabilities are detailed as follows:

	2010	2009
Inventories – in transit	1,882	1,050
Miscellaneous claims	1,714	1,537
Other trusts	945	699
Trust-National Institute of Pipelines and -Sewerage (i)	<u>587</u>	<u>4,353</u>
	<u>5,128</u>	<u>7,639</u>
Current	5,128	7,639
Non-current	<u>-</u>	<u>-</u>
	<u>5,128</u>	<u>7,639</u>

- (i) The trust of the National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales - IDAAN) was established with the purpose of building the conduction line from Las Mendozas Filtration Plant to the existing plant of the National Institute of Pipelines and Sewerage in La Chorrera. The ACP executes the construction of the conduction line, property of IDAAN, and for this purpose, uses funds provided by said entity.

# Panama Canal Authority

## Notes to financial statements

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### 20. Capitalized labor and materials

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

	2010	2009
<b>Investment Program - Others:</b>		
Widening and straightening of the Gaillard (Culebra) Cut	8,004	8,870
Test bank for tow electric propulsion	438	-
Recondition of barges 403 and 407	-	389
Purchase of tow components	2,567	3,457
Project administration system	744	706
Replacement of the vehicular gates with a vehicular bridge	-	466
Improvement to locks' fender system at approach walls	841	-
Other various projects	1,806	1,841
	<u>14,400</u>	<u>15,729</u>
<b>Investment - Canal expansion:</b>		
Dredging of Gatun Lake	30,909	39,135
Dredging at the Pacific entrance	750	3,417
Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen's dam	754	713
Program administration	793	628
Increase of maximum operational level of Gatun Lake	356	-
Construction of new field offices for the new Locks	-	440
Design and construction of post-panamax locks	1,482	-
Excavation project No. 2	-	392
Disposal site studies in the Atlantic side	5,733	321
Dry excavation No. 3 of the North Pacific channel access	419	-
Other various projects	208	860
	<u>41,404</u>	<u>45,906</u>
	<u>55,804</u>	<u>61,635</u>

# Panama Canal Authority

## Notes to financial statements

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### 21. Income taxes

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

### 22. Financial instruments

#### 22.1 Capital Risk Management

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

The PCA's capital structure consists of net debt (loans as detailed in note 15), compensated by cash and cash equivalent balances (note 10), and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 11, 12, 13 and 14, respectively).

The PCA has operated with its own resources, however, on December 9, 2008, the PCA subscribed to a common term agreement with multilateral and bilateral agencies, which committed to grant loans with the purpose of partially financing the Canal's Expansion Program (see note 15).

#### 22.2 Significant Accounting Policies

Details of the significant accounting policies and adopted methods (including the criteria for recognition, the bases of measurement, and the bases for revenue and expense recognition) for each type of financial assets and financial liabilities are disclosed in note 3.

#### 22.3 Categories of Financial instruments

	2010	2009
<i>Financial Assets</i>		
Amortized cost		
Cash and due from banks	2,119,074	2,507,390
Trade and other receivable (note 6)	33,476	33,133
Other financial assets at amortized cost	561,261	57,457
	<u>2,713,811</u>	<u>2,597,980</u>
<i>Financial Liabilities</i>		
Financial instruments in designated hedge accounting relationships		
(note 16)	153,927	-
	<u>153,927</u>	<u>-</u>
Amortized cost		
Commercial accounts and other accounts payable (note 17)	221,345	125,093
Loans (note 15)	300,000	-
	<u>521,345</u>	<u>125,093</u>

# Panama Canal Authority

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### 22.4 Financial risk management objectives

The Treasury's function is based on Agreement 195 of September 24, 2009, which establishes the criteria and guidelines applicable to the Panama Canal Authority's Liquidity Investment (subrogating Agreement 185 of May 19, 2009).

The PCA's Treasury coordinates the access to international financial markets, and monitors and manages the financial risks related to the PCA's operations through internal risk reports, which analyze risk exposure depending on degree and magnitude. These risks include market risk (including exchange risk, and price risk), credit risk, liquidity risk, and cash flow interest rate risk.

The PCA's liquidity risk management, and segregation of roles and responsibilities, are set forth in the Liquidity Management Procedure that identifies the processes and controls undertaken by the Treasury's operations. Furthermore, through Guideline ACP-AD-2009-07, the Liquidity and Hedge Committee was established and made responsible for authorizing investments based on established risk limits.

