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

Financial Statements

September 30, 2018

(With Independent Auditor's Report)

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

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INDEPENDENT AUDITORS´ REPORT

To the Board of Directors
Autoridad del Canal de Panamá

Opinion

We have audited the financial statements of the Autoridad del Canal de Panamá, (the "ACP"), which comprise the statement of financial position as of September 30, 2018, the income statement, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ACP as of September 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Advances and other account receivable from contractor, net
See Notes 3(p), 6 y 27 to the financial statements

The key audit matter	How the matter was addressed in our audit
The advances and other account receivable from contractor are considered as a significant issue, because the recoverability assessment and determination of the amount of advances and other account receivable includes a high level of judgment and estimation by the management. The advances and other account receivable from contractor, net have an amount of B/.840 millions.	Our procedures in this area included: • Evaluation of the process to determine the recoverability of advances and other accounts receivable from contractor. • Evaluation of the model, approach, and method used to determine the recoverable amount and guarantees. • Sending balance confirmations and evaluating the disclosures made.

Contingencies for contractor claims
See note 30 to the financial statements

The key audit matter	How the matter was addressed in our audit
The contingencies for contractor claims are considered as a significant issue, because the evaluation of provisions and contingencies, that requires important judgments and analysis by the management. The contingencies for contractor claims have an amount of B/.5,852 millions.	Our procedures in this area included: • We evaluate together with our legal specialists the conclusions reached by the management and its legal advisors. • We send confirmations to legal advisors and the internal lawyers of the ACP and we evaluate the disclosures made.

Other Matter

The financial statements of the ACP for the year ended September 30, 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on December 14, 2017.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ACP internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ACP ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ACP to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The partner in charge of the audit who has prepared this independent auditors' report is Ricardo A. Carvajal V.

KPMG

Panama, Republic of Panama
December 13, 2018

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

Statement of Financial Position

September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Assets:			
Non-current assets:			
Properties, plant and equipment:			
Properties, plant and equipment, net	4	8,313,110	8,420,016
Constructions in progress	4	629,354	558,595
Total properties, plant and equipment, net		8,942,464	8,978,611
Advances to contractors	5	0	7,828
Advances and other receivable to contractor, net	6	292,152	309,727
Reimbursement right to ACP	26	320,649	328,611
Investment properties	8	89,831	89,831
Inventories, net	9	68,991	63,531
Total non-current assets		9,714,087	9,778,139
Current assets:			
Inventories	9	11,914	9,198
Advances and other receivable to contractor, net	6	547,959	547,959
Trade and other receivables	7, 27, 28	54,227	49,213
Other financial assets	10, 27	3,278,760	2,562,817
Cash and cash equivalents	12, 27	60,283	528,293
Accrued interest receivable	11	39,519	21,734
Other assets		1,092	75
Total current assets		3,993,754	3,719,289
Total assets		13,707,841	13,497,428

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

	Note	2018	2017
Equity and liabilities:			
Equity:			
Contributed capital	13	1,906,193	1,906,193
Investment programs contributions	14	5,952,757	5,985,835
Reserves	14	1,111,449	924,089
Other equity accounts	15	(56,959)	(118,449)
Earnings available to distribute	16, 32	1,199,101	1,193,809
Total equity		10,112,541	9,891,477
Non-current liabilities:			
Bonds payable		450,000	450,000
Less: discount and issuing costs		9,078	9,643
Bonds payable, net	18, 27	440,922	440,357
Borrowings	17, 27	2,185,000	2,300,000
Employee benefits	26	331,591	340,036
Other financial liabilities	19, 27	59,884	115,087
		3,017,397	3,195,480
Current liabilities:			
Trade and other payables	20, 27, 28	219,866	196,321
Borrowings	17, 27	115,000	0
Provision for marine accidents claims	21	20,402	14,045
Accrued salaries and vacation payable		138,403	135,748
Accrued interest payable	27	37,022	33,817
Other liabilities	22	47,210	30,540
Total current liabilities		577,903	410,471
Total equity and liabilities		13,707,841	13,497,428

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

Income Statement

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Revenues:			
Toll revenues		2,484,696	2,238,035
Other Canal transit services		484,858	468,811
		2,969,554	2,706,846
Other revenues:			
Sales of electricity		68,283	84,634
Sales of potable water	28	34,265	28,337
Miscellaneous	24	36,273	33,130
Total other revenues		138,821	146,101
Total revenues		3,108,375	2,852,947
Expenses:			
Salaries and wages	23	592,972	577,060
Employee benefits	23, 27	77,772	75,534
Materials and supplies	23	68,398	60,127
Fuel	23	70,806	74,585
Transportation and allowances		2,203	2,121
Contracted services and fees		160,648	109,287
Insurance		20,844	21,306
Provision for marine accidents	21	10,241	(3,425)
Provision for obsolete inventory		500	66
Depreciation	4, 23	208,949	202,828
Fees paid to the Panamanian Treasury	16, 20, 27	503,686	456,569
Other expenses	23	14,397	17,857
Total expenses		1,731,416	1,593,915
Results of operations		1,376,959	1,259,032
Finance income		57,714	33,045
Financial income (cost) in advance and other receivables to contractor	6	5,640	(13,159)
Finance costs	17	(86,930)	(80,304)
Finance costs, net		(23,576)	(60,418)
Profit for the year		1,353,383	1,198,614

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

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

Statement of Comprehensive Income

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Profit for the year		1,353,383	1,198,614
Other comprehensive income (loss):			
Items that will not be reclassified to income statement			
Net remeasurement of employee defined benefit plans actuarial income (loss)		566	(49)
Items that will not be reclassified to income statement		566	(49)
Items that are or may be reclassified to income statement			
Unrealized income (loss) on securities available for sale	10, 15	240	(1,220)
Net income in cash flow hedges - commodity price swap contract		2,078	0
Net income in cash flow hedges - interest rate swap contracts		58,606	58,413
Items that are or may be reclassified to income statement		60,924	57,193
Total other comprehensive income	15	61,490	57,144
Total comprehensive income		1,414,873	1,255,758

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

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

Statement of Changes in Equity

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	Contributed capital	Investment programs contributions	Reserves	Other equity accounts	Earnings available to distribute	Total equity
Balances as of September 30, 2016		1,906,193	6,000,030	905,089	(175,593)	630,765	9,266,484
Profit for the year		0	0	0	0	1,198,614	1,198,614
Other comprehensive income (loss):							
Securities available for sale		0	0	0	(1,220)	0	(1,220)
Cash flow hedges		0	0	0	58,413	0	58,413
Net measurement of employees defined benefit plans actuarial loss		0	0	0	(49)	0	(49)
Total other comprehensive income		0	0	0	57,144	0	57,144
Total comprehensive income of the year		0	0	0	57,144	1,198,614	1,255,758
Transfer to the Panamanian Treasury	16	0	0	0	0	(630,765)	(630,765)
Net decrease in contributions	14	0	(14,195)	0	0	14,195	0
Net increase in equity reserves	14	0	0	19,000	0	(19,000)	0
Balance as of September 30, 2017		1,906,193	5,985,835	924,089	(118,449)	1,193,809	9,891,477
Profit for the year		0	0	0	0	1,353,383	1,353,383
Other comprehensive income:							
Securities available for sale		0	0	0	240	0	240
Cash flow hedges		0	0	0	60,684	0	60,684
Net remeasurement of employee defined benefit plans actuarial income		0	0	0	566	0	566
Total other comprehensive income		0	0	0	61,490	0	61,490
Total comprehensive income of the year		0	0	0	61,490	1,353,383	1,414,873
Transfer to the Panamanian Treasury	16	0	0	0	0	(1,193,809)	(1,193,809)
Net decrease in contributions	14	0	(33,078)	0	0	33,078	0
Net increase in equity reserves	14	0	0	187,360	0	(187,360)	0
Balance as of September 30, 2018		1,906,193	5,952,757	1,111,449	(56,959)	1,199,101	10,112,541

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

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

Statement of Cash Flows

For the year ended September 30, 2018

(In thousands of balboas B/.)

	Note	2018	2017
Cash flows from operating activities:			
Profit for the year		1,353,383	1,198,614
Depreciation		208,949	202,828
Loss on disposal and impairment adjustment of fixed assets		1,033	477
Provision (reversal) for marine accidents		10,241	(3,425)
Estimation for inventory obsolescence		500	66
Amortized discount in bonds payable		565	565
Finance costs, net		23,576	60,418
Changes in:			
Increase in trade and other receivable		(5,014)	(21,129)
Increase in fuel inventory		(2,716)	(1,336)
(Increase) decrease in other assets		(1,017)	158
Increase in trade and other payable		23,545	15,977
Payments of marine accidents claims		(3,883)	(2,584)
Increase in accrued salaries and vacation payable		2,655	7,456
Employee benefits plans		83	482
Increase in other liabilities		16,669	9,415
Cash provided by operating activities		1,628,569	1,467,982
Interest paid		(83,725)	(79,392)
Net cash provided by operating activities		1,544,844	1,388,590
Cash flows from investing activities:			
Purchases of properties, plant and equipment		(173,835)	(262,950)
Purchases of inventories		(5,961)	(1,512)
Purchase of other financial assets		(3,577,452)	(3,072,964)
Maturities of other financial assets		2,867,230	2,756,809
Advances and other receivable to contractor		31,043	8,408
Interest received		39,930	28,270
Net cash used in investing activities		(819,045)	(543,939)
Cash flows from financing activities:			
Transfer to Panamanian Treasury		(1,193,809)	(630,765)
Net cash used in financing activities		(1,193,809)	(630,765)
Net (decrease) increase in cash and cash equivalents		(468,010)	213,886
Cash and cash equivalents at the beginning of the year		528,293	314,407
Cash and cash equivalents at the end of the year	12	60,283	528,293

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

(1) General Information

The Autoridad del Canal de Panamá, (the "ACP") is an autonomous legal entity of public law established by Article 316 of Title XIV of the 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 commercialization of water, energy and surplus goods, as well as 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 the Republic 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 Ancón, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The financial statements of the ACP, for the year ended September 30, 2018, have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The financial statements of the ACP, for the year ended September 30, 2018, were approved by the Board of Directors and authorized to be issued December 13, 2018.

