

**Financial Statements**

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

**Report**

**Autoridad del Canal de Panama**

*Year ended September 30, 2015  
with Independent Auditors' Report*

**(Translation of financial statements originally issued in Spanish)**  
**Autoridad del Canal de Panama**  
**Financial Statements**  
**September 30, 2015**

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

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

We have audited the accompanying financial statements of the Autoridad del Canal de Panama, which comprise the statement of financial position as of September 30, 2015, and the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Autoridad del Canal de Panama as of September 30, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



December 17, 2015  
Panama, Republic of Panama

**Autoridad del Canal de Panama**  
**Statement of Financial Position**  
**September 30, 2015**

*(In thousands of balboas B/.)*

<i>Notes</i>	<i>Assets:</i>	<b>2015</b>	<b>2014</b>
	Non-current assets:		
	Properties, plant, and equipment:		
4	Properties, plant, and equipment, net	<b>B/. 2,749,688</b>	B/. 2,617,430
4	Construction in progress	<b><u>5,571,187</u></b>	<u>4,547,682</u>
	Total properties, plant, and equipment	<b>8,320,875</b>	7,165,112
5	Other non-current assets	<b>889,697</b>	941,409
24	Reimbursement right to ACP	<b>268,310</b>	219,982
7	Investment properties	<b><u>89,831</u></b>	<u>89,757</u>
	Total non-current assets	<b><u>9,568,713</u></b>	<u>8,416,260</u>
	Current assets:		
8	Inventories, net	<b>76,716</b>	84,205
6,25,26	Trade and other receivables	<b>29,835</b>	42,927
17,25	Operations with settlement in progress	<b>441,042</b>	-
9,25	Other financial assets	<b>1,796,575</b>	1,827,174
10	Accrued interest receivable and other assets	<b>12,297</b>	12,961
11, 25	Cash and cash equivalents	<b><u>470,501</u></b>	<u>823,677</u>
	Total current assets	<b><u>2,826,966</u></b>	<u>2,790,944</u>
	Total assets	<b><u>B/. 12,395,679</u></b>	<u>B/. 11,207,204</u>

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

**Autoridad del Canal de Panama**  
**Statement of Financial Position**  
**September 30, 2015**

*(In thousands of balboas B/.)*

<i>Notes</i>	Equity and liabilities:	<b>2015</b>	2014
	Equity:		
12	Contributed capital	<b>B/. 1,906,193</b>	B/. 1,905,210
13	Contributions	<b>5,457,968</b>	4,811,774
13	Reserves	<b>914,479</b>	849,445
14	Other equity accounts	<b>(172,389)</b>	(137,325)
15	Unappropriated retained earnings	<b>649,613</b>	653,821
	Total equity	<b><u>8,755,864</u></b>	<u>8,082,925</u>
	Non-current liabilities:		
17,25	Bonds payable	<b>450,000</b>	-
	Less: discount and issuing costs	<b>10,772</b>	-
	Bonds payable, net	<b>439,228</b>	-
16,25	Borrowings	<b>2,300,000</b>	2,300,000
24	Employee benefits	<b>277,782</b>	227,748
19,25,26	Trade and other payables	<b>-</b>	83,639
18,25	Other financial liabilities	<b>170,977</b>	136,788
	Total non-current liabilities	<b><u>3,187,987</u></b>	<u>2,748,175</u>
	Current liabilities:		
19,25,26	Trade and other payables	<b>273,237</b>	192,494
20	Provision for marine accident claims	<b>21,041</b>	12,864
	Accrued salaries and vacation payable	<b>121,786</b>	124,851
18,25	Other financial liabilities	<b>13,044</b>	13,324
21	Other liabilities	<b>22,720</b>	32,571
	Total current liabilities	<b><u>451,828</u></b>	<u>376,104</u>
	Total equity and liabilities	<b><u>B/. 12,395,679</u></b>	<u>B/. 11,207,204</u>

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

**Autoridad del Canal de Panama**  
**Income Statement**  
**For the year ended September 30, 2015**

*(In thousands of balboas B/.)*

<i>Notes</i>		<b>2015</b>	<b>2014</b>
	Revenues:		
	Toll revenues	<b>B/. 1,994,209</b>	B/. 1,910,231
	Other Canal transit services	<b>446,745</b>	413,700
		<b>2,440,954</b>	2,323,931
	Other revenues:		
	Sales of electricity	<b>101,401</b>	246,123
26	Sale of potable water	<b>29,462</b>	29,421
	Interest earned	<b>12,519</b>	11,680
	Miscellaneous	<b>25,894</b>	17,996
	Total other revenues	<b>169,276</b>	305,220
	Total revenues	<b>2,610,230</b>	2,629,151
	Expenses:		
22	Salaries and wages	<b>434,588</b>	428,966
22,26	Employee benefits	<b>61,507</b>	60,106
22	Materials and supplies	<b>55,502</b>	55,243
22	Fuel	<b>87,854</b>	184,858
	Transportation and allowances	<b>2,144</b>	1,926
	Contracted services and fees	<b>84,938</b>	76,580
	Insurance	<b>11,869</b>	11,356
20	Provision for marine accidents	<b>11,087</b>	1,196
8	Provision for obsolete inventory	<b>487</b>	4,018
4,22	Depreciation	<b>92,510</b>	88,708
15,19,26	Fees paid to the Panamanian Treasury	<b>393,829</b>	376,843
22	Other expenses	<b>13,074</b>	13,958
	Total expenses	<b>1,249,389</b>	1,303,758
	Profit for the year	<b>B/. 1,360,841</b>	B/. 1,325,393

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

**Autoridad del Canal de Panama**  
**Statement of Comprehensive Income**  
**For the year ended September 30, 2015**

*(In thousands of balboas B/.)*

<i>Note</i>	<b>2015</b>	<b>2014</b>
Profit for the year	<b><u>B/. 1,360,841</u></b>	<b><u>B/. 1,325,393</u></b>
Other comprehensive income		
Other comprehensive income to be reclassified to net profit of subsequent periods:		
Net loss in cash flow hedges - interest rate swap contracts	<b>(34,234)</b>	<b>(5,176)</b>
Net gain in cash flow hedges - diesel prices swap contracts	<b><u>46</u></b>	<b><u>233</u></b>
Net other comprehensive income to be reclassified to the net profit of subsequent periods	<b><u>(34,188)</u></b>	<b><u>(4,943)</u></b>
Other comprehensive income not to be reclassified to net profit of subsequent periods:		
Remeasurement losses of defined benefit plans	<b><u>(876)</u></b>	<b><u>(537)</u></b>
Net other comprehensive income not to be reclassified to net profit of subsequent periods	<b><u>(876)</u></b>	<b><u>(537)</u></b>
14 Other comprehensive loss for the year	<b><u>(35,064)</u></b>	<b><u>(5,480)</u></b>
Total comprehensive income for the year	<b><u>B/. 1,325,777</u></b>	<b><u>B/. 1,319,913</u></b>

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

**Autoridad del Canal de Panama**  
**Statement of Changes in Equity**  
**For the year ended September 30, 2015**

*(In thousands of balboas B/.)*

		Contributed capital	Contributions	Reserves	Other equity accounts	Unappropriated retained earnings	Total equity
<i>Notes</i>	<b>Balance as of October 1, 2013</b>	<b>B/. 1,905,223</b>	<b>B/. 4,309,164</b>	<b>B/. 684,250</b>	<b>B/. (131,845)</b>	<b>B/. 610,537</b>	<b>B/. 7,377,329</b>
	Profit for the year	-	-	-	-	1,325,393	1,325,393
14	Other comprehensive income:						
	Cash flow hedges	-	-	-	(4,943)	-	(4,943)
	Remeasurement of defined benefit plans actuarial loss	-	-	-	(537)	-	(537)
	Comprehensive income of the year	-	-	-	(5,480)	1,325,393	1,319,913
15	Transfer to the Panamanian Treasury	-	-	-	-	(610,537)	(610,537)
	Other	-	-	-	-	(3,767)	(3,767)
13	Contributions	-	502,610	-	-	(502,610)	-
13	Net increase in equity reserves	-	-	165,195	-	(165,195)	-
4	Properties transferred to the Republic of Panama	(13)	-	-	-	-	(13)
	<b>Balance as of September 30, 2014</b>	<b>B/. 1,905,210</b>	<b>B/. 4,811,774</b>	<b>B/. 849,445</b>	<b>B/. (137,325)</b>	<b>B/. 653,821</b>	<b>B/. 8,082,925</b>
	Profit for the year	-	-	-	-	1,360,841	1,360,841
14	Other comprehensive income:						
	Cash flow hedges	-	-	-	(34,188)	-	(34,188)
	Remeasurement of defined benefit plans actuarial loss	-	-	-	(876)	-	(876)
	Comprehensive income of the year	-	-	-	(35,064)	1,360,841	1,325,777
15	Transfer to the Panamanian Treasury	-	-	-	-	(653,821)	(653,821)
13	Contributions	-	646,194	-	-	(646,194)	-
13	Net increase in equity reserves	-	-	65,034	-	(65,034)	-
4	Properties transferred from the Republic of Panama	983	-	-	-	-	983
	<b>Balance as of September 30, 2015</b>	<b>B/. 1,906,193</b>	<b>B/. 5,457,968</b>	<b>B/. 914,479</b>	<b>B/. (172,389)</b>	<b>B/. 649,613</b>	<b>B/. 8,755,864</b>

