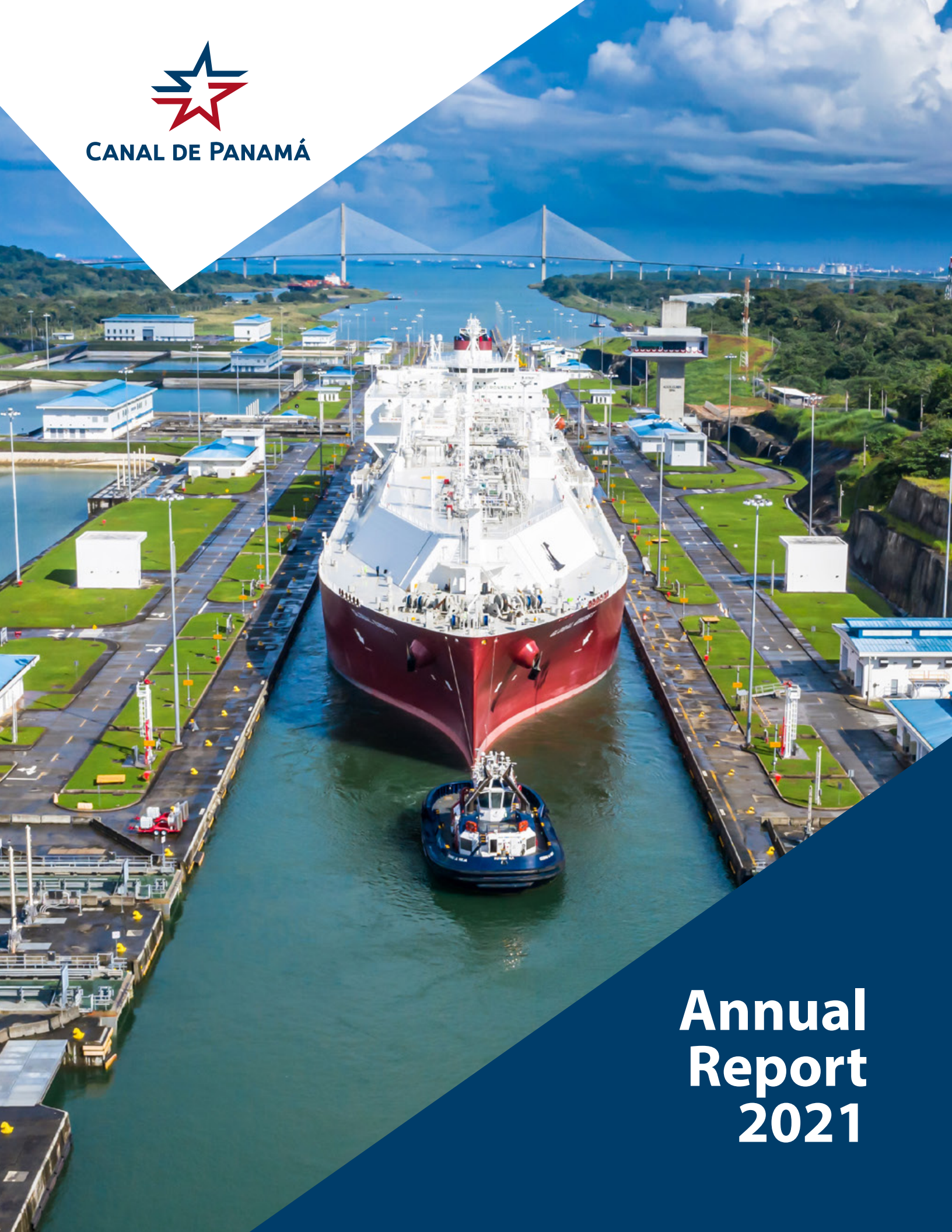




CANAL DE PANAMÁ



Annual Report 2021

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Message from the Chairman of the Board of Directors

Aristides Royo Sánchez

Minister for Canal Affairs and
Chairman of the Board of Directors

Fiscal year 2021 concluded with a record for the Panama Canal in tons transited through the waterway and, as a result, there was a greater direct contribution to the National Treasury. Unlike fiscal year 2020, which was marked by the hardest phase of the covid-19 pandemic and the slowdown in the world economy, during 2021 the world inoculation campaign against the COVID-19 made it possible for economies to gradually reactivate, and with it, the movement of cargo through the interoceanic route.

Throughout this pandemic period, the Board of Directors has fulfilled the functions conferred by the Organic Law of the Panama Canal Authority (ACP) and, as a result of the extraordinary performance, we presented the Government with a B/.2.08 billion contribution.

Allow me to detail, in chronological order, some actions adopted during fiscal year 2021:

In February, the Board of Directors, which I have the honor to chair, approved the modification of the tariffs for transit reservations and other maritime services, which allowed the Canal to respond to the continuous changes in the market and better manage the capacity of the waterway in the face of growing demand.

Likewise, in the middle of the year we authorized the Administration to reformulate the tender for the design, construction, and implementation of the optimized water management system, after accepting the suggestions of the companies that participated in the prequalification process.

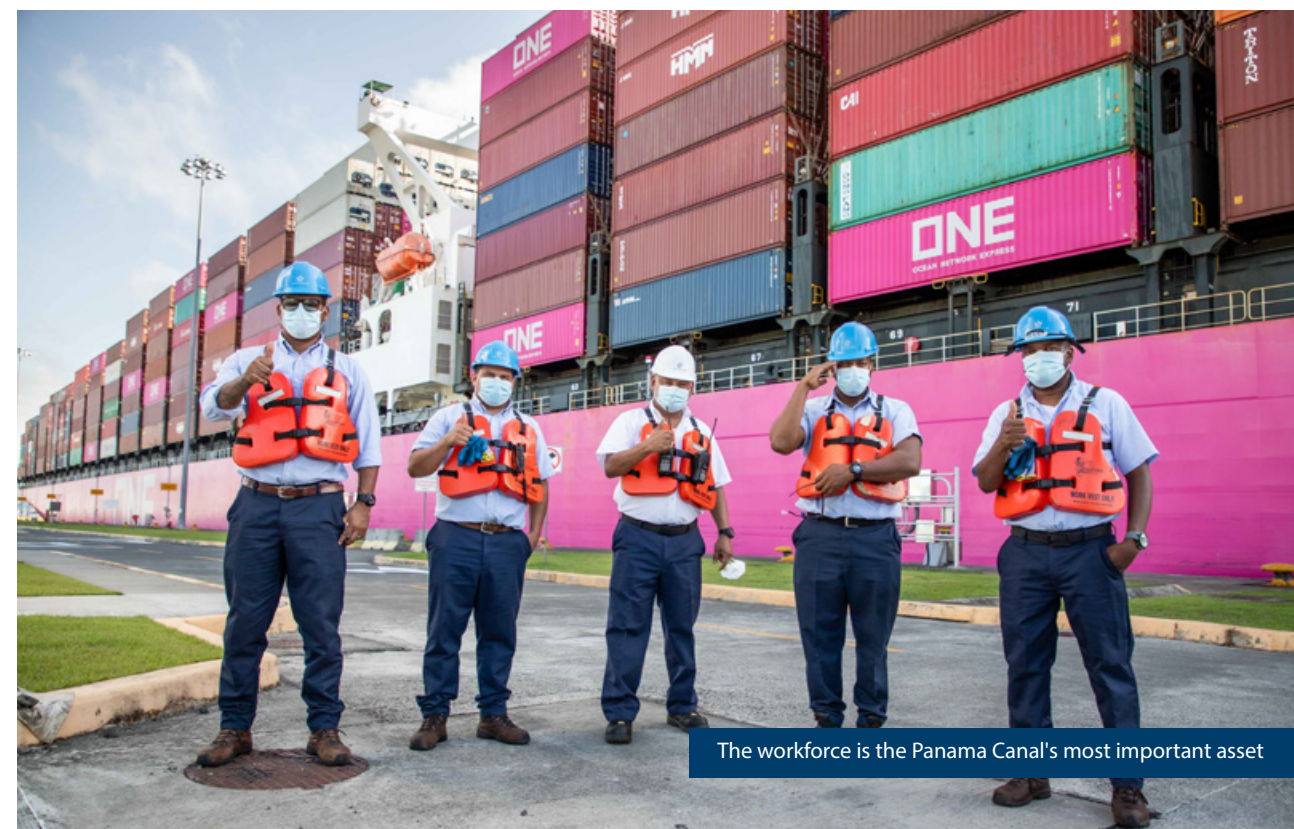


In this sense, the prequalification process was canceled, and the interested parties were informed of the reassessment of the terms and conditions of the project to ensure the broadest competition in a future process.

Under the new scheme, the Panama Canal will provide interested parties with a conceptual design of the system, to reduce the level of risk, improve cost estimates and facilitate the technical evaluation of proposals.

This Water Program consists of a portfolio of projects that will provide a water supply solution for more than half of the country's population, concentrated in the provinces of Panama, Colon and West Panama, as well as for the operation of the Canal.

Likewise, in July, the Board of Directors approved the budget for fiscal year 2022, which I presented for the consideration of the Cabinet Council which, after its approval, sent it to the National Assembly for approval in three debates.



The workforce is the Panama Canal's most important asset

This budget estimates revenues for B/.4.21 billion and contributions to the National Treasury in the order of B/.2.49 billion, based on the expectation that the Panama Canal will handle 536.6 million PC/UMS tons (Panama Canal Universal Measurement System).

This scenario allows us to move towards the future better prepared and, furthermore, it is an opportunity for the Canal Administration to advance in its commitment to sustainability. The foregoing consists of accelerating the decarbonization of maritime transport and achieving carbon neutrality in the operation of the waterway by the year 2030. To this end, around B/.2.4 billion will be invested in equipment and the modernization of infrastructure.

Regarding the pandemic, the Board of Directors strongly supports all the actions that the Administration has implemented to maintain the biosafety measures recommended by the World Health Organization

(WHO) in close coordination with the Ministry of Health (MINSA), which has allowed us to control contagion levels through from the vaccination of our workforce and ensure the health of our clients' crews.

The results of this fiscal year 2021 keep us optimistic in the face of the challenges that the Panama Canal has ahead, supported, mainly, on the most valuable resource of this great organization: the almost 9,000 employees, men and women who fill Panama Canal with pride.

Members of the Board of Directors



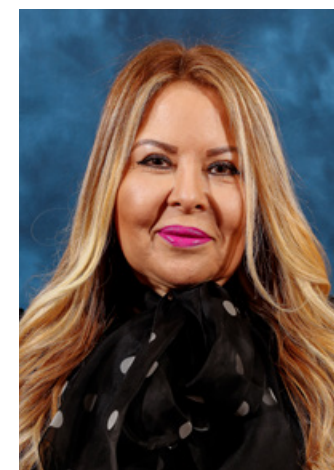
Aristides Royo Sánchez
Chairman of the Board of Directors



Roberto Ábrego
Director



Ricardo Manuel Arango
Director



Lourdes del Carmen Castillo
Director



Jorge L. González
Director



Nicolás González Revilla
Director



Henri M. Mizrachi K.
Director



Óscar Ramírez
Director



Enrique Sánchez Salmon
Director



Francisco Sierra Fábrega
Director



Alberto Vallarino Clément
Director

Message from the Administrator

Ricaurte (Catín) Vásquez Morales

Administrator
Panama Canal



The Panama Canal continues to adapt its operations to meet the challenges of global maritime trade. In fiscal year 2021, our capacity to meet demand was demonstrated when we surpassed the barrier of 500 million Panama Canal tons (PC/UMS). This milestone happened sooner than estimated in the Panama Canal Expansion Master Plan, which was presented to the Panamanian population and our customers in April 2006. The Canal's resolve to achieve its objectives while ensuring the waterway's long-term sustainability was demonstrated for the benefit of our country and its customers.

Favorable operating and financial results reflect the effort and commitment of the nearly 9,000 Canal employees, who every day work diligently to continue facilitating the global transportation of raw materials and manufactured products.

Throughout the fiscal year, we maintained an uninterrupted service, implementing the necessary measures to prevent the spread of COVID-19 within our team while safeguarding the health and well-being of our customers' crews. We vaccinated our workforce in our facilities. In addition, together with the Panamanian ports, we offered our support to the World Economic Forum (WEF) and the United Nations Children's Fund (UNICEF) Charter to facilitate COVID-19 vaccine transportation and distribution.

With regards to Canal operations, we modified our transit reservation system, adding flexibility, by offering an extra auction slot at the Neopanamax Locks, when the vessel mix and operating conditions allow it. Tariffs for reservations and other maritime services (OMS)

were adjusted to reflect the value of the service and the certainty that booking slots offer to shipping companies and cargo owners.

We took the first steps towards a change in our pricing policy, which will be implemented gradually over the years. This will provide our customers with enough time to adapt, while offering predictability over long periods. We initiated conversations with the main maritime associations and Canal customers to share our long-term vision, and we invited them to participate in discussions regarding the new pricing structure.

We began by simplifying the structure for the passenger segment. We changed the billing unit on a per berth basis and established the tolls for all passenger vessels based on PC/UMS tons.

In the future, we plan to modify other market segment structures, reducing the number of tariffs from 430 to 60. We will introduce a fixed component related to the lock and vessel size independent of the market segment, a variable component based on vessel capacity, and a component applicable to OMS that will respond to fluctuations in demand, using a dynamic pricing scheme. This last component will be based on

the concepts applied in the implementation of the freshwater surcharge for which, visibility is offered online to customers for the next two months. In the coming years, the structure will consider the vessel's capacity to reduce its carbon footprint, considering elements such as the ship's maneuverability and technology. The latter will facilitate optimizing transit programming through the exchange of digital information with customers.

The Panama Canal closed fiscal year 2021 with records across segments. For instance, liquefied natural gas (LNG) carriers registered a 31.4% increase in tonnage, representing the largest gain across all segments. In addition, the Canal facilitated the transit of 58 LNG carriers through the Neopanamax Locks during the month of January, in the middle of the high season for traffic through the waterway. We operated successfully in an extremely volatile environment characterized by supply chain disruptions, an unexpected increase in demand for consumer goods, high freight rates, abrupt changes in energy demand, and temporary factory and port closures due to the pandemic.

In terms of water, thanks to the rainfall pattern and proper water management, we were able to offer a 50-foot draft, the highest allowed in the Neopanamax Locks, during nine of the 12 months of fiscal year 2021, and 48 feet and more for the remaining months.

In response to the comments of those interested in participating in the bid for the water projects, we reformulated the contracting scheme to reduce risk and offer a clear definition of the projects to be executed. The investment cost is estimated at B/.1.9 billion.

In addition, we announced our goal to achieve carbon neutrality by 2030. We will invest B/.2.4 billion in projects that range from the generation of electricity through renewable sources, to the migration of the fleet to electric vehicles and hybrid tugs.

Our investment program also incorporates B/.2.8 billion in maintenance --considering the need to keep the Panamax Locks functioning properly--, and B/.500 million in digital transformation.

We undertook programs aimed at sustainable development, to guarantee the long-term sustainability of the business and its contributions to the country. We paid special attention to the Canal Watershed, which supplies drinking water to the cities of Panama and Colon and for Canal operations. In this regard, we executed reforestation and environmental education programs for the local communities in the area. With the support of our workforce, we carried out actions in matters of corporate social responsibility, as well as in the areas of environmental, operational and community development.

As for financial performance, we had total revenues of B/.3.95 billion, 15% more than the previous fiscal year. Net profit was 54 cents for each balboa of revenue. Direct contributions to the National Treasury totaled nearly B/.2.08 billion, which is estimated to represent 4% of the nation's gross domestic product (GDP).

Our solid financial performance is proof of our commitment to transparency and accountability, as well as our management model that guarantees the Canal's profitability and its continuous contributions to the country's development.

All our efforts this fiscal year were possible thanks to our committed workforce's outstanding performance, which inspires a country that responds to challenges, demonstrating to the world the Canal's leadership as a key link in the global supply chain.

Executive Management Team



Ricaurte Vásquez Morales
Administrator



Annette Sayavedra de López
Vice Presidency for
Human Capital



Agenor Correa
Vice Presidency for
General Counsel



Salvatore Bacile
Vice Presidency for
Corporate Affairs



Miguel Lorenzo
Vice Presidency for
Infrastructure and
Engineering



Marianela Dengo de de Obaldía
Vice Presidency for Communication
and Corporate Image



Ilya Espino de Marotta
Deputy Administrator and
Vice Presidency for Operations



Daniel Muschett
Vice Presidency for
Water Resources
Management



John Langman
Vice Presidency for
Water Projects



Lucy Carrizo de Pagés
Vice Presidency for
Strategic Planning



Víctor Vial
Vice Presidency for
Finance



Antonio Córdoba
Vice Presidency for
Digital Transformation

**Executive Management Team for fiscal year 2021
(October 1, 2020 to September 30, 2021).*

Advisory Board

The Advisory Board provides guidance to the Panama Canal Board of Directors and senior management in decision-making matters related to the international public service provided by the Canal, as well as its needs, requirements, and improvements; in compliance with the Political Constitution of the Republic of Panama, the Panama Canal Organic Law and its regulations.

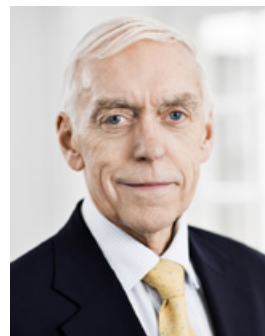
This Board constitutes a forum of renowned leaders from the international community, who contribute with their opinions and experience to the design and improvement of the plans developed by the Administration for the best future of the Canal. The Advisory Board is made up of personalities from the maritime and business world who meet at the call of the Board of Directors.

Its members are: the honorable Admiral William J. Flanagan (Chairman), Flemming Jacobs, Salvador Jurado, Gerhard Kurz, Andrónico Luksic Craig, Richard Gabrielson, Albert Nahmad, Joe Reeder, Mikio Sasaki, Tommy Thomsen, Chee-Chen Tung, Wang Haimin, Hani Mahmassani, Patrick Murphy, Mario Maffei, and Anthony Chiarello.

During the fiscal year 2021, the Advisory Board had permanent communication and advised the Panama Canal administration on issues related to the transit of ships, market segments, operation and maintenance of the waterway, as well as biosecurity measures resulting from COVID-19.



Almirante William J. Flanagan
(presidente)



Flemming Jacobs



Salvador Jurado



Gerhard Kurz



Andrónico Luksic Craig



Richard Gabrielson



Albert Nahmad



Tommy Thomsen



Hani Mahmassani



Anthony Chiarello



Joe Reeder



Chee-Chen Tung



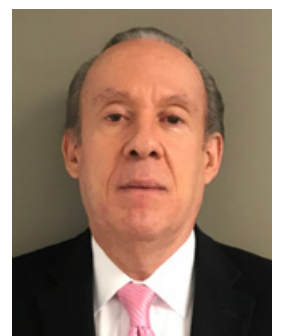
Patrick Murphy



Mikio Sasaki



Wang Haimin



Mario Maffei



The Panama Canal mourns the passing of one of the members of the Advisory Board, **Mr. Phillippos A. Embiricos**, who contributed, from 1999 until his death, with important recommendations for the development of the waterway. Mr. Embiricos was a prominent businessman, leader of maritime organizations, and author of several works related to the Canal, including *The Panama Canal and Its Expansion* (2006), and *A Water Bridge over the Mountains: An Engineering Perspective on the Panama Canal* (2020).

The Canal and the World



The main Panama Canal trade routes (by tonnage) in fiscal year 2021 included:

- U.S. East Coast - Asia
- U.S. East Coast - West Coast of South America
- West Coast of South America - Europe
- Intercostal South America
- East Coast of South America - Asia



Nearly 3% of global maritime trade transits through the Panama Canal.



The Panama Canal serves 180 routes linking 1,920 ports worldwide across 170 countries.

Strategic Focus

Vision

Global connectivity leader and driver of Panama's progress.

Mission

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

Strategic Objectives



Objective 1

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



Objective 2

Diversify revenues through strategic businesses.



Objective 3

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



Objective 4

Strengthen customer relations and business intelligence.



Objective 5

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



Objective 6

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



Objective 7

Transform the organization by developing its capabilities and competencies.



Objective 8

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

Values

Transparency • Reliability • Responsibility • Honesty • Loyalty • Competitiveness



Annual Key Figures FY-2021

- PC/UMS tons: 516.7 million
- Transits: 13,342
- Total revenues: B/.3.95 billion
- Workforce: 8,958 employees
- Direct contributions to the National Treasury: B/.2.08 billion
- Total contribution to the national economy: B/. 3.14 billion

Investments until 2030:

- Carbon neutrality: B/.2.40 billion
- Maintenance: B/.2.80 billion
- Digital transformation: B/.500 million
- Water Program: B/.1.90 billion



Human Capital

Workforce Indicators

Staffing

8,958 employees
46 years - average age

Diversity and Gender

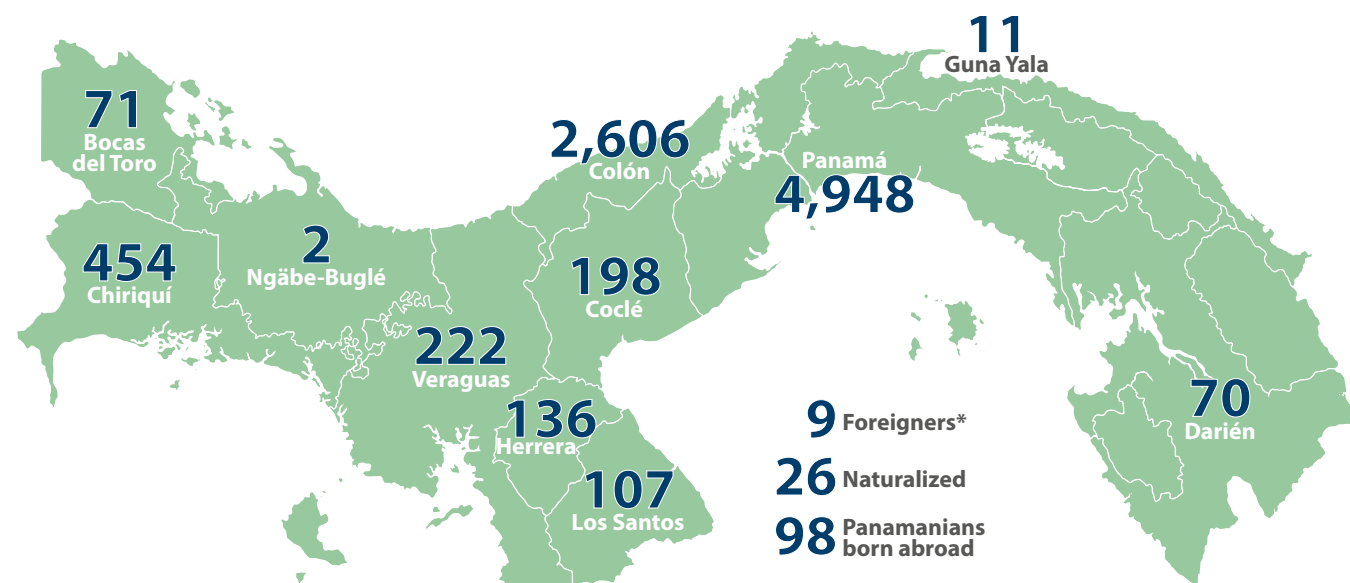
1,037
(12 %)  7,921
(88 %) 

The Panama Canal's most important asset is its people. Employees with ample knowledge and expertise contribute with the administration, operation, and maintenance of the waterway while ensuring a legacy for present and future generations.



Collaborator receives COVID-19 vaccine dose

Employees by province or place of origin



*Permanent employees hired prior to December 31st 1999 with the right to continue working according to legal provision.

Actions to Face the Pandemic

Since the beginning of the COVID-19 pandemic, the Panama Canal adopted strict sanitary measures to protect the health and life of its workforce, contractors, and the crews of the ships that transit the waterway.

With the creation of the COVID Management Center, which serves as a liaison between the Ministry of Health of Panama and the Canal's workforce, it was guaranteed that the updates of the sanitary processes, the comprehensive follow-up of positive COVID-19 cases, as well as the traceability of direct contacts in the facilities of our organization, were carried out promptly and in real-time. In addition, the application of the first and second doses of the Pfizer COVID-19 vaccine over a 70-day period in operational areas was coordinated with the Ministry of Health.

During fiscal year 2021, the Panama Canal reviewed and updated three COVID-19 management protocols, according to information validated by the Ministry of Health. Consequently, the Canal has used all its internal communication tools to keep its workforce informed about the pandemic and health and safety measures.

In addition, medicines and supplies were distributed to employees who were hospitalized in public health institutions, psychological help was provided for workers and family members affected by the disease, as well as medical care and follow-up for positive workers who were in home isolation as additional support through Panama Canal's corporate insurance.

With regards to COVID-19 tests for the detection and treatment of the coronavirus, medical evaluations were carried out on more than 2,100 employees diagnosed with COVID-19 (or close contacts of positive cases) to return to work safely. This required the administration and evaluation of more than 3,300 qualitative and quantitative serological tests and more than 560 PCR tests to diagnose the disease.

Fiscal Year 2021 Results



Number of COVID-19 Positive Employees: 1,328



Number of Employees Vaccinated:

- First Dose: 7,142
- Second Dose: 6,648

Multilateral Cooperation

As part of the global effort to achieve an inclusive, safe, and sustainable distribution of COVID-19 vaccines and related supplies, in December 2020, Panama Canal Administrator Ricaurte Vásquez Morales accepted an invitation from the World Economic Forum's Supply Chain & Transport Industry Action Group (SCT).