(b) Measurement Base

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

- Securities available for sale and hedging instruments
- Reimbursement right to ACP
- Employees benefits

(2) Basis of Preparation, continued

(c) Functional and Presentation Currency

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

(3) Summary of Significant Accounting Policies

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

(a) Fair Value Measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between the main market participants on the measurement date, or in its absence, in the most advantageous market to which the ACP has access at the time. The fair value of a liability reflects the effect of a default risk.

When applicable, the ACP measures the instrument´s fair value using a quoted price for that instrument in an active market. A market is considered as active, if the transactions of these assets or liabilities take place frequently and with sufficient volume, that provides information allowing fixing prices on a continuous basis.

When there is no quoted price in an active market, the ACP uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable input data. The chosen valuation technique incorporates all the factors that the market participants would take into account when setting the price of a transaction.

The best evidence of fair value is a quoted market price in an active market. In the event that the market for a financial instrument is not considered as active, a valuation technique is used. The decision as to whether a market is active can include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and sales. In markets that are not active, the guarantee to obtain that the transaction price provides evidence of fair value or to determine the adjustments to the transaction prices that are necessary to measure the instrument´s fair value, requires of additional work during the valuation process.

The fair value of a demand deposit is not less than the amount to be received when it becomes due, discounted from the first date in which payment may be required.

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

(3) Summary of Significant Accounting Policies, continued

(b) Transactions with Related Parties

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

(c) Revenue Recognition

Revenues are recognized in the income statement 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 Electric Energy

Revenues from the sale of electric energy 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 Water

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

Services Rendered

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

Interests

Interest earned on financial instruments measured at amortized cost and financial assets classified as available for sale are 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.

(3) Summary of Significant Accounting Policies, continued

(d) Transfer to Panamanian Treasury

Transfer to Panamanian Treasury corresponds to net profit minus the funds required for the contributions to investment programs and for other equity reserves approved by the Board of Directors according to the ACP Organic Law.

(e) 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 employer Panama Social Security payments, educational insurance, workmen's compensation of employees, public utilities, and the per ton transit right of the Canal.

(f) Borrowing and Bonds Issuance Costs

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

(g) Properties, Plant and Equipment

The Panama Canal as an entity defined by the Panamanian Constitution, which, according to Chapter I of Law No. 19 of 1997, is the inalienable patrimony of the Panamanian nation and includes (i) the waterway itself, (ii) its anchorages, berths, and entrances, (iii) lands and marine, river and lake waters, (iv) locks, (v) auxiliary dams, (vi) dikes and water control structures. 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 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, 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 that would have occurred.

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 recognize in the income statement when incurred.

(3) Summary of Significant Accounting Policies, continued

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

The following estimated useful lives are used to calculate depreciation:

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

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

Items of properties, plant, and equipment are derecognized when no future economic benefits are expected from their use or disposal. Any gain or loss arising on de-recognition 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.

(h) 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.

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

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

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

(3) Summary of Significant Accounting Policies, continued

Depreciation is calculated 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.

(i) Impairment of Non-Financial Assets

The ACP assesses, at each reporting period date, whether there is an indication that a non-financial 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 consider 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 specific risks to the asset. Impairment losses are recognized in the income statement in the year they are determined.

(j) Cash and Cash Equivalents

Cash and cash equivalents 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 equivalents net of overdrafts, if any.

(k) Inventories

Inventories of supplies and materials for operations and fuel inventories are shown at the lower of cost between its acquisition cost and its net realizable value. Inventories are valued using the average cost method based on purchase cost to suppliers, not exceeding the realizable value, net of allowance for obsolescence of supplies and materials.

The ACP classifies its inventories as non-current when expected to be used or consumed in the operation after more than twelve months.

(l) 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 must be the best estimate of the disbursement required to settle the present obligation at the end of the reporting period considering the corresponding risks and uncertainties. When a provision is measured using estimated cash flow to settle the present obligation, its carrying amount is the present value of such cash flow.

When the recovery of some or all of the economic benefits required to settle a provision is expected, an account receivable is recognized if it is virtually certain that the income will be received and the amount of the account receivable can be measured with certainty.

(3) Summary of Significant Accounting Policies, continued

(m) Provision for marine accidents and other claims

The ACP is responsible for recording the provision for marine accidents and for claims from counterparts as soon as an economic obligation with high probability derived from these events is known.

For marine accidents, when an accident occurs, the ACP makes a detailed investigation in order to know the causes of the accident. Once the causes are known and, if applicable, a provision is recorded based on the estimated cost of both permanent and temporary repairs and other related costs, which the Administration determines are the responsibility of the ACP. On each date of the statement of financial position, the amount of the provision is reviewed and, if necessary, adjusted to reflect the best estimate existing at that time.

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

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

(n) Employee Benefits

Ninety two percent (92%) 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. During fiscal year 2016, four collective agreements were settled, the Non-professionals and the Professionals, which will be in effect until year 2019, the Board of Captains and Officials, that will be in effect until year 2020, and the Pilots until the year 2021.

In fiscal year 2017, two collective agreements were settled: the firemen, in effect until year 2021, and the machine engineers, until year 2020.

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, nor are they provisioned.

(3) Summary of Significant Accounting Policies, continued

Voluntary Retirement Plans

The ACP provides two unfunded defined benefit plans for voluntary retirement of employees. The cost of providing these benefits is determined using the projected unit credit method. Actuarial gains and losses are fully recognized in the period they occur in the statement of comprehensive income. The liability for defined benefits comprises the present value of both, the actual and constructive obligations of defined benefits. Under IAS 19, 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 pay.

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 or obligation other than the payment determined by Law.

(o) Reimbursement Right to ACP

The right to reimbursement to ACP is an insurance policy in which the indemnities return to the ACP to reimburse all the benefits paid to employees as an incentive for voluntary retirement. In accordance with IAS 19, it 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 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 constructive actuarial obligation, subject to any reduction required if the reimbursement is not fully recoverable.

(p) Financial Assets

Financial assets are classified in the following specific categories: held-to-maturity investments, securities available for sale, trade accounts receivables, advances and other receivable to contractor, and hedging financial instruments recorded at fair value. Classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

- ***Trade and other receivable***

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

(3) Summary of Significant Accounting Policies, continued

- ***Advances to contractors and advances and other accounts receivable to contractors***

  Advances to contractors for the acquisition of physical assets, such as property, plant and equipment, are initially classified as a non-financial asset because the recovery is expected to be made through work and not with cash or another financial instrument. When these advances are expected to be settled in cash or through the execution of third-party guarantees, the ACP reclassifies the advance as a financial instrument to the advances and other receivable to contractor, adjusted to its fair value which is determined by using a discount rate representative of the currency in which the instrument is defined, the expected term for collection and the debtor's credit risk at the time of reclassification. This adjustment is recognized as a loss in financial costs and amortized to account financial income until the expected date of payment.

- ***Securities available for sale***

  Consist of securities acquired with the intention of keeping them for an indefinite period of time, which can be sold in response to liquidity needs or changes in interest rates. After their initial recognition, the securities available for sale are measured at their fair value. Gains or losses arising from changes in the fair value of the securities available for sale are directly recognized in equity until the financial assets have been written off or an impairment is being determined. At that time, the accumulated gain or loss, previously recognized in the equity, is recognized in the income statement. The fair value of an investment in securities is generally determined based on the quoted market price at the date of the statement of financial position. If a reliable quoted market price is not available, the fair value of the instrument is estimated using models for price calculation or discounted cash flows techniques.

- ***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. 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, then it 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 statement of financial position 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 its estimated future cash flows.

- ***Recognition of financial instruments***

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

(3) Summary of Significant Accounting Policies, continued

- ***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 considering any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

- ***Trade and othe payable***

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

- ***Other financial liabilities***

The ACP subscribes a variety of financial instruments to manage its exposure to the interest rate 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 a transaction previously seen as highly exposed to changes in cash flows either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted 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.

(3) Summary of Significant Accounting Policies, continued

- ***Hedge accounting***

The ACP designates certain financial instruments 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. The documentation shall include the identification of the hedge instrument, the transaction or instrument covered, the nature of the risk covered and the manner in which the ACP would measure the effectiveness of the hedge instrument to compensate the exposure to changes in the fair value of the item covered or the changes in the cash flows of the covered risk. These hedges are expected to be highly effective in order to mitigate changes in cash flows of the hedged item and are periodically evaluated to determine if they had been highly effective during the financial reporting periods for which they were designated.

- ***Cash flow hedges***

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

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, within the same line of the income statement as the recognized hedged item. However, when a 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 a financial liability when it expired, cancelled, or met ACP's obligations.