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



**Autoridad del Canal de Panama**  
**Statement of Cash Flows**  
**For the year ended September 30, 2015**

*(In thousands of balboas B/.)*

<i>Notes</i>		<b>2015</b>	<b>2014</b>
	<b>Cash flows from operating activities:</b>		
	Profit for the year	<b>B/. 1,360,841</b>	B/. 1,325,393
4,22	Depreciation	<b>92,510</b>	88,708
24	Net movements in defined benefit plans, net of reimbursement right	<b>830</b>	3,462
4	Loss on disposal of fixed asset	<b>256</b>	731
8	Estimation for inventory obsolescence	<b>487</b>	4,018
20	Provision for marine accidents	<b>11,087</b>	1,196
	Changes in working capital:		
	Decrease (increase) in trade and other receivables	<b>13,092</b>	(8,270)
	Decrease (increase) in inventories	<b>7,002</b>	(8,001)
	Decrease in accrued interest receivable and other assets	<b>665</b>	2,440
	Increase (decrease) in trade and other payables	<b>80,743</b>	(55,458)
20	Payments of marine accidents claims	<b>(2,910)</b>	(5,021)
	(Decrease) increase in accrued salaries and vacation payable	<b>(3,065)</b>	3,383
	(Decrease) increase in other current financial liabilities	<b>(280)</b>	317
	(Decrease) increase in other liabilities	<b>(9,851)</b>	23,584
	<b>Net cash provided by operating activities</b>	<b><u>1,551,407</u></b>	<u>1,376,482</u>
	<b>Cash flows from investing activities</b>		
	Purchase of properties, plant, and equipment	<b>(1,279,546)</b>	(1,131,046)
	Purchase of other financial assets	<b>(2,394,635)</b>	(2,480,220)
	Maturities of other financial assets	<b>2,425,233</b>	2,365,460
	<b>Net cash used in investing activities</b>	<b><u>(1,248,948)</u></b>	<u>(1,245,806)</u>
	<b>Cash flows from financing activities:</b>		
17	Other costs for bonds issuance	<b>(1,814)</b>	-
16	Proceeds from long-term borrowings	<b>-</b>	850,000
15	Transfer to Panamanian Treasury	<b>(653,821)</b>	(610,537)
	<b>Net cash (used in) provided by financing activities</b>	<b><u>(655,635)</u></b>	<u>239,463</u>
	Net (decrease) increase in cash and cash equivalents	<b>(353,176)</b>	370,139
	Cash and cash equivalents at the beginning of the year	<b>823,677</b>	453,538
11	Cash and cash equivalents at the end of the year	<b><u>B/. 470,501</u></b>	<u>B/. 823,677</u>
	<b>Investment activities that did not represent cash outflows:</b>		
7	Reclassification from properties, plant, and equipments to investment properties	<b>B/. (74)</b>	B/. (89,757)
	<b>Interests:</b>		
	Received	<b>B/. 41,667</b>	B/. 41,742
	Paid	<b>B/. 69,224</b>	B/. 61,934

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

**Autoridad del Canal de Panama**  
**Statement of Cash Flows**  
**For the year ended September 30, 2015**

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*(In thousands of balboas B/.)*

**Explanation Added for Translation into English**

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

**1. General information**

The financial statements of the ACP for the period ended as of September 30, 2015, were approved by the Board of Directors and authorized for issuance on December 17, 2015.

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

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

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

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

**Autoridad del Canal de Panama**  
**Notes to Financial Statements**  
**September 30, 2015**

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*(In thousands of balboas B/.)*

**2. Basis of preparation**

The financial statements of the ACP, including the comparatives, for the year ended September 30, 2015, have been prepared in accordance with the International Financial Reporting Standards (IFRS), disseminated by the International Accounting Standards Board (IASB).

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

**3. Significant accounting policies**

***Functional currencies***

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

***Revenue recognition***

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

***Toll revenue***

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

***Sale of electricity***

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

***Sale of potable water***

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

**Autoridad del Canal de Panama**  
**Notes to Financial Statements**  
**September 30, 2015**

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*(In thousands of balboas B/.)*

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

*Services rendered*

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

*Interests*

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

*Transfer to Panamanian Treasury*

Transfer to Panamanian Treasury corresponds only to surplus of net income that is remitted to the Panama National Treasury, once the operating costs, capital projects, management, maintenance, modernization, Canal expansion, and the reserves provided according to the ACP Organic Law and approval of the ACP Board of Directors, are covered. This transfer is recognized when approved.

*Fees paid to the Panamanian Treasury*

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

***Borrowing and bonds issued costs***

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

**Autoridad del Canal de Panama**  
**Notes to Financial Statements**  
**September 30, 2015**

*(In thousands of balboas B/.)*

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

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

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

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

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

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

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

The following estimated useful lives were used to calculate depreciation:

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

**Autoridad del Canal de Panama**  
**Notes to Financial Statements**  
**September 30, 2015**

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*(In thousands of balboas B/.)*

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

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

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

***Investment properties***

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

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

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

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

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

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

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

**Autoridad del Canal de Panama**  
**Notes to Financial Statements**  
**September 30, 2015**

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*(In thousands of balboas B/.)*

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

***Cash and cash equivalent***

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

***Inventories***

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

***Provisions***

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

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

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

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

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

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

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

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

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

#### *Employee benefits*

Ninety one percent (91%) of the workforce in the ACP is represented by six bargaining units (unions) that have collective agreements that are negotiated and their terms are adjusted periodically. Currently, the ACP is negotiating new agreements with five of the six bargaining units, and will negotiate with the sixth unit starting in midyear of 2016. It is anticipated that during 2016, negotiations will reach favorable terms for all parties.

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

#### *Voluntary retirement plans*

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



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*(In thousands of balboas B/.)*

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

*Defined benefit contribution plan*

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

***Reimbursement right to ACP***

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

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

***Financial assets***

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

*Trade and other receivables*

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

*Held-to-maturity investments*

Investments in commercial paper and debt instruments with fixed or determinable payments and with fixed maturities are classified as held-to-maturity when the ACP has the intention and the ability to hold to maturity.

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method less any impairment. The amortized cost is calculated taking into account any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

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

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

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

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

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

#### ***Recognition of financial instruments***

The ACP utilizes the trade date for the recognition of financial instruments transactions.

#### ***Financial liabilities***

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

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

#### ***Borrowings and bonds issued***

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

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*(In thousands of balboas B/.)*

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

*Trade and other payables*

Accounts payable do not earn interest and are booked at their face value. The ACP is exempt from the payment of any national or municipal levy, tax, duty, fee, rate, charge or contribution, with the exemption of Social Security payments, educational insurance, workmen's compensation, and fees for public services.

*Other financial liabilities*

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

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

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

*Hedge accounting*

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

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

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*(In thousands of balboas B/.)*

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

*Cash flow hedges*

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

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

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

*Derecognition of financial liabilities*

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

*Changes in accounting policies*

The accounting policies used in preparing the financial statements for the year ended September 30, 2015 are the same as those applied in the financial statements for the year ended September 30, 2014.

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

**Improvements to IFRSs**

*Annual improvements of Cycles*

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

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*(In thousands of balboas B/.)*

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

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

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

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

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

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

These financial statements are prepared in conformity with IFRS which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include, but are not limited to the:

- determination of the useful life of fixed assets (note 4)
- recoverability of advances made to GUPCSA, the ACP's primary contractor and the related accounting and disclosure for claims to and from GUPCSA. Such amounts are mostly secured by bank guarantees (notes 5 and 25)
- recoverability of property, plant, and equipment, including construction in progress balances (note 4)
- fair value of financial instruments (note 25)
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (note 24), and
- estimates for the provision for marine accident claims and contingencies, including contingencies associated with GUPCSA (notes 20 and 28, respectively).