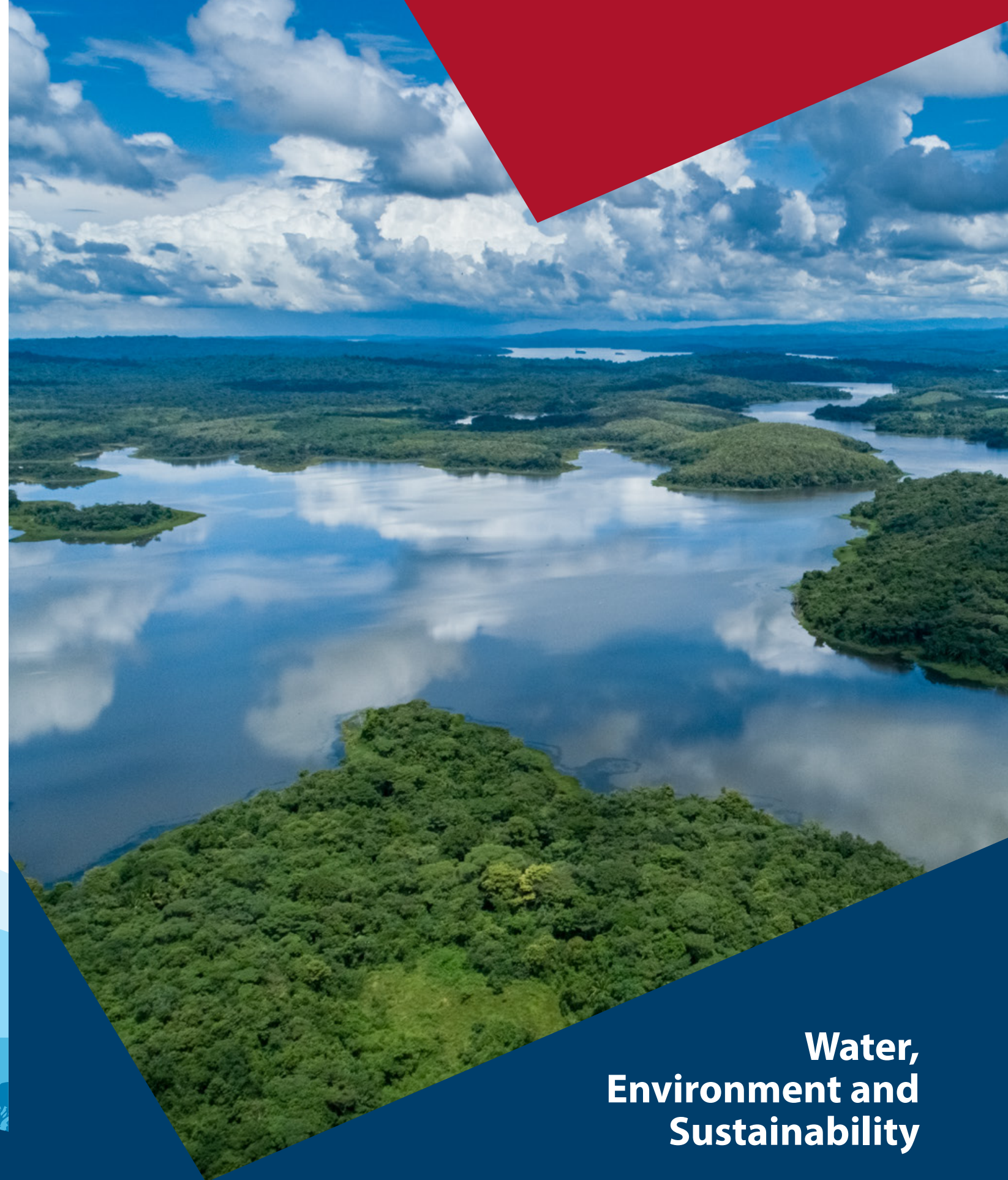
The initiative was led by the United Nations Children's Fund (UNICEF) and, as a result, the Panama Canal and 18 companies from the transport industry joined the cause. This action strengthened the commitment of the transportation industry to unite the public and private sectors with the planning and preparation efforts for the

distribution of COVID19 vaccines, as well as the role of the waterway as a facilitator in the international logistics sector.

By January and February 2021, the Panama Canal signed memorandums of understanding with the Panama Ports Company (PPC), PSA Panama International Terminal (PSA Panama), Manzanillo International Terminal (MIT), and Colon Container Terminal (CCT) to help optimize supply routes for the distribution of the COVID-19 vaccines and medical supplies to Latin America.



**Water,
Environment and
Sustainability**

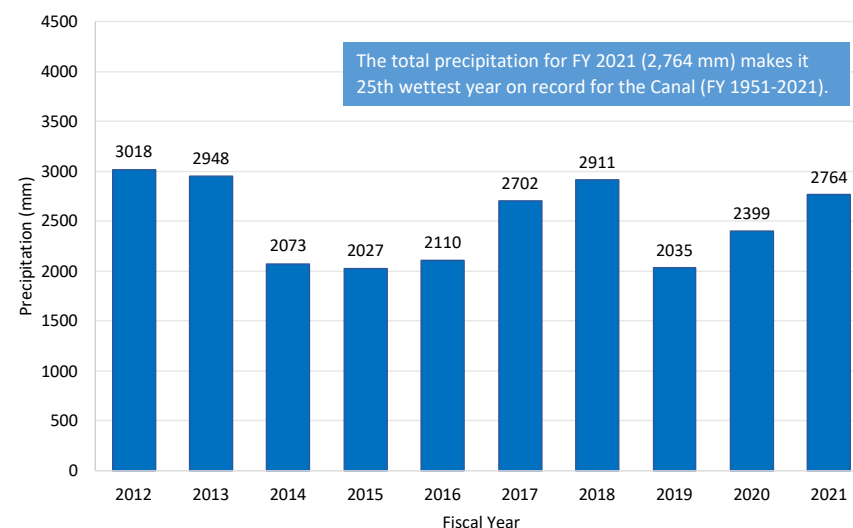


Quality, Cuantity and Water Control

Water is a finite natural resource, requiring efficient and sustainable use. The Panama Canal lakes supply the water consumed by half of the country's population and the operation of the waterway. However, in recent years, climate change has impacted the water resources availability. This has led the Canal to implement conservation measures, as well as a freshwater surcharge related to Gatun Lake's levels, consisting of a fixed and variable fee. The higher the lake level, the lower the variable percentage, and vice versa.

Due to increased rainfall and effective water management in the Gatun and Alhajuela reservoirs, the Canal was able to offer a 50-foot draft during nine months of fiscal year 2021, the highest allowed in the Neopanamax Locks. This allowed customers to transit carrying more cargo, maximizing the utilization of their fleet. Similarly, in fiscal year 2021, the freshwater surcharge for vessels during the dry season was significantly lower, as the variable percentage remained low compared to fiscal year 2020 during which the Canal faced a severe drought.

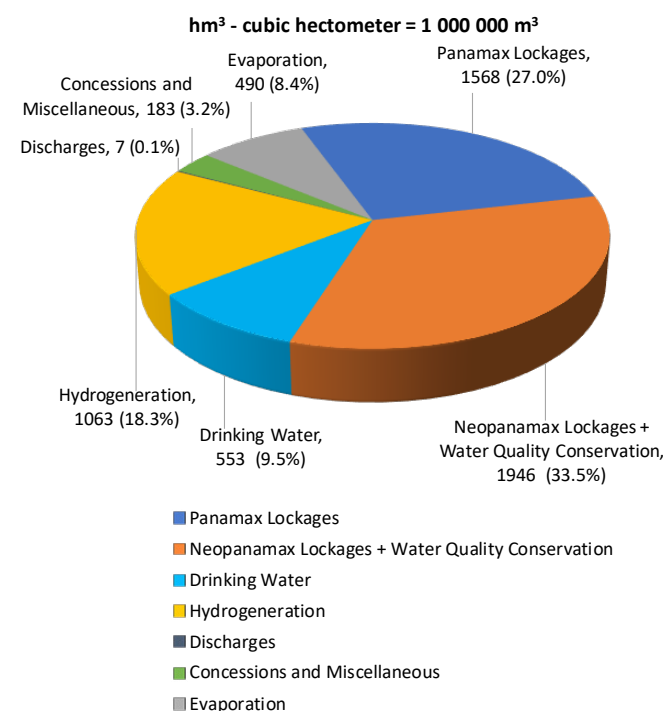
Graph 1. Precipitation by fiscal year from 2012 to 2021 in the Panama Canal Watershed



To ensure the quality of water from the Panama Canal Watershed for human consumption, 14,776 tests were performed at the 40 stations of the monitoring program, where 65 samples were collected monthly. A total of 454 Water Quality Index Calculations were made, 98% of which were of good to excellent quality, 2% of which were of average quality, and there were no results of poor or very poor quality. Additionally, biomonitoring has been integrated as a complement to river monitoring, using aquatic macroinvertebrates as biological indicators of water quality, such as *calamoceratidae*, *elmidae* and *tipulidae*.

During fiscal year 2021, specifications for the expansion of the Mendoza Water Treatment Plant from 40 mgd (million gallons per day) to 60 mgd were prepared, as established by the contract between the Panama Canal and the Institute of National Aqueducts and Sewers (known by its Spanish acronym IDAAN).

Graph 2. Water use distribution (5,810 hm³) of the Panama Canal Watershed for fiscal year 2021



The Canal is committed to promoting sustainable development in the communities of the Basin

Socio-environmental Management in the Panama Canal Watershed

The Panama Canal promotes programs focused on sustainable development to guarantee the long-term viability of the business and its contributions for the benefit of the country. For this reason, special attention is paid to the Canal Watershed, which supplies drinking water to the provinces of Panama, Colon, and Western Panama, as well as for the waterway's operation.

The following are the main programs executed during fiscal year 2021, as well as their results and scope:

Environmental Economic Incentives Program (PIEA)

Watershed communities play an important role in water conservation. The Panama Canal is committed to ensuring water availability and contributing to the development of these populations. For this reason, the Environmental Economic Incentives Program (known by its Spanish acronym PIEA), aims to protect water resources and improve the quality of life of the inhabitants. This is achieved by promoting the conservation of existing forest cover and appropriate land use. Through this program, the communities in this region participate in reforestation and environmental education projects.

Outstanding PIEA results for fiscal year 2021



206,675 seedlings planted in 677 hectares.



1,150 hectares incorporated in the forest protection payment modality.



Maintenance of **454.5** hectares reforested.



145,000 seedlings purchased from producers in the Watershed, boosting the local economy.



Program to Strengthen the Participatory Platform for Water Governance in the Panama Canal Watershed

More than 90 community leaders belonging to six Advisory Councils and 27 Local Committees were trained for the integrated management of water resources and the execution of action plans aimed at water conservation and sustainable development, benefiting more than 400 communities.



Strengthening of Social and Environmental Management in Riverside Communities

The Canal carries out communication and relationship building activities within the communities located on the shores of Gatun Lake, aimed at highlighting the importance of participating in the attention of social and environmental problems, as well as developing capacities in the formulation, monitoring, and overseeing of community investment projects.

This strengthening process is carried out through workshops with the participation of leaders of community-based organizations and the community in general, distributed in the province of Colon (municipalities of Limón, Nueva Providencia, Sabanitas, Ciricito, Escobal, and Cristobal), and the province of Western Panama (municipalities of Amador, Arosemena, Iturralde, La Represa and Mendoza). As of September 2021, six workshops were held benefiting 115 participants: three on citizen participation as an essential part of the decentralization of public management and three on the development of project profiles.



Youth Network for the Environment and the Canal Hydrographic Watershed

The group is made up of 120 young people between the ages of 15 and 30, who have a space for participation and empowerment in issues related to the protection and conservation of the water resources of the Canal Watershed, strengthening their leadership and promoting environmental activism. The participants come from different areas of the Watershed, such as Ciri Trinidad, Chilibre-Chilibrillo, Chagres- Alhajuela, and the Colon Transisthmian Corridor.

During fiscal year 2021, the group had the roundtable/ panel "Let's Talk about Water," with the participation of the Panama Canal Administrator. As a result, a proposal was made to improve access to higher education for young people in the Watershed. In addition, four online workshops related to the management of social networks and leadership were held, benefiting more than 60 participants. In addition, the group developed six environmental projects as part of the implementation of their five-year plan, which includes community clean-up days, reforestation programs, community beautification, recycling, and environmental education programs.

Participants of Youth Network for the Environment and the Canal Hydrographic Watershed



Solid Waste Management in Chilibre-Chilibrillo

The purpose of this program is to implement the Solid Waste Environmental Management Plan in the Chilibre-Chilibrillo region to promote collaborative work between the communities, the Municipality of Panama, the Chilibre Community Board, the Ministry of Education, the Ministry of Environment, and private businesses, and contribute to the improvement of the community's sanitary and environmental conditions and reduce solid waste contamination from rivers. The program has benefited 400 residents of the community.

The main achievements of this program include:

- Four collection days for disposed household goods or scrap.
- Transformation of three disposal dumps into community ecological gardens.
- Preparation of an educational manual for 13 schools.
- Development of an Integrated Solid Waste Management Plan.



Economic Potentials Program of the Panama Canal Watershed

The objective of this program is to promote socioeconomic and environmental development in rural areas of the Canal Watershed, through the implementation of green business models and the promotion of sustainable businesses among the inhabitants of the Canal Watershed.

During this fiscal year, the first fair of agricultural products of the Canal Watershed was held, generating economic benefits for producers. In addition, the new marketing network Agrocuena was created, benefiting more than 100 coffee producers and productive associations.



Land Registry and Titling Program

The Land Registry and Titling Program began in 2002, as part of the Panama Canal's commitment to regulate land tenure among the inhabitants of the Panama Canal Watershed.

By the end of fiscal year 2021, the following results were achieved:

- 12,471 hectares surveyed, reaching 53.52% of the total land to be titled in the Watershed.
- 993 properties surveyed.
- 514 land titles delivered and registered in the Public Registry.

With the implementation of this program, widely accepted by the communities of the Basin, legal certainty is granted to residents regarding land tenure, generating a window to new opportunities that drive the improvement of their quality of life.



Indicative Plan for Environmental Land Use Planning

In August 2021, the development of the Indicative Land Use Plan for the Panama Canal Watershed (known by its acronyms in Spanish PIOTA) began.

This is an initiative of the Panama Canal with the support of the Inter-American Development Bank (IDB), through Non-Reimbursable Technical Cooperation. The PIOTA is a planning instrument that will serve as the basis for water resources integrated management in the Canal Watershed, whose cross-cutting themes are water resources and decarbonization availability.

Watershed communities, institutions, municipalities' representatives, non-governmental organizations, and civil society, among others, participated in this effort and made important contributions to the construction of this guiding instrument.

Corporate Social Responsibility (CSR)



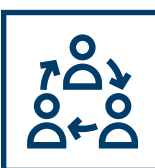
Employees and their dependents are part of the Panama Canal CSR team

In the area of social responsibility, the Panama Canal, in partnership with its workforce, non-governmental organizations and private companies, advanced initiatives that add competitiveness and sustainability to our organization for the benefit of society. These strategic actions are designed, executed and communicated in fundamental areas of CSR: human rights, labor practices, environment, fair operating practices, and community participation and development. The Panama Canal develops a policy aligned with the United Nations (UN) global efforts through the implementation of Sustainable Development Goals (SDGs).

Panama Canal's Corporate Volunteer Program Main Achievements



22 days of volunteering



22 alliances with other organizations for social responsibility projects



5,200 hours of work



More than 15,000 people benefited from this fiscal year's activities



4,008 volunteers enrolled in the program



205,800 volunteer hours have been accumulated since 2008

Latin American Citizen Action Laboratory 1.0 and 2.0

The Latin American Citizen Action Laboratory (known by its acronym in Spanish LLAC) is an initiative to train young people from all over the country in community action and leadership to face national challenges, as well as those of the Panama Canal. It was supported by partner organizations such as Banesco, Fundación Sus Buenos Vecinos, Sumarse, Jóvenes Unidos por la Educación, among others.

Participants were selected through a call for applications and a transparent evaluation process. The training was provided to 40 young graduates of LLAC 2019, providing them with additional tools to replicate and ensure the sustainability of their projects. A total of 150 young people were trained in the regular program to play leadership roles in the national agenda. In total, 190 young people from ten provinces and an indigenous territory were benefited.



Some participants of Latin American Citizen Action Laboratory

Social Support Campaigns

The contribution of Canal employees to the community is an element present every year in the Canal's social responsibility management. During this period, the program focused on a sector of society that lives in conditions of socio-economic vulnerability, supporting five shelters located in Panama, Western Panama and Colon: Hogar Divino Niño, Fundación Voces Vitales, Fundación Nutre Hogar, Hogar San José de Malambo and Albergue de María.

In November 2020, a donation campaign was carried out for flood victims through the Panamanian Red Cross. Products such as bottled water, milk in Tetra Pack and powdered milk, dry and canned food, disposable diapers, personal hygiene items, cleaning supplies, and blankets were collected in all operational areas of the interoceanic waterway. These donations were delivered at the headquarters of the Panamanian Red Cross in Albrook.



Household goods and food for social causes



Vessel transiting through the Culebra Cut

The Green Route: Towards a Sustainable Future

The Panama Canal is committed to reducing the maritime industry's carbon emissions, which is why it offers incentives and recognition to ships and shipping companies that use green technology. In addition, it makes investments to reduce the carbon footprint of its operations, as well as improvements to offer a competitive, safe, and reliable service. In addition, the Panama Canal evaluates and monitors the socio-environmental strategies, plans, regulations and practices of all the programs it develops, as well as projects executed by third parties in areas of its responsibility. This involves approximately 2,000 annual inspections that contribute to the fulfillment of its strategy as a Green Route.



20,000 tons of CO₂ reduced per sea route by slowing down ships for the protection of cetaceans.



The Panama Canal saves the planet more than 15 million metric tons of CO₂



35 % of transits with high environmental standards

The Green Connection Environmental Recognition Program is an environmental initiative to recognize customers who meet and exceed environmental standards established by the International Maritime Organization (IMO) and other globally recognized standards to help reduce greenhouse gas emissions.



1,600 vessels have participated in the Green Connection program

80 vessels received the Green Connection Award

150 vessels qualified for the Green Connection Environmental Recognition Program with high levels of design efficiency

Carbon Neutrality

In April 2021, the Canal expressed its commitment to adopt carbon neutrality by 2030. To meet this goal, the waterway has begun investing approximately B/.2.40 billion in the modernization of its equipment and infrastructure. Part of its strategic decarbonization plan calls for tugboats and launches to use alternative fuels, replace electricity production processes in favor of photovoltaic plants, use hydroelectric power, and ensure that all facilities and infrastructure projects are environmentally responsible and sustainable. This includes consolidating its facilities to minimize the impact of the carbon footprint caused by the mobilization and transfer of employees to multiple locations. In addition, as part of the Green Route strategy, new objectives such as research and development (R&D), human capital, and digital transformation are included.

In September 2021, the Panama Canal and more than 150 organizations in the maritime value chain signed the Call to Action for Shipping Decarbonization, urging world leaders to commit to decarbonizing international shipping by 2050, support industrial scale zero emission shipping projects through national action, and deliver the policy measures that will make zero emission shipping the default choice by 2030. The Canal will also establish a pricing strategy to promote the efficiency and low carbon emissions of ships transiting the waterway.

CO₂ Emissions Dashboard

In January 2021, the Canal announced the creation of the CO₂ Emissions Dashboard, which calculates the carbon dioxide (CO₂) emissions saved by ships that choose to transit the waterway over the most likely alternative route. These savings are equivalent to the greenhouse gas (GHG) emissions of 3.2 million sedan vehicles driven for one year, or the carbon absorbed by 248 million tree seedlings grown for ten years.

Water Program

As part of the Panama Canal's efforts to ensure water supply in the quantity and quality required for the population and operation of the Canal for the coming decades, the bidding model for the water program was reformulated in response to suggestions from companies interested in the pre-qualification process for the design, construction, and start-up of an optimized water management system.

For this reason, the original pre-qualification process was canceled and interested parties were informed of the reevaluation of the terms and conditions of the project to ensure the broadest competition in an upcoming prequalification process.

Under the new scheme, the Panama Canal intends to provide interested parties with a conceptual design of the system to reduce the level of risk, improve cost estimates and facilitate the technical evaluation of the proposals.



The water program consists of a project portfolio that will provide a raw water supply solution for more than half of the country's population, concentrated in the provinces of Panama, Colon, and Western Panama, as well as for the operation of the Canal, considering sustainable development, climate scenarios and growth projections.



Water is an indispensable resource for the country and the Canal

Context in the World's Economy

The global economy began to grow in the first quarter of the fiscal year in line with the reopening of economies, the roll out of vaccination programs, and the success of government economic support. In the second quarter, high savings rates and limitations in services drove an increase in the demand for goods that negatively affected supply chains, generating port congestion, cargo transport capacity shortages, and, consequently, freight rate increments. There was also an increase in commodity prices, especially in energy, which triggered inflationary pressures. During the third quarter, developed economies managed to recover to 2019 levels, while emerging markets grew at a moderate pace.



Tugboat assists a vessel during a transit

The Canal and its Operations

The waterway registered 516.7 million Panama Canal tons (PC/UMS), coming in 8.7% higher compared to the 2020 fiscal year. Total toll revenues amounted to B/. 2.96 billion, an 11.5% increase over last year's figures.

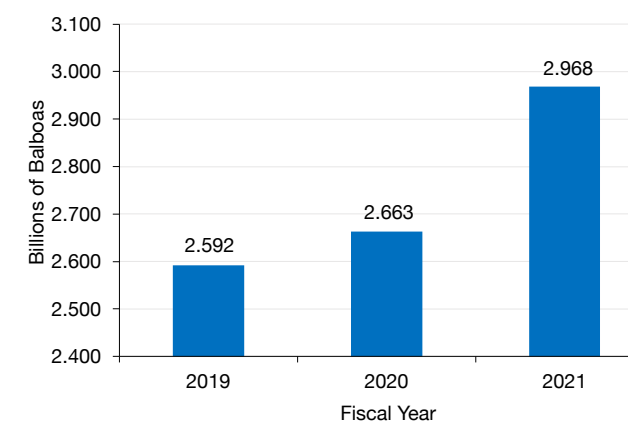
The increase in tonnage in the fiscal year was driven by the liquefied natural gas (LNG) segment, which registered an increase of 31.4% compared to fiscal year 2020, followed by liquefied petroleum gas (LPG)

with 18.4%, vehicle carriers with 15.6%, bulk carriers with 11.2%, and container ships with 10.8%.

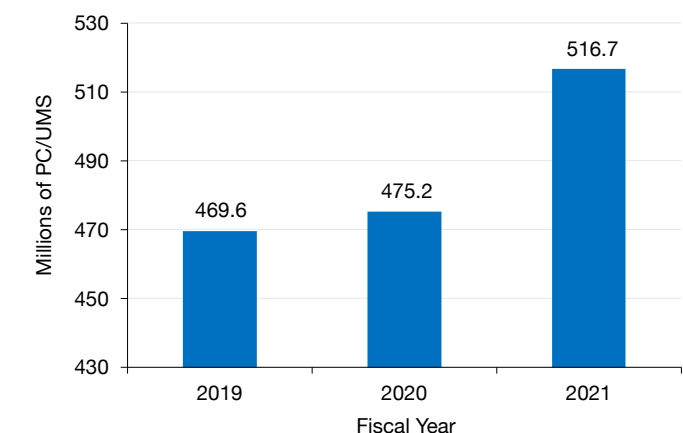
About 72% of the cargo that transits the Canal originates from or is destined to a port in the United States, mainly those on the East Coast. In addition, new markets, including LNG, and ports of destination have also benefited from the Canal and the impact of its expansion.

Operations Performance

Graph 3. Tolls

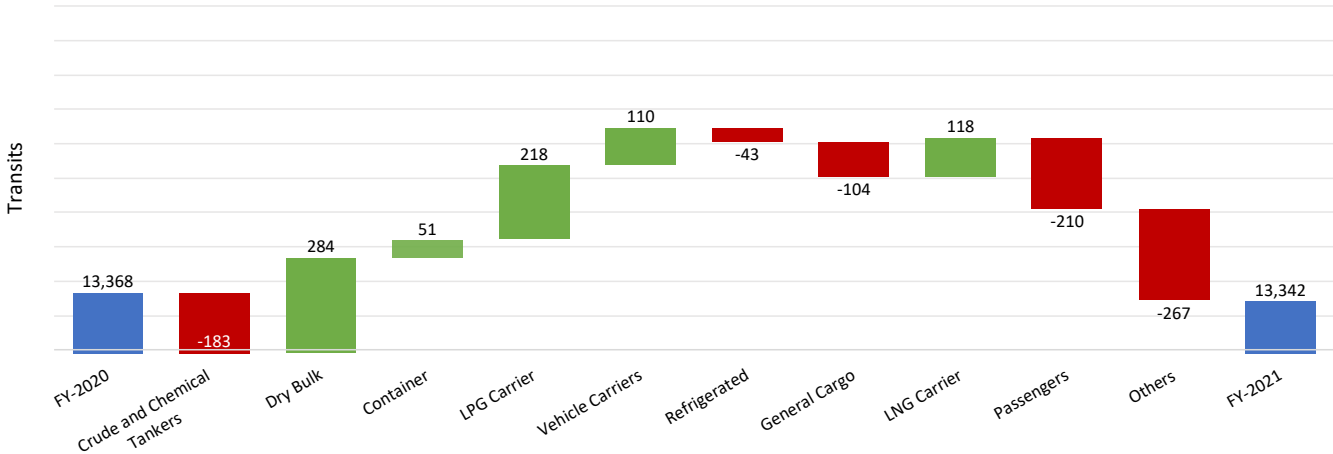


Graph 4. Vessel Tonnage



On the other hand, the migration of vessels to the Neopanamax Locks continued, as well as the tendency of shippers to consolidating cargo in larger vessels. For this reason, transits totaled 13,342, a decrease of 0.1% compared to the previous period. During fiscal year 2021, a higher number of transits of bulk carriers, liquefied petroleum gas (LPG), liquefied natural gas (LNG), vehicle carriers, and container ships were registered. In contrast, there were fewer transits of passengers vessels, tankers, general cargo, and refrigerated vessels.