(q) Comparative Information

Some figures for 2017 were reclassified to standardize their presentation with that of the 2018 financial statements, statement of financial position: inventories, net, fuel inventory, accrued interest receivable, other assets, trade and other payables and accrued interest payable and in cash flow: financial costs, net, fuel inventory, other assets, inventory, interests received and paid.

(3) Summary of Significant Accounting Policies, continued

(r) New International Financial Reporting Standards (IFRS) and Interpretations not Adopted

At the date of the financial statements there are standards that have not yet been applied in its preparation:

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard No.9 (IFRS 9) - Financial Instruments, which replaces the International Accounting Standard No. 39 (IAS 39).

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

- **Implementation strategy**

The process of implementing IFRS 9 by the ACP was overseen by an interdepartmental team whose members included representatives from the areas of Risk, Treasury, Finance, Accounting, Internal Control, Information and Technology, and Internal Audit. The interdepartmental team met during 2017 and 2018 to review and validate key assumptions, make decisions and monitor the progress of implementation.

The ACP has completed the preliminary evaluation of the impact and accounting analysis of IFRS 9, the design, development and execution of the models, systems and processes to establish the classification and measurement of financial assets, and generated the calculation of Expected Credit Losses (ECL), implementing a communication plan to update the top management and the Board of Directors regarding the process.

- **Classification and measurement – financial assets**

The new approach for the classification and measurement of financial assets is based on the business model and the contractual cash flow characteristics that apply to the corresponding assets. The model includes two classification categories for financial assets, namely:

- **Amortized cost**

A financial asset is measured at amortized cost and not at fair value through profit or loss if it complies with both of the following conditions:

• The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

• The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

(3) Summary of Significant Accounting Policies, continued

- **Fair value with changes in other comprehensive income (FVOCI)**

  A debt instrument is measured at FVOCI only if it meets both of the following conditions:

  - The asset is held within a business model whose objective is to collect the contractual cash flows and sell the financial assets; and

  - The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

  The IFRS 9 eliminates the existing categories of IAS 39, namely, investments held to maturity, loans and receivables and investments available for sale.

Evaluation of the business model

The ACP carried out an evaluation at the level of its portfolios and the objective of the business model that it applies to the financial instruments of said portfolios in order to document how they are managed. The information that was considered included the following:

- The policies and objectives identified for the portfolio and the operation of these policies including management's strategy to define:

  - the collection of contractual interest income
  - maintain a defined performance profile of interest
  - maintain a one year or less maturity period
  - be able to sell at any time due to liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration and defined objective

- The way in which the behavior of different portfolios is reported to the top management and the Board of Directors of the ACP;

- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which those risk are managed;

- The frequency and value of sales in previous periods, the reasons for those sales and expectations regarding future sales activities.

(3) Summary of Significant Accounting Policies, continued

Assessment of whether the contractual cash flows are solely payments of principal and interest

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

- Contingent events that could change the amount and / or timing of cash flows
- Leverage conditions
- Prepayment and extension terms
- Terms that limit the ACP's ability to collect cash flows from specific assets
- Features that modify considerations for the time value of money

Principal classifications due to changes of the IFRS 9

Based on the preliminary assessment of possible changes to the classification and measurement of financial assets held as of September 30, 2018, the preliminary results obtained are as follows:

- Time deposits with maturities greater than 90 days that are classified as loans and receivables and measured at amortized cost under IAS 39 will maintain this measurement under IFRS 9.
- Advances and other accounts receivable to contractors that are presented as non-current assets and are measured at amortized cost under IAS 39 will maintain this measurement under IFRS 9.
- Debt instruments classified as available for sale under IAS 39 will be classified as FVOCI under IFRS 9, unless their contractual cash flows are not solely payments of principal and interest in which case they will be sold immediately as part of the risk management policies.

- **Impairment of financial assets**

  The IFRS 9 replaces the "incurred loss" model in IAS 39 with an “expected credit loss" (ECL) model. The ACP developed adequate ECL models.

(3) Summary of Significant Accounting Policies, continued

The new impairment model is applicable to the following financial assets:

- Bank deposits
- Debt instruments
- Advances and other accounts receivable

The assessment of whether credit risk of a financial asset has increased significantly is one of the critical judgments implemented in the impairment model.

Loss allowances are recognized for the amount equivalent to the 12-month ECL or for the residual maturity of the financial asset, whichever is the lower, in the following cases:

- Investments in debt instruments, demand deposits and time deposits that are determined to reflect low credit risk at the reporting date; and
- Advances and other accounts receivable to contractors over which the credit risk has not increased significantly since its initial recognition.

For all other cases, allowances are recognized at an amount equal to the assets' lifetime ECL.

The 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date.

Significant increase in credit risk

To determine whether the credit risk of a financial asset has increased significantly since its initial recognition, considers reasonable and sustainable information that is relevant and available without disproportionate cost or effort, including information and analysis of a quantitative and qualitative nature based on historical experience and the expert evaluation of credit including future projections.

The ACP has determined as main indicators of a significant increase in risk the variations in the risk rating and the atypical increases in the credit margin or in the reference prices of the credit default swaps (CDS) of the financial instruments.

- **Credit Risk Rating**

The ACP only invests in short-term debt instruments and time deposits that have more than one short-term international investment quality credit risk rating not less than the following: A-3 by Standard & Poors, P-3 by Moody's Bank Deposit Ratings, or F-3 by Fitch Ratings.

With respect to advances and other accounts receivable to contractors, the credit risk ratings are inferred using a quantitative model for predicting default of payments that assigns a credit rating equivalent to that of Standard & Poors.

(3) Summary of Significant Accounting Policies, continued

Changes in credit ratings are used to establish whether there is a significant increase in risk and in the calculation of the Probability of Default (PD).

Each exposure is assigned a credit risk rating at the time of initial recognition based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in the change to a different credit risk rating.

Determine of the credit risk has increased significantly

The ACP determined that an exposure to credit risk reflects a relevant increase since its initial recognition if the variation in credit ratings shows a decline of at least two levels or if the instrument loses the investment grade rating in two or more risk rating agencies.

On a monthly basis, the ACP follows up on the effectiveness of the criteria used to identify significant increases in credit risk through monthly reviews.

Definition of loss

The ACP considers a financial asset to be in default when it is unlikely a debtor will fully pay its credit obligations to the ACP without taking actions to repossess collateral (if available).

In assessing whether a debtor is in default, the ACP considers the following indicators:

- Quantitative – past due status greater than 90 days and non-payment of other obligations of the same issuer to the ACP; and
- Qualitative – breach of contractual clauses.

The inputs used in the assessment of whether financial instruments are in default are specific to the type of portfolio and its significance, which may vary over time to reflect changes in circumstances and trends.

Measurement of the ECL

The ECL is a probability-weighted estimate of credit loss which is measured according to the following items:

- Financial assets that are not credit-impaired at the reporting date: the present value of all arrears of contractual cash payments (eg, the difference between the cash flows owed and the cash flows that the ACP expects to receive);
- Financial assets that are impaired at the reporting date: the difference between the book value and the present value of the estimated future cash flows.

(3) Summary of Significant Accounting Policies, continued

Term structure of the probability of default (PD)

The PD of investments in debt instruments, bank deposits and advances and other accounts receivable to contractors was estimated using approximate liquid markets based on the international risk rating and the industry relating to the investment or deposit.

Inputs in the measurement of the ECL

The following variables are key inputs used in measuring ECL:

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

In investments in debt instruments, bank deposits, and advances and accounts receivable to contractors the PCE is obtained from the probability of default implicit in the CDS obtained from Bloomberg system, which is used as an approximate for each bond or deposit based on its international credit rating and industry and the residual maturity of each instrument. The ACP does not expect to see migrations between rating categories because all of its investments are placed within 12 months or less.

The ACP also uses the LGD implicit in the CDS as approximate, based on the credit rating of each issuer and the residual maturity of each instrument.

In all cases, the EAD is equivalent to the outstanding principal balance of the contracts, including the principal and its interests.

- **Classification of financial liabilities**

The IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as FVTPL (fair value through profit or loss) are recognized in profit or loss, whereas under the new IFRS 9 these fair value changes are generally presented as follows:

- The change in fair value that is attributable to changes in credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of the change in fair value is presented in profit or loss.

The ACP has not designated any liabilities at FVTPL and does not have the intention to do so.

(3) Summary of Significant Accounting Policies, continued

- **Hedge accounting**

  The ACP has chosen to apply the new requirements of IFRS 9. IFRS 9 requires the ACP to ensure that hedge accounting relationships are aligned with the Authority´s risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

  The types of hedge accounting relationships that the ACP currently designates meet the requirements of IFRS 9 and are aligned with the Authority´s risk management strategy and objectives.

- **Transition**

  The ACP will retrospectively apply the changes in the accounting policies resulting from the adoption of the IFRS 9, generally they will apply, with the exception of the following:

  The ACP plans to take advantage of the exemption that allows it not to restate the comparative information of previous periods with respect to classification and measurement changes (including impairment). The differences in the carrying amounts of the financial assets and liabilities resulting from the adoption of the IFRS 9 will be recognized in the retained earnings and reserves as of October 1, 2018.

- **Disclosure**

  The IFRS 9 will require new disclosures in particular with respect to hedge accounting, credit risk and expected credit losses.

- **Preliminary impact evaluation**

  The most significant impact in the ACP's financial statements caused by the implementation of IFRS 9 are the new requirements for impairment reserves. The ACP's preliminary assessment as of September 30, 2018 indicates the application of IFRS 9, will result in an estimated allowance requirement between B/.1,800 and B/.2,000.