The PCA intends to minimize the effects of such risks by using hedge instruments. The use of hedge instruments is governed by the PCA's policies approved by the Board of Directors, which provide written principles about exchange risk, interest rate risk, credit risk, and the use of hedge financial instruments and the investment of excess liquidity. Internal auditors periodically review compliance with the policies and exposure limits. The PCA does not subscribe to or negotiate financial instruments, including financial instruments for speculative purposes.

The Treasury reports quarterly to the PCA's Finance Committee, and maintains the monitoring of risk and implemented policies to mitigate risk exposure.

### 22.5 Market risk

PCA activities are primarily exposed to financial risks of currency exchange (see 22.6), interest rates (see 22.7), and commodity prices (see 22.8 and 22.9). The PCA subscribes to a variety of hedge financial instruments to manage its exposure to interest rate and commodity price risks, including:

- Deposits in Euros to hedge the foreign exchange risk that arises from obligations undertaken through contracts with suppliers being paid in such currency
- Interest rate swaps to mitigate the risk of interest rate increase
- Diesel price swaps to mitigate the risk of fluctuations in the price of this commodity used in the third set of locks contract of the expansion program
- Option contracts for diesel purchases to mitigate the risk fluctuations in the price of this commodity used in the Canal's regular operations

### 22.6 Exchange rate risk management

The PCA has established a policy to manage foreign currency risk in regard to its functional currency. This policy indicates that all PCA investments, deposits and/or certificates of deposit, shall be in the currency of the United States of America, or in other currencies exclusively to pay suppliers for contracts that were awarded with conditions and payments in such currencies, without speculation interests or opportunity, and to mitigate the exchange rate risk.



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The PCA is required to hedge all or a portion of its exposure to foreign currency risk through its Treasury. In order to manage the foreign currency risk arising from future commercial transactions and from recognized assets and liabilities, the PCA makes deposits in the same currency in which the commitment is specified.

The PCA's policy is to hedge total expected cash flows, primarily associated with contract commitments undertaken in a currency different than the functional currency. As of September 30, 2010, the PCA maintained a commitment for the purchase of a dredge with a value of €15.5 million (2009: € 38.9 million). This purchase meets the requirements to be considered as associated exposure with forecasted operations "highly probable" for hedge accounting purposes. When the PCA makes the payment, the amount of the non-financial hedged component (dredge), is adjusted.

The registered deposits amounts (assets) and the monetary commitments, specified in foreign currency at the end of the reporting period, are as follows:

	Commitments		Deposits (Assets)	
	2010	2009	2010	2009
Amount in thousands of Euros	€15,531	€38,876	€11,851	€39,346

### 22.6.1 Foreign currency sensitivity analysis

The PCA is primarily exposed to currency in Euros.

The dollar/euro exchange rate at the close of September 30, 2010, was 1.3634 (Source: Bloomberg). If the spot exchange rate would have weakened/strengthened by 0.10 over the dollar/euro parity, keeping all other risk factors constant, the unrealized gain/loss that would have to be recognized in other equity accounts, would have been B/.1.2 million.

### 22.7 Interest rate risk management

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

#### 22.7.1 Interest rate swap contracts

During fiscal year 2010, the PCA established interest rate swap contracts, without collateral from the PCA, to fix the floating interest rate of the B/.800,000 loan. Of the B/.800,000, B/.200,000 were requested in fiscal year 2010, and the rest (B/.600,000) are scheduled to be received during fiscal 2011; B/.300,000 on November 15, 2010, and B/.300,000 on May 15, 2011. Biannual amortizations of B/.40,000 should start on May 15, 2019, until maturity. According to interest rate swap contracts, the PCA agrees to swap the difference between the fixed and floating interest rate amounts calculated on the agreed notional principal amounts. Such contracts allow the PCA to mitigate the risk of interest rate changes on 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, which is detailed later as follows.

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.

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Cash flow hedges

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

Contracts with floating interest rates and outstanding fixed payment rates	Average contracted fixed interest rate		Notional principal value		Fair value	
	2010	2009	2010	2009	2010	2009
	%	%				
5 years or more	4.67	-	800,000	-	(147,636)	-

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

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

### 22.7.2 Interest rate sensitivity analysis

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

As of September 30, 2010, for each increase/decrease in basis points in the Libor rate curve through the remaining maturity of the contract, the unrealized loss on the interest rate swap contract would decrease/increase by B/. 1,029. This amount was calculated based on the DV01 indicator generated by Bloomberg's valuation tool used in the valuation of interest rate swap contracts.