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(In thousands of balboas B/.)

**4. Properties, plant, and equipment**

Properties, plant, and equipment are detailed as follows:

<i>Cost</i>	<b>Buildings</b>		<b>Structures</b>		<b>Equipments</b>		<b>Lands</b>		<b>Construction in progress</b>	<b>Total</b>
<i>Balance as of October 1, 2013</i>	B/.	114,158	B/.	863,416	B/.	1,440,623	B/.	1,111,985	B/.	7,204,496
<b>Additions</b>		2,158		19,511		128,901		(89,757)		934,181
<b>Retirements</b>		(65)		(162)		(11,626)		-		(11,853)
<b>Property transfers:</b>										
To the Republic of Panama		-		-		(50)		-		(50)
<i>Balance as of September 30, 2014</i>		116,251		882,765		1,557,848		1,022,228		8,126,774
<b>Additions</b>		5,000		175,822		46,209		909		1,251,445
<b>Retirements</b>		(871)		(690)		(14,427)		-		(15,988)
<i>Balance as of September 30, 2015</i>	B/.	120,380	B/.	1,057,897	B/.	1,589,630	B/.	1,023,137	B/.	9,362,231
<i>Accumulated Depreciation</i>										
<i>Balance as of October 1, 2013</i>	B/.	(38,031)	B/.	(285,557)	B/.	(558,111)		-		(881,699)
<b>Depreciation</b>		(2,484)		(21,904)		(66,881)		-		(91,269)
<b>Retirements</b>		45		90		11,133		-		11,268
<b>Property transfers:</b>										
To the Republic of Panama		-		-		38		-		38
<i>Balance as of September 30, 2014</i>		(40,470)		(307,371)		(613,821)		-		(961,662)
<b>Depreciation</b>		(2,391)		(22,394)		(70,689)		-		(95,474)
<b>Retirements</b>		762		662		14,356		-		15,780
<i>Balance as of September 30, 2015</i>	B/.	(42,099)	B/.	(329,103)	B/.	(670,154)	B/.	-	B/.	(1,041,356)
<i>Net Book Value</i>										
<i>Balance as of September 30, 2015</i>	B/.	78,281	B/.	728,794	B/.	919,476	B/.	1,023,137	B/.	8,320,875
<i>Balance as of September 30, 2014</i>	B/.	75,781	B/.	575,394	B/.	944,027	B/.	1,022,228	B/.	7,165,112

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*(In thousands of balboas B/.)*

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

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion		Investment Program - Others		Total Construction in Progress	
Balance as of October 1, 2013	B/.	3,369,546	B/.	304,768	B/.	3,674,314
Additions		786,621		171,019		957,640
Transfers to properties, plant and equipment		(454)		(150,262)		(150,716)
Interests, commissions and other financing expenses		66,444		-		66,444
Balance as of September 30, 2014		4,222,157		325,525		4,547,682
Additions		956,342		224,486		1,180,828
Transfers to properties, plant and equipment		(204)		(226,875)		(227,079)
Interests, commissions and other financing expenses		69,756		-		69,756
<b>Balance as of September 30, 2015</b>	<b>B/.</b>	<b>5,248,051</b>	<b>B/.</b>	<b>323,136</b>	<b>B/.</b>	<b>5,571,187</b>

As of September 30, 2015, the ACP recorded losses of B/.256 (2014: B/.731) as a result of the derecognition of assets. Main assets derecognized included transformers, ducts system, air compressor y diesel tanks. During 2014, main assets derecognized included hydraulic shear, switches, concrete duct and alarm system.

At September 30, 2015, depreciation of B/.2,964 (2014: B/.2,561) corresponding to equipment used in investment projects was capitalized as properties, plant, and equipment.

During fiscal year 2015, two lots of lands for B/.74 were transferred to investment properties. (See note 7)

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(In thousands of balboas B/.)

**5. Other non-current assets**

Other non-current assets are detailed as follows:

	2015	2014
Grupo Unidos Por El Canal, S.A. (GUPCSA):		
Mobilization	B/. 247,959	B/. 247,959
Plant	300,000	300,000
Suppliers of key project materials	-	68,279
Specific suppliers	99,078	147,417
Lock gates	30,754	42,754
Specified expenditures	99,995	100,000
Subcontractors and suppliers	85,589	-
Sub-total	863,375	906,409
Others:		
Construction of bridge over the Atlantic side of the Canal	26,322	35,000
Sub-total	26,322	35,000
Total other non-current assets	B/. 889,697	B/. 941,409

Grupo Unidos por el Canal, SA (GUPCSA) is the Contractor Project Company which is responsible of the contract for the Design and Construction of the Third Set of Locks of the Panama Canal, and its shareholders are Sacyr Vallehermoso, S.A., Jan de Nul N.V., Salini-Impregilo S.p.A, and Constructora Urbana, S.A.(CUSA).

On December 31, 2014, the Dispute Adjudication Board (DAB) issued its decision recognizing the payment of a fraction of the amounts claimed by GUPCSA, of alleged cost overruns related to the basalt aggregates and concrete mix design for the construction of the Third Set of Locks. In this case, GUPCSA claimed B/.463,935 of which the DAB recognized just B/.233,234. As stipulated in the contract, B/.116,617 or 50% of the funds granted to GUPCSA were applied to fully repay the *Advance Payment for Key Suppliers* for B/.68,279 and to reduce the *Advance Payment for Specified Suppliers* for B/.48,338. The remainder amount for B/.116,617 was paid to GUPCSA by transfer according to the terms and conditions established in the contract.

The ACP holds a Joint and Several Guarantee issued by Sacyr, Impregilo, Jan De Nul and CUSA and a Parent Company Guarantee signed by SOFIDRA, parent company of Jan De Nul, which were submitted to the ACP as part of its requirements to give its consent for the assignment of the contract from the consortium Grupo Unidos por el Canal (GUPC) to the corporation Grupo Unidos por el Canal, S.A. (GUPCSA), current contractor. Under these guarantees, the companies mentioned above, undertake before ACP, the joint and several liability, as main debtor, to guarantee to the ACP the compliance of all obligations, guarantees and commitments assumed by the Contractor (GUPCSA) in accordance with the terms and conditions of the contract.



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*(In thousands of balboas B/.)*

**5. Other non-current assets (continued)**

These amounts represent outstanding balances of advance payments for the following items:

*Mobilization and Plant:*

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

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

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

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

As of September 30, 2015, the ACP has withheld to GUPCSA B/.52,041.

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

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*(In thousands of balboas B/.)*

**5. Other non-current assets (continued)**

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

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

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

As of September 30, 2015, no amounts have been withheld by the ACP to GUPCSA.

*Key Suppliers:*

On August 29, 2012, at the request of GUPCSA, the parties agreed a variation to the contract to enable the ACP to make advance payments to GUPCSA, to be used for payments of certain key suppliers for invoices dated between May 2012 and the contractor's application for interim payment of December 2012 up to a maximum amount of B/.82,500 or up to a cut-off date of December 23, 2013, whichever occurs earlier. As of September 30, 2015, the amount of the advance by ACP to GUPCSA was B/.68,279.

According to the contract, this advance payment was originally to be repaid by withholdings of 5% from each payment certificate from the ACP to the contractor, commencing with the payment certificate issued in response to the January 2013 interim application for payment until the advance payment was repaid in full. On November 23, 2012 at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to provide for a temporary deferral of the to the contract, this advance payment was originally to be repaid by withholdings of 19% from each payment certificate from the ACP to the contractor until the advance payment for plant of the advance payment for key suppliers and the provisions and timing for repayment were further deferred at the request of GUPCSA by subsequent amendments to the contract on February 14, 2013, June 24, 2013, December 20, 2013, March 13, 2014 and June 16, 2014, on the condition of attainment by GUPCSA of various production targets and conditions in order to extend the temporary deferral of the repayment of the advances.

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*(In thousands of balboas B/.)*

**5. Other non-current assets (continued)**

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

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

At September 30, 2015, the ACP reduced the advance payment in full due to the application of a claim decided by the DAB in favor of the contractor on December 31, 2014.