IFRS15 – Revenue from Contracts with Customers

IFRS 15, published in May 2014 and amended in April 2016, has as its basic principle that an entity recognizes revenue from ordinary activities in a way that represents the transfer of promised goods or services to customers in exchange for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

This new standard will supersede IAS 11 Construction Contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmers; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC 31 Revenue - Barter Transactions Involving Advertising Services. It requires a total retroactive or partial retroactive application for the exercises that begin on January 1, 2018 or later.

(3) Summary of Significant Accounting Policies, continued

IFRS 15 establishes a new five-step model that applies to the accounting of income from contracts with customers:

- Identify the contract (or contracts) with the client; that it is approved by the parties; the rights of each party and the payment terms can be identified; that has commercial substance; and that it is probable that the entity collects the consideration to which it will be entitled.

- Identify performance obligations in the contract. The standard requires identifying differentiated obligations within a contract, to which part of the price of the contract must be assigned and for which the imputation to income will be determined separately.

- Determine the price of the transaction. The price of the transaction must be estimated taking into account the effect of variable considerations, the time value of money, non-monetary considerations, and other considerations to be paid to the client.

- Allocate the transaction price among the performance obligations of the contract. If there are differentiated obligations, the transaction price should be distributed among the different obligations proportionally to the corresponding independent selling prices.

- Recognize the revenue from ordinary activities when (or as) the entity satisfies a performance obligation. This obligation becomes effective when the customer of a good or service is able to direct its use and receive the benefits derived from it.

The internal revenue recognition policies for the different types of contracts with customers have been analyzed:

Tolls

Although there is no written contract, the transit service is considered as implicit in the traditional business practices of the Autoridad del Canal de Panamá (ACP), in accordance with the general provisions of the regulation for the pricing of tolls, fees and charges for transit through the canal, related services and complementary activities. The transit service is the performance obligation; the price of the transaction is clearly defined by published rates and varies depending on the segment to which the vessel belongs and the resources used for transit; and, the revenue is recognized once the vessel finishes its transit.

Sale of electric energy

There are contracts approved and signed between the ACP as generator and the different distribution companies which is backed by a bank guarantee. The performance obligation is to provide firm contracted power and energy volumes associated with a predetermined price which is calculated by a formula that considers fluctuations in fuel prices. The ACP also sells energy in the occasional market valued at the costs prevailing in the market. The income is recognized based on the physical and contractual delivery of energy to the contracted prices.

(3) Summary of Significant Accounting Policies, continued

Sale of water

Covered by written contracts between the ACP and the Intituto de Acueductos y Alcantarillados Nacionales (IDAAN), it maintains as payment guarantee the application of the collection procedure established in the "Agreement of compensation of credits and debits and contribution of the State to the capitalization (IDAAN´s contributed capital)" authorized by Cabinet Decree No. 36 of December 28, 2005. The supply of potable water in the volumes agreed in the contract is the performance obligation; and the price of the transaction is based on rates negotiated between the ACP and IDAAN; and approved by the Autoridad Nacional de los Servicios Publicos (ASEP). Revenue is recognized when the delivery of potable water is made.

Other services

They include those of concessions, extraction of raw water, among others. These are written contracts and approved by ACP and its respective counterpart; with explicit obligations; with probability of collection either for payment guarantees (private entities) or deducting from the payments that ACP must be made to the National Treasury (public entities). Prices are based on established and periodically revised rates; and the income is recognized at the time the service is given.

In general, the performance obligations, the transaction price and their allocation could be identified, in order to detect possible differences with the revenue recognition model of the new standard, without finding significant differences between them nor compliance obligations that give rise to the recognition of liabilities for contracts with customers. Although ACP continues to evaluate the new standard, it does not consider that the adoption of IFRS 15 has a material impact on the financial statements.

(3) Summary of Significant Accounting Policies, continued

IFRS 16 Leases

A lease is defined as a contract or part of a contract that entails the right to use an asset for a period of time in exchange for remuneration. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

Amendments to IAS 40 - Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight.

Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

(3) Summary of Significant Accounting Policies, continued
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 and the related accounting and disclosure for claims to and from ACP's main contractors. Such amounts are mostly secured by bank guarantees (notes 5, 6 and 27);
- recoverability of property, plant, and equipment, including construction in progress balances (note 4);
- fair value of financial instruments (note 27);
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (note 26); and
- estimates for the provision for marine accident claims and contingent liabilities (notes 21 and 30, respectively).

(4) Properties, Plant and Equipment
Property, plant, and equipment are detailed as follows:

Cost	Buildings	Structures	Equipment	Land	Construction in progress	Total
At the beginning of fiscal year 2017	202,356	5,421,287	2,908,263	1,023,137	532,208	10,087,251
Additions and other adjustment	7,374	193,802	38,388	0	26,387	265,951
Retirements	(2,929)	(1)	(15,032)	0	0	(17,962)
At the end of fiscal year 2017	206,801	5,615,088	2,931,619	1,023,137	558,595	10,335,240
Additions and other adjustment	418	71,245	32,722	0	70,759	175,144
Retirements	(226)	(1,064)	(16,437)	0	0	(17,727)
At the end of fiscal year 2018	206,993	5,685,269	2,947,904	1,023,137	629,354	10,492,657

Accumulated depreciation	Buildings	Structures	Equipment	Land	Construction in progress	Total
At the beginning of fiscal year 2017	(45,241)	(379,566)	(743,477)	0	0	(1,168,284)
Depreciation	(4,001)	(93,076)	(109,003)	0	0	(206,080)
Retirements	2,839	1	14,895	0	0	17,735
At the end of fiscal year 2017	(46,403)	(472,641)	(837,585)	0	0	(1,356,629)
Depreciation	(4,260)	(95,061)	(111,392)	0	0	(210,713)
Retirements	158	984	16,007	0	0	17,149
At the end of fiscal year 2018	(50,505)	(566,718)	(932,970)	0	0	(1,550,193)
Net book value						
At the end of fiscal year 2018	156,488	5,118,551	2,014,934	1,023,137	629,354	8,942,464
At the end of fiscal year 2017	160,398	5,142,447	2,094,034	1,023,137	558,595	8,978,611

(4) Properties, Plant and Equipment, continued

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Other	Construction in Progress Total
Balance as of October 1, 2016	38,058	494,150	532,208
Additions	18,332	226,107	244,439
Transfers to property, plant and equipment	(50,709)	(189,106)	(239,815)
Interests, commissions and other financing expenses	0	21,763	21,763
Balance as of September 30, 2017	5,681	552,914	558,595
Additions	3,884	149,036	152,920
Transfers to property, plant and equipment	(4,659)	(100,182)	(104,841)
Interests, commissions and other financing expenses	0	22,680	22,680
Balance as of September 30, 2018	4,906	624,448	629,354

In compliance with Law 28 of July 17, 2006, issued by the Executive Branch, the proposal for the construction of the Panama Canal third set of locks was approved. On October 22, 2006, the people of Panama approved the Canal Expansion Program (*the Program*) through a national referendum in accordance with the constitutional requirement. The project for the Design and Construction of the Third Set of Locks was the main component of the Program.

The ACP started commercial operations of the third set of locks in the third quarter of 2016. During 2018, the Panama Canal Expansion Program capitalized B/.4,659 (2017: B/.50,709). The assets of the program were composed as follows: B/.76,551 for 102 buildings; B/.4,377,794 for 100 structures and B/.1,277,307 for 358 equipment. Additionally, during the construction period and previous Fiscal year 2016, costs from this program in the amount of B/.3,517 were capitalized in 32 assets of common use in ACP. In total, an amount of B/.5.735,169 was capitalized in 592 assets.

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

As of September 30, 2018, the total amount of construction in progress for the Investment Program – Others was B/.624,448 standing out the project for the design and construction of the bridge in the Atlantic side of the Canal with an amount of B/.456,438.

During 2018, the ACP recorded derecognition of assets B/.577 (2017: B/.226) that included Illumination for the Gaillard Cut, trucks and medium voltage motor control center (2017: main assets retired included patrol boat, hydrometric station and power transformer).

During 2018, the ACP recorded losses for impairment in equipment for an amount of B/.456 (2017: B/.251).

(4) Properties, Plant and Equipment, continued

Depreciation of September 30, 2018 B/.1,765 (2017: B/.3,252) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

(5) Advances to Contractors

	2017
Grupo Unidos por el Canal, S. A.	847,630
Puente Atlántico, S. A.	7,828
	855,458
Loss: reclassification	(847,630)
	7,828

Puente Atlántico, S.A. is the contractor company for the construction of a bridge across the Canal at the Atlantic side. According to the contract, the ACP paid to the contractor advances for an amount of B/.35,000 that were programmed in three payments; the first for B/.20,000, a second for B/.10,000 subdivided into two sub-payments of B/.5,000 each, and the third for B/.5,000. According to the contract, the recovery of this advance payment was by withholdings from each payments from the ACP to the contractor for work performed. As of September 30, 2018, the total advance payment amount of B/.35,000 (2017: B/.27,172) had been repaid by the contractor).

Change in advances to contractor is as follows:

	2018	2017
Balance at the beginning of the year	7,828	887,081
Amortizations	(7,828)	(31,623)
Reclassification	0	(847,630)
Balance at the end of the year	0	7,828

As of September 30, 2017, the ACP reclassified the advances granted to the contractor GUPCSA to the account advances and other receivable to contractor as it is expected that these advances will be recovered with other financial instruments. The ACP is pursing to recover the portion of the advance secured by corporate guarantees through actions in the English Courts.