As of September 30, 2010, in a worst case scenario, the PCA expects the Libor rate through the remaining life of the contract to increase by 50 basis points during fiscal 2011, which would represent an increase of B/.51,441 in the PCA's equity.

### 22.8 Fuel for operations price risk

The PCA is exposed to the risk of fluctuations of commodity prices mainly from the fuel used in its maritime operations and power generation activities for the operation of the PCA 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 PCA clients.

The PCA uses approximately 10 million gallons of diesel on its vessel transit operations annually. As of October 20, 2009, the risk of diesel price fluctuations is managed mainly during the fiscal year, as this period is considered to be representative of the implementation of appropriate commercial policies. This process is carried out by means of specific hedging activities for 80% of the forecasted volume, with the objective of maintaining an economic balance of commodities.

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The PCA's power generation activity is used both for internal consumption as well as for its commercialization in the national electricity market. During fiscal year 2010, the PCA consumed 17.5% of the energy produced, while the remaining 82.5% was sold to the electricity market. The energy is produced by hydroelectric plants (27%) and by thermal plants (73%). Thermal generation is exposed to the risk of fuel price variation. The major part of the exposure to this residual risk is managed by means of periodically renegotiating contractual clauses that have the objective of achieving economic balance for the consumption of the related fuel.

### 22.8.1 Fuel for operations price risk sensitivity analysis

As of September 30, 2010, the current price index for diesel purchases by the PCA was B/.2.13 per gallon. With an estimated annual consumption of 10 million gallons, assuming an upward variation trend that increases diesel prices to B/.2.35 per gallon during fiscal year 2011, the fuel expense would show an increase of approximately B/.2.2 million as long as the price remains under the price of B/.2.40 agreed upon on the hedging instrument.

### 22.9 Price risk on adjustment clauses in contracts related to the Canal Expansion and Modernization Program

As mentioned in Note 24, the PCA has different commitments related to the Canal Expansion and Modernization Program. These commitments include adjustment clauses pertaining to the main commodities that will be used during construction, such as: reinforced steel, cement, structural steel, and diesel. The clauses use, as adjustment references, price indexes of the commodities' fair value, a fixed reference price for each material, the quantities or maximum volume, and the target dates for adjustment calculations.

The maximum quantities to which the PCA is exposed to are as follows:

Commodity	Agreed volume (thousands)	Fixed reference price	Fair value reference index
Reinforced steel	279.0 metric tons	\$575 per metric ton	"Reinforcing Bar - Platts Steel Market Daily"
Structural steel	67.2 metric tons	\$1,000 per metric ton	"Plate - Platts Steel Market Daily"
Cement	1,278.6 short tons	\$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	\$1.40 per gallon	US Gulf Coast Diesel No.2 Oil from Platts Latin American Wire
Light Diesel (Pacific access channel excavation contract)	2,054 gallons	\$1.7580 per gallon	Diesel's Import Parity Price of the Secretariat of Electric Energy

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

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

Article No. 44 of the Financial Regulations, in accordance with Article No. 190 of the Purchasing and Contracts Regulations, establishes that the PCA could hedge contracts with specialized institutions, in an effort to mitigate the risks associated with price fluctuations of the commodities acquired by the PCA or its contractors, in regards to the functioning, maintenance, operations, modernization, and expansion of the Canal.

#### **Light Diesel**

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

The variation of prices in light diesel will not affect the PCA's profit and loss nor its equity as it is capitalized as part of the Canal expansion program.

#### **Reinforced Steel, Structural Steel, and Cement**

For these commodities, according to current market conditions, a financial instrument that allows the mitigation of the risk of future cash flows due to price variability, has not been obtained from the various hedge service providers. For fiscal year 2010, there were no amounts in these categories. The quantities specified in the locks contract for fiscal year 2011, and the estimated amounts for each one of them are shown in the table below:

<b>Commodity</b>	<b>Unit</b>	<b>Quantity</b>	<b>Total</b>
Reinforced Steel	Metric Ton	47,077	5,623
Structural steel	Metric Ton	67,200	(1,788)
Cement	Short Ton	-	-

As of September 30, 2010, the reinforced steel price (moving average as stipulated in the contract) was B/.642.64 /metric ton. With an established consumption of 47,077 metric tons for fiscal year 2011, assuming an upward variation trend that increases the reinforced steel price to B/.742.64 / metric ton, the category for this commodity in the construction contract would show an increase of approximately B/.4,700, which the PCA would have to pay, as long as the price stays above the reference price agreed upon in the locks contract.