Graph 5. Variation in the Number of Transits by Market Segment FY-2021 vs FY-2020



Number of transits by market segment:

Graph 6. Transits by Market Segment

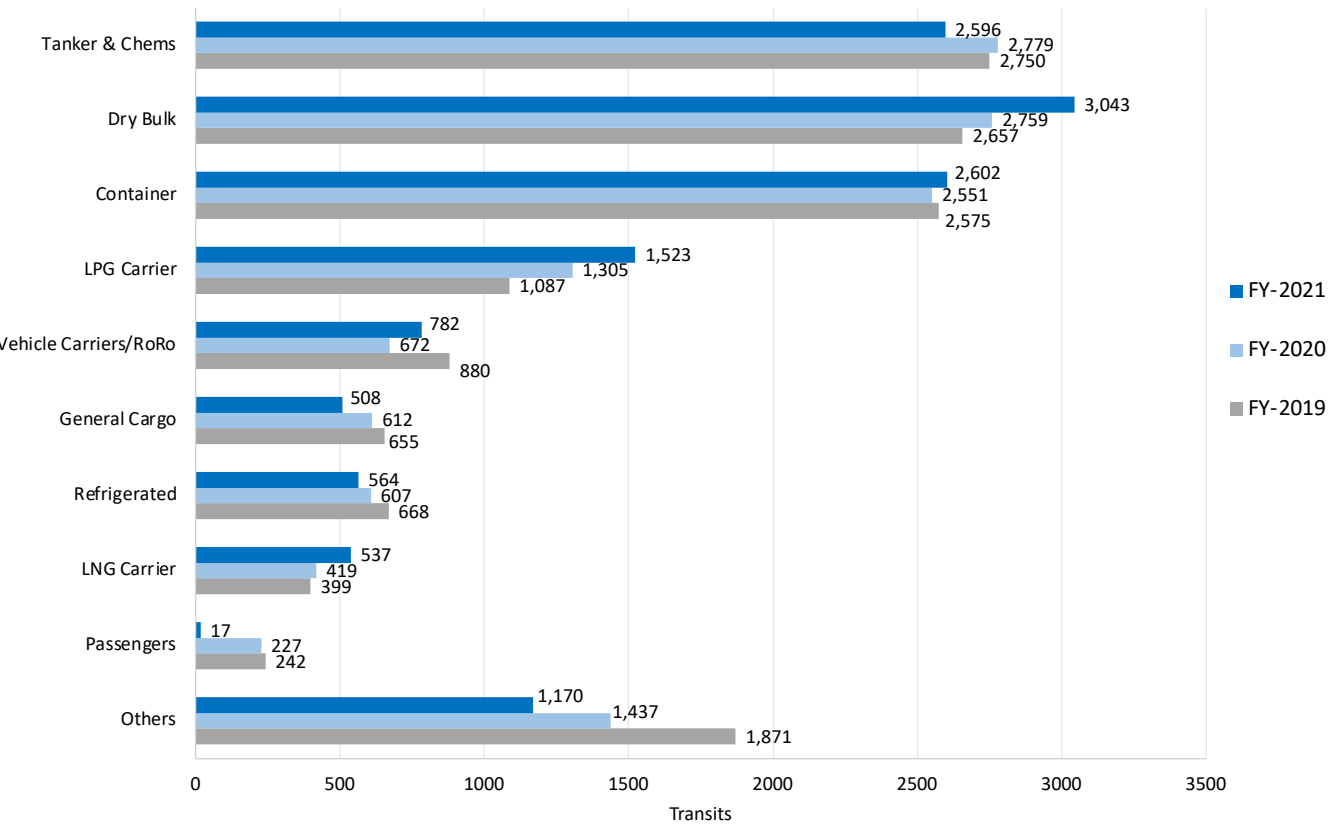


Table 1. Ranking of Countries by Origin and Destination of Cargo (Long Tons) FY-2021

	Country	Origin	Destination	Intercoastal	Total
1	United States	150,144,001	60,417,942	2,137,363	210,561,943
2	China	19,532,327	44,001,705	0	63,534,031
3	Japan	6,756,939	35,389,075	0	42,146,014
4	South Korea	9,531,942	19,617,272	0	29,149,215
5	Chile	10,912,761	16,931,683	0	27,844,443
6	Mexico	8,712,086	12,806,666	397,676	21,518,751
7	Peru	7,159,576	11,979,505	0	19,139,082
8	Colombia	9,770,082	6,889,216	414,943	16,659,299
9	Canada	12,441,447	2,365,987	114	14,807,434
10	Ecuador	6,042,168	6,995,061	0	13,037,230
11	Panama	1,811,931	10,468,634	83,052	12,280,565
12	Guatemala	1,525,827	6,940,382	0	8,466,209
13	Taiwan	2,339,026	4,113,062	0	6,452,088
14	Netherlands	1,787,179	3,252,427	0	5,039,606
15	Spain	2,387,433	2,213,386	0	4,600,818
16	Belgium	1,618,405	2,436,638	0	4,055,043
17	Brazil	2,563,099	983,711	0	3,546,811
18	Trinidad and Tobago	3,234,611	188,325	0	3,422,936
19	Rusia	2,068,258	1,353,076	27	3,421,334
20	Germany	1,424,024	1,928,253	0	3,352,278

Table 2. Main Commodities (Long Tons)

Commodity	FY-2020	FY-2021
Crude Petroleum	7,893,929	7,267,130
Petroleum products	75,306,348	80,642,880
Grains	30,593,806	44,308,040
Corn	7,539,513	9,625,617
Soybeans	9,257,946	17,164,407
Sorghum	6,247,708	7,172,037
Wheat	3,007,385	3,552,570
Grain, Misc	4,541,254	6,793,409
Coal and Coke (Excl. Petroleum Coke)	11,897,776	13,611,901
Container Cargo	56,955,940	62,161,560
Autos, trucks, accessories and parts	4,948,891	5,692,189
Canned and refrigerated foods	1,708,080	1,727,891
Nitrates, phosphates and potash	9,476,363	9,845,160
Lumber and products	2,740,163	2,443,783
Manufactures of iron and steel	5,116,800	7,675,664
Chemicals and petroleum chemicals	16,013,034	16,188,104
Ores and Metals	9,355,556	10,227,762
Subtotal	232,006,686	261,792,064
Others	23,731,933	25,701,797
Total	255,738,621	287,493,860



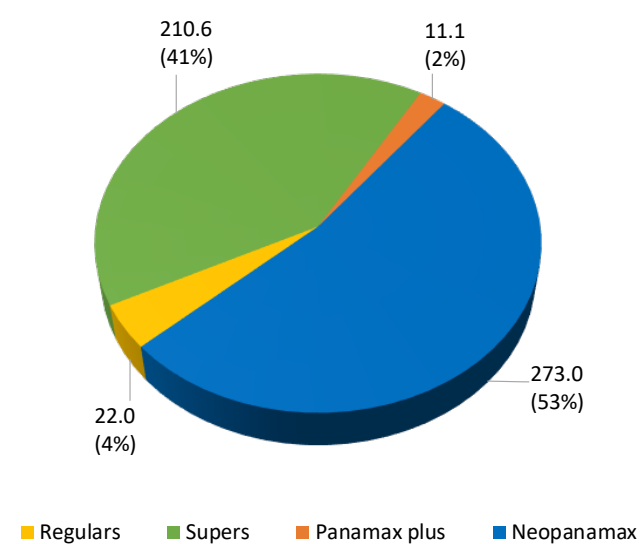
Container ship in transit through the Canal



A linehandler team in the Neopanamax Locks

Of the total 516.7 million PC/UMS tons transited, 53% transited on Neopanamax vessels; 41% on super-size vessels; 4% on regular-size vessels, and 2% on Panamax Plus vessels.

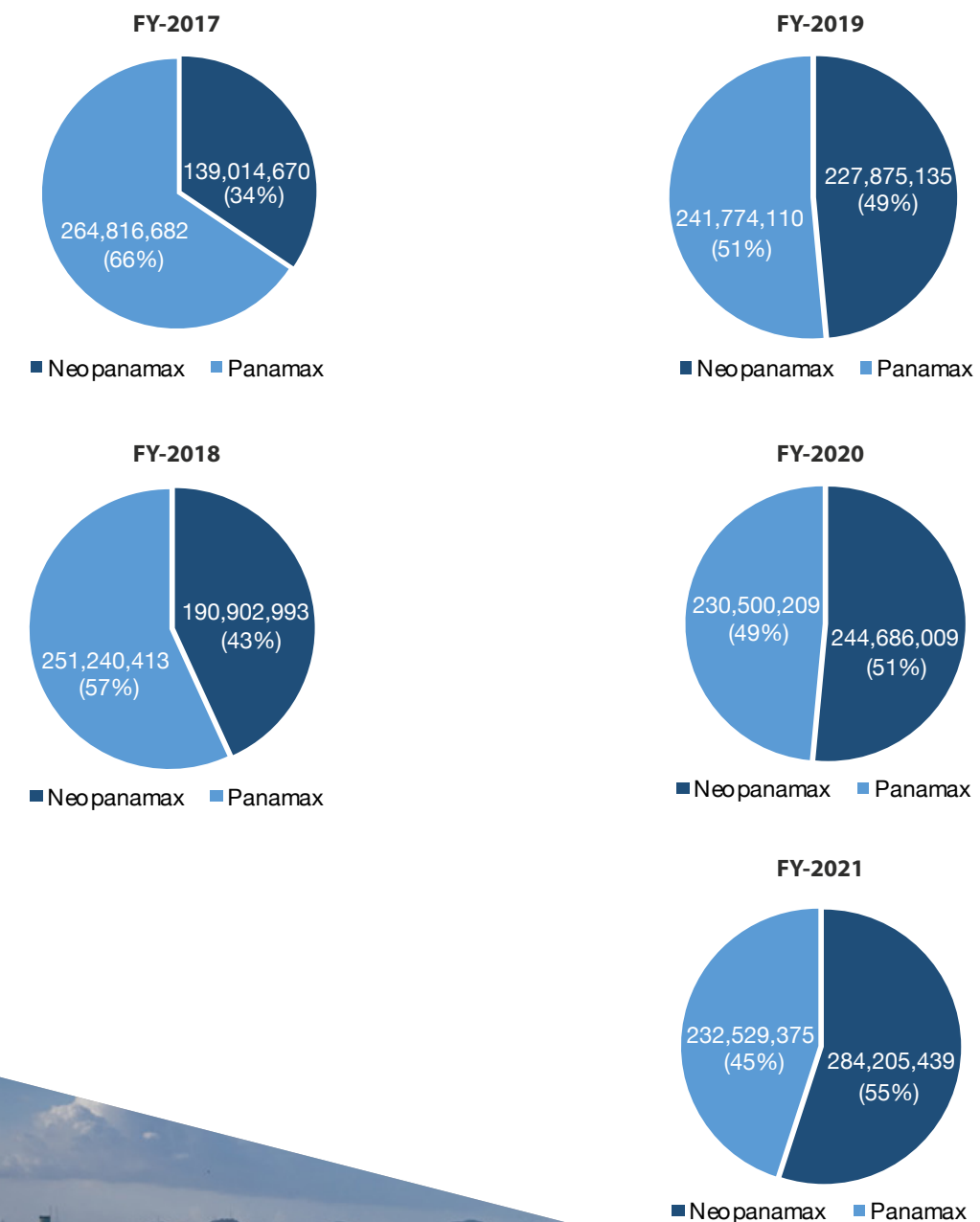
Graph 7. PC/UMS Tons per Vessel Size (Million)



Records:

- The barrier of 500 million PC/UMS tons was exceeded for the first time, reaching a total of 516.7 million tons.
- Increase in the length allowed in the Neopanamax Locks, from 367.28 meters (1,205 feet) to 370.33 meters (1,215 feet).
- In January 2021, 58 LNG carriers transited and 6.74 million PC/UMS tons were handled, during the high season for this segment, demonstrating the Canal's ability to serve demand.

Graph 8. PC/UMS Tonnage Evolution by Locks (FY-2017 - FY-2021)



Vessel in southbound transit through Cocoli Locks

Implementation of Changes to Better Respond to Demand and Add Flexibility

In February 2021, the Panama Canal announced modifications to its reservation system and other maritime services to expedite its response to demand and manage its plant and equipment capacity better. The initial implementation date for the modifications was set for April 15. However, in consideration of customer and maritime industry associations requests, it was postponed until June 1, to give them more time to adjust to the changes.

The changes included adjustments to the reservation system to reflect the value of the service for those customers who require transit certainty and opt for

a reservation slot. The reservation system allows customers to transit on a specific day, for an additional fee, guaranteeing their transit on a specific date.

In addition, as of April, the availability of an auction slot in the Neopanamax Locks was included, depending on the vessel mix and other factors. Vessels in the LPG, LNG, dry bulk and Panamax plus segments benefit the most from the auctioned slot availability.



Container ship makes an overnight transit through the Neopanamax Locks

Modification to the Passenger Vessel Toll Structure

In September 2021, the Panama Canal published a proposal to modify the toll structure and admeasurement rules applicable to passenger vessels, with the purposed of implementing and more standardized structure, and eliminate the billing unit on a per berth basis.

With the new structure, all passenger vessels will be charged based on PC/UMS capacity.



Passenger vessel in transit through Agua Clara Locks

Tourism Visitor Centers Reopen

After more than a year of being closed due to the COVID-19 pandemic, the Agua Clara Visitor Center reopened in May 2021 and the Miraflores Visitor Center in August 2021, serving both national and foreign visitors.

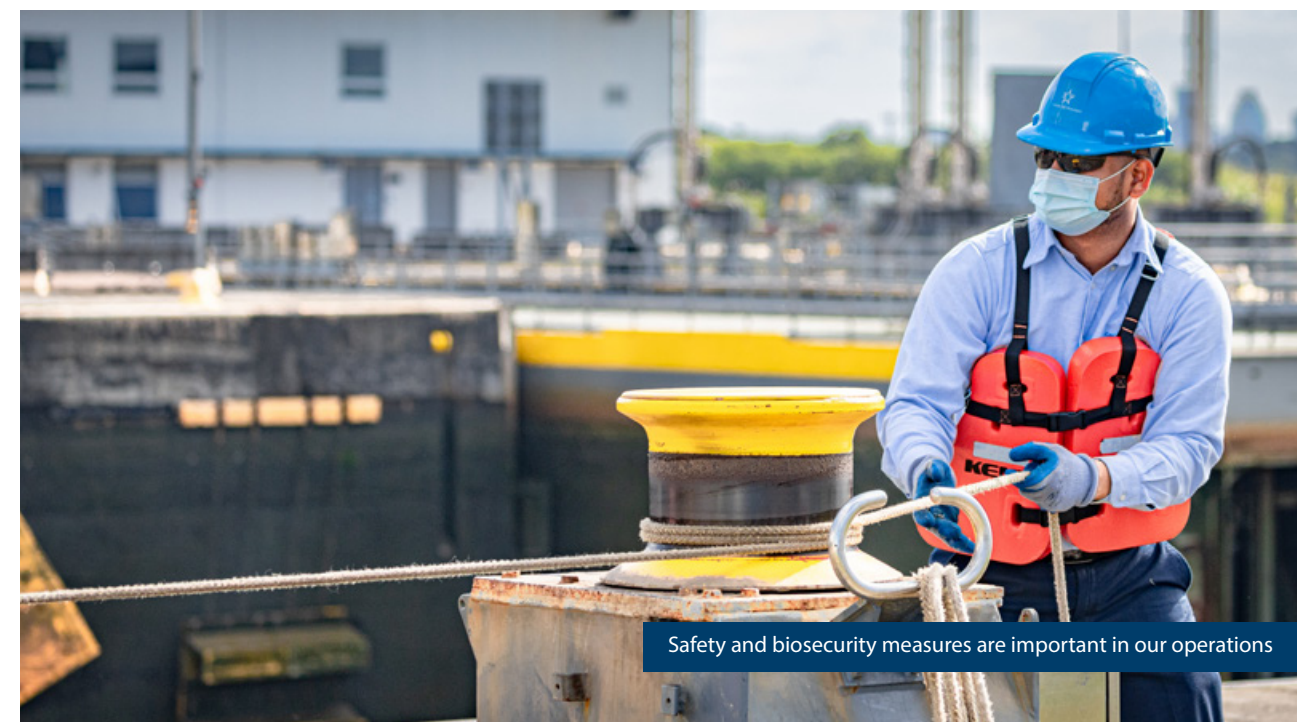
Both Centers comply with the safety and health requirements established by the Panama's Ministry of Health to avoid the spread of the virus, including social distancing, mandatory use of masks, the cleaning and nebulization of facilities, and handling smaller groups of 16 participants.



Visitors watching the transit of a Neopanamax vessel in Agua Clara Locks



Financial Performance



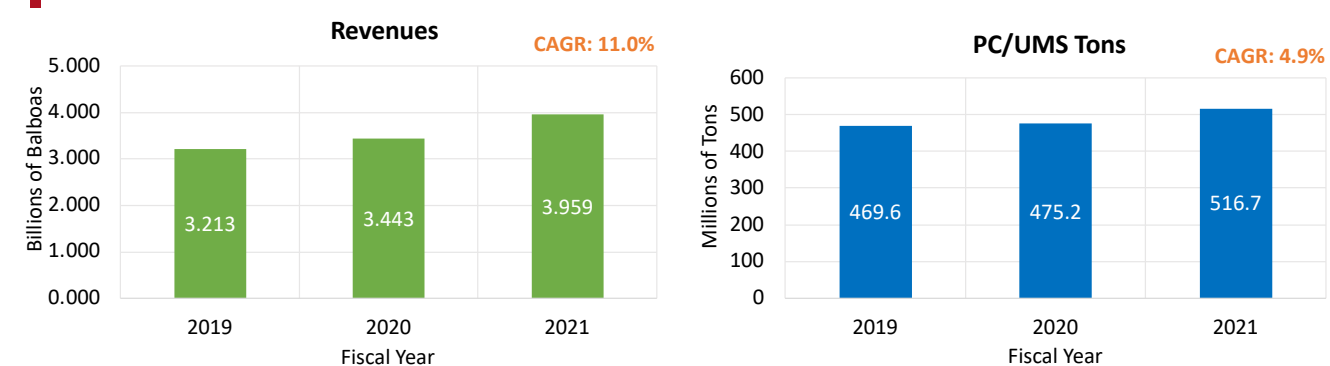
Fiscal year 2021 was another period with strong revenue growth, profitability margins efficiency and productivity increase, and low leverage. This growth and financial strength results are based on a conservative institutional framework oriented towards transparent, autonomous and prudent management, as well as uninterrupted yields sustainability with a long-term outlook.

The Canal concluded fiscal year 2021 with B/.3.95 billion in revenues, B/.516 million or 15.0% more than fiscal year 2020. Since fiscal year 2019, Canal revenues and tonnage increased at a compound annual growth rate

(CAGR)^[1] of 11.0 and 4.9%, respectively.

In fiscal year 2021, the second year of the COVID-19 pandemic crisis, the Panama Canal continued to take the necessary measures to provide a safe, reliable and uninterrupted service. The global economic recovery that began in late 2020, resulted in a greater demand for products and energy, increasing PC/UMS tons and consequently the up growth of toll revenues. Additionally, transit-related services charges adjustments contributed to increase total revenues.

Graph 9. Total Revenues and Tonnage of the Panama Canal

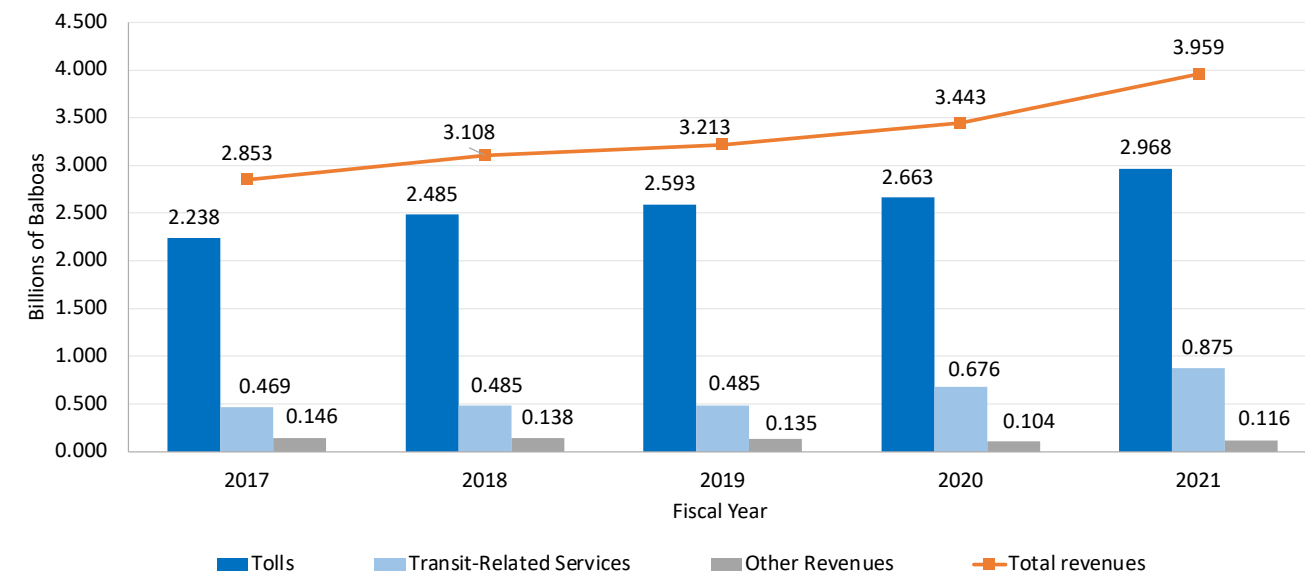


^[1] CAGR: is a measure used specifically in business and investing contexts that determines the growth rate over multiple time periods.

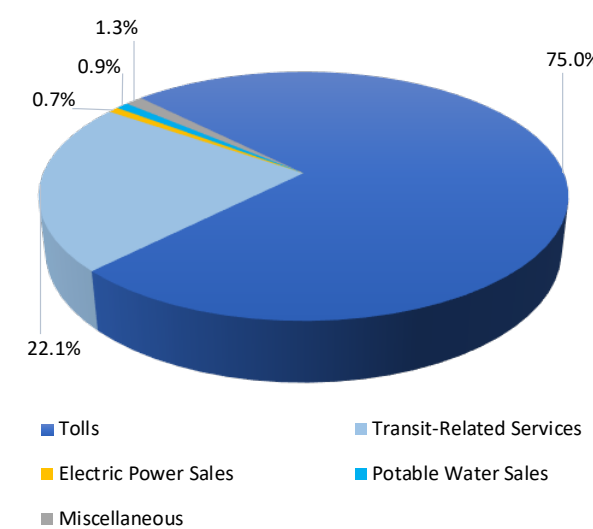
Statement of Financial Results

Revenues

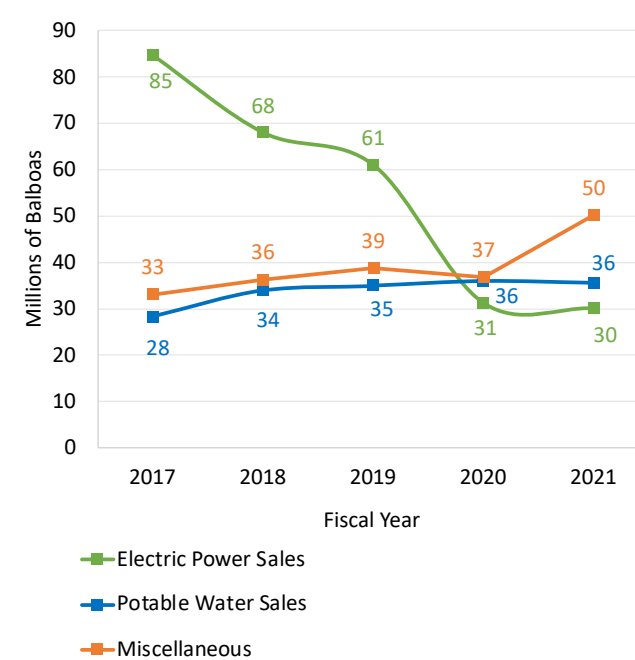
Graph 10. Total Revenues



Graph 11. Revenue Distribution FY-2021



Graph 12. Other Revenues

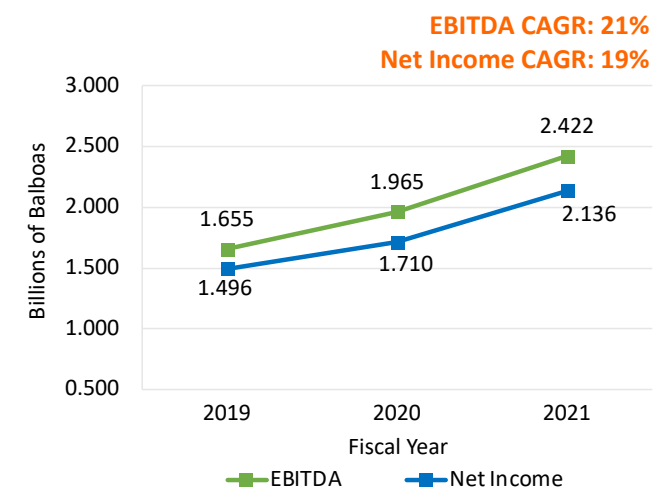


Expenses

At the end of fiscal year 2021, the Canal reported B/1.18 billion in operating expenses, representing 29.8% of total revenues. In addition, there was a 9.3% increase in fee per net ton, in line with the growth in transited tons. Compared to fiscal year 2020, operating expenses increased 1.6%.

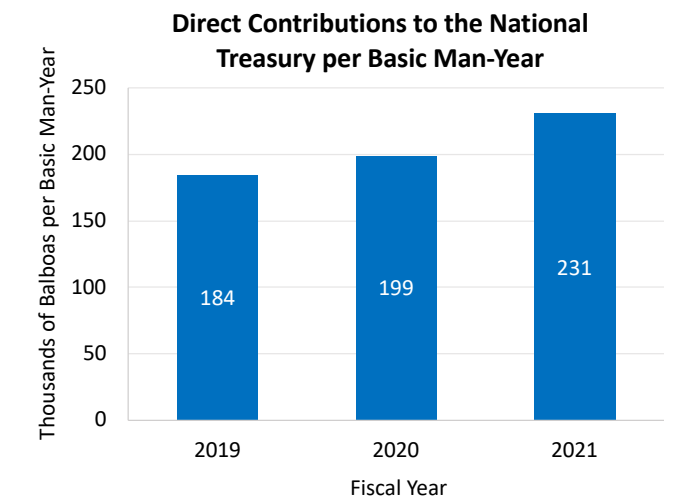
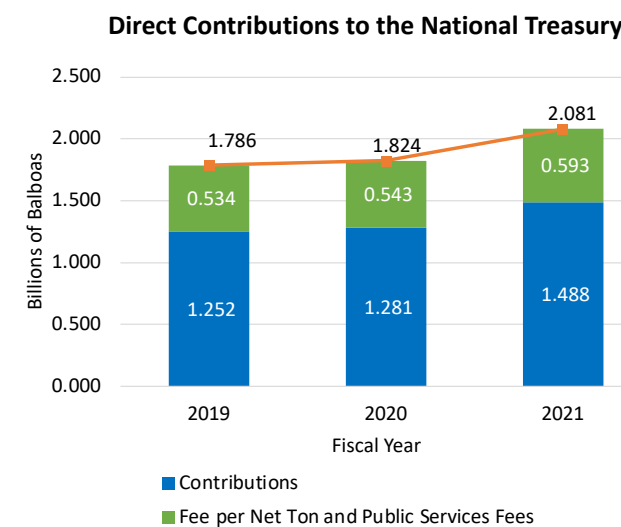
Net Earnings

Graph 13. EBITDA & Net Income Performance



Growth in Direct Contributions to the National Treasury

Graph 14. Direct Contributions to the National Treasury



Indirect Contributions to Other Public Entities

At the end of fiscal year 2021, indirect contributions to the National Treasury, through other public entities, reached B/.228 million. These contributions included B/.121 million, B/.95 million and B/.12 million in Social Security Fund, income tax and educational insurance tax, respectively.