(6) Advances and Other Receivable to Contractor, Net

	2018	2017
Advances with bank guarantees:		
Mobilization	247,959	247,959
Plant	300,000	300,000
	547,959	547,959
Advances with corporate guarantees:		
Specified suppliers	66,979	66,979
Lock gates	12,754	12,754
Specified expenditures	99,995	99,995
Subcontractors and suppliers	119,943	119,943
	299,671	299,671
Plus: reimbursement for legal expenditures	0	23,215
	847,630	870,845
Less: financial adjustment to amortized	7,519	13,159
Total for advances and other receivable to contractor, net	840,111	857,686

The ACP maintains as non-current assets the portion of the advances guaranteed by corporate guarantees, which it is seeking to recover through actions in the English Courts. As of September 30, 2017, the ACP recognized a loss in the recoverable value of these advances for B/.13,159 due to an adjustment for the time value of money. Starting on October 1, 2017, the ACP began the amortization of this discount as a financial income until the expected date of repayment. During the year 2018, B/.5,640 was amortized.

The expected maturity of the advances and other receivable to contractor is as follows:

	2018	2017
Current assets	547,959	547,959
Non-current	292,152	309,727
	840,111	857,686

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).

(6) Advances and Other Receivable to Contractor, Net, continued

The Third Set of Locks Project has started operations since June 26, 2016. Several disputes related to the works are currently subject to dispute resolution procedures. The parties can raise additional disputes only if they are related to the maintenance works that the Contractor is currently performing or in regards to any notification of defects and minor works that are in the process of being completed by the contractor. In accordance with the terms of the Contract, 50% of the amounts arising from dispute decisions issued in favor of GUPCSA are mandatorily applied under the Contract for the payment of the advances that are covered by corporate guarantees and that are: advances for specified suppliers, lock gates, and for subcontractors and suppliers, in that order. Once these Advances have been payed, any remaining amount of 50% of these amounts arising from dispute decisions issued in favor of the contractor, may be applied, at the option of GUPCSA, for the repayment of the amounts pending payment of the Other Advances (which are the advances that are secured by letters of credit: Mobilization and Plant).

In addition to any specific security instruments identified in the following summary, the ACP holds Joint and Several Guarantees issued by Sacyr, Impregilo, Jan De Nul and CUSA; and, a Parent Company Guarantee signed by SOFIDRA, which is the parent company of Jan De Nul (such companies, collectively, the “Guarantors”), which were submitted to the ACP in compliance with the contractual requirements for ACP to grant its consent for the assignment of the contract from the consortium Grupo Unidos por el Canal (GUPC) to their project company GUPCSA (current contractor).

Under these joint and several guarantees, the guarantors, are jointly and severally liable for the compliance of GUPCSA with all the terms and conditions of the contract, including the repayment in full of all of the advances discussed in this Note.

The following is the detail of the advances:

Movilization:

The advance payment for mobilization was made for the amount of B/.300,000, and as of September 30, 2018, has an outstanding amount of B/.247,959. The repayment of this advance is secured by an irrevocable letter of credit issued by a bank with a credit rating of A+ granted by Standard & Poors. The due date of this advance is June 1, 2018. However, GUPCSA filed an Arbitration on the interpretation of the repayment date of the advances, arguing that they are not yet due and/or payable. In such arbitration, the ACP has been ordered to refrain from making any demand on the letters of credit until December 16, 2018, the date on which the decision of the Arbitral Tribunal is expected.

Plant:

The advance payment for plant was made for the amount of B/.300,000 and its repayment is secured by two irrevocable letters of credit, one for B/.100,000 issued by a bank with investment grade A+ of Standard & Poors and the other one for B/.200,000 issued by a bank with investment grade of BBB- of Standard & Poors. The outstanding amount of this advance is B/.300,000 and the due date for the repayment of this advance is June 1, 2018. However, GUPCSA filed an Arbitration on the interpretation of the repayment date of the advances, arguing that they are not yet due and/or payable. In such arbitration, the ACP has been ordered to refrain from making any demand on the letters of credit until December 16, 2018, the date on which the decision of the Arbitral Tribunal is expected.

(6) Advances and Other Receivable to Contractor, Net, continued

Specified suppliers:

The advance payment for specified suppliers was made originally for a maximum amount of B/.150,000 or until a cut-off date of April 30, 2013, whichever occurs first. As of September 30, 2018, the outstanding amount of this advance is B/.66,979. This advance is secured by joint and several corporate guarantees issued by the guarantors, including an Other Existing Advances Joint and Several Guarantee, governed by English law and subject to the jurisdiction of the English Courts. This advance came due for repayment in full on December 31, 2016 and has not been repaid. ACP is pursuing collection of this advance through actions in the English Courts.

Lock gates:

The advance payment for lock gates was made for the Contractor to pay outstanding amounts payable to the lock gates fabricator. Its original maximum amount was B/.19,132. As of September 30, 2018, the outstanding amount of this Advance Payment is B/.12,754. This advance is secured by Other Existing Advances Joint and Several Guarantee governed by English law and subject to the jurisdiction of the English Courts, as well as a bond issued by Nacional de Seguros de Panama y Centroamerica (NASE) in respect to B/.12,000 of the outstanding amount. This advance came due for repayment in full on December 31, 2016 and has not been repaid. NASE declined the bond payment and the ACP commenced an arbitration resulting in an arbitration award directing NASE to pay the ACP the amount secured by the bond, plus the interest of ten percent (10%) per annum until the date of settlement, together with legal costs and expenses in relation to the process. The ACP is working out the actions that in law assist in the effective collection of this advance.

Specified expenditures:

The advance payment for specified expenditures was made for the maximum amount of B/.100,000. As of September 30, 2018, the outstanding amount of this Advance Payment is B/.99,995. The repayment of this advance is secured by joint and several corporate guarantees issued by the Guarantors, including the Advance Payment for Specified Expenditures Joint and Several Guarantee, governed by the English law and subject to the jurisdiction of the English Courts. This Advance came due for repayment in full on December 31, 2016 and has not been repaid. ACP is pursuing collection of the Advance through actions in the English Courts.

Subcontractors and suppliers (Suppliers – VO 149)

Advance payment for subcontractors and suppliers was made up to a maximum amount of B/.120,000. As of September 30, 2018, the outstanding amount of this Advance Payment is B/.119,943. This Advance is secured by joint and several corporate guarantees issued by the Guarantors, including the Joint and Several Guarantee governed by English law and subject to the jurisdiction of the English Courts. This Advance came due for repayment in full on December 31, 2016 and has not been repaid. ACP is pursuing collection of the advance through actions in the English Courts.

(7) Trade and other Receivables

Trade and other current receivables are detailed as follows:

	2018	**2017**
Transits	28,108	19,726
Sale of electricity	5,809	10,046
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,545	6,332
Other government entities	8,789	8,386
Other services	3,976	4,723
	54,227	49,213

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

Aging of past due but not impaired receivables:

	2018	**2017**
60 – 90 days	86	19
90 – 180 days	2	226
	88	245

(8) Investment Properties

The following table presents details of investment properties at September 30, 2018:

	2018	**2017**
Lands and buildings	89,831	89,831
Total	89,831	89,831

As of September 30, 2018, ACP investment properties presented no changes compared to fiscal year 2017. They are composed of:

- An area of 180,345 square meters of land, water surface and underwater background, granted in concession to the PSA Panama International Terminal, S.A. 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/.51,494. 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.

(8) Investment Properties, continued

- An area of 1,499.95 square meters granted in concession to Large Screen Cinema Corp., for the construction of a large format cinema, for a period of 10 years, renewable for another 10 years period with a book value of B/.22 and fair value of B/.6,000. 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.

- A land with an area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP, with a book value of B/.89,757 and fair value of B/.90,628. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities.

During fiscal year 2017, twenty-five buildings, which ACP is currently renting, were transferred from property, plant and equipment to investment properties. These buildings are fully depreciated and have a fair value of B/.24,965, which was estimated based on the operating cash flow analysis discounted at a representative rate for this type of business.

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.

(9) Inventories, Net

Inventories are detailed as follows:

	2018	2017
Supplies and materials	73,075	67,531
Fuel	11,914	9,198
Provision for inventory obsolescence	(4,084)	(4,000)
	80,905	72,729
Current	11,914	9,198
Non-current	68,991	63,531
	80,905	72,729

The change of obsolescence estimation for supplies and materials inventory is as follows:

	2018	2017
Balance at the beginning of the year	4,000	4,500
Increase	500	66
Write-off	(416)	(566)
Balance at the end of the year	4,084	4,000

The amount of material and supplies recognized during fiscal year 2018 in the income statement was B/.37,445 (2017: B/.36,290).

(9) Inventories, Net, continued

The amount of fuel recognized during fiscal year 2018 in the income statement was B/.70,806 (2017:B/.74,585).

The ACP classified their inventories as non-current when it is expected to be used or consumed in the operation in one period of more than twelve months.

(10) Other Financial Assets

Other financial assets are detailed as follows:

	2018		2017	
	Book value	Fair value	Book value	Fair value
Investments held to maturity, measured at amortized cost:				
Time deposits over 90 days	1,230,000	1,230,000	1,105,000	1,105,000
Securities available for sale, measured at fair value:				
Investment grade corporate bonds	2,042,558	2,042,558	1,457,096	1,457,096
Financial instruments designated as hedge instruments mesured as fair value:				
Interest rate swap	4,124	4,124	721	721
Commodity price swap contract	2,078	2,078	0	0
	3,278,760	3,278,760	2,562,817	2,562,817

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 financial instruments issued by Panamanian or foreign public or private entities, neither to grant loans to said entities nor to the National Government.