As of September 30, 2010, the structural steel price (moving average as stipulated in the contract) was B/.866.40/metric ton.

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The variation of prices in these commodities will not affect the PCA profit and loss nor its equity as it is capitalized as part of the Canal expansion program.

### 22.10 Credit Risk Management

It refers to the risk that the borrower or issuer of a financial asset does 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 PCA, 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 that a counterparty defaults in the payment of security purchase transactions. The PCA 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 PCA. To this end, Agreement 195 states that the PCA's funds may only be deposited 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 PCA shall not deposit its funds in a bank or financial instrument if one of its ratings is lower than what is indicated herein, except for the National Bank of Panama. The PCA's exposure and the credit ratings of its counterparties are continuously monitored. The credit exposure is controlled by the counterparty limits that are reviewed quarterly by the Risk Assessment System for Banking Institutions and Financial Instruments.

This Agreement defines the maximum limits for deposits of funds in each banking institution and financial instruments, according to the assessment of the following weighted factors:

1. Short-term risk rating
2. Capital hedging or leverage
3. Economic factor in the country where the counterparty is located, including gross domestic product, unemployment index, inflation index, and current account balance
4. Liquidity index
5. Deterioration index

Banking institutions are rated in three categories within the PCA's risk system:

- A. Up to 100 million
- B. Up to 80 million
- C. Up to 60 million

### 22.11 Liquidity risk management

The PCA manages the liquidity risk by maintaining savings accounts, proper borrowing facilities, continuously monitoring the forecasted and actual cash flows, and reconciling the maturity profiles for the financial assets and liabilities. Note 22.11.2 specifies the details about credit facilities that the PCA has at its disposition to further reduce the liquidity risk.

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### 22.11.1 Interest and liquidity risk tables

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

	Weighted average effective interest rate (%)	1 month or less	1-3 months	1 - 5 years	More than 5 years	Total
September 30, 2010						
Instruments at floating interest rates	1.13688	-	-	-	200,000	200,000
Instruments at fixed interest rates	5.196	-	-	-	100,000	100,000
		-	-	-	300,000	300,000

The following table details the PCA expected cash flows for its financial assets. The table has been designed based on cash flows for undiscounted contractual maturities. The additional information about financial assets is necessary to understand the PCA's liquidity risk management.

2010	Up to 1 month	1-3 months	3 month - 1 year	1 - 5 years	More than 5 years	Total
Certificates of deposit	-	27,600	1,926,129	-	-	1,953,729
Held-to-maturity securities	-	-	545,103	-	-	545,103
	-	27,600	2,471,232	-	-	2,498,832
2009	Up to 1 month	1-3 months	3 month 1 years	1 - 5 years	More than 5 years	Total
Certificates of deposit	-	65,001	2,295,165	-	-	2,360,166
Held-to-maturity securities	-	-	-	-	-	-
	-	65,001	2,295,165	-	-	2,360,166

The PCA has access to financing facilities, as described in note 22.11.2, of which US\$2,000 million were not utilized at the end of the 2010 period. The PCA expects to comply with its other obligations with the cash flows from the operations and from the maturity of financial assets.

The following table details the PCA'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.

	1 year or less	1 - 5 years	More than 5 years
<b>September 30, 2010</b>			
Interest rate swap	-	-	(147,637)
Locks diesel swap	-	(3,235)	-
	-	(3,235)	(147,637)

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

### 22.11.2 Financing facilities

	2010	2009
Loans with amounts available up to 2014 that could be extended by mutual agreement		
<b>Amount used</b>		
JBIC Credit Facility	200,000	-
EIB Credit Facility	100,000	-
<b>Amount not used</b>		
JBIC Credit Facility	600,000	800,000
EIB Credit Facility	400,000	500,000
IADB Credit Facility	400,000	400,000
IFC Credit Facility	300,000	300,000
CAF Credit Facility	300,000	300,000
	<u>2,300,000</u>	<u>2,300,000</u>

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### 22.12 Fair value of financial instruments

#### 22.12.1 Fair value of financial instruments measured at amortized cost

Except as detailed in the following table, the PCA considers that the carrying amounts of financial assets and financial liabilities, recognized at amortized cost in the financial statements, approximate their fair values.