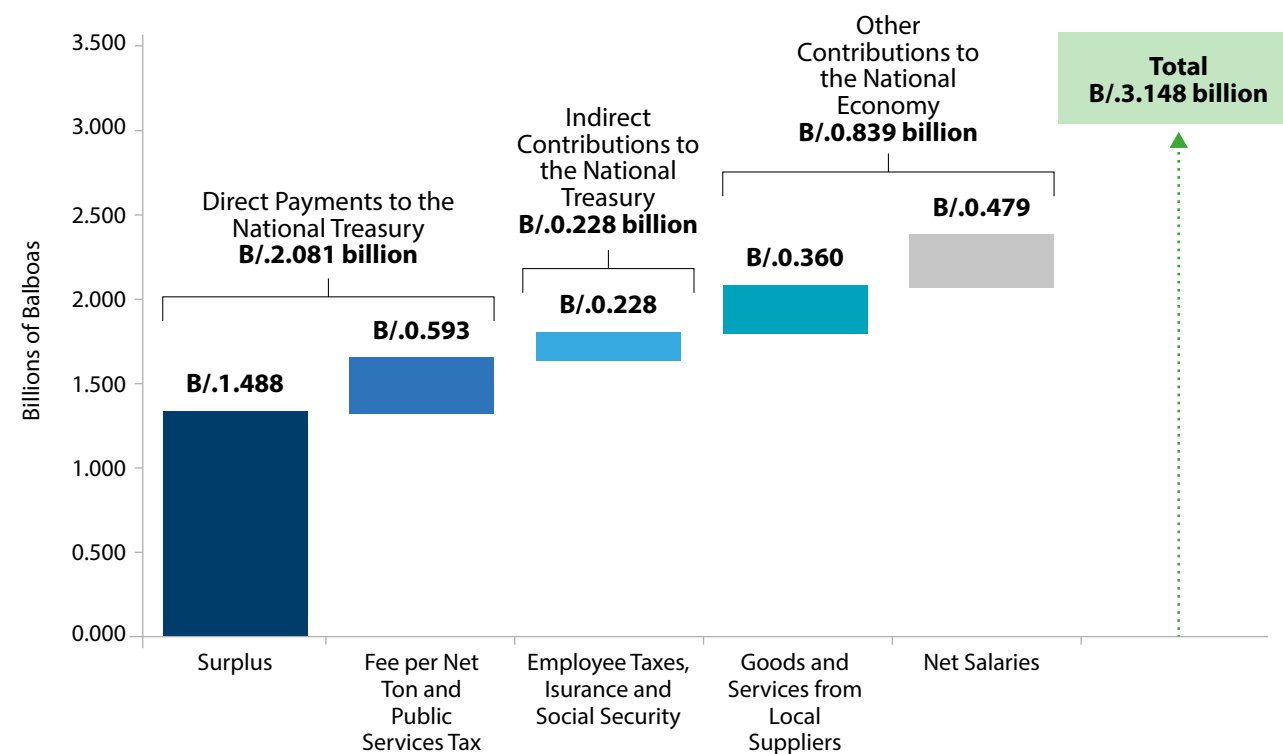
Other Indirect Contributions to the National Economy

In fiscal year 2021, the Panama Canal contributed indirectly a total of B/.839 million to the National economy, as a result of net salaries for B/.479 million; as well as B/.360 million in local purchases of goods and services and payment to local suppliers, as part of the annual investments in equipment and infrastructure.



At the end of fiscal year 2021, the Canal contributed to the national economy with record direct and indirect economic contributions of B/.3.14 billion. After implementing protocols for COVID-19 pandemic prevention and control, this contribution was more significant due to the fact that the Panama Canal is one of the few entities capable of maintaining its entire workforce active.

Graph 15. Panama Canal Impact on the National Economy

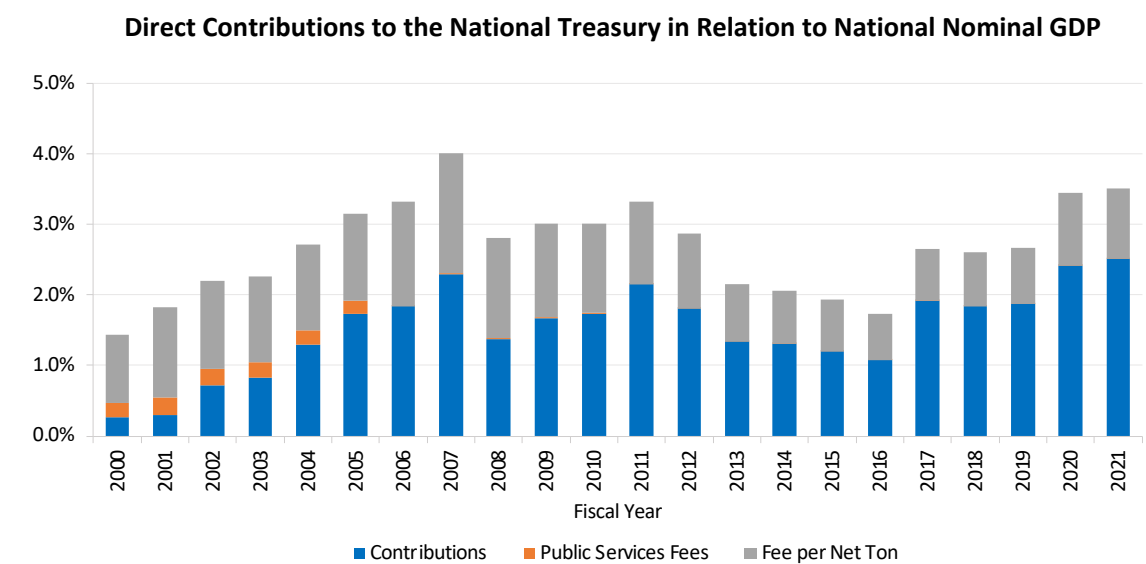
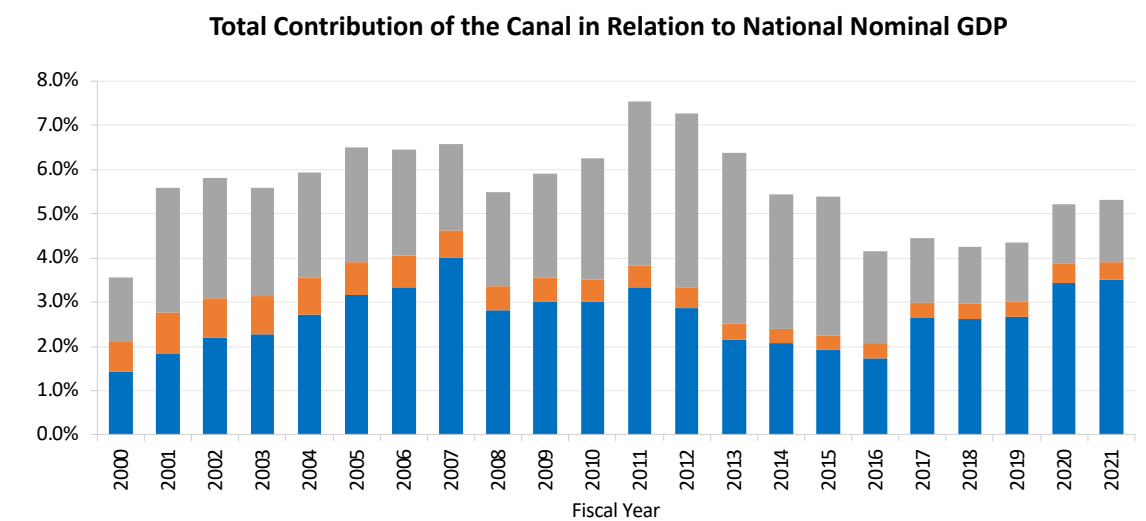


Direct Contributions to the National Economy Relative to the Gross Domestic Product (GDP)

In fiscal year 2021, Panama Canal direct estimated contributions were 3.5% in relation to the National Nominal GDP, including the indirect contributions and the expenses in the local economy, direct and indirect contributions represent an estimated 5.3% of the Nominal National GDP.

It should be noted that, according to studies conducted on the Canal's contribution of the country's economy, it has been identified that there is a multiplying effect of these contributions and for fiscal year 2021 there is an additional 1.6% estimate. Therefore, the Canal's total contribution represents an estimated 6.9% of the National Nominal GDP.

Graph 16. Panama Canal Impact on the National Economy in Relation to the National Nominal GDP



NOTE: GDP for 2021 is estimated.
Source: Instituto Nacional de Estadística y Censo.

Financial Performance of the Panama Canal

A profitability analysis shows a solid financial performance, reporting a profit margin of 54 cents per balboa of revenue (ROS), a return on capital employed (ROCE) of 16.0%, return on assets (ROA) of 15.0% and return on equity (ROE) of 18.0% for fiscal year 2021 validating the Canal's capacity to create economic value on a sustainable basis.

Graph 17. Financial Performance



Credit Ratings and Financial Strength Summary

In April 2021, Moody's gave the Panama Canal Authority's rating an A2 rating with stable outlook in line with the revision of the Panama's government; since the ACP separate itself from the tensions faced by the government, the economy and Panama's population. Moody's also highlights the clear legal and institutional framework, which supports a reliable and stable operating environment; as well as a strong financial performance, supported by a new asset infrastructure with a tariff scheme with a unique geographic advantage and business model.

It also identifies factors that could cause a decline in the rating, such as changes in the legal framework and / or weakening of corporate governance.

In August 2021, S&P Global revised the Canal's rating to A and maintained a negative outlook, systematically due to the change in the sovereign's outlook. However, the Canal continues to maintain two rating notches above the sovereign ceiling. The strengths identified by the agency emphasize the Panama Canal's excellent competitive position as the most efficient option for strategic routes and its performance amid severe lockdown measures in Panama; as it upheld uninterrupted operations, keeping up with market demands and focusing on continuous efficiency improvement and also keeping up the capital investment levels.

Among the main challenges identified by the agency are high sensitivity to country risk and links with the government. The negative outlook reflects one in three probabilities of lowering the Canal's rating in the next 6 to 24 months, if the sovereign's rating is lowered, even though the Canal's conditions and fundamentals do not change.

In July 2021, Fitch Ratings revised the Panama Canal rating to A- and maintains a negative outlook. Among the strengths highlighted by the agency are that the Canal stands out as a strategic asset for world trade flows, with a legal framework that supports the autonomy that leads to ensuring the profitability of the assets. The Canal maintains a strong competitive position in the market, a well-diversified cargo mix, which leads to better volume performance and resilience; with the ability to adapt rates to a demand that contributes to revenue growth.

The negative outlook is directly related to the sovereign's long-term rating outlook. The Canal's rating dependence methodology establishes that the sovereign rating is part of the Canal's individual credit profile. Even though the Canal's financial metrics support a higher rating, the Canal's rating of A- is limited to three notches above the sovereign due to the ties between the Canal and the Government.

The Panama Canal's credit quality is based on its solid institutional framework, corporate governance and international treaties that ensure its uninterrupted operation.

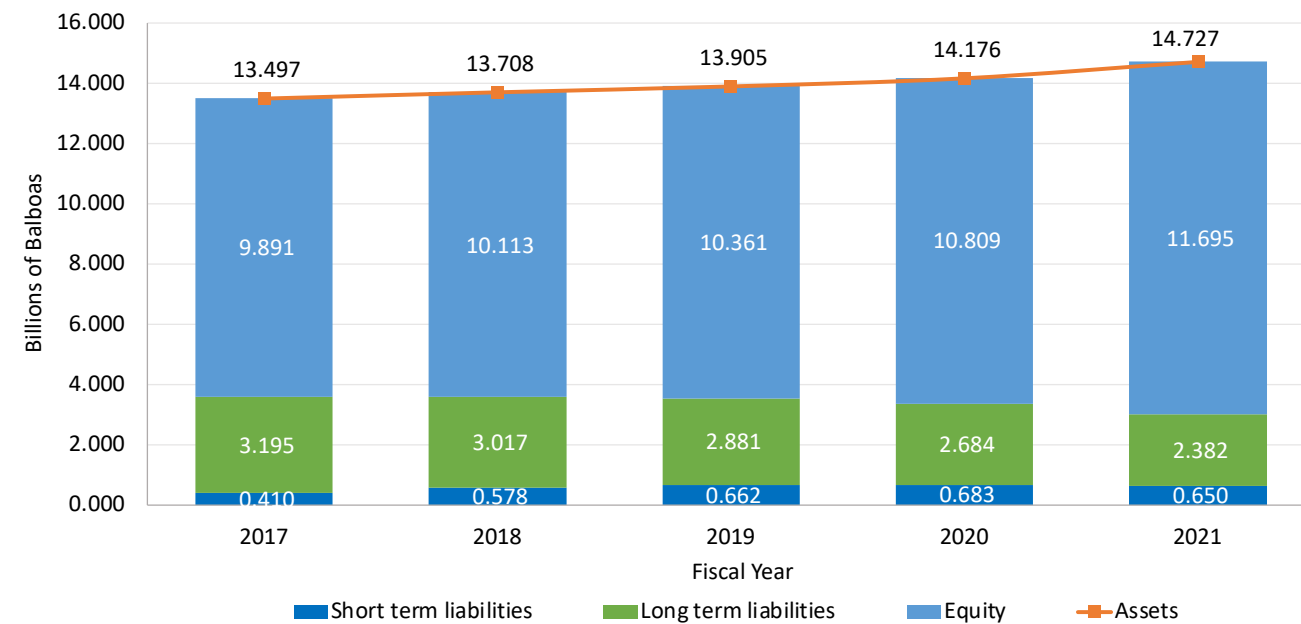
Table 3. ACP Credit Ratings

Rating Agency	Rating	Outlook	Date
Moody's	A2	Stable	Apr. 2021
S&P Global	A	Negative	Aug. 2021
Fitch Ratings	A-	Negative	Jul. 2021

Balance Sheet

At the end fiscal year 2021, Canal assets added to B/.14.72 billion, B/.551 million (3.9%) over fiscal year 2020, and consist of 38.9% (B/.5.73 billion) and 61.1% (B/.8.99 billion) of current assets and non-current assets, respectively. On the other hand, equity and liabilities represented 20.6% (B/.3.03 billion) and 79.4% (B/.11.69 billion) of total assets, respectively.

Graph 18. Assets, Liabilities and Equity

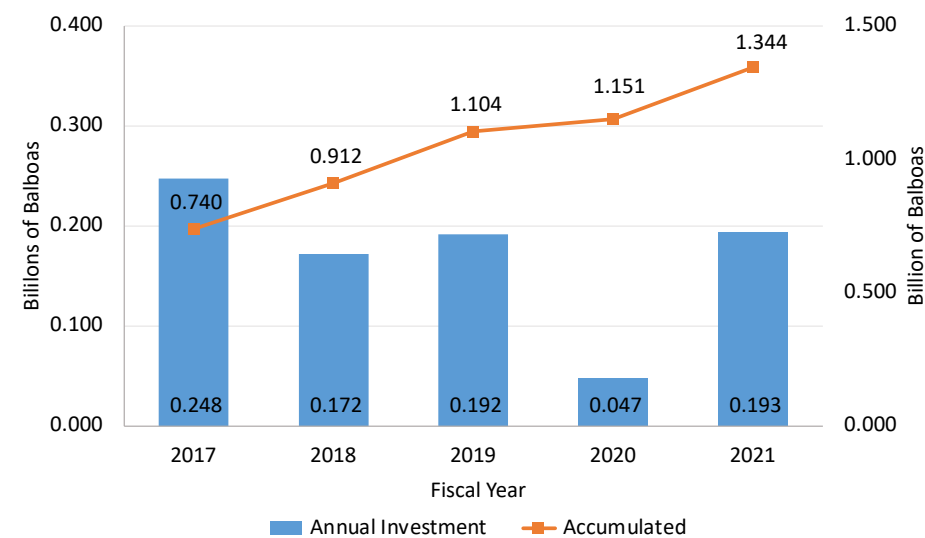


Regular Capital Investment Program

The capital investment program for fiscal year 2021 consisted of 175 projects, with B/.193 million in total expenses, intended to:

1. Increase the Canal's operation efficiency.
2. Maintain the Canal's reliability.
3. Improve the electrical power system's reliability.
4. Protect water quality in the Canal Watershed.
5. Maintain the Canal watershed's water resources sustainability.

Graph 19. Regular Investment Program Expenses



**Annex:
Audited Financial
Statements**

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

Financial Statements

September 30, 2021

(with Independent Auditors' Report thereon)



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

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Statement of Financial Position
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Autoridad del Canal de Panamá

Opinion

We have audited the financial statements of the Autoridad del Canal de Panamá, (hereinafter, the "ACP"), which comprise the statement of financial position as of September 30, 2021, the statement of profit or loss, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ACP as of September 30, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Contingent liabilities for contractor claims
See Note 31 to the financial statements

The key audit matter

Contractor' claims are considered as a key audit matter, because of the assessment of provisions and contingencies, which requires significant judgments and analysis by management. Contingencies for arbitration claims with a contractor amounted to B/.4,201 million for two (2) arbitrations and two (2) referrals.

How the matter was addressed in our audit

Our procedures in this area included:

- We assessed, with the assistance of our own legal specialists, the available evidence obtained and conclusions reached for each claim by management and its legal counsel.
- We carried out confirmation procedures with internal and external legal counsel of ACP and we assessed the adequacy of disclosures.

Property, plant, and equipment, net
See Notes 3 (g) and 5 to the financial statements

The key audit matter

- ACP is the owner of the Canal facilities, buildings, structures and equipment required to operate the Panamá Canal. The property, plant, and equipment (PPE) are considered a key audit matter for its high transactional volume that involves the assessment of capitalization of additions, designation of useful lives and judgment applied in the estimation of impairment losses based on the value in use of PPE. The total amount of property, plant, and equipment is B/.8,478 million, representing 58% of the total assets of ACP.

How the matter was addressed in our audit

- We obtained an understanding and test the operational effectiveness of controls on the additions of PPE.
- We obtained an understanding of how the ACP determines the useful life and residual value of each class of PPE and assessed reasonableness of such determination.
- We performed test of additions during the year through selective sampling, and we inspected relevant documentation such as invoices, bank transfers and reports of staff assigned to the construction underway to assess if the additions have been capitalized in accordance with the policies established by ACP.
- We visited and inspected the PPE according to selective sampling.
- We assessed, with the assistance of our own valuation specialists, the impairment evaluation carried out by ACP on PPE to determine its reasonableness, including the methodology applied, and performed a recalculation of the value in use.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACP's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ACP's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause ACP to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The partner in charge of the audit who has prepared this independent auditors' report is Luis G. Venegas R.

KPMG

Panama, Republic of Panama
December 15, 2021

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Financial Position

September 30, 2021

(In thousands of balboas B/.)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Assets:			
Non-current assets:			
Property, plant and equipment:			
Property, plant and equipment, net		8,335,257	8,382,350
Constructions in progress		143,094	178,371
Total property, plant and equipment, net	5	<u>8,478,351</u>	<u>8,560,721</u>
Investment properties	6	93,131	93,355
Reimbursement right of ACP	26	352,056	383,379
Inventories, net	7	63,927	64,094
Right-of-use assets	28	8,246	10,504
Trade and other receivables	8	354	16,765
Receivable from contractor	9	0	244,655
Total non-current assets		<u>8,996,065</u>	<u>9,373,473</u>
Current assets:			
Inventories	7	8,355	8,271
Securities investment and other financial assets	10, 27	5,057,097	3,801,690
Accrued interest receivable	11	10,856	5,340
Trade and other receivables	8, 27, 29	27,495	20,751
Other assets		482	863
Cash and cash equivalents	12, 27	626,173	965,541
Total current assets		<u>5,730,458</u>	<u>4,802,456</u>
Total assets		<u><u>14,726,523</u></u>	<u><u>14,175,929</u></u>

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

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Equity and liabilities:			
Equity:			
Contributed capital	13	1,906,336	1,906,336
Investment program contributions	14	6,387,625	6,197,479
Reserves	14	1,995,489	1,537,489
Other equity accounts	15	(82,430)	(113,821)
Earnings available for distribution	16, 33	1,487,818	1,281,448
Total equity		<u>11,694,838</u>	<u>10,808,931</u>
Non-current liabilities:			
Bonds payable:			
Bonds payable		450,000	450,000
Less: discount and issuing costs		7,383	7,948
Bonds payable, net	17, 27	<u>442,617</u>	<u>442,052</u>
Borrowings	18, 27	1,495,000	1,725,000
Employee benefits	26	362,944	395,236
Lease liabilities	28	4,125	6,604
Other financial liabilities	19, 27	77,451	115,313
Total non-current liabilities		<u>2,382,137</u>	<u>2,684,205</u>
Current liabilities:			
Provision for marine accidents	20	15,299	19,587
Accrued salaries and vacations payable		169,390	148,043
Borrowings	18, 27	238,738	243,507
Other liabilities	21	40,457	41,982
Lease liabilities	28	4,617	4,497
Accrued interest payable on bonds	17	3,712	3,712
Accrued interest payable on other financial liabilities	27	10,143	10,407
Trade and other payables	22, 27, 29	167,192	211,058
Total current liabilities		<u>649,548</u>	<u>682,793</u>
Total equity and liabilities		<u>14,726,523</u>	<u>14,175,929</u>

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Profit or Loss

For the year ended September 30, 2021

(In thousands of balboas B/.)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Revenues:			
Toll revenues		2,968,213	2,663,275
Other Canal transit services		874,677	675,496
		<u>3,842,890</u>	<u>3,338,771</u>
Other revenues:			
Sales of electricity and power		30,099	31,215
Sales of potable water	29	35,405	36,536
Miscellaneous	24	50,218	36,918
Total other revenues		<u>115,722</u>	<u>104,669</u>
Total revenues		<u>3,958,612</u>	<u>3,443,440</u>
Expenses:			
Salaries and wages	23	635,180	614,431
Employee benefits	23, 29	78,281	77,805
Materials and supplies	23	55,202	52,323
Fuel	7, 23	34,523	40,349
Transportation and allowances	23	988	1,099
Contracted services and fees	23	97,020	96,214
Insurance	23	24,692	20,850
Provision for marine accidents	20, 23	2,617	8,174
Provision for obsolete inventory	7, 23	290	2,506
Depreciation and impairment loss	5, 23	232,063	221,076
Amortization of right-of-use assets	23, 28	4,761	5,697
Fees paid to the Panamanian Treasury	16, 21, 23, 29	592,812	542,679
Other expenses	23	15,381	22,028
Total expenses		<u>1,773,810</u>	<u>1,705,231</u>
Results of operations		2,184,802	1,738,209
Finance income		39,737	74,278
Finance costs	18	<u>(88,575)</u>	<u>(102,356)</u>
Finance costs, net		<u>(48,838)</u>	<u>(28,078)</u>
Profit for the year		<u>2,135,964</u>	<u>1,710,131</u>

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

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Comprehensive Income

For the year ended September 30, 2021

(In thousands of balboas B/.)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Profit for the year		2,135,964	1,710,131
Other comprehensive income (loss):			
Items that will not be reclassified to profit or loss:			
Net remeasurement of employee defined benefit plans'			
actuarial gain (loss)		580	(517)
		<u>580</u>	<u>(517)</u>
Items that are or may be reclassified to profit or loss:			
Reclassification of (loss) income on financial instruments to			
profit for the year		(2,924)	2,740
Unrealized loss on instruments at fair value with changes			
in other comprehensive income (FVOCI)	10, 15	(5,026)	(990)
Net income (loss) on cash flow hedges - light diesel purchase call			
options		1,093	(1,602)
Net income (loss) on cash flow hedges - interest rate swap contracts		37,668	(10,131)
		<u>30,811</u>	<u>(9,983)</u>
Total other comprehensive income (loss)	15	<u>31,391</u>	<u>(10,500)</u>
Total comprehensive income		<u><u>2,167,355</u></u>	<u><u>1,699,631</u></u>

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

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Changes in Equity

For the year ended September 30, 2021

(In thousands of balboas B/.)

	<u>Note</u>	<u>Contributed capital</u>	<u>Investment program contributions</u>	<u>Reserves</u>	<u>Other equity accounts</u>	<u>Earnings available for distribution</u>	<u>Total equity</u>
Balance as of September 30, 2019		1,906,336	6,035,696	1,270,589	(103,321)	1,251,892	10,361,192
Profit for the year		0	0	0	0	1,710,131	1,710,131
Other comprehensive income (loss):							
Net remeasurement of employee defined benefit plans' actuarial loss		0	0	0	(517)	0	(517)
Reclassification of income on financial instruments to profit for the year		0	0	0	2,740	0	2,740
Unrealized loss on instruments at FVOCI		0	0	0	(990)	0	(990)
Cash flow hedges		0	0	0	(11,733)	0	(11,733)
Total other comprehensive loss		<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,500)</u>	<u>0</u>	<u>(10,500)</u>
Total comprehensive income (loss) of the year		<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,500)</u>	<u>1,710,131</u>	<u>1,699,631</u>
Transfer to the Panamanian Treasury	16	0	0	0	0	(1,251,892)	(1,251,892)
Net increase in contributions	14	0	161,783	0	0	(161,783)	0
Net increase in equity reserves	14	0	0	266,900	0	(266,900)	0
Balance as of September 30, 2020		<u>1,906,336</u>	<u>6,197,479</u>	<u>1,537,489</u>	<u>(113,821)</u>	<u>1,281,448</u>	<u>10,808,931</u>
Profit for the year		0	0	0	0	2,135,964	2,135,964
Other comprehensive income (loss):							
Net remeasurement of employee defined benefit plans' actuarial loss		0	0	0	580	0	580
Reclassification of loss on financial instruments to profit for the year		0	0	0	(2,924)	0	(2,924)
Unrealized loss on instruments at FVOCI		0	0	0	(5,026)	0	(5,026)
Cash flow hedges		0	0	0	38,761	0	38,761
Total other comprehensive income		<u>0</u>	<u>0</u>	<u>0</u>	<u>31,391</u>	<u>0</u>	<u>31,391</u>
Total comprehensive income of the year		<u>0</u>	<u>0</u>	<u>0</u>	<u>31,391</u>	<u>2,135,964</u>	<u>2,167,355</u>
Transfer to the Panamanian Treasury	16	0	0	0	0	(1,281,448)	(1,281,448)
Net increase in contributions	14	0	190,146	0	0	(190,146)	0
Net increase in equity reserves	14	0	0	458,000	0	(458,000)	0
Balance as of September 30, 2021		<u>1,906,336</u>	<u>6,387,625</u>	<u>1,995,489</u>	<u>(82,430)</u>	<u>1,487,818</u>	<u>11,694,838</u>

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

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Cash Flows

For the year ended September 30, 2021

(In thousands of balboas B/.)

	Note	2021	2020
Cash flows from operating activities:			
Profit for the year		2,135,964	1,710,131
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and impairment loss		232,063	221,076
Amortization of right-of-use assets		4,761	5,697
Amortization of diesel option premium		(575)	510
Loss on disposal of property, plant and equipment	5	738	144
Realized gain on investment securities at FVOCI		4	10
Provision for marine accidents		2,617	8,174
Provision for obsolete inventory	7	290	2,506
Amortized discount on bonds payable		565	565
Materials and supplies inventory usages		33,181	31,274
Finance costs, net		48,838	28,078
Changes in operating assets and liabilities:			
(Increase) decrease in trade and other receivables		(6,760)	20,602
Increase in fuel inventory		(84)	(805)
Decrease (increase) in other assets		381	(597)
(Decrease) increase in trade and other payables		(43,866)	44,571
Payment of marine accident claims		(6,905)	(2,469)
Increase (decrease) in accrued salaries and vacations payable		21,347	(3,992)
Operations with settlement in progress		0	2,603
Employee benefits plans		(389)	(1,242)
Decrease in other liabilities		(1,525)	(16,941)
Cash provided by operating activities:		2,420,645	2,049,895
Interest paid		(93,809)	(114,165)
Net cash provided by operating activities		2,326,836	1,935,730
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(150,207)	(95,699)
Acquisition of inventories		(33,304)	(36,454)
Acquisition of other financial assets		(9,910,756)	(6,170,556)
Proceeds from sale and redemption of other financial assets		8,648,245	6,663,343
Trade and other receivables		17,128	(17,599)
Receivable from contractor		244,700	0
Interest received		34,293	115,955
Net cash (used in) provided by investing activities		(1,149,901)	458,990
Cash flows from financing activities:			
Payment of borrowings		(230,000)	(230,000)
Payment of lease liabilities		(4,855)	(5,119)
Transfer to Panamanian Treasury		(1,281,448)	(1,251,892)
Net cash used in financing activities		(1,516,303)	(1,487,011)
Net (decrease) increase in cash and cash equivalents		(339,368)	907,709
Cash and cash equivalents at the beginning of the year		965,541	57,832
Cash and cash equivalents at the end of the year	12	<u>626,173</u>	<u>965,541</u>
Investing activities that did not require cash inflows:			
Recognition of an adjustment to receivable from contractor due to arbitration award	9	0	244,700
		<u>0</u>	<u>244,700</u>

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

Notes to the Financial Statements

September 30, 2021

(In thousands of balboas B/.)