During fiscal year 2017, the ACP reclassified the portion of the portfolio of securities held to maturity, made up of bonds listed on the stock exchange, to the portfolio of securities available for sale, generating an unrealized loss of B/.1,220 that was recognized in other comprehensive income. During fiscal year 2018, generated an unrealized income of B/.240 (see Statement of Comprehensive Income and note 15).

Investments in securities and time deposits are performed and recorded in US dollars. All the ACP's investments were placed in instruments with an investment grade and have a short-term maturity.

At September 30, 2018, the annual interest rate of return of others instruments (excluding current and saving accounts) was 2.10% (September 30, 2017: 1.47%) paid at the end of each term and with a maximum maturity of a year.

Financial instruments designated as hedge instruments:

With the objective of transferring the risk of variability of future cash flows attributable to the volatility of interest rates applied to the financing of the Canal Expansion Program, the ACP subscribed an interest rate swap contract where it pays a fixed rate and receives a variable rate.

(11) Accrued Interest Receivable
Accrued interest receivable and other assets are detailed as follows:

	2018	2017
Interest receivable	39,519	21,734
	39,519	21,734

(12) Cash and Cash Equivalents
Cash and cash equivalents are comprised of the following:

	2018	2017
Cash on hand	46	37
Deposits in current accounts	5,182	155,633
Deposits in saving accounts	55,055	222,623
Time deposits with original maturities under 90 days	0	150,000
Total cash and cash equivalents	60,283	528,293

Cash deposit in bank accounts earns interest based on daily rates determined by correspondent banks. At September 30, 2018, the investment of these resources has the priority to cover all ACP obligations and earns interest rates which vary between 0.1% and 2% (September 30, 2017: 0.1% and 1.4%).

As of September 30, 2018 and 2017, there were no restrictions over the balance of cash and cash equivalents.

(13) 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 required patrimony to operate and maintain the Canal.

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

(14) Reserves and Contributions for Investment Programs

Changes in investment programs contributions and reserves as of September 30, 2018 are detailed as follows:

	2018	Increase (decrease)	2017	Increase (decrease)	2016
Contributions:					
Investment programs	5,952,757	(33,078)	5,985,835	(14,195)	6,000,030
	5,952,757	(33,078)	5,985,835	(14,195)	6,000,030
Reserves:					
Catastrofic risks	36,000	0	36,000	0	36,000
Contingencies and working capital	255,480	32,360	223,120	19,000	204,120
Enterprise capitalization	274,969	0	274,969	0	274,969
Strategic for investment programs	545,000	155,000	390,000	0	390,000
	1,111,449	187,360	924,089	19,000	905,089
Total	7,064,206	154,282	6,909,924	4,805	6,905,119

Investment programs

At September 30, 2018, the ACP decreased the funds of the investments programs by B/.33,078 (2017:- B/.14,195) for a contributed total of B/.1,692,382 (2017: B/.1,725,460) for the Investment program – Others and B/.4,260,375 (2017: B/.4,260,375) for the Investment program – Canal expansion. This contribution includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period.

Catastrophic Risks

The ACP maintains an equity reserve to cover the deductibles of the catastrophic risks insurance policies 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 2018, it was approved to increase this reserve by B/.32,360 (2017: B/.19,000) for a total reserve of B/.255,480 (2017: B/.223,120).

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 2018 and fiscal year 2017, this reserve was not adjusted so it keeps a total reserved of B/.274,969.

(14) Reserves and Contributions for Investment Programs

Strategic for investment programs

The ACP established an equity reserve 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. During fiscal year 2018, it was approved to increase this reserve by B/.155,000 (2017: no adjustment was made to the reserve), for a total reserve of B/.545,000 (2017: B/.390,000).

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.

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

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

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

	2018	2017
Balance at the beginning of the year	(118,449)	(175,593)
Actuarial valuations:		
Net remeasurement gains (losses) of employee defined benefit plans	566	(49)
Other comprehensive income not to be reclassified to profit or loss	566	(49)
Securities available for sale:		
Net unrealized gain (loss)	240	(1,220)
Commodity Price swap contract:		
Net income of non-yet matured contracts	2,078	0
Cash flow hedges:		
Interest rate swap contracts:		
Reclassification of gains to income statement	16,655	23,656
Net income of non-yet matured contracts	41,951	34,757
Other comprehensive income to be reclassified to profit or loss	60,924	57,193
Income during the year	61,490	57,144
Balance at the end of the year	(56,959)	(118,449)

(16) 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/.1,199,101 to the Panamanian Treasury which corresponds to the year ended September 30, 2018 (2017: B/.1,193,809). (See note 31).

Detail of payments to the Panamanian Treasury is as follows:

	2018	2017
Payments to the Panamanian Treasury:		
Fees per net ton	501,548	454,558
Public service fees	2,138	2,011
Sub-total	503,686	456,569
Unappropriated retained earnings (see note 31)	1,199,101	1,193,809
Total	1,702,787	1,650,378

(17) Borrowings

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

Credit Facilities	Interest Rate %	Maturity Date	2018	2017
European Investment Bank (BEI)	Libor 6 months + 0.811	15-Nov-28	100,000	100,000
European Investment Bank (BEI)	Libor 6 months + 0.824	15-Nov-28	300,000	300,000
European Investment Bank (BEI)	5.196	15-Nov-28	100,000	100,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.20	15-Nov-28	150,000	150,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.40	15-Nov-28	150,000	150,000
International Finance Corporation (IFC)	Libor 6 months + 1.30	15-Nov-28	300,000	300,000
Inter-American Development Bank (BID)	Libor 6 months + 1.05	15-Nov-28	400,000	400,000
Japan Bank for International Cooperation (JBIC)	Libor 6 months + 0.75	15-Nov-28	800,000	800,000
			2,300,000	2,300,000

These credit facilities were subscribed under the Common Terms Agreement, which financed part of the Canal Expansion Program. These borrowings will have semi-annual payments to principal of B/.115,000 beginning on May 15, 2019, due in November 2028.

	2018	2017
Current borrowings	115,000	0
Non-current borrowings	2,185,000	2,300,000
Total	2,300,000	2,300,000

(17) Borrowings, continued

The ACP complies with the obligation to report annually to the five multilateral agencies that gave loans, the situation of the following two financial ratios: Total Debt to EBITDA and the Debt Service Coverage.

	2018	2017
Total debt to EBITDA Ratio	1.8	1.9
Debt Service Coverage Ratio	10.6	57.3

- Before the completion of the Expansion Program, the total debt to EBITDA ratio should maintain as of the end of every semi-annual fiscal period of the ACP, a ratio of less than 3.0 for such measurement period.

  Total debt to EBITDA ratio, after completion of the Expansion Program, should maintain, as of the end of every semi-annual fiscal period of the ACP, a ratio less than 2.5 for such measurement period.

- Before the completion of the Expansion Program, the debt service coverage ratio should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 5.0 for such measurement period.

  Debt service coverage ratio, after completion of the Expansion Program, should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 3.0 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, 2018, the ACP was in compliance with the aforementioned restrictive financial covenants.

The interests, cash flow hedges and other financing costs for the year ended September 30, 2018, are detailed as follows:

	2018	2017
Interest on loans	92,222	77,668
Cash flow hedges	16,655	23,656
Other expenses	733	743
Total interests, cash flow hedges and other financing costs	109,610	102,067
Less: amount of capitalized financing costs	(22,680)	(21,763)
Net financing costs	86,930	80,304

(18) Bonds Payable

On September 24, 2015, the ACP issued bonds to partially finance the construction of a new bridge on the Atlantic side of the Canal, with trading date October 1, 2015.

	Interest Rate%	Maturity Date	2018	2017
Bond 2035	4.95	29-Jul-35	450,000	450,000
Less: discount and issuing costs			9,078	9,643
Total			440,922	440,357

These bonds were issued under rule 144 A of Regulation S of the U.S. Securities and Exchange Commission, with a fixed annual rate of 4.95%, payable in four semi-annual installment payments to principal of B/.112,500, from January 29, 2034, and maturing on July 29, 2035. The effective interest rate is 5.17%.

As part of the obligations of the issuance, the ACP presents audited financial statements for each fiscal year and unaudited financial statements at the end of the first, second, and third quarter of each fiscal year.

(19) Other Financial Liabilities

Other financial liabilities are detailed as follows:

	2018	2017
Financial instruments designated as hedging instruments carried at fair value:		
Interest rate swaps	59,884	115,087
	59,884	115,087

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.

(20) Trade and Other Payables

Trade and other payables are as follows:

	2018	2017
Panamanian Treasury	42,786	37,873
Suppliers and others	177,080	158,448
	219,866	196,321

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, 2018, the total of such fees amounted to B/.501,548 (2017: B/.454,558).

(21) Provision for Marine Accidents 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:

	2018	2017
Balance at beginning of the year	14,045	20,054
Provision (reversion) for the year	10,240	(3,425)
Payments made	(3,883)	(2,584)
Balance at the end of the year	20,402	14,045

The increase (reversion) in the provision is included as an expense of the current period under Provision for marine accidents.