	<u>September 30, 2010</u>		<u>September 30, 2009</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<i>Financial assets</i>				
<b>Financial assets measured at amortized cost:</b>				
Investment in bonds	<u>545,103</u>	<u>545,304</u>	<u>-</u>	<u>-</u>
<i>Financial liabilities</i>				
<b>Financial liabilities measured at amortized cost:</b>				
Loans at floating rate	200,000	186,165	-	-
Loans at fixed rate	<u>100,000</u>	<u>107,030</u>	<u>-</u>	<u>-</u>
	<u>300,000</u>	<u>293,195</u>	<u>-</u>	<u>-</u>

#### 22.12.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets, are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair value of other financial assets and financial liabilities (excluding hedging instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions and dealer quotes for similar instruments.



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- The fair value of derivative instruments is calculated using quoted prices and where 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.

### 22.12.3 Fair value measurements recognized in the statement of financial position

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

- 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 inputs other than quoted prices included within Level 1 that 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 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	30-sep-10			
	Level 1	Level 2	Level 3	Total
<b>Financial liabilities at fair value with changes in other comprehensive income</b>				
Financial instruments in hedged relationships	-	150,871	-	150,871
Total	-	150,871	-	150,871

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### 23. Related party transactions

#### 23.1 Commercial transactions

During the year, the PCA executed the following commercial transactions with the government:

	Sales of goods		Purchases of goods	
	Year ended 2010	Year ended 2009	Year ended 2010	Year ended 2009
Sale of potable water to the National Institute of Pipelines and Sewerage (IDAAN)	22,534	20,247	-	-
Other government entities	1,162	1,502	-	-
Employee benefits	-	-	51,423	49,661
Public service fees	-	-	1,855	1,964
Panamanian Treasury - surplus payment	-	-	447,151	434,120
Panamanian Treasury - fees per net ton payment	-	-	342,220	344,320
	<u>23,696</u>	<u>21,749</u>	<u>842,649</u>	<u>830,065</u>

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

	Amounts owed by related parties		Amounts owed to related parties	
	2010	2009	2010	2009
Sale of potable water to the National Institute of Pipelines and Sewerage (IDAAN)	4,387	3,461	-	-
Other government entities	1,181	1,370	-	-
Employee benefits	-	-	15,734	16,477
Public service fees	-	-	143	160
Panamanian Treasury - fees per net ton payment	-	-	28,905	26,753
	<u>5,568</u>	<u>4,831</u>	<u>44,782</u>	<u>43,390</u>

Sales of good and services to the government were made at the PCA's usual list prices without discount. Purchases were made at market price discounted to reflect the quantity of goods purchase and the relationship between the parties.

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.

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### 23.2 Compensation of key management personnel

The PCA paid a total of B/.2,393 (2009: B/.2,183) in remuneration and benefits to its key management personnel. It is the responsibility of the Administrator 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.

### 24. Commitments

Commitments as a result of incomplete construction contracts and undelivered purchase orders amounted to approximately B/.3,909,000 (2009: B/.3,757,000), as follows:

	2010	2009
Investment programs:		
Canal Expansion	3,647,000	3,435,000
Others	229,000	259,000
Operations	<u>33,000</u>	<u>63,000</u>
	<u><u>3,909,000</u></u>	<u><u>3,757,000</u></u>

Total commitments include the Canal expansion program contracts awarded during the fiscal year totaling B/.406,997 (2009: B/.3,360,426). The total costs incurred in the Canal expansion program in the fiscal year amounted to B/.373,470 (2009: B/.249,583).

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

The fiscal year 2010 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 (GUPC) for B/.3,221,631.

### 25. Contingent liabilities

The PCA has received claims and is a defendant in various legal proceedings mainly related to marine accidents and investment contracts. For marine accidents and investment contracts demands, the contingent liability amounted to approximately B/.18,402 (2009: B/.1,763). The opinion of management and its legal advisors is that the outcome of these matters is not likely to have a material adverse effect on the PCA's financial position, therefore, no provisions were made regarding these claims and demands.

# **Panama Canal Authority**

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### **26. Events that occurred after the reporting period**

The surplus corresponding to the year ended September 30, 2010, for B/.470,603 was paid to the Panamanian Treasury in the following fiscal period. (See note 14).

### **27. Reclassifications**

Some figures on the statements of financial position and cash flows for the year ended September 30, 2009, have been reclassified for comparative purposes.

### **28. Approval of financial statements**

The financial statements of the Panama Canal Authority for the period ended as of September 30, 2010, were approved by the Board of Directors and authorized for issuance on November 25, 2010.

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