(1) General Information

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

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

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

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

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

(2) Basis of Preparation

(a) Statement of compliance

The financial statements of the ACP, as of September 30, 2021 and for the year ended on that date, have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and approved by the Board of Directors and authorized to be issued on December 13, 2021.

Notes to the Financial Statements

(2) Basis of Preparation, continued

(b) Measurement basis

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

- Financial assets measure at fair value through other comprehensive income (FVOCI);
- Derivative financial instruments;
- Reimbursement right of the ACP; and
- Employee benefits.

(c) Functional and presentation currency

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

(3) Summary of Significant Accounting Policies

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

(a) Fair value measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between the main market participants on the measurement date, or in its absence, in the most advantageous market to which the ACP has access at the time. The fair value of a liability reflects the effect of a default risk. When applicable, the ACP measures the instrument's fair value using a quoted price for that instrument in an active market. A market is considered as active if the transactions of these assets or liabilities take place frequently and with sufficient volume and, in addition, information is provided on a continuous basis allowing prices to be set. When there is no quoted price in an active market, the ACP uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable input data. The chosen valuation technique incorporates all the factors that the market participants would consider when setting the price of a transaction. The best evidence of fair value is a quoted market price in an active market. If the market for a financial instrument is not considered as active, a valuation technique is used. The decision as to whether a market is active can include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and sales. In markets that are not active, to guarantee that the transaction price provides evidence of fair value or to determine the adjustments to the transaction prices that are necessary to measure the instrument's fair value, additional work is required during the valuation process.

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

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(b) *Transactions with related parties*

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

(c) *Revenue recognition*

The ACP utilizes the following five-step *model* for accounting revenue arising from contracts with customers: (i) identify the contract(s) with the customer; (ii) identify performance obligations; (iii) determine the transaction price; (iv) assign the transaction price to performance obligations to the extent that the contract covers more than one performance obligation; and, (v) recognize income when performance obligations are met. Revenue is recognized in an amount that reflects the consideration that ACP expects to receive in exchange for transferring goods or services to a customer. Depending on whether certain criteria are met, revenues are recognized: over time, in a way that represents ACP's performance; or at a point in time, when the control of the goods or services is transferred to the client. Specific recognition criteria described below are met before the revenue is recognized:

Toll revenue and other Canal transit services

Toll revenue is recognized at a point in time, when the ship concludes its transit through the Canal. Toll revenue and other Canal transit services such as: tug services, linehandlers, locomotives, admeasurement services, transit booking fee, pilotage and among others services are paid in advance, during transit or twenty four (24) hours after invoice is presented for payment, if all services are secured by a bank guarantee.

Sales of electricity and power

Revenue from the sale of electric energy and power is recognized over time based on contractual and physical delivery of energy and power valued at contractual rates or at prevailing spot market rates. Revenue includes unbilled amounts for electricity sales and installed capacity supplied but not settled 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.

Sales of potable water

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

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Miscellaneous services

Revenue from other services that include leases of communications structures and buildings, and extraction of raw water, among others, are recognized over time when the customer simultaneously receives and consumes the benefits provided by the ACP's activities.

Some long-term concession contracts include the free transfer to the ACP of improvements built by the concessionaire in exchange for its right of use during the concession period. At the time of transfer, those improvements are recognized as investment property using the cost method and depreciated accordingly. A related liability is also recognized for the same value which is amortized to profit or loss through the concession period using the straight-line method. Initial cost is assigned by an independent appraiser at the time of initial recognition.

Interest

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

(d) *Transfer to the Panamánian Treasury*

According to the ACP Organic Law, transfer to the Panamánian Treasury corresponds to the net profit minus the funds required for contributions to the investment programs and for other equity reserves approved by the Board of Directors.

(e) *Fees paid to the Panamánian Treasury*

As mandated by the Panamánian Constitution, fees paid to the Panamánian Treasury, which corresponds to payments per net ton transit and public service fees, are recognized when incurred. Also by constitutional mandate, the ACP is not subject to the payment of taxes, duties, tariffs, charges, rate or tributes of a national or municipal nature, except for certain public service fees, per net ton transit fees and employer's contributions related to social security, educational insurance, and workers' compensation.

(f) *Finance costs*

Finance costs that are directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period to prepare them for their intended use are capitalized as part of the cost of the assets, until all or practically all activities necessary to prepare the asset for its use are completed. All other finance costs are recognized as expenses in the statement of profit or loss in the period they are incurred. Finance costs consist of interest and other costs that the ACP incurs in connection with borrowing contracts.

Notes to the Financial Statements**(3) Summary of Significant Accounting Policies, continued****(g) Property, plant and equipment**

Property, plant, and equipment held for use, the production or supply of goods or services, or for administrative purposes, are presented in the statement of financial position at their acquisition cost or production cost, net of accumulated depreciation and impairment losses. Replacements and improvements of complete elements that increase the useful life of the asset or its economic capacity are accounted for as property, plant, and equipment, with the respective retirement of any replaced element. When different parts of significant relative value of property, plant, and equipment have different useful lives, they are accounted for separately. Following the accrual principle, periodic maintenance, preservation, and repair costs are recognized in profit or loss when incurred. Depreciation is calculated on the cost values following a straight-line method over the estimated useful life of the assets. Land on which buildings and other constructions are settled have an indefinite useful life and, therefore, are not subject to depreciation. The following estimated useful lives are used to calculate depreciation:

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

Constructions in progress include all direct charges for materials, labor, research, equipment, professional fees and indirect costs related to the works. Once these works are concluded, the construction value will become part of property, plant and equipment and their depreciation will start. Items of property, plant, and equipment are derecognized when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and carrying amount of the asset) is included in profit or loss when the asset is derecognized.

(h) Investment properties

Investment properties are measured at acquisition cost, including other related transaction costs. After their initial recognition, investment properties are stated at cost applying the same requirements as for property, plant and equipment.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

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

Depreciation is calculated following a straight-line method over the estimated useful life of the assets. Land on which buildings and other constructions are settled have an indefinite useful life and, therefore, are not subject to depreciation. Disbursements due to repairs and maintenance that do not meet the conditions for asset recognition are recognized as expense in profit or loss when incurred.

(i) Impairment of non-financial assets

The ACP assesses at the reporting date whether there is an indication that a non-financial asset other than inventories, 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 as impaired, and it is adjusted to its recoverable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the specific risks to the asset. Determined impairment losses are recognized in profit or loss accordingly. A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The reversal of an impairment loss is recognized in profit or loss. An impairment loss can only be reversed up to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset.

(j) Inventories

Supplies and materials for operations and fuel inventories are shown at the lower of its acquisition cost and its net realizable value. Inventories are valued using the average cost method based on purchase cost to suppliers, not exceeding the realizable value, net of impairment of supplies and materials. The ACP classifies its inventories as non-current when expected to be used or consumed in the operation after more than twelve (12) months.

(k) Provisions

Provisions are recognized when the ACP has a present obligation, either legal or constructive in nature, because of a past event, when it is deemed 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.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

The amount recognized as a provision must be the best estimate of the disbursement required to settle the present obligation, at the reporting period, considering the corresponding risks and uncertainties. When a provision is measured using an estimated cash flow to settle the present obligation, its carrying amount is the present value of such cash flow at a rate that reflects current market assessments of time value of money and the risk specific to the liability. When the recovery of some or all the economic benefits required to settle a provision is expected, an account receivable is recognized if it is virtually certain that the income will be received and the amount of the account receivable can be measured with certainty.

(l) Provision for marine accidents and other claims

The ACP is responsible for recording the provision for marine accidents and for claims from counterparties as soon as an economic obligation with high probability derived from these events is known. For marine accidents, when an accident occurs, the ACP performs a detailed investigation to determine the causes of the accident. Once the causes are determined, if applicable, a provision is recorded based on the estimated cost of both permanent and temporary repairs and other related costs, which the Administration concludes are the responsibility of the ACP. On each reporting date, the amount of the provision is reviewed and, if necessary, adjusted to reflect the best estimate at that time.

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

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

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(m) Employee benefits

Six bargaining units cover ninety three percent (93%) of the ACP workforce, each represented by unions and with collective bargaining unit agreements that are periodically negotiated. The remaining seven (7%) corresponds to personnel excluded from collective bargaining unit agreements. As of September 30, 2021, the following five (5) agreements are being negotiated:

<u>Collective bargaining union agreement</u>	<u>% of workforce</u>	<u>Starting date</u>	<u>Expected completion date</u>
Non-professional	83.1	Fiscal year 2019	Fiscal year 2022
Professional	1.9	Fiscal year 2019	Fiscal year 2022
Captains and Deck Officers	2.2	Fiscal year 2020	Fiscal year 2022
Marine Engineers	2.3	Fiscal year 2020	Fiscal year 2022
Firefighters	0.8	Fiscal year 2021	Fiscal year 2022

The Panamá Canal Pilots agreement (comprises 2.7% of workforce) will continue in effect until the end of calendar year 2023.

Voluntary retirement plans

The ACP provides two unfunded defined benefit plans for voluntary retirement of employees. The cost of providing these benefits is determined annually by a qualified actuary using the projected unit of credit method. Actuarial gains and losses are fully recognized in the period in which they occurred in other comprehensive income. The liability for defined benefits comprises the present value of both, the actual and constructive obligations of defined benefits. Under IAS 19, the ACP determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, considering any changes in the benefit liability during the period because of benefit payments and other criteria.

For defined benefit plans for the voluntary retirement of employees, an actuarial liability is recognized not only for the legal obligation under the formal terms of the plan, but also for the implicit projections of constructive nature arising from expectations created by informal practices.

Defined benefit contribution plan

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

(n) Reimbursement right of ACP

The ACP's right to reimbursement is an insurance policy that guarantees 100% reimbursement to the ACP of all benefits paid to employees as an incentive for voluntary retirement. It is recognized at fair value as a separate asset when it is virtually certain that a third party will reimburse some or all the disbursements required to settle a defined benefit obligation.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Changes in the carrying amount of the right to reimbursement are disaggregated and recognized in the same way as for changes in the carrying amount of the related obligation plan. The components of defined benefit cost are recognized net of changes in the carrying amount of the right to reimbursement. The carrying amount 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 the related constructive actuarial obligation, subject to any reduction required if the reimbursement is not fully recoverable.

(o) Financial assets and liabilities

Financial assets

Financial assets are recognized initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification, as set out below.

Financial assets are classified as measured at amortized cost and at fair value through other comprehensive income. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the asset is derecognized or impaired and when interest is recognized using the effective interest method. This category of financial assets includes accounts receivable and bank deposits.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified as measured at fair value through other comprehensive income when they are held in a business model the objective of which is both, to collect contractual cash flows and sell the financial assets, and the contractual cash flows represent solely payments of principal and interest. This category of financial assets includes debt instruments not classified as financial instruments at fair value through profit and loss or at amortized cost. After the initial recognition, these assets are subsequently measured at fair value. Interest income calculated under the effective interest method and impairment are recognized in the statement of profit or loss. Other net gains and losses are recognized in the statement of profit or loss. Unrealized gains or losses are reported as net increases or decreases in other comprehensive income in the statement of changes in equity until they are realized.

Derivatives designated as hedging instruments in an effective hedge

Derivatives designated as hedging instruments in an effective hedge are carried on the statement of financial position at fair value. The treatment of gains or losses arising from revaluation is further described in the accounting policy for hedge accounting.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Cash equivalents

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of change in value and generally have a maturity of three months or less from the date of acquisition. Cash equivalents are classified as financial assets measured at amortized cost.

Evaluation of the business model

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

- The policies and objectives set for the portfolio and the operation of those policies in practice that include the Administration's strategy relating to:
 - (i) collecting contractual interest income
 - (ii) maintaining a defined interest yield profile
 - (iii) capacity to sell at any time for liquidity needs or to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration and the defined goal.
- The way in which the ACP Senior Management team and Board of Directors are informed about the behavior of the different portfolios;
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which these risks are managed;
- The frequency and value of sales in previous periods, the reasons for those sales and expectations about future sales activity.

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

For this evaluation, *Principal* is defined as the fair value of the financial asset at the time of initial recognition. *Interest* is defined as the consideration of the value of money over time and the credit risk associated to the amount of the outstanding principal for a particular period and for other risks consistent with a basic loan agreement and other associated costs, as well as the profit margin. In assessing whether contractual cash flows are solely payments of principal and interest, the ACP focused on the contractual terms of the instrument. This evaluation considered, among others:

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

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued**Impairment of financial assets**

At the reporting date, the ACP determines whether there is an objective evidence of impairment in the financial instruments, and, if so, the reserve method to provide for losses in the financial instruments is used. The ACP applies an Expected Credit Loss Model (ECL) to assess impairment on trade and other accounts receivable, bank deposits and debt instruments.

The assessment of whether credit risk of a financial asset has significantly increased is one of the critical judgments in the impairment model. Loss allowances are recognized for the amount equivalent to the 12-month ECL or for the residual maturity of the financial asset, whichever is lower, for financial instruments on which the credit risk has not significantly increased since its initial recognition. The 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date. For impaired assets, the ECL is the difference between the carrying amount and the present value of the estimated future cash flows to be collected. A financial asset is considered impaired when it is unlikely that the debtor will fully pay his credit obligations to the ACP, without resources from the ACP to enforce compliance such as executing the collateral if available; or the debtor has a delinquency of more than 90 days in any significant credit obligation. For fixed income financial instruments, the ACP also considers: low external rating of the issuer; lack of contractual payments on the due date or in the stipulated period; if there is a virtual certainty of suspension of payments; if there is likelihood of a bankruptcy; filing of a bankruptcy petition or similar action; and/or the financial asset stops trading in an active market given its financial difficulties. The inputs used in the evaluation of whether financial assets are impaired, and their importance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

The evaluation of whether a credit risk of a financial asset has increased significantly since its initial recognition, considers reasonable and sustainable information that is relevant and available without disproportionate cost or effort, including information and analysis of a quantitative and qualitative nature based on historical experience and the expert evaluation of credit including: projections of future cash flows, variations in the credit risk rating, and atypical increases in the credit margin or in the reference prices of the credit default swaps (CDS) for the financial instruments.

Credit risk rating

At initial recognition a credit rating is assigned to each exposure based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in a change to a different credit risk rating. For investments in debt instruments and time deposits, credit risk ratings of international short-term investments from Standard & Poors, Moody's or Fitch Ratings, Inc. and their changes are used to establish whether a significant increase in risk has occurred.

For financial assets that do not have an available international credit risk rating, a credit risk rating is assigned using a quantitative model of payment default prediction that assigns a credit rating equivalent to that of Standard & Poor's which considers the application of expert credit judgement.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued***Generating the probability of default (PD) term structure***

Credit risk ratings are the main input to determine the PD term structure for different exposures. The PD is estimated using approximates of liquid markets based on international credit risk ratings of investments or deposits.

Assessment of significant increase in credit risk

The criteria for determining whether the credit risk has increased significantly will vary by portfolio and will include limits based on defaults. The ACP assesses whether the credit risk of a particular exposure has increased if, based on a quantitative model, the probability of expected credit loss in the remaining life increased significantly since the initial recognition. In determining the increase in credit risk, the expected credit loss in the remaining life is adjusted for changes in maturities. In certain circumstances, by using credit expert's judgment and relevant historical information, the ACP may determine that an exposure has experienced a significant increase in credit risk if qualitative factors indicate so and those factors may not be fully captured by the quantitative analysis performed periodically. The effectiveness of the criteria used to identify significant increases in credit risk is monitored through regular reviews.

Inputs for the measurement of the ECL

The following variables are key inputs used for measuring ECL:

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

PD is the probability of default of one year applied to the portfolio to account for 12-month ECL and lifetime probability of default to account for more than 12-month ECL. The default rates are obtained from the Bloomberg system (1-yr Default Probability) for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, the S&P Global Income Research and S&P Creditpro transition table is used as a source. The LGD for financial assets is the estimated loss percentage of the amount exposed in case of default. The LGD is obtained from the Bloomberg system for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, Bloomberg (1-yr Default Probability and Loss Given Default) is used in the same way. The EAD represents the outstanding balances of the principal amount and interest on financial assets at the reporting date.

Derecognition of financial assets

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

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Financial liabilities

Financial liabilities are initially recognized at fair value in addition to the direct transaction costs. After initial recognition, the financial liabilities are measured at amortized cost using the effective interest rate method. Gain or loss is recognized in profit or loss when a financial liability is derecognized as well as through the amortization process. Financial liabilities include borrowings, bonds payable, trade and other payables, and other financial liabilities.

Borrowings and bonds payable

Borrowings and bonds payable are initially recognized at fair value at their respective contractual dates, including the costs attributable to the transaction. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any premium or discount at the time of purchase and the fees that belong to the effective interest rate.

Trade and other payable

Accounts payable do not earn interest and are carried at their face value.

Hedge accounting

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

On initial designation of the hedge, the ACP formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The ACP makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated. The ACP uses financial instruments designated as hedges to manage the interest rate risks and the variability of light diesel prices used in its operations. These financial instrument contracts designated as hedges are classified as cash flow hedges and they are reported as assets or liabilities, as applicable. Any ineffectiveness must be reported in current-year profit or loss.

Hedge accounting relationship

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

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued***Hedge ratio***

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

Discontinuation of hedge accounting

The ACP discontinues hedge accounting prospectively in the following situations: when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated, or exercised; or it is determined that designation of the derivative as a hedging instrument is no longer appropriate.

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 effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. 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 statement of profit or loss as the recognized hedged item. However, when a 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 hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss accumulated in equity is recycled from equity to profit or loss.

Derecognition of financial liabilities

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

(p) Leases

At the beginning of a contract, the ACP assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it provides the right to control the use of an asset for a period of time in exchange for a consideration.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued***As a lessee***

At the beginning or when a contract containing a lease component is modified, ACP assigns consideration in the contract to each lease component based on their individual prices. However, for lease contracts including non-lease components, the ACP has decided not to separate them from the lease components and, instead, for each contract both components are accounted for as a single lease component.

The ACP recognizes a right-of-use asset and a lease liability on the initial date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payment made on or before the initial date, plus the initial direct costs incurred and an estimate of the costs required to dismantle and remove the underlying asset or to restore the underlying asset or the site where it is located, less any lease incentive received. The right-of-use asset is subsequently depreciated using the straight-line method from the initial date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the ACP at the end of the lease term or the cost of the right-of-use asset shows that the ACP will exercise a purchase option. In such case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is based on the same method applied for property, plant and equipment. Additionally, the cost of the right-of-use asset may be reduced periodically due to impairment, if any, and adjusted by new measurements of the lease liability.

Lease liability is initially measured at the present value of unpaid lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the incremental borrowing rate of the ACP. The ACP determines its incremental interest rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the leased asset.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments; variable lease payments that depend on an index or a rate initially measured using the index or rates on the start date; amounts expected to be paid under a residual value warranty; the price to be exercised under a purchase option that the ACP is reasonably sure to exercise; the lease payments in an optional renewal period if the entity is reasonably certain to exercise an extension option; and the penalties for early termination of a lease unless the ACP is reasonably certain not to terminate it early.

Lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments derived from: a change in an index or rate, if there is a change in the estimate of the amount expected to be paid under a residual value warranty; if the entity changes its assessment of whether it will exercise a purchase, extension or termination option; or, if there is a revised fixed lease payment. Consequently, the corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The ACP presents the right-of-use assets and lease liabilities on separate lines in the statement of financial position.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Short-term leases and low-value asset leases

The ACP has decided not to recognize right-of-use assets and lease liabilities from short-term lease contracts and those involving low-value assets of B/.10. Lease payments associated with these contracts are recognized as contract services expense during the lease term.

As a lessor

At the beginning or when a contract containing a lease component is modified, the ACP assigns consideration in the contract to each lease component base on their individual prices. When the ACP acts as lessor, it determines at the beginning of the lease whether it is financial or operational. To classify each lease, the ACP performs a general assessment of whether the lease transfers substantially all of the risks and rewards related to ownership of the underlying asset. If this is the case, then the lease is financial, if not, then it is operational. As part of this assessment, certain indicators are considered such as whether the lease is for most of the economic life of the underlying asset. If an agreement contains lease components and non-lease components, then IFRS 15 applies to allocate the consideration in the contract.

Lease payments received under operating leases are recognized as revenue during the lease term as part of *Other income* in the statement of profit or loss.

- (q) *New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted*
A series of new rules go into effect for annual periods beginning after January 1, 2021 and early application is allowed; however, the ACP has not early adopted these new standards or amendments when preparing these financial statements as of September 30, 2021, whose annual period began on October 1, 2020.

Effective date	
Annual periods beginning on:	
New standards or amendments (upcoming IFRS requirements)	
January 1, 2021	<ul style="list-style-type: none"> • Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
January 1, 2022	<ul style="list-style-type: none"> • Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) • Annual Improvements to IFRS Standards 2018-2020 • Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
January 1, 2023	<ul style="list-style-type: none"> • Classification of Liabilities as Current or Non-current (Amendments to IAS 1) • Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In September 2019, the International Accounting Standards Board (IASB) finalized Phase 1 of the IBOR Reform and issued the document Interest Rate Benchmark Reform ("the Reform"), which contains amendments to IFRS 9 and IFRS 7. These amendments are effective for annual periods beginning on or after 1 January 2020.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

In August 2020, the IASB published the second phase of the project amendments to the Reform; this document contains exemptions and clarifications for the applicable financial instruments.

Phase 2 of the Reference Interest Rate Reform Project

This document contains:

- Clarifications on changes in the basis used for determining contractual cash flows
- Practical exemptions applicable to the existing criteria for re-estimating financial assets and liabilities at variable interest rates to account for modifications resulting from the Reform.
- Practical exemptions allowing changes in the initial documentation of hedging relationships
- Waivers for hedge groups of hedged items and interest rate risk portfolios when the items in the designated group are subject to the contractual amendments resulting from the Reform
- Adds additional requirements when there are changes in the basis used to determine the contractual cash flows of the financial asset or liability that has given rise to the designation of a hedge
- Provides temporary waiver in the designation of risk components
- New disclosure requirements are included in the financial statements

The amendments issued in the second phase of the project are mandatory for annual periods beginning on or after 1 January 2021, and early adoption is permitted.

As of September 30, 2021, the ACP has not made the adoption of the reforms contained in phases 1 and 2 of the project amendments.

Managing interest rate benchmark reform and any risks arising due to reform

Fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of interbank offered rates (IBORs) with alternative nearly risk-free rates. This reform has an impact on products referenced to IBOR. The ACP Treasury is in communication with the financial counterparties as lenders to carry out a smooth and orderly transition for the replacement of this rate. Additionally, it has coordinated with the contract, risks and controls, budget, accounting, legal advisory, and internal audit sections to determine the changes or modifications required in contracts, regulations, operational processes or others. The ACP anticipates that IBOR Reform will impact its risk management, and hedge accounting.

The USD LIBOR tenor utilized by the ACP under the Financing Documents is 6-month LIBOR which has been established will be available until June 30, 2023. On March 5, 2021, the Financial Conduct Authority (FCA), and the ICE Benchmark Administrator (IBA), administrator of the London Interbank Offered Rate (LIBOR) made public statements that USD LIBOR tenor settings will cease as of the following dates: (i) December 31, 2021, for 1-week and 2-mo USD LIBOR settings and (ii) June 30, 2023, for overnight and 1-, 3-, 6- and 12-mo USD LIBOR settings. Neither the FCA nor the IBA have identified a successor administrator at this time.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

The ACP has IBOR exposure (USD LIBOR) on loans referenced to this rate, with five multilaterals credit agencies, with which a communication is maintained to approve an amendment to the Common Terms Agreement, as well as the credit facilities with each agency at the same time. The ACP plans to finish the process of amending the contractual terms by the end of fiscal year 2022.

As of September 30, 2021, the total amounts of unreformed financial liabilities are detailed in Note 18 – Borrowings.

Derivatives held for risk management

The ACP holds derivatives for risk management purposes. The ACP's derivative instruments are governed by the International Swaps and Derivatives Association's (ISDA) 2006 definitions. ISDA has reviewed its definitions considering IBOR reform and issued an IBOR fallbacks supplement on October 23, 2020. This document sets out how the amendments to new alternative benchmark rates (e.g., SOFR) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe which floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR.

The ACP plans to adhere to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts on the later of when the supplement becomes effective or both counterparties adhere to the protocol. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the ACP holds discussions with its counterparties that will also adhere to the protocol and, in due course, the ACP plans to negotiate with them bilaterally about inclusion of new fallback clauses.

As of September 30, 2021, the ACP has not amended its derivatives instruments with its counterparties.

Hedge accounting

The ACP has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR Reform as at the reporting date. The ACP's hedged items and hedging instruments continue to be indexed to USD LIBOR benchmark rates. These USD LIBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with their counterparties as usual.

The ACP has a limited exposure with USD LIBOR in its cash flow hedging instruments whose expiration date exceeds the anticipated termination date of the USD LIBOR referenced rate. As of September 30, 2021, the ACP holds interest rate hedging instruments referenced to IBOR for a total of B/.600 million of notional value of cash flows hedging which are amortized every six months for B/.40 million until November 15, 2028.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

The ACP expects to replace USD LIBOR rates with an alternative reference rate acceptable to counterparties in the secondary market. The transition date will be determined when the contracts are modified, which is expected to be at the end of 2022, so the ACP anticipates that the hedged reference rate, the cash flows of the hedged item and / or the hedging instrument will not be altered because of the IBOR Reform.

The ACP will amend the formal hedge documentation of that hedging relationship to reflect the changes required by IBOR reform by the end of the reporting period during which the changes occur. These changes in the formal hedge documentation are not expected to cause a discontinuation of the hedging relationship.

(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 reporting date, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include, but are not limited to:

- determination of whether revenue is recognized over time or at a point in time;
- determination of the useful life of fixed assets (Note 5);
- recoverability of property, plant, and equipment, including construction in progress balances (Note 5);
- measurement of ECL allowance and key assumptions in determining the weighted average loss rate and the fair value of financial instruments (Note 27);
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (Note 26); and
- estimates for the provision for marine accident and other claims and contingent liabilities (Notes 20 and 31, respectively).