(22) Other Liabilities

Other liabilities are detailed as follows:

	2018	2017
Inventories – in transit	8,219	5,331
Miscellaneous claims	4,800	1,876
Advance payment of Ministerio de Obras Públicas (MOP)	30,297	20,198
Others	3,894	3,135
	47,210	30,540

During 2017, the ACP subscribed an agreement with the MOP for the transfer of particular buildings and other facilities used in the operation of the Canal, totally depreciated, which are required for the construction of the fourth bridge over the Panama Canal. In exchange, the MOP promised to pay the ACP B/.33,663, of which B/.30,297 has already been advanced. As soon as the ACP transfers the control of the facilities to the MOP, these facilities will be derecognized of the property, plant and equipment account and the corresponding profit will be recognized in the results of the year. According to the agreement, the ACP will maintain control and ownership of the land on which these facilities, which will be transferred to the MOP, are built.

(23) Labor, Materials and Other Capitalized Costs

The investments programs have been executed partially or totally with ACP own resources and equipment. The operating costs that apply to investments programs are capitalized. Detail of the operating expenses and capitalized costs are as follows:

	2018		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	618,077	25,105	592,972
Employee benefits	78,545	773	77,772
Materials and supplies	73,626	5,228	68,398
Fuel	73,624	2,818	70,806
Depreciation	210,714	1,765	208,949
Other expenses	14,397	0	14,397
	1,068,983	35,689	1,033,294

	2017		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	610,793	33,733	577,060
Employee benefits	77,237	1,703	75,534
Materials and supplies	66,886	6,759	60,127
Fuel	79,840	5,255	74,585
Depreciation	206,080	3,252	202,828
Other expenses	17,962	105	17,857
	1,058,798	50,807	1,007,991

(24) Other Miscellaneous Revenues

Other miscellaneous revenues are detailed as follows:

	2018	2017
Ticket office	9,884	10,148
Government of Panama:		
Bayano Agreement-Mi ambiente	1,273	245
Rio Indio Agreement-Mi ambiente	4,244	2,766
Leasing to Ministerios de Gobierno, Police, VUMPA, among others	5,501	2,679
Other revenues:		
Panamá International Terminal, S.A	2,928	3,183
Sales of excess properties	1,852	1,573
Telecommunications	4,185	4,053
Others	6,406	8,483
Total of other miscellaneous revenues	36,273	33,130

(25) Income Taxes

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

(26) Employee Benefits

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

	2018	2017
Benefit for employment retirement	331,591	340,036

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.

(26) Employee Benefits, continued

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

The requirements and criteria under the VRI are: 1) the employee receives the benefit of VRI only if 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 Seguro 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 60 calendar days after completing the required age, 5) files the termination of employment form through voluntary resignation, and 6) the employee has no investigation initiated against him for the alleged commission of serious offenses against the ACP regulations that could result in his dismissal.

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, 2018. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for age average of personnel, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate, in accordance with IFRS, the present value of the liability 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 September 30, 2018 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).

Expenses related to the employee benefits plan are recorded in the bonus account for voluntary separation, mutual agreement or voluntary retirement, within the personal services category.

(26) Employee Benefits, continued

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
	October 1, 2017	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2018
Fair value of the benefits	340,036	25,868	9,506	26,678	17,141	331,591

The principal actuarial assumptions used are shown below:

	Age	2018 %	2017 %
Discount rate		4.1	3.7
Salary increase		3.75	3.5
Mortality			
Female	57 years	2.8	2.8
Male	62 years	5.9	5.9
Disability			
Female	57 years	1.2	1.2
Male	62 years	1.9	1.9

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

	2018
Maturity of the obligation:	
From 0 to 1 year	26,420
From 1 to 5 years	98,641
From 5 to 10 years	195,067
From 10 to 25 years	367,696
Beyond 25 years	92,737

At September 30, 2018, the average duration of the obligation for the defined benefit plans for voluntary retirement of employees (VRI/LRB) is approximately 7.78 years (2017: 8.07 years) at a discount rate of 4.1% (2017: 3.7%).

(26) Employee Benefits, continued

A quantitative sensitivity analysis for significant assumptions as of September 30, 2018 is as follows:

Assumption	Discount rate Increase 25 pbs	Discount rate Decrease 25 pbs	Increase of salary de 25 pbs	Decrease of salary de 25 pbs
Sensitivity level				
Impact on defined benefit obligation	(6,638)	7,075	6,736	(6,543)

Reiumbursement 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 3.30% of the total insured amount.

Changes in the reimbursement right to ACP during fiscal year 2018 are detailed as follows:

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2017	Reimbursement right cost of the year	Net interest	Reimbursements during the year	Actuarial adjustments	September 30, 2018
Reimbursement right to ACP	328,611	26,400	9,192	26,979	(16,575)	320,649

At September 30, 2018, the ACP paid the insurer B/.27,350 (2017: B/.24,300) in premiums of the reimbursement policy.

(27) 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.

(27) Risk Management, continued

The ACP's capital structure consists of net debt (borrowings and bonds as detailed in notes 17 and 18), compensated by cash and bank deposit balances, other financial assets (See note 10) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 13, 14, 15 and 16, respectively).

Historically, the ACP has operated with its own resources due to the high cash levels generated by its operations, enabling it to afford its costs of operation, investment, functioning, maintenance and modernization. On December 2008 it subscribed a common term financing agreement with five development agencies, which committed to grant financings totaling B/.2,300,000 in order to partially finance the Canal Expansion Program. More recently, on September 2015, it issued bonds on the international market totaling B/.450,000 in order to partially finance the building of the bridge on the Atlantic side of the Canal. (See note 18).

Categories of financial instruments

	2018	2017
Financial assets		
Cash and cash equivalents (note 12)	60,283	528,293
Advances and other receivables to contractor, net (note 6)	840,111	857,686
Trade and other receivables (note 7)	54,227	49,213
Other financial assets (note 10)	3,278,760	2,562,817
	4,233,381	3,998,009
Financial liabilities		
Financial instruments designated as hedging instruments (note 19)	59,884	115,087
Trade and other payables (note 20)	219,866	196,321
Borrowings (note 17)	2,300,000	2,300,000
Bonds payable (note 18)	440,922	440,357
	3,020,672	3,051,765

(27) Risk Management, continued
Accounting classification and fair values

The following table shows the book value and the fair value of financial assets and liabilities, including their fair value hierarchy levels. This table does not include the fair value information of financial assets and liabilities not measured at fair value if their book value reasonably approximates their fair value.

2018	**Fair value**				
(In thousands of B/.)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Book value**
Financial assets measure at fair value:					
Other financial assets:					
Securities available for sale:					
Corporate debt securities	1,577,164	465,394	0	2,042,558	2,042,558
Instruments designated in cash flow hedging relationship:					
Interest rate swaps	0	4,124	0	4,124	4,124
Diesel swap contracts	0	2,078	0	2,078	2,078
	1,577,164	471,596	0	2,048,760	2,048,760
Financial assets not measured at fair value:					
Other financial assets:					
Investments held to maturity:					
Time deposits, more than 90 days	0	1,230,000	0	1,230,000	1,230,000
Cash and cash equivalents	0	0	60,283	60,283	60,283
Accounts receivable and others	0	0	54,227	54,227	54,227
Advances and other receivables to contractor	0	0	831,869	831,869	840,111
	0	1,230,000	946,379	2,176,379	2,184,621
Financial liabilities measured at fair value:					
Other financial liabilities:					
Hedge instruments – interest rate swaps	0	59,884	0	59,884	59,884
Financial liabilities not measured at fair value:					
Bonds payable	0	0	467,114	467,114	440,922
Borrowings	0	0	2,355,208	2,355,208	2,300,000
Trade and other payable	0	0	219,866	219,866	219,866
	0	0	3,042,188	3,042,188	2,960,788

(27) Risk Management, continued

2017	**Fair value**				
(In thousands of B/.)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Book value**
Financial assets measure at fair value:					
Other financial assets:					
Securities available for sale:					
Corporate debt securities	1,457,096	0	0	1,457,096	1,457,096
Instruments designated in cash flow hedging relationship:					
Interest rate swaps	0	721	0	721	721
	1,457,096	721	0	1,457,817	1,457,817
Financial assets not measured at fair value:					
Other financial assets:					
Investments held to maturity:					
Time deposits, more than 90 days	0	1,105,000	0	1,105,000	1,105,000
Cash and cash equivalents	0	0	528,293	528,293	528,293
Accounts receivable and others	0	0	49,213	49,213	49,213
Advances and other receivables to contractor	0	0	857,686	857,686	857,686
	0	1,105,000	1,435,192	2,540,192	2,540,192
Financial liabilities measured at fair value:					
Other financial liabilities:					
Hedge instruments – interest rate swaps	0	115,087	0	115,087	115,087
Financial liabilities not measured at fair value:					
Bonds payable	0	0	501,840	501,840	440,357
Borrowings	0	0	2,341,771	2,341,771	2,300,000
Trade and other payable	0	0	196,321	196,321	196,321
	0	0	3,039,932	3,039,932	2,936,678

On this table, the ACP presents the fair value of each type of financial assets and liabilities in order to compare the information with their corresponding book values. In addition, it reconciles assets and liabilities with the different financial instrument categories as defined by the IAS 39 – Financial Instruments: Recognition and Measurement.

The ACP does not present fair value for financial instruments such as short-term accounts receivables/payables because their book value reasonably approximates their fair value.

Hedging instruments such as interest rate swaps are registered at clean price, and the interests are registered as interest payable.