*Specified suppliers:*

On December 24, 2012, at the request of GUPCSA, the parties agreed a variation to the contract to enable the ACP to make advance payments to the contractor of the amounts to be paid by the contractor to certain specified suppliers up to a maximum amount of B/.150,000 or up to a cut-off date of April 30, 2013, whichever occurs earlier. As of September 30, 2015, the amount remitted by ACP to GUPCSA was B/.147,417.

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*(In thousands of balboas B/.)*

**5. Other non-current assets (continued)**

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

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

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

At September 30, 2015, the ACP reduced the advance payment in B/.48,338 due to application of a claim decided by the DAB in favor of the contractor on December 31, 2014.

*Lock gates:*

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

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**5. Other non-current assets (continued)**

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

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

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

As of September 30, 2015, the ACP has withheld B/.6,378 (2014: B/.6,378).

Second advance payment for lock gates: On August 7, 2014, at the request of GUPCSA, the parties agreed to a variation to the contract to enable the ACP to make further advance payments to the contractor of amounts to be paid by the contractor to the lock gates fabricator on or after August 1, 2014 up to a maximum amount of B/.30,000. As of September 30, 2015, the amount remitted by ACP to GUPCSA was B/.30,000. The second advance payment for lock gates is fully secured by a payment bond issued by Nacional de Seguros de Panamá y Centroamérica, S.A., until its expiry date which is January 31, 2016.

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**5. Other non-current assets (continued)**

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

At September 30, 2015, the ACP has retained B/.12,000 (2014:B/.-). On April 30, 2015, the parties signed the Contract Variation 145, whereby the date of cancellation of this second advance was extended until December 2016.

*Specified expenditures:*

On March 13, 2014, at the request of GUPCSA, the parties agreed to a variation to the contract to enable each party to contribute B/.100,000 to allow GUPSA to pay amounts owned to suppliers and subcontractors. In this variation ACP agreed to make advance payments for B/.100,000 if GUPCSA also contributed B/.100,000 for this purpose. As of September 30, 2015, the amount remitted by ACP to GUPCSA was B/.99,995. On March 20, 2014, June 26, 2014 and August 1, 2014, at the request of GUPCSA, it was agreed by the parties to make a variation to the contract to amend the provisions relating to the advance payment for specified expenditures. The advance payment for specified expenditures is fully secured by the advance payment guarantees.

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

As of September 30, 2015, the ACP has withheld B/.5 (2014: B/.-).

*Subcontractors and suppliers (Suppliers - VO 149):*

On June 5, 2015, at the request of GUPCSA, was agreed between the parties to vary the contract to enable the ACP to make a new advance of part of the contract price, up to B/.120,000 and the contractor shall obtain and provide to the ACP a joint and several guarantee to ensure such advance payment. The guarantee must be submitted by the contractor to the ACP, not later than 50 working days after the date of the order of variation, which ended on August 14, 2015. The security referred to has not been received so far. At September 30, 2015, the amount remitted by ACP to GUPCSA was B/.85,589.

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**5. Other non-current assets (continued)**

As of September 30, 2015, no amounts have been withheld by the ACP to GUPCSA. Since the contractor did not submit the documentation required by the terms established in the contract, the ACP is entitled to make deductions from payments to GUPCSA by advance work under the contract. The ACP will make deductions to recover the full amount of the advance payment. During the months of October and November 2015, the ACP withheld B/.4,000.

Others:

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

Puente Atlantico, S.A. is the Contractor Project Company created by Vinci Construction Grand Projects (VINCI), for the construction of a bridge across the Canal at the Atlantic Side. According to the contract, the ACP advances are for a maximum amount of B/.35,000 which will be made in three payments; the first for B/.20,000, second for B/.10,000 subdivided into two sub-payments of B/.5,000 each and the third for B/.5,000.

As of September 30, 2015, the ACP disbursed to the contractor B/.35,000 (2014:B/.37,317) in concept of advances and cost of performance and payment bonds. The advance is secured by irrevocable letters of credit in effect for the full amount of the advance. In the event that advances have not been recovered by the ACP 45 days before the expiration of the corresponding irrevocable letters of credit, the contractor shall, at the latest 30 days prior to the expiration of the letters, extend the validity thereof for one period not less than one year or the ACP may request the bank payment of corresponding letters. According to the contract, this advance payment will be repaid by withholdings from each payments from the ACP to the contractor for work performed. As of September 30, 2015, the amount withheld from payments to the contractor is B/.10,995 (2014: B/.2,317) for the payment of cost recovery of the aforementioned bonds, according to the contract. Discounts related to B/.35,000 prepayment began after the construction progress of the project exceeded 10% of the contract.

**6. Trade and other receivables**

Trade and other current receivables are detailed as follows:

	2015	2014
Transits	B/. 6,531	B/. 3,766
Sale of electricity	13,475	29,516
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	5,087	5,321
Other government entities	2,140	1,643
Other services	2,602	2,681
	<u>B/. 29,835</u>	<u>B/. 42,927</u>

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**6. Trade and other receivables (continued)**

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

Aging of past due but not impaired receivables:

	<b>2015</b>	2014
60 - 90 days	B/. 24	B/. 43
90 - 180 days	<u>138</u>	<u>56</u>
	<u><b>B/. 162</b></u>	<u><b>B/. 99</b></u>

**7. Investment properties**

The following table presents details of investment properties at September 30, 2015:

	<b>2015</b>	2014
Balance at the beginning of the year	B/. 89,757	B/. -
Adittions:		
Land	<u>74</u>	<u>89,757</u>
Balance at the end of the year	<u><b>B/. 89,831</b></u>	<u><b>B/. 89,757</b></u>

As of September 30, 2015, ACP investment properties were increased by reclassifications from property, plant, and equipment as follows:

An area of 180,345 square meters of land, water surface and underwater background, granted in concession to the Panama International Terminal, S.A. (PSA) for a period of 20 years (with option of extension for the same period subject to ACP determination) to develop, build, operate and manage a container yard and two docks with a total length of 797 linear meters, with a book value of B/.52 and fair value of B/.65,082. Upon termination of the contract, all facilities such as docks, buildings and other improvements constructed within the port will be property of the ACP free of any debt and lien. The ACP may terminate this concession contract early, if it determines that the use or activity is no longer compatible with the operation of the Canal, or the area is required for the operation or expansion of the Canal. Upon termination of the contract under these circumstances, the ACP will be obliged to pay the Concessionaire a compensation limited to the total amount of the cost of design and construction of the installations and dredging works made in the area of the concession which has been previously authorized by the ACP. To the amount of the cost of the facilities built and dredging works made, the ACP will deduct a proportional depreciation leading to zero the value of the compensation, within a period not to exceed twenty (20) years from the start of operations of the container terminal.



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**7. Investment properties (continued)**

An area of 1,499.95 square meters granted in concession to Large Screen Cinema Corp. for a period of 10 years, renewable for another 10 years period with a book value of B/.22 and fair value of B/.9,376. The concessionaire will transfer to the ACP both, the building and the additional assets, upon completing the construction phase of the theater. The concessionaire is responsible for the design, construction, operation and maintenance of a large-format film theater that will be located at the adjacent area of the Miraflores Visitor Center.

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

During 2014, a land with an area of 464,759.71 square meters, located in the extreme south (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP, with a book value of B/.89,757 and fair value of B/.90,628, was registered as investment property. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities.

**8. Inventories, net**

Inventories are detailed as follows:

	2015	2014
Supplies and materials	B/. 69,038	B/. 76,049
Fuel	12,678	15,456
Provision for inventory obsolescence	<u>(5,000)</u>	<u>(7,300)</u>
	<u><b>B/. 76,716</b></u>	<u><b>B/. 84,205</b></u>

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

	2015	2014
Balance at the beginning of the year	B/. 7,300	B/. 4,100
Increase	487	4,018
Write-off	<u>(2,787)</u>	<u>(818)</u>
Balance at the end of the year	<u><b>B/. 5,000</b></u>	<u><b>B/. 7,300</b></u>

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**8. Inventories, net (continued)**

The amount of material and supplies, recognized in the income statement during fiscal year 2015, was B/.34,631 (2014: B/.34,540).

The amount of fuel, recognized in the income statement during fiscal year 2015, was B/.87,854 (2014: B/.184,858).