Notes to the Financial Statements

(5) Property, Plant and Equipment

The movement and reconciliation of the property, plant, and equipment are detailed as follows:

	<u>Buildings</u>	<u>Structures</u>	<u>Equipment</u>	<u>Land</u>	<u>Constructions in progress</u>	<u>Total</u>
Cost:						
Balance at October 1, 2019	216,069	6,266,748	2,979,320	1,023,318	168,745	10,654,200
Additions and other adjustments	1,223	62,255	28,828	0	9,626	101,932
Claim adjustment	0	(244,700)	0	0	0	(244,700)
Retirements	(171)	(177)	(10,270)	0	0	(10,618)
Balance at September 30, 2020	<u>217,121</u>	<u>6,084,126</u>	<u>2,997,878</u>	<u>1,023,318</u>	<u>178,371</u>	<u>10,500,814</u>
Additions and other adjustments	13,992	152,374	20,304	58	(35,277)	151,451
Retirements	(748)	(516)	(53,697)	(394)	0	(55,355)
Balance at September 30, 2021	<u>230,365</u>	<u>6,235,984</u>	<u>2,964,485</u>	<u>1,022,982</u>	<u>143,094</u>	<u>10,596,910</u>
Accumulated depreciation and impairment loss:						
Balance at October 1, 2019	(55,222)	(661,363)	(1,010,713)	0	0	(1,727,298)
Depreciation	(4,723)	(102,678)	(115,869)	0	0	(223,270)
Retirements	152	87	10,236	0	0	10,475
Balance at September 30, 2020	<u>(59,793)</u>	<u>(763,954)</u>	<u>(1,116,346)</u>	<u>0</u>	<u>0</u>	<u>(1,940,093)</u>
Depreciation	(5,186)	(101,487)	(114,805)	0	0	(221,478)
Impairment loss	0	(2,488)	(9,117)	0	0	(11,605)
Retirements	459	516	53,642	0	0	54,617
Balance at September 30, 2021	<u>(64,520)</u>	<u>(867,413)</u>	<u>(1,186,626)</u>	<u>0</u>	<u>0</u>	<u>(2,118,559)</u>
Net carrying amount:						
Balance at September 30, 2021	<u>165,845</u>	<u>5,368,571</u>	<u>1,777,859</u>	<u>1,022,982</u>	<u>143,094</u>	<u>8,478,351</u>
Balance at September 30, 2020	<u>157,328</u>	<u>5,320,172</u>	<u>1,881,532</u>	<u>1,023,318</u>	<u>178,371</u>	<u>8,560,721</u>

The movement and reconciliation of the constructions in progress are detailed as follow:

	<u>Investment Program - Canal Expansion</u>	<u>Investment Program - Other</u>	<u>Constructions in Progress Total</u>
Balance at October 1, 2019	6,665	162,080	168,745
Additions	(366)	102,956	102,590
Transfers to property, plant and equipment	(6,299)	(86,665)	(92,964)
Balance at September 30, 2020	<u>0</u>	<u>178,371</u>	<u>178,371</u>
Additions	0	136,868	136,868
Transfers to property, plant and equipment	0	(172,145)	(172,145)
Balance at September 30, 2021	<u>0</u>	<u>143,094</u>	<u>143,094</u>

As of September 2021, as part of the Panamá Canal Expansion Program, the ACP has not capitalized costs B/.0 (2020: B/.6,299). In total, an amount of B/.5,498,450 has been capitalized in 593 assets as part of this Program since its approval in 2006.

On September 2020, a reduction in the amount of B/.244,700 was applied to Agua Clara and Cocolí Locks structure assets, based on the Partial Award that ordered Grupo Unidos por el Canal, S.A. (GUPCSA) to repay the ACP previously awarded payments pursuant to a Dispute Adjudication Board (DAB) decision (Note 9).

Notes to the Financial Statements

(5) Property, Plant and Equipment, continued

On July 2021, an increase on the amount of B/.69,760 (2020: B/.56,100) was applied to the Atlantic Bridge assets, based on a settlement on the Partial Award issued by the International Chamber of Commerce (ICC) arbitration tribunal.

The ACP keeps in effect a Payment Bond of B/.50,000 issued by an insurance company which guarantees payment from GUPCSA, of labor, materials and equipment used for the execution of the contract for Design and Construction of the Third Set of Locks. In addition, a Performance and Defects Guarantee for a total of B/.200,000, consisting of a payment bond B/.50,000 issued by an insurer, and joint and several corporate guarantees for a total of B/.150,000. Both insurers have international investment grade granted by Standard & Poor's.

During fiscal year 2021, the ACP derecognized assets at a cost of B/.55,355 (2020: B/.10,618), mainly comprised of three electrical power units in Miraflores totaling B/.33,024 due to the entry in the electricity market of new generation units with more efficient technologies. Additionally, maritime equipment such as boats, a ferry and a tugboat were derecognized due to obsolescence for a total cost of B/.13,155. The remaining B/.9,176 corresponds to others assets derecognized within the period. As a result, the ACP recognized losses on disposal of assets for an amount of B/.738 (2020: B/.144).

Depreciation expense for B/.1,310 (2020: B/.2,547) corresponded to equipment used in investment projects that were capitalized as property, plant and equipment.

Impairment loss

During fiscal year 2021, due to the entry in the energy market of new electricity generation units with more efficient technologies, the ACP carried out an impairment test of the Energy Cash Generating Unit (CGU) by applying the value in use method on June 30th, 2021. According to this method, the value in use of the CGU is equal to the expected present value of the unit's projected cash flow for the weighted average residual life of the assets in the unit. Annual cash flows for Energy CGU were adjusted for risk and included income and costs; meanwhile, financial income and costs, depreciation and corporate costs were excluded. The corporate costs were awarded in full to the transit CGU. Revenue projections for Energy CGU consider internal and external sales. The internal demand is supplied mainly by hydroelectric generation and supported by thermal generation. The projection of hydroelectric generation is based on estimates of rainfall and water consumption that affect the generation capacity of the hydroelectric plants in Alhajuela and Gatún lakes. The excess of hydro generation and thermal capacity is sold in the energy market and used to cover agreed contracts. To project the level of thermal generation sales in the energy market, the ACP based its projections on the results of the tool used by the National Dispatch Center (CND, for its acronym in Spanish) to model and plan the weekly energy dispatch. This tool is also used by the energy company Empresa de Transmisión Eléctrica, S.A. (ETESA) to prepare the Expansion Plan of the National Interconnected System. The discount rate used to estimate the value in use of the Energy CGU was 5.26% and is based on the cost of financing that the ACP derived from an established method that incorporates the capital structure of market participants and the country risk premium. As a result, the ACP recognized an impairment loss of B/.11,605 for this CGU. As of September 30, 2021, the carrying amount of the assets related to the Energy CGU amounts to B/.81,731.

The impairment charges were recorded as part of depreciation and impairment loss expense in profit and loss.

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(6) Investment Properties

The reconciliation of the carrying amounts of investment properties, which are measured by the ACP using the 'cost model', is as follows:

	<u>Buildings</u>	<u>Structure</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
<u>Cost:</u>					
Balance at October 1, 2019	6,778	0	927	89,831	97,536
Additions and other adjustments	<u>166</u>	<u>185</u>	<u>964</u>	<u>0</u>	<u>1,315</u>
Balance at September 30, 2020	6,944	185	1,891	89,831	98,851
Additions and other adjustments	<u>92</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>92</u>
Balance at September 30, 2021	<u>7,036</u>	<u>185</u>	<u>1,891</u>	<u>89,831</u>	<u>98,943</u>
<u>Accumulated depreciation and impairment loss:</u>					
Balance at October 1, 2019	(102)	0	(40)	0	(142)
Depreciation	(130)	(49)	(175)	0	(354)
Impairment loss	<u>(5,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>
Balance at September 30, 2020	(5,232)	(49)	(215)	0	(5,496)
Depreciation	(128)	(30)	(131)	0	(289)
Impairment loss	<u>(27)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(27)</u>
Balance at September 30, 2021	<u>(5,387)</u>	<u>(79)</u>	<u>(346)</u>	<u>0</u>	<u>(5,812)</u>
<u>Net carrying amount:</u>					
Balance at September 30, 2021	<u>1,649</u>	<u>106</u>	<u>1,545</u>	<u>89,831</u>	<u>93,131</u>
Balance at September 30, 2020	<u>1,712</u>	<u>136</u>	<u>1,676</u>	<u>89,831</u>	<u>93,355</u>

The ACP's investment properties are composed as follows:

- An area of 180,345 square meters of land, water area and underwater bottom, with a carrying amount of B/.52 (2020: B/.52) and fair value of B/.79,016 (2020: B/.68,709), granted in concession to the Panamá International Terminal, S.A. (PSA) for a period of twenty (20) years, with a renewal option for the same period subject to ACP determination to develop, build, operate and manage a container yard and two docks.
- An area of 1,499.95 square meters of property No.196761 with a carrying amount of B/.22 (2020: B/.22); and a cinema consisting of a building, improvements and equipment with a fair value of B/.7,705 on its initial recognition date, built on that plot, granted in concession to Large Screen Cinema Corp. for a period of ten (10) years. As of September 30, 2021 the carrying amount of the concession is B/.2,293 (2020: B/.2,405). The value in use was determined at B/.2,271, recognizing an impairment loss of B/.27. In September 2020, considering the adverse effects of the COVID-19 pandemic on the market's conditions, an evaluation of the profitability of the concessionaire's business was carried out, resulting in an impairment loss of B/.5,000 in its carrying amount.
- A land with an area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP, with a carrying amount of B/.89,757 (2020: B/.89,757) and fair value of B/.204,208 (2020: B/.90,628).
- Fully depreciated buildings leased to third parties and toll road structures and equipment with a carrying amount of B/.1,029 (2020: B/.1,141) and fair value of B/.24,233 (2020: B/.24,794).

During fiscal year 2021, the income generated by the ACP from the rental of buildings and land concessions was B/.5,895 (2020: B/.4,827).

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Notes to the Financial Statements**(7) Inventories, Net**

Inventories, net are detailed as follows:

	<u>2021</u>	<u>2020</u>
Supplies and materials	67,927	70,794
Fuel	8,355	8,271
Less: provision for inventories obsolescence	<u>(4,000)</u>	<u>(6,700)</u>
Inventories, net	<u>72,282</u>	<u>72,365</u>
Non-current	63,927	64,094
Current	<u>8,355</u>	<u>8,271</u>
Total	<u>72,282</u>	<u>72,365</u>

Changes in the estimate for obsolescence of supplies and materials inventories are as follows:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	6,700	5,600
Increase	290	2,506
Write-off	<u>(2,990)</u>	<u>(1,406)</u>
Balance at the end of the year	<u>4,000</u>	<u>6,700</u>

During fiscal year 2021, the ACP recognized supplies and materials and fuel expenses for B/.33,137 (2020: B/.30,343) and B/.34,523 (2020: B/.40,349), respectively, in profit or loss.

(8) Trade and Other Receivables

Trade and other receivables are detailed as follows:

	<u>2021</u>	<u>2020</u>
Tolls and other marine services	12,495	9,514
Sale of electricity and power	5,913	3,073
Sale of potable water	7,550	7,662
Other government entities	789	16,643
Other services	<u>1,247</u>	<u>1,470</u>
Sub-total	27,994	38,362
Less: allowance for expected credit loss (ECL)	<u>(145)</u>	<u>(846)</u>
Total trade and other receivables	<u>27,849</u>	<u>37,516</u>
	<u>2021</u>	<u>2020</u>
Non-current	354	16,765
Current	<u>27,495</u>	<u>20,751</u>
Total	<u>27,849</u>	<u>37,516</u>

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Notes to the Financial Statements**(8) Trade and Other Receivables, continued**

Accounts receivable do not generate interest and their maturity term is 30 days or less. The aging analysis of past due but not impaired receivables is as follows:

	<u>2021</u>	<u>2020</u>
60 – 90 days	24	280
90 – 180 days	98	811
More than 180 days	<u>564</u>	<u>16,596</u>
Total	<u><u>686</u></u>	<u><u>17,687</u></u>

(9) Receivable from Contractor

Accounts receivable from contractor are detailed as follows:

	<u>2021</u>	<u>2020</u>
GUPCSA	0	244,700
Less: allowance for expected credit loss (ECL)	<u>0</u>	<u>(45)</u>
Total receivable from contractor	<u><u>0</u></u>	<u><u>244,655</u></u>

The Claimants paid the amounts awarded on February 23, 2021. During fiscal year 2020, the Tribunal ordered the plaintiffs to reimburse the ACP the sum of B/.265,300 less the amounts ACP was ordered to pay to the plaintiffs in this partial award for B/.20,600 concerning: on-site laboratory, foundation conditions, unforeseeable physical conditions in the Aguadulce Fault Zone and Lock Head 1 Fault Zone for a cumulative balance in favor of the ACP of B/.244,700. The Concrete and Aggregate Arbitration concerned several claims, including the Parties' responsibilities in relation to the basalt excavated at the Pacific Site for use as concrete aggregate, and the delays associated with the Contractor's submittal of a compliant concrete mix design. Ultimately, the Tribunal dismissed the majority of the Claimants' claims and awarded the ACP damages and costs.

(10) Securities investment and other financial assets

Investment securities and other financial assets are detailed as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial instruments measured at amortized cost:				
Time deposits over 90 days	1,578,586	1,580,288	2,775,669	2,786,655
Accrued interest receivable	<u>5,646</u>	<u>5,643</u>	<u>14,195</u>	<u>14,178</u>
	1,584,232	1,585,931	2,789,864	2,800,833
Financial instruments measured at fair value with changes in other comprehensive income (FVOCI):				
Corporate debt securities	3,470,829	3,470,829	1,011,459	1,011,459
Financial instruments designated as hedge instruments measured as fair value:				
Diesel purchase call option contract	<u>2,036</u>	<u>2,036</u>	<u>367</u>	<u>367</u>
	<u><u>5,057,097</u></u>	<u><u>5,058,796</u></u>	<u><u>3,801,690</u></u>	<u><u>3,812,659</u></u>

Notes to the Financial Statements**(10) Securities investment and other financial assets, continued**

At September 30, 2021, the unrealized loss on financial instruments measured at FVOCI amounted to B/.3,530 (2020: unrealized gain B/.1,496) which was recognized in other comprehensive income.

During fiscal year 2021, the ACP sold financial instruments measured at FVOCI amounting to B/.111,022 (2020: B/.180,771), recognizing a net realized gain of B/.4 (2020: B/.10); and corporate debt securities that were collected upon expiration amounted to B/.4,683,514 (2020: B/.3,529,407).

In accordance with the Organic Law, the ACP's funds must be placed in short-term investment grade debt instruments and may not be used to buy other types of investment financial instruments issued by Panamanian or foreign public or private entities, neither to grant loans to said entities nor to the National Government. Investments in securities and time deposits are negotiated and recorded in US dollars. At September 30, 2021 and 2020, all of ACP's investments were placed in instruments with an investment grade and short-term maturity. The annual interest rate of return of other financial assets (excluding current and saving accounts) was 0.5870% (2020: 2.0326%) paid at the end of each term and with a maximum maturity of a year.

Financial instruments designated as hedge instruments:

In July 2021, the ACP subscribed an Asian style call option contract effective September 1, 2021, with the objective of hedging the risk of variability of future cash flows attributable to the price fluctuation of light diesel that the ACP expects to purchase for its operations during fiscal year 2022, in accordance with its forecast.

(11) Accrued Interest Receivable

Accrued interest receivable is detailed as follows:

	<u>2021</u>	<u>2020</u>
Accrued interest receivable on:		
Corporate debt securities at FVOCI	<u>10,856</u>	<u>5,340</u>

(12) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash on hand	35	29
Deposits in current accounts	128,274	202,748
Deposits in saving accounts	197,831	69,379
Time deposits with original maturities under 90 days	300,000	693,305
Accrued interest receivable	<u>33</u>	<u>80</u>
Total cash and cash equivalents	<u>626,173</u>	<u>965,541</u>

Cash deposit in bank accounts earns interest based on daily rates determined by banks. At September 30, 2021, interest rates ranged from 0.01% to 0.15% (2020: 0.02% to 0.55%). These resources are primarily to cover ACP obligations and there were no restrictions over the balance of cash and cash equivalents (2020: no restrictions).

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(13) Contributed Capital

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

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

On September 30, 2021, the contributed capital of the ACP amounted to B/.1,906,336 (2020: B/.1,906,336).

(14) Investment Program Contributions and Reserves

Changes in investment programs contributions, debt repayment contributions, and reserves, as of September 30, 2021, are detailed as follows:

	<u>2021</u>	<u>Increase (decrease)</u>	<u>2020</u>	<u>Increase (decrease)</u>	<u>2019</u>
Contributions:					
Investment programs	5,812,625	(39,854)	5,852,479	(68,217)	5,920,696
Debt repayment	<u>575,000</u>	<u>230,000</u>	<u>345,000</u>	<u>230,000</u>	<u>115,000</u>
	<u>6,387,625</u>	<u>190,146</u>	<u>6,197,479</u>	<u>161,783</u>	<u>6,035,696</u>
Reserves:					
Working capital, contingencies, and catastrophic events	853,289	86,000	767,289	192,200	575,089
Strategic for growth, sustainability and debt service	877,200	107,000	770,200	74,700	695,500
Financing of relevant projects	<u>265,000</u>	<u>265,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>1,995,489</u>	<u>458,000</u>	<u>1,537,489</u>	<u>266,900</u>	<u>1,270,589</u>
Total	<u>8,383,114</u>	<u>648,146</u>	<u>7,734,968</u>	<u>428,683</u>	<u>7,306,285</u>

Contributions

Investment programs

At September 30, 2021, the ACP decreased the funds of the investment programs by a net amount of B/.39,854 (2020: net decrease of B/.68,217). This contribution includes a contingency amount for the Investment Program - Others, which is set each year; the unused balance is transferred to surplus at end of the year.

Debt repayment

The ACP established an equity contribution to segregate the funds required for the scheduled repayments of its long-term debt used to finance the investment programs.

Notes to the Financial Statements

(14) Investment Program Contributions and Reserves, continued

Reserves

Working capital, contingencies, and catastrophic events

The ACP maintains an equity reserve for working capital and contingencies, as well as to cover deductible amounts related to catastrophic risks insurance policies to ensure and facilitate its long-term financial standing.

Strategic to cover growth, sustainability, and debt service

The ACP established an equity reserve to maintain strategic sustainability and competitiveness of the Canal 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 as well as to cover debt service.

Financing of relevant projects

The ACP established an equity reserve to meet the financing needs of the projects of the Water Management System Program and the Consolidation of facilities in the Atlantic and Pacific.

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

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

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

Adjustments during fiscal year to the other equity accounts – other comprehensive income (loss) (OCI) are as follows:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	(113,821)	(103,321)
<u>Actuarial valuations:</u>		
Net remeasurement gains (losses) of employee defined benefit plans	<u>580</u>	<u>(517)</u>
Other comprehensive income not to be reclassified to profit or loss	<u>580</u>	<u>(517)</u>
<u>Financial instruments with changes in OCI:</u>		
Reclassification of (losses) gains to profit or loss for the year	(2,924)	2,740
Net unrealized loss during fiscal year	(5,026)	(990)
<u>Cash flow hedges:</u>		
Light diesel purchase call option and price swap contracts:		
Net unrealized gains (losses) of non-yet matured contracts	1,093	(1,602)
Interest rate swap contracts:		
Reclassification of gains to profit or loss of the year	27,977	22,664
Net gain (losses) of non-yet matured contracts	<u>9,691</u>	<u>(32,795)</u>
Other comprehensive income to be reclassified to profit or loss	<u>30,811</u>	<u>(9,983)</u>
Other comprehensive profit (losses) of the year	<u>31,391</u>	<u>(10,500)</u>
Balance at the end of the year	<u>(82,430)</u>	<u>(113,821)</u>

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(16) Earnings available for distribution

The Organic Law establishes that after covering the costs for the investment programs and reserves (Note 14), any surplus shall be remitted to the Panamánian Treasury in the following fiscal period, subject to the approval of the Board of Directors that declares surpluses. Therefore, the ACP, subject to Board of Directors order, will transfer the total amount of B/.1,487,818 to the Panamánian Treasury which corresponds to the earnings available for distribution for the year ended September 30, 2021 (2020: B/.1,281,448). See Note 33.

The contributions transferred or to be transferred to the Panamánian Treasury are as follows:

	<u>2021</u>	<u>2020</u>
<u>Payments to the Panamánian Treasury:</u>		
Fees per net ton	591,070	540,644
Public service fees	<u>1,742</u>	<u>2,035</u>
Sub-total	592,812	542,679
Earnings available to distribute (Note 33)	<u>1,487,818</u>	<u>1,281,448</u>
Total	<u>2,080,630</u>	<u>1,824,127</u>

(17) Bonds Payable

Bonds payable are detailed as follows:

	<u>Interest rate%</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Bond 2035	4.95	July 29, 2035	450,000	450,000
Less: discount and issuing costs			(7,383)	(7,948)
Plus: accrued interest payable			<u>3,712</u>	<u>3,712</u>
Total bonds payable			<u>446,329</u>	<u>445,764</u>

These bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction, and are being offered and sold in the United States only to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A") and to certain non-U.S. persons in transactions outside the United States in reliance on Regulation S under the Securities Act ("Regulation S").

These bonds have a fixed annual rate of 4.95% and their effective interest rate is 5.17%. Their principal amount will be repaid in four semi-annual installments of B/.112,500, from January 29, 2034, and maturing on July 29, 2035.

If any of the bonds remain outstanding, the ACP (the Issuer) will furnish to holders:

- as soon as available, but in any event within 120 calendar days after the end of each fiscal year of the Issuer, copies of its audited financial statements in respect of such fiscal year, in English, prepared in accordance with IFRS and audited by an internationally recognized firm of independent accountants; and
- as soon as available, but in any event within 90 calendar days after the end of each of the first, second and third fiscal quarters of the Issuer, copies of its unaudited financial statements in respect of the relevant period, that include a profit and loss, statement of financial position and cash flow statement, in English, prepared on a basis consistent with the audited financial statements of the Issuer and in accordance with IFRS.

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(18) Borrowings

Borrowings are detailed as follows:

<u>Credit Facilities</u>	<u>Interest rate %</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
European Investment Bank (EIB)	Libor 6 months + 0.811	15-Nov-28	225,000	255,000
European Investment Bank (EIB)	Libor 6 months + 0.824	15-Nov-28	75,000	85,000
European Investment Bank (EIB)	5.196	15-Nov-28	75,000	85,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.20	15-Nov-28	112,500	127,500
Development Bank of Latin America (CAF)	Libor 6 months + 1.40	15-Nov-28	112,500	127,500
International Finance Corporation (IFC)	Libor 6 months + 1.30	15-Nov-28	225,000	255,000
Inter-American Development Bank (IDB)	Libor 6 months + 1.05	15-Nov-28	300,000	340,000
Japan Bank for International Cooperation (JBIC)	Libor 6 months + 0.75	15-Nov-28	600,000	680,000
	Sub-total		1,725,000	1,955,000
	Accrued interest payable		8,738	13,507
	Total borrowings		<u>1,733,738</u>	<u>1,968,507</u>

Borrowings under these credit facilities will be repaid in twenty (20) consecutive equal semi-annual installments for an aggregate amount of B/.115,000 until final due date on November 15, 2028.

The classification analysis of the borrowings under these credit facilities in accordance with their repayment schedule is as follows:

	<u>2021</u>	<u>2020</u>
Non-current borrowings	1,495,000	1,725,000
Current borrowings	230,000	230,000
Accrued interest payable	8,738	13,507
Total	<u>1,733,738</u>	<u>1,968,507</u>

Through the life of these credit facilities, the ACP shall demonstrate compliance with following two (2) financial ratios:

- **Total debt to EBITDA:** the ACP should maintain, as of the end of every semi-annual fiscal period of the ACP, a ratio less than 2.5 at the end for such measurement period; and
- **Debt service coverage:** the ACP should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 3.0 at the end for such measurement period.

The compliance with the financial covenants is reported on an annual basis to the lenders (five multilateral agencies) detailed above. The following are the key definitions from the Common Terms Agreement that are used to calculate the financial ratios:

- EBITDA means, for any period, the sum, without duplication, of (a) net income (or net loss), (b) interest expense (if it has not been capitalized for purposes of calculating net income), (c) depreciation expense, and (d) amortization expense, in each case determined by reference to and in accordance with the Borrower's financial statements for such period.

Notes to the Financial Statements**(18) Borrowings, continued**

- Debt for borrowed money means, without duplication, (a) all credit facility obligations, (b) all indebtedness of the Borrower for borrowed money, (c) all obligations of the Borrower evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of the Borrower under acceptance, letter of credit or similar facilities, (e) all obligations of the Borrower as lessee under any capitalized lease or synthetic or finance lease, (f) all obligations of the Borrower created or arising under any conditional sale or other title retention agreement with respect to property acquired by the Borrower (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (g) all obligations arising under any other instrument or transaction related to project financings, all contingent liabilities and all operating leases, in each case that would be treated as a borrowing for purposes of IFRS (and in each case as quantified in accordance with IFRS and set forth (or to be set forth) in the Borrower's financial statements), and (h) any debt of the type referred to in clauses (a), (b), (c), (d), (e), (f) or (g) hereof of any other person, which is guaranteed by the Borrower or secured by the liens permitted pursuant to Section 5.02 (a) (Limitations on Liens) of the Common Terms Agreement.
- Debt service means, for any period or at any time, as the context may require, the sum of regularly scheduled interest payable on and amortization of debt discount in respect of all debt for borrowed money, plus regularly scheduled principal amounts of all debt for borrowed money payable, in each case, by the Borrower during such period or at such time (it being understood that regularly scheduled payments do not include mandatory or optional prepayments or redemptions).

As of September 30, 2021, the ACP is in compliance with the financial covenants as set forth:

	<u>2021</u>	<u>2020</u>
Total debt to EBITDA	0.9	1.2
Debt service coverage	9.8	7.8

Finance cost is detailed as follows:

	<u>2021</u>	<u>2020</u>
Interest on bonds, loans and other	59,712	76,936
Cash flow hedge	27,977	22,664
Leases (Note 28)	168	268
Other finance cost	718	2,488
Total finance cost	<u>88,575</u>	<u>102,356</u>

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(19) Other Financial Liabilities

Other financial liabilities are detailed as follows:

	<u>2021</u>	<u>2020</u>
Derivative financial instruments designated as hedging instruments recognized at fair value:		
Interest rate swaps	<u>77,451</u>	<u>115,313</u>
	<u>77,451</u>	<u>115,313</u>

The ACP subscribed interest rate swap contracts which pay interest at a fixed rate and receive interest at a floating rate.

(20) Provision for Marine Accidents

Provision for marine accidents 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 are detailed, as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of the year	19,587	13,882
Provision for the year	2,617	8,174
Payments made	<u>(6,905)</u>	<u>(2,469)</u>
Balance at the end of the year	<u>15,299</u>	<u>19,587</u>

The provision for the year is included as an expense in the statement of profit or loss in the item line of *Provision for marine accidents*.