**9. Other financial assets**

Other financial assets are detailed as follows:

	2015	2014
Short-term financial assets measured at amortized cost:		
Investment grade corporate bonds	B/. 751,918	B/. 743,161
Time deposits over 90 days	<u>1,044,657</u>	<u>1,084,013</u>
	<u>B/. 1,796,575</u>	<u>B/. 1,827,174</u>

At September 30, 2015, the weighted average yield of other financial assets was 0.72% (2014: 0.55%) paid at the end of each term and with a maximum maturity of a year.

Corporate bonds and time deposits, which are entirely denominated in US dollars, are measured at amortized cost and were acquired with the intention to be held to maturity. All time deposits are placed in financial institutions that have a credit rating of investment grade.

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

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

Accrued interest receivable and other assets are detailed as follows:

	2015	2014
Interest receivable	B/. 8,662	B/. 10,179
Prepayments	<u>3,635</u>	<u>2,782</u>
	<u>B/. 12,297</u>	<u>B/. 12,961</u>

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**11. Cash and cash equivalents**

Cash and cash equivalents are comprised of the following:

	2015	2014
Cash on hand	B/. 33	B/. 40
Deposits in current accounts	105,424	92,382
Deposits in saving accounts	180,043	200,055
Time deposits with original maturities under 90 days	185,001	531,200
Total cash and cash equivalents	<u>B/. 470,501</u>	<u>B/. 823,677</u>

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. At September 30, 2015, the investment of these resources has the priority to cover all ACP obligations and earns interest rates which vary between 0.1% and 1.0% (2014: 0.1% and 1.0%)

As of September 30, 2015 and 2014, there were no restrictions over the balance of cash and cash equivalents.

**12. Contributed capital**

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

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

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

Changes in reserves and contributions are detailed as follows:

	2015	Increase (decrease)	2014	Increase (decrease)	2013
<b>Reserves:</b>					
Canal expansion	B/. -	B/. (186,572)	B/. 186,572	B/. -	B/. 186,572
Catastrophic risks	36,000	-	36,000	-	36,000
Contingencies and working capital	213,510	(1,620)	215,130	18,300	196,830
Enterprise capitalization	274,969	13,226	261,743	(3,105)	264,848
Strategic for investment programs	390,000	240,000	150,000	150,000	-
Sub-total	914,479	65,034	849,445	165,195	684,250
<b>Contributions for:</b>					
Investment programs	5,437,968	636,194	4,801,774	492,610	4,309,164
Inventories	20,000	10,000	10,000	10,000	-
Sub-total	5,457,968	646,194	4,811,774	502,610	4,309,164
Total	B/. 6,372,447	B/. 711,228	B/. 5,661,219	B/. 667,805	B/. 4,993,414

***Canal expansion***

The ACP maintains an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the ACP for determined projects during the execution of the Program. In fiscal 2015, the reserve was used in order to complete the financing required for the expansion program.

***Catastrophic risks***

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

***Contingencies and working capital***

The ACP maintains an equity reserve for contingencies and working capital which is calculated based on the ACP's level of revenues and is defined as 30 days of average revenues or billing of the Canal. During fiscal year 2015, it was approved to decrease this reserve by B/.1,620 while in 2014, it was approved to increased it by B/.18,300 for a total reserve of B/.213,510 (2014: B/.215,130).

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

***Enterprise capitalization***

The ACP maintains an equity reserve for capitalization with the purpose to ensure and facilitate the long-term financial projection of the ACP. During fiscal year 2015, it was approved to increase this reserve by B/.13,226 while in 2014, it was approved to decreased it by B/.3,105 for a total reserve of B/.274,969 (2014: B/.261,743).

***Strategic for investment programs***

In fiscal year 2014, the ACP established an equity reserve for B/.150,000 to maintain strategic sustainability and competitiveness of the Canal, ahead ensuring the availability of funds to meet additional needs of existing investment projects and to take advantage of growth opportunities requiring the implementation of new investment projects. In fiscal year 2015, the reserve was of B/.240,000 (2014: B/.150,000).

***Contributions for investment programs***

At September 30, 2015, the ACP increased the funds of the investments programs by B/.636,194 (2014: B/.492,610) for a contributed total of B/.1,618,023 (2014: B/.1,551,859) for the Investment program – others and B/.3,819,945 (2014: B/.3,249,915) for the Investment program – Canal expansion. This reserve includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period.

***Contributions for inventories***

In fiscal year 2014, the ACP established a contribution to cover the increase in the value of inventory. This increase was caused by rising prices of commodities and higher volume of purchases. In fiscal year 2015, the contribution was of B/.10,000 (2014: B/.10,000).

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

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

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

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

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

	2015	2014
Balance at the beginning of the year	<b>B/. (137,325)</b>	B/. (131,845)
Cash flow hedges:		
Interest rate swap contracts:		
Reclassification of losses during the year to construction in progress	<b>34,948</b>	35,005
Net loss during the year of not-yet matured contracts	<b>(69,182)</b>	(40,181)
Diesel prices swap contracts:		
Net gain during the year of not-yet matured contracts	<u><b>46</b></u>	<u>233</u>
	<b>(34,188)</b>	(4,943)
Actuarial valuations:		
Net loss in actuarial valuations of defined post-employment benefit plans	<u><b>(876)</b></u>	<u>(537)</u>
Net loss arising during the year	<u><b>(35,064)</b></u>	<u>(5,480)</u>
Balance at the end of the year	<u><b>B/. (172,389)</b></u>	<u>B/. (137,325)</u>

**15. Unappropriated retained earnings**

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 13, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.649,613 to the Panamanian Treasury which corresponds to the year ended September 30, 2015 (2014: B/.653,821). (See note 29).

In compliance with Law 28 of July 17, 2006, during the construction period of the third set of locks, the payments to the Panamanian Treasury based on an operational surplus shall not be less than those made to the Panamanian Treasury in 2005 for the amount of B/.268,850.

The combined payments based on Canal tonnage fees and operational surpluses shall not be less than the payments effected in fiscal year 2006 for the amount of B/.568,128.

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**15. Unappropriated retained earnings (continued)**

	<b>2015</b>	2014
Payments to the Panamanian Treasury:		
Unappropriated retained earnings (See note 29)	<b>B/. 649,613</b>	B/. 653,821
Fees per net ton	<b>390,786</b>	374,465
Public service fees	<b>3,043</b>	2,378
Total	<b><u>B/. 1,043,442</u></b>	<b><u>B/. 1,030,664</u></b>

**16. Borrowings**

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

	<b>2015</b>	2014
Japan Bank for International Cooperation (JBIC)	<b>B/. 800,000</b>	B/. 800,000
European Investment Bank (EIB)	<b>500,000</b>	500,000
Inter-American Development Bank (IADB)	<b>400,000</b>	400,000
CAF Development Bank of Latin America (CAF)	<b>300,000</b>	300,000
International Finance Corporation (IFC)	<b>300,000</b>	300,000
Balance at the end of the year	<b><u>B/. 2,300,000</u></b>	<b><u>B/. 2,300,000</u></b>

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

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

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**16. Borrowings (continued)**

	<b>2015</b>	2014
Total Debt to EBITDA Ratio	<b>1.9</b>	1.6
Debt Service Coverage Ratio	<b>107.2</b>	110.6

- Total Debt to EBITDA Ratio, prior to the Expansion Program Completion Date, should maintain, as of the end of each Semi-Annual Fiscal Period of the Borrower, a ratio ending of less than 3.0 for such Measurement Period.
- Debt Service Coverage Ratio, prior to the Expansion Program Completion Date, should maintain, as of the end of each Semi-Annual Fiscal Period of the Borrower, a ratio of not less than 5.0 for such Measurement Period. Debt service means, for any period or at any time, as the context may require, the sum of regularly scheduled interest payable on and amortization of debt discount in respect of all debt for borrowed money plus regularly scheduled principal amounts of all debt for borrowed money payable.

As of September 30, 2015, the ACP was in compliance with the aforementioned restrictive financial covenants.

The interests, commission, cash flow hedges and other financing expenses for the year ended September 30 are detailed as follows:

	<b>2015</b>	2014
Interest on loans	<b>B/. 34,762</b>	B/. 30,692
Commitment fees	-	704
Cash flow hedges	<b>34,948</b>	35,005
Other expenses	<b>46</b>	43
Total interests, commission, cash flow hedges and other financing expenses	<b>69,756</b>	66,444
Less: amount of loans' cost capitalized	<b>(69,756)</b>	(66,444)
	<b>B/. -</b>	B/. -



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**17. Bonds payable, net**

On September 24, 2015, the ACP issued bonds for B/. 450,000 to partially finance the construction of a new bridge on the Atlantic side of the Canal, with settlement date on October 1, 2015. The funds receivables at the end of the fiscal year were recorded in the account: *Operations with settlement in progress*. These bonds were issued under Rule 144A of Regulation S of the U.S. Securities and Exchange Commission, with fixed rate of 4.95% per year, payable in four annual payments of principal for B/.112,500, from January 29, 2034, and maturing on July 29, 2035.

The bonds were issued in accordance with indenture subscribed between ACP and Merrill Lynch, Pierce, Fenner & Smith Inc. as subscriber and The Bank of New York Mellon as trustee.

As part of the commitments and debt covenants, the ACP must submit audited financial statements for each fiscal year and unaudited financial statements at the end of the first, second and third quarterly period of each fiscal year.

**18. Other financial liabilities**

Other financial liabilities are detailed as follows:

	2015	2014
Financial instruments designated as hedging instruments carried at fair value:		
Interest rate swaps	B/. 184,021	B/. 150,066
Commodities swap-bridge over the Atlantic	<u>B/. -</u>	<u>B/. 46</u>
	<u>B/. 184,021</u>	<u>B/. 150,112</u>
Current	B/. 13,044	B/. 13,324
Non-current	<u>B/. 170,977</u>	<u>B/. 136,788</u>
	<u>B/. 184,021</u>	<u>B/. 150,112</u>

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

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

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

**19. Trade and other payables**

Trade and other payables are as follows:

	2015	2014
Panamanian Treasury	B/. 31,455	B/. 32,314
Suppliers and others	<u>241,782</u>	<u>243,819</u>
	<u>B/. 273,237</u>	<u>B/. 276,133</u>
Current	B/. 273,237	B/. 192,494
Non current	<u>-</u>	<u>83,639</u>
	<u>B/. 273,237</u>	<u>B/. 276,133</u>

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

The Organic Law establishes that the ACP shall annually pay the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by the ACP. At September 30, 2015, the total of such fees amounted to B/. 390,786 (2014: B/.374,465).

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**19. Trade and other payables (continued)**

Through the Variation 140, signed on May 6, 2015, of the Contract for the Design and Construction of the Third Set of Locks, the parties agreed to return of B/.80,000 of withheld amounts under the contract, subject to a number of conditions. Among the new conditions set in the variation for the return of part of the amount withheld are that the repayment will be made only to pay subcontractors and suppliers that contribute to the progress of the work, excluding consultants and shareholders except in the case of payments made under the capacity of subcontractor. In such a way, the return ensures the progress of the work. In addition, a pre and post audit was established to verify the destination and use of the money that according to the original terms of the contract could be used at the discretion of the contractor. It was also established that the disbursement of the last B/.40,000 would be conditional on the filling of the chambers in the Pacific (B/.20,000) and in the Atlantic (the other B/.20,000) otherwise, no refund would be made.

**20. Provision for marine accident claims**

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

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

	<b>2015</b>	2014
Balance at beginning of the year	<b>B/. 12,864</b>	B/. 16,689
Provision for the year	<b>11,087</b>	1,196
Payments made	<u><b>(2,910)</b></u>	<u>(5,021)</u>
Balance at end of the year	<u><b>B/. 21,041</b></u>	<u>B/. 12,864</u>

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

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**21. Other liabilities**

Other liabilities are detailed as follows:

	2015	2014
Inventories – in transit	B/. 3,521	B/. 14,973
Miscellaneous claims	1,481	2,421
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	415	604
Others	17,303	14,573
	<u>B/. 22,720</u>	<u>B/. 32,571</u>

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

The investments programs have been executed with ACP own resources and equipment, therefore, the operating expenses and capitalized costs are detailed as follows:

	<b>September 30, 2015</b>		
	<u>Total</u> <u>expenses</u>	<u>Capitalized</u> <u>costs</u>	<u>Net operating</u> <u>expenses</u>
Salaries and wages	B/. 479,488	B/. 44,900	B/. 434,588
Employee benefits	63,275	1,768	61,507
Materials and supplies	62,049	6,547	55,502
Depreciation	96,718	8,864	87,854
Fuel	95,474	2,964	92,510
Other expenses	13,251	177	13,074
	<u>B/. 810,255</u>	<u>B/. 65,220</u>	<u>B/. 745,035</u>

	<b>September 30, 2014</b>		
	<u>Total</u> <u>expenses</u>	<u>Capitalized</u> <u>costs</u>	<u>Net operating</u> <u>expenses</u>
Salaries and wages	B/. 468,554	B/. 39,588	B/. 428,966
Employee benefits	61,649	1,543	60,106
Materials and supplies	60,995	5,752	55,243
Depreciation	91,269	2,561	88,708
Fuel	196,296	11,438	184,858
Other expenses	14,112	154	13,958
	<u>B/. 892,875</u>	<u>B/. 61,036</u>	<u>B/. 831,839</u>

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**23. Income taxes**

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

**24. Employees benefits**

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

	<b>2015</b>	<b>2014</b>
Benefit for employment retirement	<b><u>B/. 277,782</u></b>	<b><u>B/. 227,748</u></b>

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

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

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**24. Employees benefits (continued)**

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

Beginning in the year ended September 30, 2014, the ACP changed its accounting for recognition of its liability to employees for post-employment benefits. The change was adopted prospectively and not retrospectively since the ACP believed any resulting accounting for prior years would not be material to its financial statements taken as a whole.

The ACP contracted independent actuarial services in order to estimate the present value of the total cash flow expected to be paid by the ACP in the event that the plan is maintained through the years and to determine the accrued liability at September 30, 2015. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for average age of staff, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate the present value of the liability, in accordance with IFRS, for both retirement plans.

During the actuarial study, the fair value of the liability was calculated as required by the IFRS at different interest rates and at different case scenarios which included historical data provided by the ACP to the independent actuary at July 31, 2015 using a discount rate equal to the yield curve for corporate bonds for investment grade securities issued by companies in the United States of America (AAA, AA, A). This study produced an annualized result of B/.277,782 at September 30, 2015.

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

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
		Benefits costs	Net interest	Benefits paid	Actuarial adjustments	
	Oct. 1, 2014					Sept. 30, 2015
Fair value of the benefits	B/. 227,748	B/. 31,999	B/. 10,516	B/. 18,161	B/. 25,680	B/. 277,782

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**24. Employees benefits (continued)**

The principal actuarial assumptions used are shown below:

	<u>Age</u>	<u>2015</u>	<u>2014</u>
		<u>%</u>	<u>%</u>
Discount rate		<b>3.8</b>	3.5
Salary increase		<b>3.0</b>	1.5
Mortality			
Female	57 years old	<b>2.8</b>	2.8
Male	62 years old	<b>5.9</b>	5.9
Disability			
Female	57 years old	<b>1.2</b>	1.2
Male	62 years old	<b>1.9</b>	1.9

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

	<u>2015</u>
Maturity of the obligation:	
From 0 to 1 year	<b>B/.24,810</b>
From 1 to 5 years	<b>85,291</b>
From 5 to 10 years	<b>167,627</b>
From 10 to 25 years	<b>409,920</b>
Beyond 25 years	<b>89,572</b>

At September 30, 2015, the average duration of the obligation for the defined benefit plans post-employment (VRI/LRB) is approximately 6.2 years at a discount rate of 3.8%.

A quantitative sensitivity analysis for significant assumptions as of September 30, 2015 is as follows:

<b>Assumption</b>	<b>Discount rate</b>		<b>Cost of Salaries</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
<b>Sensitivity level</b>	<b>25 pbs</b>	<b>25pbs</b>	<b>25 pbs</b>	<b>25pbs</b>
Impact on defined benefit obligation	(B/.3,911)	B/.4,065	B/.5,897	(B/.4,768)

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**24. Employees benefits (continued)**

**Reimbursement right to ACP**

The ACP contracted a reimbursement policy, in accordance with IAS 19, to cover the defined benefit plans for voluntary retirement of employees.

The policy ensures the ACP reimbursement of all payments made by the ACP in respect of defined benefit plans for voluntary retirement of employees during the term of the plan as long as the ACP makes annual installments to the insurance company as a guarantee deposit equal to the probable amount that the ACP would pay during the year for the retirement benefit plans. In addition, the reimbursement policy provides protection in each year of its term against the risk that the ACP suffers any financially incapacitating event to meet payment of obligations to its employees, for any reason, including illiquidity, if occurred during the term of the policy, as long as the ACP is current in the payments of the premium and the defined benefit plans for voluntary retirement are in effect. The policy does not cover the risk of default of the ACP that could arise from internal fraud, catastrophic physical risks, nuclear war, terrorism, and epidemics, which has been estimated at 3.41% of the total insured amount.