(21) Other Liabilities

Other liabilities are detailed as follows:

	<u>2021</u>	<u>2020</u>
Supplies – Inventories in transit	3,810	3,605
Deferred liability in contracts	29,953	35,070
Others	<u>6,694</u>	<u>3,307</u>
Total other liabilities	<u>40,457</u>	<u>41,982</u>

During fiscal year 2017, the ACP subscribed an agreement with the Public Works Ministry (MOP, for its acronym in Spanish) for the use of particular buildings and land belonging to the ACP that are required for the construction of the fourth bridge over the Panamá Canal, either through demolition or for the occupation of buildings that will not be demolished during the construction period. In exchange, the MOP made payments to the ACP for an amount of B/.33,663, which was recognized as a deferred liability. During fiscal year 2021, the deferred liability was amortized by B/.4,920 representing the fair value of the right of use for the land and buildings transferred to the MOP for an indefinite term, with a carrying amount of B/.394 and a net gain of B/.4,526 recognized in profit or loss.

During fiscal year 2021, the deferred liability of the large format cinema concession contract was amortized for an amount of B/.170 (2020: B/.721), which was recognized under Other income in the statement of profit or loss.

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Notes to the Financial Statements**(22) Trade and Other Payables**

Trade and other payables are as follows:

	<u>2021</u>	<u>2020</u>
Panamáian Treasury	45,117	43,346
Suppliers and others	<u>122,075</u>	<u>167,712</u>
Total trade and other payables	<u>167,192</u>	<u>211,058</u>

Accounts payable to the Panamáian Treasury correspond to fees per net ton pending for payment. The Organic Law establishes that the ACP shall annually pay the Panamáian 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. During fiscal year 2021, the fees paid by the ACP to the Panamáian Treasury for this concept amounted to B/.591,070 (2020: B/.560,644).

(23) Labor, Materials and Other Capitalized Costs

The investment program has been executed partially or totally with the ACP's own resources and equipment. The ACP capitalizes eligible operating costs incurred in developing the investment programs.

The operating expenses and capitalized costs are detailed as follows:

	<u>2021</u>		
	<u>Total expenses</u>	<u>Less capitalized costs</u>	<u>Net operating expenses</u>
Salaries and wages	647,464	12,284	635,180
Employee benefits	79,137	856	78,281
Materials and supplies	56,871	1,669	55,202
Fuel	35,954	1,431	34,523
Depreciation	233,373	1,310	232,063
All other expenses	<u>738,561</u>	<u>0</u>	<u>738,561</u>
Total	<u>1,791,360</u>	<u>17,550</u>	<u>1,773,810</u>

	<u>2020</u>		
	<u>Total expenses</u>	<u>Less capitalized costs</u>	<u>Net operating expenses</u>
Salaries and wages	630,081	15,650	614,431
Employee benefits	78,899	1,094	77,805
Materials and supplies	54,367	2,044	52,323
Fuel	42,336	1,987	40,349
Depreciation	223,623	2,547	221,076
All other expenses	<u>699,247</u>	<u>0</u>	<u>699,247</u>
Total	<u>1,728,553</u>	<u>23,322</u>	<u>1,705,231</u>

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(24) Other Miscellaneous Revenues

Other miscellaneous revenues are detailed as follows:

	<u>2021</u>	<u>2020</u>
Sales of entrance tickets to Canal visitor centers	195	5,900
Government of Panamá:		
Agreement Rio Azuero	0	5,557
Agreement Rio Indio	2,967	6,216
Operational leasing	5,773	3,886
Other revenues:		
Port concession	4,080	3,315
Sales of retired assets and scrap	1,679	640
Telecommunications	4,088	4,887
Proceeds from arbitration settlements, net	17,635	0
Other	<u>13,801</u>	<u>6,517</u>
Total other miscellaneous revenues	<u>50,218</u>	<u>36,918</u>

(25) 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 public services fees, per net ton transit fee and employer's contribution of social security, educational insurance, and workmen's compensation.

(26) Employee Benefits

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

	<u>2021</u>	<u>2020</u>
Benefit for employment retirement	<u>362,944</u>	<u>395,236</u>

In July 2012, the ACP established the Voluntary Retirement Incentive Program (VRI) for the retreat, at the required retirement age, of permanent employees and managers of the ACP. Before the establishment of the VRI, there was another program named the Labor Retirement Benefit (LRB) which remains active to date. Employees 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 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 agreements of the ACP; however, the probability that the employees choose the LRB over VRI is very low since the latter offer higher benefits.

The requirements and criteria under the LRB are: 1) permanent employees in positions of trust and permanent employees covered by collective bargaining agreements from the moment in which they comply with the required retirement age, according to the standards of the social security administration (regular or early retirement plans), except for temporary employees, officials and permanent employees covered by the Canal pilots' collective agreements, 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) employees submit the "Termination of Employment Relationship Form" at least 30 calendar days before retirement, and not beyond the date they meet the regular retirement age.

Notes to the Financial Statements

(26) Employee Benefits, continued

The requirements and criteria to qualify under the VRI include the following: 1) employees must retire at the required age established by the social security administration (Caja del Seguro Social's early or regular retirement plans), 2) at the time of retirement, must have worked at least 10 years in the Canal; 3) must accept the VRI offer, 4) terminate work no later than 60 calendar days after completing the required age, 5) files the termination of employment form through voluntary resignation, 6) must not have an investigation initiated against them for the alleged commission of serious offenses against the ACP regulations that could result in dismissal; and 7) in case the employee is separated from the ACP to hold a public or private position, should not have exceeded a maximum of two years of labor discontinuity. Employees that have been separated more than two years from ACP will lose their eligibility to receive the VRI.

The ACP contracted independent actuarial services in order to estimate the present value of the total expected cash flow to be paid by the ACP in the event that the plan is maintained through the years and to determine the accrued liability at September 30, 2021. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for age average of personnel, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate, in accordance with IFRS, the present value of the liability of both the post-employment benefit plans.

The fair value of the liability was calculated as required by the IFRS at different interest rates and at different case scenarios using a discount rate equal to the yield curve for corporate bonds with investment grade issued by companies in the United States of America (AAA, AA, A).

Expenses related to the employee benefits plan are recorded in the bonus account for voluntary separation, mutual agreement or voluntary retirement, within the line item *Salaries and wages* in the statement of profit or loss.

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

	Statement of Financial Position	Statement of Profit or Loss	Statement of Profit or Loss	Statement of Financial Position	Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2020	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2021
2021						
Fair value of the benefits	<u>395,236</u>	<u>13,721</u>	<u>5,299</u>	<u>31,981</u>	<u>(19,331)</u>	<u>362,944</u>

	Statement of Financial Position	Statement of Profit or Loss	Statement of Profit or Loss	Statement of Financial Position	Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2019	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2020
2020						
Fair value of the benefits	<u>381,266</u>	<u>21,761</u>	<u>9,737</u>	<u>34,771</u>	<u>17,243</u>	<u>395,236</u>

Notes to the Financial Statements

(26) Employee Benefits, continued

During fiscal year 2021, benefit costs include the impact of the reversal of IRV benefits for B/.6,360 due to employees who rejected the plan, deaths, resignations and layoffs.

The principal actuarial assumptions used are shown below:

	<u>Age</u>	<u>2021</u> <u>%</u>	<u>2020</u> <u>%</u>
Discount rate		2.65	2.8
Salary increases		3.75	3.75
Mortality			
Female	57 years	2.8	2.8
Male	62 years	5.9	5.9
Disability			
Female	57 years	1.2	1.2
Male	62 years	1.9	1.9

Following are the projected disbursements of voluntary retirement benefits expected in future years in case the plans are maintained without modification:

	<u>2021</u>
<u>Maturity of the obligation:</u>	
From 0 to 1 year	0
From 1 to 5 years	142,973
From 5 to 10 years	188,614
From 10 to 25 years	343,847
Beyond 25 years	77,640

At September 30, 2021, the average duration of the obligation for the defined benefit plans for voluntary retirement of employees (VRI/LRB) is approximately 7.49 years (2020: 7.92 years).

A quantitative sensitivity analysis, based on variation in basis points (bp), for significant assumptions, as of September 30, 2020, is as follows:

	<u>2021</u>			
	<u>Discount rate</u>		<u>Salary</u>	
<u>Assumption</u>	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>
Sensitivity level				
Impact on defined benefit obligation	(7,026)	7,487	7,129	(6,925)

	<u>2020</u>			
	<u>Discount rate</u>		<u>Salary</u>	
<u>Assumption</u>	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>
Sensitivity level				
Impact on defined benefit obligation	(8,052)	8,602	8,175	(7,932)

Notes to the Financial Statements

(26) Employee Benefits, continued

Reimbursement right to the ACP

The ACP contracted a reimbursement policy, which is recognized in accordance with IAS 19, for the defined benefit plans for voluntary employee retirement. The policy ensures the reimbursement of all payments made by the ACP in respect of defined benefit plans for voluntary employee retirement during the term of the plan. This reimbursement is valid if the ACP makes annual installments to the insurance company as a guaranteed 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 event that financially incapacitates from complying with payment of obligations to its employees, for any reason, including illiquidity. This protection will be provided if the event occurs during the term of the policy, the ACP is current in the payments of the premium and if the defined benefit plans for voluntary retirement are in effect.

The policy does not cover the risk of default that could arise from internal fraud, catastrophic physical risks, nuclear war, terrorism, and epidemics, which has been estimated at 3.0% (2020: 3.0%) of the total insured amount.

Changes in the reimbursement right to the ACP during fiscal year 2021 are detailed as follows:

	<u>Statement of Financial Position</u>	<u>Statement of Profit or Loss</u>		<u>Statement of Financial Position</u>	<u>Statement of Comprehensive Income</u>	<u>Statement of Financial Position</u>
	<u>October 1, 2020</u>	<u>Reimbursement right cost of the year</u>	<u>Net interest</u>	<u>Reimbursements during fiscal year</u>	<u>Actuarial adjustments</u>	<u>September 30, 2021</u>
2021						
Reimbursement right of ACP	<u>383,379</u>	<u>15,738</u>	<u>5,140</u>	<u>33,450</u>	<u>(18,751)</u>	<u>352,056</u>
	<u>Statement of Financial Position</u>	<u>Statement of Profit or Loss</u>		<u>Statement of Financial Position</u>	<u>Statement of Comprehensive Income</u>	<u>Statement of Financial Position</u>
	<u>October 1, 2019</u>	<u>Reimbursement right cost of the year</u>	<u>Net interest</u>	<u>Reimbursements during fiscal year</u>	<u>Actuarial adjustments</u>	<u>September 30, 2020</u>
2020						
Reimbursement right of ACP	<u>368,684</u>	<u>23,345</u>	<u>9,445</u>	<u>34,821</u>	<u>16,726</u>	<u>383,379</u>

During fiscal year 2021, the ACP paid the insurer B/.32,216 (2020: B/.34,806) in premiums to the reimbursement insurance policy.

Notes to the Financial Statements**(27) Risk Management**

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

The ACP's capital structure consists of net debt (borrowings and bonds as detailed in Notes 18 and 17), compensated by cash and bank deposit balances, securities investment and other financial assets (Note 10), in addition to its equity (consisting of contributed capital, investment programs contributions and reserves, other equity accounts, and earnings available for distribution, as disclosed in Notes 13, 14, 15 and 16, respectively).

Categories of financial instruments

	<u>2021</u>	<u>2020</u>
<i>Financial assets</i>		
Receivable to contractor (Note 9)	0	244,655
Securities investment and other financial assets (Note 10)	5,057,097	3,801,690
Trade and other receivables (Note 8)	27,849	37,516
Cash and cash equivalents (Note 12)	626,173	965,541
	<u>5,711,119</u>	<u>5,049,402</u>
<i>Financial liabilities</i>		
Bonds payable (Note 17)	446,329	445,764
Borrowings (Note 18)	1,733,738	1,968,507
Lease liabilities (Note 28)	8,742	11,101
Financial instruments designated as hedging instruments (Note 19)	77,451	115,313
Trade and other payables (Note 22)	167,192	211,058
	<u>2,433,452</u>	<u>2,751,743</u>

Notes to the Financial Statements

(27) Risk Management, continued

Accounting classification and fair values

The following tables shows the carrying amount and the fair value of financial assets and liabilities, including their fair value hierarchy levels, except short-term accounts receivable and payable for which the carrying amount is roughly like fair value:

	Carrying amount					Fair Value			
	Fair value - hedging instruments	FVOCI - Debt securities	Financial assets at amortized cost	Financial liabilities at amortized cost	Total	Level 1	Level 2	Level 3	Total
2021									
Financial assets measured at fair value									
Other financial assets									
Corporate debt securities	0	3,470,829	0	0	3,470,829	805,435	2,665,394	0	3,470,829
Instruments designated in cash flow hedging relationship:									
Diesel purchase call option contracts	2,036	0	0	0	2,036	0	2,036	0	2,036
	2,036	3,470,829	0	0	3,472,865	805,435	2,667,430	0	3,472,865
Financial assets not measured at fair value									
Other financial assets									
Time deposits, more than 90 days	0	0	1,578,586	0	1,578,586	0	1,580,288	0	1,580,288
Accrued interest receivable	0	0	5,646	0	5,646	0	5,643	0	5,643
	0	0	1,584,232	0	1,584,232	0	1,585,931	0	1,585,931
Financial liabilities measured at fair value:									
Other financial liabilities:									
Instruments designated in cash flow hedging relationship:									
Interest rate swaps	77,451	0	0	0	77,451	0	77,451	0	77,451
	77,451	0	0	0	77,451	0	77,451	0	77,451
Financial liabilities not measured at fair value:									
Bonds payable	0	0	0	446,329	446,329	0	0	557,703	557,703
Borrowings	0	0	0	1,733,738	1,733,738	0	0	1,784,929	1,784,929
	0	0	0	2,180,067	2,180,067	0	0	2,342,632	2,342,632

Notes to the Financial Statements

(27) Risk Management, continued

	Carrying amount					Fair value			
	Fair value - hedging instruments	FVOCI - Debt securities	Financial assets at amortized cost	Financial liabilities	Total	Level 1	Level 2	Level 3	Total
2020									
Financial assets measured at fair value									
Other financial assets									
Corporate debt securities	0	1,011,459	0	0	1,011,459	350,282	661,177	0	1,011,459
Instruments designated in cash flow hedging relationship:									
Diesel purchase call option contracts	367	0	0	0	367	0	367	0	367
	367	1,011,459	0	0	1,011,826	350,282	661,544	0	1,011,826
Financial assets not measured at fair value									
Other financial assets									
Time deposits, more than 90 days	0	0	2,775,669	0	2,775,669	0	2,786,638	0	2,786,638
Accrued interest receivable	0	0	14,195	0	14,195	0	14,195	0	14,195
	0	0	2,789,864	0	2,789,864	0	2,800,833	0	2,800,833
Receivable from contractor	0	0	244,655	0	244,655	0	244,655	0	244,655
	0	0	3,034,519	0	3,034,519	0	3,045,488	0	3,045,488
Financial liabilities measured at fair value:									
Other financial liabilities:									
Instruments designated in cash flow hedging relationship:									
Interest rate swaps	115,313	0	0	0	115,313	0	115,313	0	115,313
	115,313	0	0	0	115,313	0	115,313	0	115,313
Financial liabilities not measured at fair value:									
Bonds payable	0	0	0	445,764	445,764	0	0	561,969	561,969
Borrowings	0	0	0	1,968,507	1,968,507	0	0	2,015,271	2,015,271
	0	0	0	2,414,271	2,414,271	0	0	2,577,240	2,577,240

Hedging instruments such as interest rate swaps contracts are registered at their clean price and the interest is recognized under the line item of Accrued interest payable on other financial liabilities in the statement of financial position.

Notes to the Financial Statements

(27) Risk Management, continued

Fair value measurement

i. Valuation techniques and unobservable significant inputs

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

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Interest rate swap contracts	<i>Swap model:</i> fair value is calculated as the present value of the estimated cash flows. The future cash flows estimate of variable rates curves are based on quoted swap rates, future prices and interbank rates. Future cash flows are discounted using a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing interest rate swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated using credit margins derived from credit default swaps or bond prices.	None	None
Diesel purchase option contract	<i>Option Model:</i> the fair value is calculated using the Black Scholes Model, which determines the reasonable price or theoretical price of an option based on six variables: volatility, type of option, underlying price, time, strike price and risk free rate.	None	None
Corporate debt securities	<i>Market comparison.</i> Fair value is estimated considering recent or current quotes prices for identical instruments on an inactive market; or prices obtained through alternative pricing models supported by observable inputs such as yield curves of instruments with similar credit quality. The continued use of this valuation technique under COVID-19 crisis conditions is based on the criteria that the significant decrease in market activity and volatility due to such crisis are not enough reasons on their own for disregarding traded prices from transactions between unrelated parties, as reliable indicators of the market value of the instruments, except where there is evidence in the public domain that an orderly transaction was not carried out; in such specific cases the traded price could not reflect the real market value of the security (i.e. a forced transaction during a bankruptcy process).	None	None

Notes to the Financial Statements

(27) Risk Management, continued

Financial risk management objectives

The ACP's main financial liability consists of borrowings, bonds payable, lease liabilities, and trade accounts payable. The main purpose of these financial liabilities was to finance the Canal Expansion Program and the new bridge in the Atlantic coast of the Canal. The ACP also has cash, bank deposits, trade and other receivables, and funds invested in short term debt instruments. The ACP also contracts hedging instruments.

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

The ACP's administration monitors and manages these risks. The 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, in which it analyzes the exposures depending on their degree and magnitude. These risks include market risk (exchange risk and price risk), credit risk, liquidity risk, and interest rate risk. Teams of specialists with the appropriate knowledge, experience and supervision perform all the activities related to risk hedging.

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

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

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

Market risk

Market risk is the risk that changes in market prices of interest rates affect the income of the ACP or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the ACP's solvency while optimizing the return on risk.

The ACP's activities are exposed primarily to financial risks due to variations of interest rates, and commodity prices beyond its control. The ACP's financial instruments are at fixed rate; however, borrowings for B/.1,650,000 (2020: B/.1,870,000) are at a variable rate (Note 18). With the purpose of managing exposure to these risks, the ACP subscribes hedge instruments approved by its Board of Directors based on the recommendations of the Liquidity and Hedging Committee, including:

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

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Notes to the Financial Statements

(27) Risk Management, continued

Exchange rate risk management

The ACP has established a policy to avoid foreign currency risk related to its functional currency. The ACP only accepts payments in dollars of the United States of America and the investment criteria and applicable guidelines require that all deposits and investments in banks shall be in the dollars of the United States of America, or in other currencies authorized by the Board of Directors. The ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Cash flow and fair value interest rate risk

The interest rate risk of the cash flow and the interest rate risk of fair value consist in the fact that future cash flows and the value of a financial instrument fluctuate due to changes in market rates. The net financial cost of the ACP can fluctuate as a result to unanticipated movements on interest rates.

The following table resumes ACP's interest rate risk exposure due to interest repricing gaps based on the next repricing date or the maturity date of its financial assets and liabilities:

	2021					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Financial assets:						
Debt securities – FVOCI	1,270,586	972,445	1,227,798	0	0	3,470,829
Bank savings and time deposits	<u>1,351,404</u>	<u>125,100</u>	<u>733,901</u>	<u>0</u>	<u>0</u>	<u>2,210,405</u>
	<u>2,621,990</u>	<u>1,097,545</u>	<u>1,961,699</u>	<u>0</u>	<u>0</u>	<u>5,681,234</u>
Financial liabilities:						
Bonds payable	0	0	0	0	450,000	450,000
Borrowings	<u>1,650,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75,000</u>	<u>1,725,000</u>
	<u>1,650,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>525,000</u>	<u>2,175,000</u>
Interest rate swap hedges	<u>(560,000)</u>	<u>0</u>	<u>40,000</u>	<u>320,000</u>	<u>200,000</u>	<u>0</u>
Total interest rate Sensitivities	<u>1,531,990</u>	<u>1,097,545</u>	<u>1,921,699</u>	<u>(320,000)</u>	<u>(725,000)</u>	<u>3,506,234</u>

	2020					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Financial assets:						
Debt securities – FVOCI	560,214	213,956	237,289	0	0	1,011,459
Bank savings and time deposits	<u>2,296,405</u>	<u>715,100</u>	<u>743,900</u>	<u>0</u>	<u>0</u>	<u>3,755,405</u>
	<u>2,856,619</u>	<u>929,056</u>	<u>981,189</u>	<u>0</u>	<u>0</u>	<u>4,766,864</u>
Financial liabilities:						
Bonds payable	0	0	0	0	450,000	450,000
Borrowings	<u>1,870,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>85,000</u>	<u>1,955,000</u>
	<u>1,870,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>535,000</u>	<u>2,405,000</u>
Interest rate swap hedges	<u>(640,000)</u>	<u>0</u>	<u>40,000</u>	<u>320,000</u>	<u>280,000</u>	<u>0</u>
Total interest rate sensitivities	<u>1,626,619</u>	<u>929,056</u>	<u>941,189</u>	<u>(320,000)</u>	<u>(815,000)</u>	<u>2,361,864</u>

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

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

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(27) Risk Management, continued

The ACP performs simulations on its financial assets and liabilities to evaluate interest rate risk and its impact in the fair value of financial instruments. To manage interest rate risk, the ACP has defined an interval on the limits to monitor the sensitivity on its financial assets and liabilities.

The interest rate change impact estimation by category assumes a 100 basis points (bp) increase or reduction on the financial assets and liabilities.

The following table reflects the impact of applying those interest rate variations:

	Net interest income sensitivity			
	100 bp increase		100 bp decrease	
	2021	2020	2021	2020
Debt securities – FVOCI	21,048	6,922	(7,983)	(6,922)
Bank saving accounts and time deposits	10,977	26,652	(4,853)	(26,652)
Debt with multilateral credit agencies	(13,224)	(15,174)	2,719	15,174
Interest rate swap hedges	4,810	5,502	(927)	(5,502)
At the end of the year	23,611	23,902	(11,044)	(23,902)
Other comprehensive income sensitivity				
	100 bp increase		100 bp decrease	
	2021	2020	2021	2020
Debt securities – FVOCI	(13,798)	(3,257)	8,435	3,257
Interest rate swap hedges	25,703	33,018	(25,714)	(33,020)
At the end of the year	11,905	29,761	(17,279)	(29,763)

Interest rate risk management

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

The ACP determines whether an economic relationship between the hedged item and the hedging instrument exists based on the reference interest rates, terms, maturity dates and notional amounts. The ACP expects that the hedging relationship will not be altered as a result of the change in the reference interest rate due to the IBOR Reform.

Interest rate swap contracts

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

According to interest rate swap contracts, the ACP agreed to swap the difference between the fixed and floating interest rates amounts calculated on the agreed notional principal amounts.

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Notes to the Financial Statements**(27) Risk Management, continued**

Such contracts allow the ACP to mitigate the risk of interest rate changes that impact the cash flows of part of the hedged floating rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the yield curves at the end of the reporting period in question and the inherent credit risk in the contract, as it is explained further below.

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

	<u>Notional</u>	<u>Effective date</u>	<u>Maturity date</u>				
	600,000	May 17, 2010	November 15, 2028				
Interest rate swap contracts, variable receipts and fixed payments	Average contracted fixed interest rate		Notional principal value		Fair value		
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	
5 years or more	4.67%	4.67%	600,000	680,000	(77,451)	(115,313)	

Interest rate swaps are liquidated semi-annually. The floating rate on the interest rate swaps is the 6-month LIBOR rate. The ACP will pay or receive the difference between the floating and the fixed interest rate on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the ACP's cash flow exposure resulting from floating interest rates on borrowings. The interest rate swap contracts subscribed with the ACP's counterparties stipulate that the ACP would not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

Asset and liability derivative instruments designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, as well as the carrying amount of the hedge instruments:

	2021					2020				
	Carrying amount	Expected cash flow				Carrying amount	Expected cash flow			
		Total	1-6 months	6-12 months	More than 1 year		Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps:										
Assets	0	0	0	0	0	0	0	0	0	0
Liabilities	(77,451)	(89,296)	(13,574)	(12,641)	(63,081)	(115,313)	(127,901)	(13,952)	(14,131)	(99,818)
Diesel purchase call option contract:										
Assets	2,036	434	416	18	0	367	0	0	0	0
Total	(75,415)	(88,862)	(13,158)	(12,623)	(63,081)	(114,946)	(127,901)	(13,952)	(14,131)	(99,818)

Notes to the Financial Statements

(27) Risk Management, continued

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

	2021					2020				
	Carrying amount	Total	Expected cash flow 1-6 months	Expected cash flow 6-12 months	More than 1 year	Carrying amount	Total	Expected cash flow 1-6 months	Expected cash flow 6-12 months	More than 1 year
Interest rate swaps:										
Assets	0	0	0	0	0	0	0	0	0	0
Liabilities	(77,451)	(89,296)	(13,574)	(12,641)	(63,081)	(115,313)	(127,901)	(13,952)	(14,131)	(99,818)
Diesel purchase call option contract:										
Assets	2,036	434	416	18	0	367	0	0	0	0
Total	<u>(75,415)</u>	<u>(88,862)</u>	<u>(13,158)</u>	<u>(12,623)</u>	<u>(63,081)</u>	<u>(114,946)</u>	<u>(127,901)</u>	<u>(13,952)</u>	<u>(14,131)</u>	<u>(99,818)</u>

Liquidity risk management

Liquidity risk is the risk that the ACP will not be able in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

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

	2021						
	Carrying amount	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years
Financial assets:							
Debt securities – FVOCI	3,470,829	3,493,225	1,280,738	983,496	1,228,991	0	0
Time deposits – more than 90 days	1,584,232	1,887,999	1,025,899	125,659	736,441	0	0
Trade and other receivables	27,849	27,994	27,332	98	93	471	0
Cash and cash equivalents	626,173	626,222	626,222	0	0	0	0
	<u>5,709,083</u>	<u>6,035,440</u>	<u>2,960,191</u>	<u>1,109,253</u>	<u>1,965,525</u>	<u>471</u>	<u>0</u>
Financial liabilities:							
Bonds payable	446,329	745,144	0	11,138	11,137	89,100	633,769
Borrowings	1,733,738	1,893,904	119,386	0	134,182	1,049,215	591,121
Lease liabilities	8,742	8,806	1,242	1,242	2,464	3,858	0
Trade and other payables	167,192	167,192	167,180	0	12	0	0
	<u>2,356,001</u>	<u>2,815,046</u>	<u>287,808</u>	<u>12,380</u>	<u>147,795</u>	<u>1,142,173</u>	<u>1,224,890</u>
Hedging instruments:							
Diesel call option, fixed payment and variable receipt, net	2,036	434	180	236	18	0	0
Interest rate swap, fixed payment and variable receipt, net	(77,451)	(89,297)	(13,574)	0	(12,641)	(55,137)	(7,945)
	<u>(75,415)</u>	<u>(88,863)</u>	<u>(13,394)</u>	<u>236</u>	<u>(12,623)</u>	<u>(55,137)</u>	<u>(7,945)</u>

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(27) Risk Management, continued

		2020					
	Carrying amount	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years
Financial assets:							
Receivable to contractor	244,655	244,700	0	0	0	244,700	0
Debt securities – FVOCI	1,011,459	1,019,315	565,952	215,584	237,779	0	0
Time deposits – more than 90 days	2,789,864	2,805,180	1,331,008	724,862	749,310	0	0
Trade and other receivables	37,516	38,362	20,099	539	134	17,590	0
Cash and cash equivalents	965,541	965,720	965,720	0	0	0	0
	<u>5,049,035</u>	<u>5,073,277</u>	<u>2,882,779</u>	<u>940,985</u>	<u>987,223</u>	<u>262,290</u>	<u>0</u>
Financial liabilities:							
Bonds payable	445,764	756,381	0	100	11,137	89,100	656,044
Borrowings	1,968,507	2,097,644	118,489	0	128,158	1,011,359	839,638
Lease liabilities	11,101	10,890	1,239	1,115	2,154	6,382	0
Trade and other payables	211,058	211,058	211,046	0	12	0	0
	<u>2,636,430</u>	<u>3,075,973</u>	<u>330,774</u>	<u>1,215</u>	<u>141,461</u>	<u>1,106,841</u>	<u>1,495,682</u>
Hedging instruments:							
Diesel call option, fixed payment and variable receipt, net	367	0	0	0	0	0	0
Interest rate swap, fixed payment and variable receipt, net	(115,313)	(127,901)	(13,952)	0	(14,131)	(78,932)	(20,886)
	<u>(114,946)</u>	<u>(127,901)</u>	<u>(13,952)</u>	<u>0</u>	<u>(14,131)</u>	<u>(78,932)</u>	<u>(20,886)</u>

In order to finance the Canal Expansion Program for a total of B/.2,300,000, the ACP entered a Common Terms Agreement with five multilaterals credit agencies. Currently 4.3% of the debt (B/.75,000) has a fixed effective rate of 5.31%, while the remaining 95.7% (B/.1,650,000) has a variable average effective rate of 2.13%. The effective rate for the financing is 2.27% which is calculated as a weighted average of both its fixed and variable portions.

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

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

	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
2021							
Variable interest rate loans	2.13%	0	110,000	110,000	880,000	550,000	1,650,000
Fixed interest rate loans	5.31%	0	5,000	5,000	40,000	25,000	75,000
Fixed interest rate bonds	5.14%	0	0	0	0	450,000	450,000
		0	115,000	115,000	920,000	1,025,000	2,175,000
	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
2020							
Variable interest rate loans	2.02%	0	110,000	110,000	880,000	770,000	1,870,000
Fixed interest rate loans	5.31%	0	5,000	5,000	40,000	35,000	85,000
Fixed interest rate bonds	5.14%	0	0	0	0	450,000	450,000
		0	115,000	115,000	920,000	1,255,000	2,405,000

Notes to the Financial Statements

(27) Risk Management, continued

Fuel price risk

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

Maritime operations

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

In July 2021, the ACP purchased a diesel cap option contract to hedge its fiscal year 2022 operational diesel budget for 13.9 million gallons with a monthly notional of 920,000 gallons, with a strike price of B/.2.19 per gallon. During fiscal year 2021, the registered accumulated annual fuel consumption amounted to 12.8 million gallons (2020: 13.4 million gallons).

Energy generation

The ACP generates power for the consumption of the Canal's operations, while excess capacity is sold in the domestic energy market. During fiscal year 2021, the ACP consumed 30% of the power generated, while the remaining 70% was sold to the energy market (2020: 31% and 69%, respectively). Power generated by hydroelectric and thermal plants was 48% and 52%, respectively (2020: 28% and 72%).

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

Maritime operations fuel price risk sensitivity analysis

At September 30, 2021, the current price index for light diesel purchases made as of October 2021 is B/.2.16 (2020: B/.1.09) per gallon. Under the assumption of an increase / decrease of \pm B/.0.35 (2020: \pm B/.0.09) per gallon in the price of light diesel for the next 12 months, the annual increase / decrease in the operating expenses of light diesel would result in B/.1,319 and B/-.4,852, respectively (2020: B/.1,144 and B/-.1,144).

Credit risk management

It refers to the risk that the borrower or issuer of a financial asset may not comply, completely and on time, with any payment to be made in accordance with the terms and conditions agreed upon when the obligation was acquired. To mitigate the credit risk, the liquidity investment policy set limits by industry and by issuer because of the categorization of the Risk Assessment System adopted by the ACP, which includes the following factors: short-term international credit risk rating, capital/leverage coverage, country risk, liquidity index, impairment, performance, and credit risk. In the case of sovereign issuers, the country risk factor is the only one considered.

Notes to the Financial Statements**(27) Risk Management, continued**

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

Credit risk refers to the risk that one of the parties does not comply with its contractual obligations, resulting in financial loss to the ACP. To address this risk, ACP’s policies only allow depositing funds in banking institutions and financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-2 by Standard & Poor’s, P-2 by Moody’s Ratings, or F-2 by Fitch Ratings, Inc. Additionally, these policies allow for a total investment of up to fifteen percent (15%) of the portfolio in financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-3 by Standard & Poors, P-3 by Moody’s Bank Deposit Ratings, or F-3 by Fitch Ratings, Inc.

Credit quality analysis

The tables below show the credit quality analysis of the different type of financial assets the ACP maintains, which were classified based on their international risk rating reported by the risk rating agencies. The tables show whether assets measured at amortized cost or FVOCI were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit impaired.

Receivable from contractor

Receivable from the contractor recognized on September 2020 because of the arbitration awards in favor of the ACP for the net amount of B/.244,700 (Note 9), was collected on February 2021.

At September 30, 2021, the ECL for the receivable from contractor is as follow:

	<u>2021</u> 12-month ECL	<u>2020</u> 12-month ECL
Balance at the beginning of the year	45	0
Financial assets derecognized	(45)	0
New financial assets acquired	<u>0</u>	<u>45</u>
Balance at the end of the year	<u>0</u>	<u>45</u>

Trade and other receivables

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

By law, all services provided by the ACP, whether transit or commercial services, must be paid in advance or, in its replacement, an adequate guarantee of payment must be presented for the same amount as the one expected to be billed.

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(27) Risk Management, continued

Since the effects of COVID-19 postponed the collection of balances owed by some energy companies, the ACP carried out an impact analysis, based on the best evidence available to date. The analysis estimates that these balances will be collected in a period of no more than two years; therefore, the impact is not material. In addition, the ACP is monitoring the economic environment and is taking actions to limit its exposure to customers who have been affected by the pandemic.

At September 30, 2021, the ECL for the trade and other receivables is as follow:

	2021			Total
	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	
Balance at the beginning of the year	13	833	0	846
Net remeasurement of the loss allowance	2	(9)	0	(7)
Financial assets derecognized	(6)	(749)	0	(755)
New financial assets acquired	19	42	0	61
Balance at the end of the year	28	117	0	145

	2020			Total
	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	
Balance at the beginning of the year	2	0	0	2
Net remeasurement of the loss allowance	3	57	0	60
Financial assets derecognized	(1)	0	0	(1)
New financial assets acquired	9	776	0	785
Balance at the end of the year	13	833	0	846

Bank deposits

At September 30, 2021, all demand and time deposits accounts were placed in investment grade financial institutions.

	2021			2020		
	Amortized cost			Amortized cost		
	Cash and cash equivalents	Time deposits – more than 90 days	Total	Cash and cash equivalents	Time deposits – more than 90 days	Total
	12-month ECL	12-month ECL		12-month ECL	12-month ECL	
Aaa a Aa3	300,000	255,609	555,609	403,531	169,555	573,806
A1 a A3	197,866	1,128,895	1,326,761	68,933	1,348,999	1,417,932
Baa1	128,301	0	128,301	492,616	101,570	594,186
Baa2	7	200,143	200,150	499	1,174,961	1,175,460
Gross carrying amount	626,174	1,584,647	2,210,821	965,579	2,795,085	3,760,664
ECL loss allowance	(1)	(415)	(416)	(38)	(5,221)	(5,259)
Carrying amount	626,173	1,584,232	2,210,405	965,541	2,789,864	3,755,405

The line item of *Cash and cash equivalents* in the statement of financial position includes all demand deposits accounts, savings accounts, overnight deposits and time deposits with original maturities of less than 90 days.

Notes to the Financial Statements

(27) Risk Management, continued

Changes in the ECL allowance for bank deposits:

	2021 12-month ECL	2020 12-month ECL
Balance at the beginning of the year	5,259	502
Net remeasurement of the loss provision	1	8
Financial assets derecognized	(5,259)	(502)
New financial assets acquired	415	5,251
Balance at the end of the year	416	5,259

Investment securities measured at FVOCI

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

Given the COVID-19 situation, the ACP permanently monitors the measures adopted by governments and the implications that these may have on the behavior of the different sectors, among others, the interruption in supply chains, extensive suspension of productive activity, increased unemployment, recession of income for some sectors, price behavior (inflation), economic slowdown, etc.

At the closing of September 30, 2021, the financial statements do not reflect representative impacts related to the impairment of the investment portfolio.

	2021				2020			
	FVOCI				FVOCI			
	12-month ECL	Lifetime ECL- without credit impairment	Lifetime ECL - with credit impairment	Total	12-month ECL	Lifetime ECL- without credit impairment	Lifetime ECL - with credit impairment	Total
Aaa a Aa3	0	0	0	0	18,311	0	0	18,311
A1 a A3	644,668	0	0	644,668	286,940	0	0	286,940
Baa1	1,059,959	0	0	1,059,959	340,195	0	0	340,195
Baa2	979,120	0	0	979,120	233,752	0	0	233,752
Baa3	790,612	0	0	790,612	130,765	0	0	130,765
Gross carrying amounts	3,474,359	0	0	3,474,359	1,009,963	0	0	1,009,963
ECL loss allowance	(400)	0	0	(400)	(3,324)	0	0	(3,324)
Amortized cost	3,473,959	0	0	3,473,959	1,006,639	0	0	1,006,639
Carrying amount	3,470,829	0	0	3,470,829	1,011,459	0	0	1,011,459

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Notes to the Financial Statements**(27) Risk Management, continued**

The ECL allowance for the investment securities measured at fair value with changes in other comprehensive income is presented below:

	<u>2021</u> 12-month ECL	<u>2020</u> 12-month ECL
Balance at the beginning of the year	3,324	583
Net remeasurement of the loss provision	0	0
Financial assets derecognized	(3,324)	(583)
New financial assets acquired	400	3,324
Balance at the end of the year	<u>400</u>	<u>3,324</u>

Measurement of the gain or impairment loss

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

	<u>2021</u>		
	<u>Fair value</u>	<u>Amortized cost</u>	<u>Unrealized gain or (loss)</u>
A1 to A3	644,443	644,668	(225)
Baa1	1,059,243	1,059,959	(716)
Baa2	984,745	979,120	5,625
Baa3	<u>782,398</u>	<u>790,612</u>	<u>(8,214)</u>
	<u>3,470,829</u>	<u>3,474,359</u>	<u>(3,530)</u>

	<u>2020</u>		
	<u>Fair value</u>	<u>Amortized cost</u>	<u>Unrealized gain or (loss)</u>
Aaa to Aa3	18,311	18,311	0
A1 to A3	287,619	286,940	679
Baa1	340,588	340,195	393
Baa2	234,105	233,752	353
Baa3	<u>130,836</u>	<u>130,765</u>	<u>71</u>
	<u>1,011,459</u>	<u>1,009,963</u>	<u>1,496</u>

Notes to the Financial Statements**(27) Risk Management, continued****Credit risk concentration**

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

	<u>2021</u>	<u>2020</u>
Basic materials	221,049	119,770
Communications	336,587	6,435
Consumer, cyclical	53,888	109,957
Consumer, non-cyclical	778,144	156,865
Energy	316,184	3,070
Financials	1,019,610	465,143
Industry	164,806	53,966
Technology	138,653	0
Services	441,908	96,253
Total	<u>3,470,829</u>	<u>1,011,459</u>

According to the Board of Directors’ Agreement No. 365, the ACP may invest:

- Not less than 20% of its funds in private and official banks with international credit rating of A-2, P-2 and F-2. On a case-by-case basis, the Investment and Hedge Committee may approve investments in private and official banks where one of its international credit rating is A-3, P3 or F3.
- Not more than 80% of its funds in corporate debt instruments with international credit rating of A-2, P-2 and F-2, and up to 15% in instruments with international credit ratings of A-3, P-3 or F-3.

The ACP’s credit exposure and counterparties credit rating are continuously monitored. The credit exposure is controlled by counterparty limits that are quarterly reviewed through the Risk Assessment System for Banking Institutions and Corporate Issuers.

The maximum limits for credit exposure in financial instruments by bank institution or issuer are assigned considering the assessment of the following weighted factors:

1. International credit risk rating
2. Capital/leverage coverage
3. Country risk
4. Liquidity index
5. Impairment
6. Performance
7. Credit risk

Banking institutions and issuers are classified within three categories in the ACP’s risk system:

- A. Up to B/.200,000
- B. Up to B/.120,000
- C. Up to B/.60,000

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Notes to the Financial Statements

(28) Leases

The ACP maintains leases for buses to provide transportation service to employees and technology equipment, i.e. servers and switches. Generally, the lease contract periods are for one basic year and up to a maximum of four renewals. At the end of such renovations, a new tender is conducted and new assets are required. The ACP also maintains leases of other equipment such as vehicles, forklifts, dump trucks and latrines, for periods of twelve months or less and office and technology equipment for low value assets. The ACP applies the exemptions for low-value assets and short-term lease for these leases.

The ACP as lessee

Information about the leases for which the ACP is the lessee is presented below:

Right-of-use assets

The carrying amounts of the recognized right-of-use assets of lease contracts and their movements during the period are detailed below:

	<u>2021</u>	<u>2020</u>
<u>Equipment:</u>		
Balance at the beginning of the year	10,504	13,593
Additions	3,653	2,608
Depreciation for the year	(4,761)	(5,697)
Derecognition	(1,150)	0
Balance at the end of the year	<u>8,246</u>	<u>10,504</u>

Lease liabilities

At September 30, 2021, the ACP's lease liabilities amounted to B/.8,742 (2020: B/.11,101). See Note 27 for maturity analysis of lease liabilities as of September 30, 2021.

The following are the amounts recognized in profit or loss:

	<u>2021</u>	<u>2020</u>
Interest on lease liabilities	<u>168</u>	<u>268</u>
Expenses relating to short-term leases	<u>1,612</u>	<u>948</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	<u>98</u>	<u>380</u>

The following are the amounts recognized in the statement of cash flows:

	<u>2021</u>	<u>2020</u>
<u>Operating activities:</u>		
Interest expense on lease liabilities	168	268
Expenses relating to short-term leases	1,502	948
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	80	380
<u>Financing activities:</u>		
Payments to principal of lease contracts	<u>4,855</u>	<u>5,119</u>
Total cash outflows for leases	<u>6,605</u>	<u>6,715</u>

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Notes to the Financial Statements**(28) Leases, continued****The ACP as lessor**

The ACP leases its investment property, for example, its land and buildings. All leases are classified as operating leases from a lessor perspective, mainly because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

(29) Related Party Transactions

During fiscal year 2021, the ACP executed the following commercial transactions with the following Republic of Panamá institutions:

	Sale of goods and services		Purchase of goods and services	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	35,405	36,536	0	0
Other government entities	10,683	15,246	0	0
Social Security Administration	0	0	79,137	78,899
Fees paid to Panamánian Treasury	<u>0</u>	<u>0</u>	<u>592,812</u>	<u>542,679</u>
	<u>46,088</u>	<u>51,782</u>	<u>671,949</u>	<u>621,578</u>

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

	Amounts owed by the Republic of Panamá		Amounts owed to the Republic of Panamá	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,550	7,662	0	0
Other government entities	789	16,629	0	0
Public Works Ministry (MOP)	0	0	28,743	33,663
Social Security Administration	0	0	22,696	22,609
Public service fees	0	0	136	162
Panamánian Treasury – net ton transit	<u>0</u>	<u>0</u>	<u>45,117</u>	<u>43,345</u>
	<u>8,339</u>	<u>24,291</u>	<u>96,692</u>	<u>99,779</u>

As of September 30, 2021, the ACP does not maintain deposits at Banco Nacional de Panamá (2020: B/.1,261,890); therefore, have not, generated interest income during fiscal year 2021 (2020: B/.1,441).

Amounts owed by and owed to the Republic of Panamá are classified as accounts receivable and accounts payable, respectively. Additionally, the sales of goods and services to the Republic of Panamá were made at the ACP's usual prices or rates on the published lists, without discount.

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

Notes to the Financial Statements**(29) Related Party Transactions****Compensation and benefits to key executives**

On September 30, 2021, the ACP paid a total of B/.3,268 (2020: B/.2,349) for remuneration and benefits to its key management personnel. The Board of Directors' compensation for the fiscal year 2021 totaled B/.816 (2020: B/.680). 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.

(30) Commitments

Commitments for construction contracts in process and purchase orders pending of delivery are as follows:

	<u>2021</u>	<u>2020</u>
Investment Program - Others	53,913	54,613
Operations	<u>72,762</u>	<u>53,543</u>
Total	<u>126,675</u>	<u>108,156</u>

Commitments of the Investment Program - Others include: Damen Shipyards Gorinchem VB for the replacement of the Titan Crane for B/.14,197 (2020: B/.25,234); Ingeniería Continental, S. A. for expanding the operational capacity of the Diablo dock for B/.10,069 (2020: B/.322) and Constructora RJT, S. A. for improvements to the infrastructure of the Visitor Centers for B/.4,894 (2020: B/.1,783).

Commitments of operations include contracts awarded: for purchases of inventory for B/.10,641 (2020: B/.19,222), to Willis Towers Watson for the multi-year insurance policy B/.15,094 (2020: B/.12,866); to Relleno Transporte y Equipo, S. A. for excavation of the eastern slope of Bordada Cucaracha (phase 2) B/.13,897 (2020: B/.0) and Mapfre Panamá, S.A. for the multi-year insurance policy B/.5,897 (2020: B/.3,001).

Guarantees

The ACP subscribes contracts to carry out transactions in the domestic energy market, which are guaranteed with compliance bonds issued by a bank with investment grade A+ from Standards & Poor's. As of September 30, 2021, the active compliance bonds used to guarantee transactions between ACP and ETESA total B/.874 (2020: B/.794).

(31) Contingent Liabilities

The ACP is exposed to legal risk arising from disputes with contractors and other third parties. The outcome of any current or future proceedings normally cannot be predicted. Legal proceedings we currently consider to be material are outlined below. The legal proceedings referred to do not represent an exhaustive list.

Notes to the Financial Statements

(31) Contingent Liabilities, continued**Third Set of Locks litigation**

As of September 30, 2021, claims from GUPCSA and its shareholders, other than CUSA ("the plaintiffs") amount to:

Lock Gates Arbitration	610,435
Disruption Arbitration	3,567,811
Referral 18	14,876
Referral 17 (Retention Money)	<u>7,913</u>
Total	<u>4,201,035</u>

The foregoing constitutes the contingent liability of the ACP resulting from the claims under arbitration of plaintiffs, in relation to the Third Set of Locks. This contingent liability has no provisioned funds.

ACP believes it has meritorious defenses in all these claims and intends to defend itself vigorously.

Below is described the general information regarding the status of these arbitrations:

- *Motions to vacate the Concrete and Aggregate Arbitration awards before the US courts*
The Movants (GUPCSA, Sacyr, Webuild and JDN) sought to overturn the Partial Award and Final Award issued in the Concrete and Aggregate Arbitration which awarded some B/.238,000 to ACP plus costs. These proceedings were initiated in Federal court in Miami, Florida (the Miami Courts) in late November 2020. The Movants have alleged that the Partial and Final Awards should be vacated on multiple grounds, including arbitrator bias and denial of the opportunity to be heard. The motions to vacate the Partial and Final Awards were consolidated into one proceeding and on November 18th, 2021 the Miami Courts issued the decision denying the motion to vacate and granting the ACP's motion to confirm in relation to both awards.
- *The Lock Gates Arbitration*
In December 2016, the Claimants filed an ICC claim related to the design of the lock gates and labor costs adjustments, which is currently consolidated with another arbitration filed in July 2017, and includes exactly the same claims, resulting in reference ICC Case No. 22465/ASM/JPA (C-22966/JPA). Claimants filed its Statement of Claim at the end of March 2020 and quantified its claims at B/.610,435. The ACP submitted its Statement of Defense in December 2021. The hearing is set down for March-April 2022.
- *The Disruption Arbitration*
In December 2016, the Claimants filed their delay and disruption claim. This arbitration was consolidated with another arbitration filed in July 2017 related to exactly the same claims, resulting in ICC Case No.22466/ASM/JPA (C-22967/JPA).

In a Case Management Conference held on May 2, 2019 the claims were divided into two large tranches, taking into consideration their temporality and a Procedural Timetable was agreed. The Claimants filed their Statement of Claim for Tranche 1 in January 2020, quantifying their claims at B/.1,890,000. Since then there had been interruption to the timetable and it was granted a consolidation of both Tranches 1 and 2, as requested by the Claimants. As of September 30, 2021, the Claimants filed its consolidated Statement of Claim (covering both Tranches 1 and 2) and quantified its claims at B/.3,567,811.

Notes to the Financial Statements

(31) Contingent Liabilities, continued

- *Referrals 17 and 18 to the DAB*

Referral 17 was commenced by the Contractor on July 27, 2020 seeking return of the Performance Certificate and various amounts for financing the Performance Security and allegedly rectifying defects. Specifically, GUPCSA seeks return of the Replacement Performance and Defects Bond (amounting up to B/.50 million), the Replacement Performance and Defects Joint & Several Guarantee (B/.150 million), and the Retention money (B/.7,913). The DAB is due to inspect defects (and conduct a hearing) in January 2022.

Referral 18 was commenced on June 22, 2021 and is the Contractor's claim for the costs it says it has incurred in respect of various defects and financing/interest on the securities. The Contractor's monetary claims in Referrals 17 and 18 add up to B/.14,876, plus the amount of the Retention Money (B/.7.9 million, as above).

- *Arbitration final awards*

At the date of the issuance of financial statements, three (3) of the arbitrations filed by the plaintiffs against the ACP under the Arbitration Rules of the ICC concluded with arbitral awards in favor of the ACP in relation to the Temporary Cofferdam, Advance Payments, and the Concrete Aggregate and Mix Designs.

Others

There were six claims related to the Contract for the Construction of a Bridge across the Canal at the Atlantic side, which were compiled in a single arbitration process for an amount of B/.214,619 until a cut-off date to June 2018 and the costs of the process. The Arbitral Tribunal rendered a partial award, partially acknowledging five (5) of the six (6) claims of Puente Atlántico, S.A. (PASA) and rejecting one (1), without determining the amount to be paid.

According to the Tribunal award, the amounts and the damages after the cut-off date must have been determined by a final award in a further phase of the proceedings. However, the parties reached a settlement for an amount of B/.149,005 to be paid by ACP which ends the arbitration process thus, all the PASA's claims under the Construction of a Bridge across the Canal at the Atlantic side contract. The arbitral tribunal rendered a procedural order putting the arbitration to an end.

On November 18, 2016, a bailiff (*huissier de justice*) in France ordered a cautionary measure on a time deposit property of ACP of approximately B/.49,356. On April 26, 2017, a judge ordered the lifting of the cautionary measure, so that all the funds subject to the injunction were released and transferred to the ACP. This decision was confirmed by the Court of Appeal of Paris, by judgment issued on May 24, 2018. On May 24, 2019, the plaintiff filed a recourse against the decision of the Court of Appeals of Paris before the French Court of Cassation. On December 10, 2020, the French Court of Cassation rendered a Decision confirming that the measure of the French bailiff was unlawful and extraterritorial.

In addition, the ACP maintains marine claims for an amount of B/.3,134. Also has miscellaneous claims outstanding for an amount of B/.18,807 and other claims related to various construction contracts for B/.6,676. The ACP believes it has meritorious defenses in all these claims and intends to defend itself vigorously.

The notes contained herein are related to claims against the ACP, therefore, cannot and should not be considered as support or proof of acceptance of responsibility on the part of the ACP.

Notes to the Financial Statements

(32) COVID-19 Crisis

Starting on 2020, the Coronavirus (COVID-19) outbreak has spread throughout the world, resulting in the temporary suspension of certain production and supply chains, and consequently, disrupting international trade, leading to a global economic slowdown.

To guarantee the continuous operation of the Panamá Canal and facilitate world trade with a reliable and safe service, the ACP adopted a series of biosafety protocols in all operations following the guidelines from the Ministry of Health (MINSA). Updated versions of these protocols have been published to incorporate guidelines according to recent findings on this disease and its transmission controls.

At September 30, 2021, the impact of COVID-19 has not been significant for the entity; however, during the period after the date of the financial statements and until the date of their issuance, management will continue to monitor and assess the effects that the situation has had on its operations and those of its clients and debtors.

Management considers that the main factor of the COVID-19 crisis that has an impact on the financial statements of the ACP, based on the information available and the analysis carried out to date, is the human talent, as described below:

Human talent

The ACP inspection and control personnel ensures compliance with the Sanitary Regulations and Prevention of Contagious Diseases within the Panamá Canal waters. In the case of COVID-19, the following additional measures were taken: requesting the vessels with coronavirus cases to report to the Ministry of Health all crew changes at ports; confirming crew health status prior to boarding; providing employees with masks and alcohol gel; and communicating permanently with the doctors of the Ministry of Health.

As of September 30, 2021, only 10% of the workforce remains working remotely. The ACP has continued with measures to protect the workers whose functions must be carried out at the sites of operations. These actions included safety inspections, sanitization of facilities, work areas, and vehicle fleet; setting new transportation routes for employees; alternate schedules; the provision of protective equipment such as face shields, masks, and alcohol gel stations at sites; taking temperature at all accesses; and the operation of the Crisis Control Management Center for COVID-19 in collaboration with the Ministry of Health to manage positive cases, near contacts and quarantine periods. As a mitigation strategy, critical positions are monitored to determine incidence of COVID cases. Also, daily reports with positive and isolation cases are sent to the Department of Operations so that the necessary decisions are taken to assure the resources required for a daily average of 36 transits. From February to June 2021, a high percentage of ACP employees received, in ACP facilities, the Pfizer BioNTech vaccine against the COVID-19 provided by the Ministry of Health. Also, consulting services were contracted for the establishment of the ACP COVID-19 baseline and to provide a surveillance and monitoring protocol to control the contagions within the organization.

Additionally, the ACP has been updating customers on COVID-19 prevention guidelines and has established a system to support employee's mental and physical health issues, as well as financial advice during this health crisis.

Notes to the Financial Statements

(33) Events that Occurred after the Reporting Period

The Board of Directors approved at its meeting on December 13, 2021, the transfer to the National Treasury of the operating and functioning economic surplus corresponding to fiscal year 2021 by the amount of B/.1,487,818 (Note 16).



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