Changes in the reimbursement right to ACP during fiscal year 2015 are detailed as follows:

	Statement of Financial Position	Income Statement			Stament of Comprehensive Income	Statement of Financial Position
		Reimbursement right cost of the year	Net interest	Reimbursements during the year	Ajustes actuariales	September 30, 2015
Reimbursement right to ACP	Oct. 1, 2014 <u>B/.219,982</u>	B/.29,669	B/.10,157	B/.16,302	B/.24,804	<u>B/.268,310</u>

At September 30, 2015, the ACP paid the insurer B/.20,248 (2014: B/.1,065) in premiums of the reimbursement policy.

**25. Risk management**

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

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



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**25. Risk management (continued)**

Historically, the ACP has operated with its own resources due to its high levels of cash generated by its operations to afford its costs of operation, investment, functioning, maintenance and modernization. However, on December 9, 2008 the ACP subscribed to a common term financing agreement with five development agencies, which committed to grant borrowings totaling B/.2,300 millions with the purpose of partially finance the Canal Expansion Program, and more recently, in September 2015, when issued bonds in the international market by B/.450 millions in order to partially finance the building of the bridge on the Atlantic side of the Canal. (See note 17)

**Categories of financial instruments**

	2015	2014
<b><i>Financial assets</i></b>		
Cash and cash equivalents (Note 11)	B/. 470,501	B/. 823,677
Amortized cost:		
Operations with settlement in progress (Note 17)	441,042	-
Trade and other receivables (Note 6)	29,835	42,927
Other financial assets at amortized cost (Note 9)	<u>1,796,575</u>	<u>1,827,174</u>
	<u><b>B/. 2,737,953</b></u>	<u><b>B/. 2,693,778</b></u>
<b><i>Financial liabilities</i></b>		
Financial liabilities designated as hedging instruments (Note 18)	B/. 184,021	B/. 150,112
Amortized cost:		
Trade and other payables (Note 19)	273,237	276,133
Borrowings (Note 16)	2,300,000	2,300,000
Bonds payable (Note 17)	<u>439,228</u>	<u>-</u>
	<u><b>B/. 3,196,486</b></u>	<u><b>B/. 2,726,245</b></u>

**Financial risk management objectives**

ACP's main financial liability consists of borrowings, bonds payable and trade accounts payable. The main purpose of these financial liabilities is to finance the Canal Expansion Program and the new bridge at the Atlantic side of the Canal. The ACP also has cash, bank deposits, operations with settlement in progress, trade and other receivables, and funds invested in debt instruments with short maturities which are held until maturity. The ACP also contracts hedging instruments.

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

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**25. Risk management (continued)**

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

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

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 Inspector General periodically audits treasury operations and reports to the Board of Directors.

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

**Market risk**

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

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

**Exchange rate risk management**

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

As of September 30, 2015 and 2014 the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

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**25. Risk management (continued)**

**Interest rate risk management**

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

*Interest rate swap contracts*

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

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

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

**Cash flow hedges**

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

<b>Contracts with floating interest rates and outstanding fixed payment rates</b>	<b>Average contracted fixed interest rate</b>		<b>Notional principal value</b>		<b>Fair value</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
5 years or more	<b>4.67%</b>	4.67%	<b>B/. 800,000</b>	B/. 800,000	<b>B/. (184,021)</b>	B/. (150,055)

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

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**25. Risk management (continued)**

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

*Interest rate sensitivity analysis*

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

As of September 30, 2015, for each basis point increase/decrease in the LIBOR rate curve through the remaining term of the contract, the unrealized loss on the interest rate swap contract would decrease/increase by B/.732.6. This amount was calculated based on the DV01 indicator generated by Bloomberg's valuation model tool used in the valuation of interest rate swap contracts.

**Fuel price risk**

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

*Maritime operations*

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

For fiscal year 2015, the ACP purchased a hedge instrument (swap) establishing a fixed price of B/.2.438 per gallon for 9,625 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations. By September 2015, 12.03 million gallons were consumed.

*Energy generation*

Power generation is related to the consumption of the Canal operations, while excess capacity is sold in the domestic electricity market. Until September 2015, the ACP consumed 16% of the energy produced, while the remaining 84% was sold to the electricity market. Hydroelectric plants produced 14% of the energy and thermal plants 86%.

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**25. Risk management (continued)**

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

*Operational fuel price risk sensitivity analysis*

As of September 30, 2015, the current price index for light diesel purchases made by the ACP was B/.2.11 per gallon. With an estimated consumption for fiscal year 2016 of 12.75 million gallons, assuming an upward variation trend that increases diesel price to B/.2.27 per gallon during fiscal year 2016, fuel expenses would show an increase of approximately B/.3.5 million. As of September 30, 2015, has not been contracted any hedging instrument for fiscal year 2016.

**Credit risk management**

It refers to the risk that the borrower or issuer of a financial asset may not comply, completely and on time, with any payment to be made in accordance with the terms and conditions agreed upon when the obligation was acquired. To mitigate the credit risk, the liquidity investment policy establishes limits by industry and limits by issuer, as the result of the categorization of the Risk Assessment System adopted by the ACP, which includes the following factors: short-term risk rating, issuer leverage index, economic factor, liquidity index, and deterioration index.

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

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

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

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**25. Risk management (continued)**

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

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

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

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

In addition to the credit risk of the treasury portfolio, the ACP maintains a credit risk from advances payments made to GUPCSA under the Contract for the Design and Construction of the Third Set of Locks, as explained in note 5. On the B/.863,375 advance payment receivable from GUPCSA, ACP has bank and insurance guarantees of B/.577,959, which account for 67% of the exposure. The remaining unsecured balance is covered under a joint and several guarantee issued by each of the four companies in the consortium for B/.199,073, which make these companies accountable and obliges each of them for the outstanding advanced balances as if they were acquired on an individual basis. Furthermore, the ACP holds a Joint and Several Guarantee issued by Sacyr, Impregilo, Jan De Nul and CUSA and a Parent Company Guarantee signed by SOFIDRA, parent company of Jan De Nul, which were submitted to the ACP as part of its requirements to give its consent for the assignment of the contract from the consortium Grupo Unidos por el Canal (GUPC) to the corporation Grupo Unidos por el Canal, S.A. (GUPCSA), current contractor. Under these guarantees, the companies mentioned above, undertake before ACP, the joint and several liability, as main debtor, to guarantee to the ACP the compliance of all obligations, guarantees and commitments assumed by the Contractor (GUPCSA) in accordance with the terms and conditions of the contract. The fundamental analysis applied to the four companies in the consortium indicated that one or more of these companies are able to repay the total of this obligation.

**Liquidity risk management**

The ACP manages the liquidity risk through continuous monitoring of the forecasted and actual cash flows, and reconciling the maturity profiles for the financial assets and liabilities.

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**25. Risk management (continued)**

Historically, the cash generated by the ACP's operations has been enough to cope with its operations and the requirements of its investments program, while generating adequate returns to the ACP. However, since 2008, the ACP faced the necessity to obtain financing for a portion of the Canal Expansion Program. Subsequently, in September 2015, the ACP issued bonds in the capital markets in order to partially finance the new bridge across the Canal at the Atlantic Side. The credit facilities available to the ACP to reduce the liquidity risk are detailed afterwards.

**Interest and liquidity risk tables**

To finance the expansion program, the ACP has a Common Terms Agreement of credit facilities with five development financial institutions. Currently 4.35% of the debt is contracted at fixed effective rate of 5.31%, and the remaining 95.7% shows a moving average effective rate of 2.57%. The effective rate for the financing is 2.69%.

For the financing of the new bridge across the Atlantic Side of the Canal, it was established a fixed rate of 4.95% (effective rate of 5.14%) payable semi-annually in January and July of each year.

	Weighted average effective interest rate (%)	1 month or less	1 - 3 months	3-12 months	1 - 5 years	More than 5 years	Total
<b>September 30, 2015</b>							
Variable interest loan	2.57%	B/. -	B/. -	B/. -	B/. 330,000	B/. 1,870,000	B/. 2,200,000
Fixed interest loan	5.31%	-	-	-	15,000	85,000	B/. 100,000
Fixed interest rate Bonds	5.14%	-	-	-	-	450,000	B/. 450,000
		<u>B/. -</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 345,000</u>	<u>B/. 2,405,000</u>	<u>B/. 2,750,000</u>

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

<b>2015</b>						
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Time deposits	B/. 90,001	B/. 95,000	B/. 1,044,657	B/. -	B/. -	B/. 1,229,658
Operations with settlement in progress	441,042					441,042
Securities Held-to maturity	-	-	751,918	-	-	751,918
	<u>B/. 531,043</u>	<u>B/. 95,000</u>	<u>B/. 1,796,575</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 2,422,618</u>
<b>2014</b>						
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Time deposits	B/. 355,600	B/. 175,600	B/. 1,084,013	B/. -	B/. -	B/. 1,615,213
Securities Held-to maturity	-	4,627	738,534	-	-	743,161
	<u>B/. 355,600</u>	<u>B/. 180,227</u>	<u>B/. 1,822,547</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 2,358,374</u>

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**25. Risk management (continued)**

The ACP has used all the creditors financing for the Canal Expansion Program.

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

	<u>Less than 3 months</u>	<u>3 a 12 months</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
<b>September 30, 2015</b>				
Trade and other payables	B/. 273,237	B/. -	B/. -	B/. -
Other financing liabilities	13,044	-	-	170,977
Borrowings	-	-	345,000	1,955,000
Bonds payables	-	-	-	450,000
	<u>B/. 286,281</u>	<u>B/. -</u>	<u>B/. 345,000</u>	<u>B/. 2,575,977</u>
 September 30, 2014				
Trade and other payables	B/. 192,494	B/. -	B/. 83,639	B/. -
Other financing liabilities	13,324	-	-	136,789
Borrowings	-	-	115,000	2,185,000
	<u>B/. 205,818</u>	<u>B/. -</u>	<u>B/. 198,639</u>	<u>B/. 2,321,789</u>

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

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

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



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**25. Risk management (continued)**

	<b>2015</b>		<b>2014</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets</b>				
<b>Financial assets measured at amortized cost:</b>				
Investment in securities	<b>B/. 751,918</b>	<b>B/. 751,766</b>	<b>B/. 743,161</b>	<b>B/. 742,777</b>
<b>Financial liabilities</b>				
<b>Financial liabilities measured at amortized cost:</b>				
Floating rate borrowings	<b>B/. 2,200,000</b>	<b>B/. 2,161,297</b>	<b>B/. 2,200,000</b>	<b>B/. 2,204,051</b>
Fixed rate borrowings	<b>100,000</b>	<b>115,530</b>	<b>100,000</b>	<b>114,975</b>
Fixed rate Bonds	<b>439,288</b>	<b>442,044</b>	<b>-</b>	<b>-</b>
	<b>B/. 2,739,288</b>	<b>B/. 2,718,871</b>	<b>B/. 2,300,000</b>	<b>B/. 2,319,026</b>

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

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

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

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**25. Risk management (continued)**

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

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

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

	2015			
	Level 1	Level 2	Level 3	Total
<b>LIABILITIES:</b>				
<b>Financial liabilities at fair value with changes in other comprehensive</b>				
Hedged financial instruments	<u>B/. -</u>	<u>B/. 184,021</u>	<u>B/. -</u>	<u>B/. 184,021</u>

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

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**26. Related party transactions**

**Commercial transactions**

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

	<u>Sale of goods and services</u>		<u>Purchase of goods and services</u>	
	<u>Year ended</u>		<u>Year ended</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAAN)	B/. 29,462	B/. 29,421	B/. -	B/. -
Other government entities	6,223	3,030	-	-
Caja de Seguro Social	-	-	63,275	61,649
Fees paid to Panamanian Treasury	-	-	393,829	376,843
	<u>B/. 35,685</u>	<u>B/. 32,451</u>	<u>B/. 457,104</u>	<u>B/. 438,492</u>

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

	<u>Amounts owed by the Republic of Panama</u>		<u>Amounts owed to the Republic of Panama</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAAN)	B/. 5,087	B/. 5,321	B/. -	B/. -
Other government entities	2,140	1,643	-	-
Caja de Seguro Social	-	-	18,840	12,726
Public service fees	-	-	263	198
Panamanian Treasury - fees per net ton	-	-	31,454	32,314
	<u>B/. 7,227</u>	<u>B/. 6,964</u>	<u>B/. 50,557</u>	<u>B/. 45,238</u>

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

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

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

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

**Compensation and benefits to key executives**

The ACP paid a total of B/.3,267 (2014: B/.3,280) for remuneration and benefits to its key management personnel. It is the responsibility of the Administration to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

**27. Commitments**

Commitments as a result of construction in progress contracts and undelivered purchase orders amounted to approximately B/.747,258 (2014: B/.1,363,187), as follows:

	<u>2015</u>	<u>2014</u>
Investment programs:		
Canal Expansion	B/. 315,678	B/. 941,744
Others	<u>363,877</u>	<u>385,266</u>
Sub-total	679,555	1,327,010
Operations	<u>67,703</u>	36,177
	<u>B/. 747,258</u>	<u>B/. 1,363,187</u>

Total commitments include the Panama Canal Expansion Program contracts awarded during the fiscal year totaling B/.18,832 (2014: B/.21,015).

Contracts awarded during fiscal year 2015, include installation of bank lights for the third set of locks access channel at the Atlantic site to Celmec, S. A. for B/.1,828, engineering services for Borinquen 1E Dam to URS Holdings Inc. for B/.3,500 and pumping equipment rental services for the Third Set of Locks, Pacific Side to Xylem Water Solutions Panama S de R L for B/.6,904.

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

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**27. Commitments (continued)**

Fiscal year 2015 balance includes the design-build contract for the Canal Expansion Program's major component, the third set of locks, to GUPCSA of B/.295,778 (2014: B/.830,277).

**28. Contingent liabilities**

**GUPCSA:**

As of September 30, 2015, the ACP has received GUPCSA claims for a total of B/.3,480,788 in relation to the Third Set of Locks Project. These claims are at different stages of the dispute resolution process established in the Contract for the Design and Construction of the Third Set of Locks. Below is some general information in relation to the status of these claims.

Two of these claims, concerning concrete mixtures and aggregates, were denied by the ACP and subsequently submitted to the Dispute Adjudication Board (DAB), which ordered that of the B/.463,935 claimed by GUPCSA, ACP pays B/.233,234 plus interest in December 2014. This amount was paid by the ACP, and both sides have referred this dispute to arbitration under the International Chamber of Commerce (ICC) Arbitration Rules in March 2015, in two separate arbitrations. GUPCSA is seeking a total of B/.577,109 from the ACP, and the ACP is in turn calling for the return of the amount that was paid pursuant to that DAB decision. These two arbitrations are at the stage of constitution of the arbitral court.

Regarding the temporary cofferdam at the Pacific entrance, the claims submitted against ACP, have been denied by the DAB. GUPCSA presented a notice of dissatisfaction and an ICC arbitration was commenced in December 2013. The amount of the dispute is currently valued at B/.218,158. GUPCSA requested the arbitral tribunal that final hearing that was scheduled for December 2015, was rescheduled. The arbitral tribunal rescheduled the hearing for July 2016.

During 2015, GUPCSA also presented other claims for an aggregate amount of B/.310,420. The majority of these claims have been denied by the ACP and subsequently submitted to the DAB by GUPCSA between March and June 2015.

**Others:**

The ACP has received claims regarding other investments projects for an overall amount of B/.68,323 which are at different stages. Some of them have been denied in their entirety by the ACP while others are awaiting a resolution from the ACP Contracting Officer.

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**28. Contingent liabilities (continued)**

On November 18, 2015, the ACP received a new claim regarding the excavation of the Pacific access channel (PAC4) for an amount of B/.24,629, which is being evaluated by the Contracting Officer.

The notes contained herein relate to claims against the ACP and cannot, nor should not, be considered as support or proof of acceptance of responsibility on the part of the ACP. In the opinion of the Administration and its legal counsel, the determination of these matters will not have adverse effects of a significant nature on the financial position of the ACP.

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

On December 17, 2015 meeting, the Board of Directors approved the transfer to the Treasury of the operating and functioning economic surplus corresponding to fiscal year 2015 in the amount of B/.649,613. (See note 15)

**29. Reclassifications**

Certain amounts in the previously issued 2014 financial statements have been reclassified to conform to the 2015 presentations.