(27) Risk Management, continued

Fair value measurement

i. Valuation techniques and unobservable significant inputs

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

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Interest rate swar contracts	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable rate curves based on quoted swap rates, future prices and interbank rates. Future cash flow are discounted using a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing interest rate swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated based on credit margins derived from credit default swaps or bond prices.	None	None
Diesel Price swaps	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable diesel prices are based on swap rates, future prices and interbank rates. Future cash flow are discounted with a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing diesel swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated based on credit margins derived from credit default swaps or bond prices.	None	None
Corporate debt securities	*Market comparison*. Fair value is estimated considering recent or current quotes prices for identical instruments on an inactive market.	None	None

Financial instruments not measured at fair value	
Bonds payable, borrowing and trade and other payables	Discounted future flows

(27) Risk Management, continued

During 2018, the corporate bonds available for sale presented a transfer from Level 1 to Level 2 due to the observable reference prices in an active market where the input data are directly or indirectly observable.

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 short term debt instruments held until maturity. The ACP also contracts hedging instruments.

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

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

The ACP maintains policies that provide written principles about foreign exchange risk management, interest rate risk, credit risk, and the use of hedge financial instruments and liquidity investment. The Office of the Inspector General 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 the 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 exposed primarily to financial risks due to variations of currency exchange, interest rates, and commodity prices out of its control. With the purpose of managing these risks exposures, the ACP subscribes a variety of hedge financial instruments approved by its Board of Directors based on the recommendations of the Liquidity and Hedging Committee, including:

- Interest rate swaps to mitigate the risk of increases in interest rates.

- Diesel price swaps to mitigate the risk of fluctuations in the price of this commodity, which is required for the Canal's regular operations.

(27) Risk Management, continued
Exchange rate risk management

The ACP has established a policy to manage foreign currency risk related to its functional currency. The ACP only accepts payments in dollars of the United States of America and the investment criteria and applicable guidelines require that all deposits and investments in banks shall be in the dollars of the United States of America, or in other currencies authorized by the Board of Directors.

As of September 30, 2018 and 2017, the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Cash flow and fair value interest rate risk

The interest rate risk of the cash flow and fair value are the fluctuation risk on the future cash flows and on the instrument's due to changes on market interest rate.

ACP's net financial cost can fluctuate as a result to unanticipated movements on interest rates.

The following table resumes ACP's exposure based on the interest repricing gaps on its financial assets and liabilities:

	2018					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and term deposits	90,000	10,000	1,190,237	0	0	1,290,237
Securities available for sale	144,563	817,922	1,080,073	0	0	2,042,558
	234,563	827,922	2,270,310	0	0	3,322,795
Liabilities						
Borrowings	2,200,000	0	0	0	100,000	2,300,000
Bonds payable	0	0	0	0	450,000	450,000
	2,200,000	0	0	0	550,000	2,750,000
Interest rate swap hedges	(2,200,000)	0	110,000	1,650,000	440,000	0
Total interest rate sensitivity	234,563	827,922	2,160,310	(1,650,000)	(990,000)	582,795

	2017					
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and term deposits	20,000	0	1,613,256	0	0	1,633,256
Securities available for sale	75,469	465,220	916,407	0	0	1,457,096
	95,469	465,220	2,529,663	0	0	3,090,352
Liabilities						
Borrowings	2,200,000	0	0	0	100,000	2,300,000
Bonds payable	0	0	0	0	450,000	450,000
	2,200,000	0	0	0	550,000	2,750,000
Interest rate swap hedges	(800,000)	0	0	280,000	520,000	0
Total interest rate sensitivity	(1,304,531)	465,220	2,529,663	(280,000)	(1,070,000)	340,352

(27) Risk Management, continued

The ACP manages its interest rate risk exposure partially by purchasing fixed rate securities and by contracting variable rate financing, and uses interest rate swaps to hedge cash flow variability attributable to interest rate risk.

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

The ACP administration performs simulations on its financial assets and liabilities in order to evaluate interest rate risk and its impact in the fair value of financial instruments. In order to manage interest rate risk, it has defined an interval on the limits to monitor the sensitivity on its financial assets and liabilities. The interest rate impact estimation by category assumes a 100 basis point (bp) increase or reduction on the financial assets and liabilities. The following table reflects the impact of applying those interest rate variations:

	Net interest income sensitivity			
	100pb increment		100pb reduction	
	2018	2017	2018	2017
At the end of the year	20,554	9,631	(20,554)	(9,631)

	Other comprehensive income sensitivity			
	100pb increment		100pb reduction	
	2018	2017	2018	2017
At the end of the year	60,953	47,964	(60,965)	(47,968)

Interest rate risk management

The ACP is exposed to interest rate risk because it borrowed funds through borrowing and bond issuances at both fixed and floating interest rates. The ACP manages this risk with interest rate swap contracts. Given market conditions, hedging activities are evaluated regularly in order to consider interest rate volatility and risk tolerance, ensuring that the most conservative hedging strategies are applied.

Interest rate swap contracts

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

On June 2017 the ACP contracted an additional interest rate swap contract without collateral to fix the interest rate on B/.1,400,000 variable rate loans, even though this transaction became effective starting on November 15, 2017, up to November 15, 2018. Principal amortizations are for B/.70,000 semi-annually starting on May 15, 2019 until the swap maturity on November 15, 2028.

(27) Risk Management, continued

Finally, on March 2018 the ACP contracted interest rate swap contracts without collateral, to protect the fiscal year 2019 budget in two B/.700,000 tranches, a total of B/.1,400,000, effective as of November 15, 2018 up to November 15, 2019. These two interest rate hedge contracts totaling B/.1,400,000 consider the B/.70,000 semiannual principal amortizations starting on May 15, 2019 up to the swap maturity on November 15, 2019.

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 in the cash flow of part of the hedged floating rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the yield curves at the end of the period in question and the inherent credit risk in the contract.

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:

Notional	Effective date	Maturity date
800,000	17-May-2010	15-Nov-2028
1,400,000	15-Nov-2017	15-Nov-2028
700,000	15-Nov-2018	15-Nov-2019
700,000	15-Nov-2018	15-Nov-2019

Floting rate contracts and outstanding fixed rate payments	Average contracted fixed interest rate		Notional principal value		Fair value	
	2018	2017	2018	2017	2018	2017
Less than 1 year	1.62%	1.03%	1,400,000	1,400,000	1,584	721
More than 1 year and less than 5 years	2.71%	na	700,000	na	1,415	na
More than 1 year and less than 5 years	2.75%	na	700,000	na	1,125	na
5 years or more	4.67%	4.67%	800,000	800,000	(59,884)	(115,087)

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

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

The interest rate swap contracts subscribed with ACP's counterparties stipulate that ACP will not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

(27) Risk Management, continued

Asset and liability derivative instruments designated as cash flow hedges

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

	2018					2017				
		Expected cash flow					Expected cash flow			
(In thousands of B/.)	Book value	Total	1-6 months	6-12 months	More than 1 year	Book value	Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	4,124	9,034	6,415	166	2,454	721	2,904	2,904	0	0
Liabilities	(59,884)	(73,116)	(8,802)	(7,695)	(56,618)	(115,087)	(133,667)	(13,200)	(12,360)	(108,107)
Diesel price swaps										
Assets	2,078	2,315	1,027	1,288	0	0	0	0	0	0
	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)	(114,366)	(130,763)	(10,296)	(12,360)	(108,107)

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected impact net income or losses, as well as the book value of the hedge instruments:

	2018					2017				
		Expected impact					Expected impact			
(In thousands of B/.)	Book value	Total	1-6 moths	6-12 months	More than 1 year	Book value	Total	1-6 moths	6-12 months	More than 1 year
Interest rate swaps										
Assets	4,124	9,034	6,415	166	2,454	721	2,904	2,904	0	0
Liabilities	(59,884)	(73,116)	(8,802)	(7,695)	(56,618)	(115,087)	(133,667)	(13,200)	(12,360)	(108,107)
Diesel price swaps										
Assets	2,078	2,315	1,027	1,288	0	0	0	0	0	0
	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)	(114,366)	(130,763)	(10,296)	(12,360)	(108,107)

Liquidity risk management

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

Historically, the cash generated by the ACP's operations has been enough to cover its operations and its investment program's requirements, while generating adequate returns. However, on December 2008 the ACP obtained financing in order to complement the necessities of the Canal Expansion Program. Subsequently, on September 2015 the ACP issued bonds in the capital markets to finance partially the new bridge across the Canal on the Atlantic Side. The credit facilities used in order to reduce the liquidity risk are detailed ahead.

(27) Risk Management, continued

Liquidity risk tables

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

	September 30, 2018						
	Book value	**Input (output) of not discounted cash flows**	**Up to 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**
Assets							
Cash and cash equivalents	60,283	61,656	61,656	0	0	0	0
Investment held to maturity	1,230,000	1,246,693	1,029,601	116,758	100,334	0	0
Securities available for sale	2,042,558	2,094,170	247,324	782,487	1,064,359	0	0
Trade and other receivable	54,227	54,227	54,227	0	0	0	0
Advances and other receivables to contractor, net	840,111	840,111	547,959	0	0	292,152	0
	4,227,179	4,296,857	1,940,767	899,245	1,164,693	292,152	0
Liabilities							
Borrowings	2,300,000	(2,821,312)	(10,450)	0	(158,768)	(1,223,819)	(1,428,275)
Bonds payable	440,922	(811,969)	0	(11,138)	(11,138)	(89,100)	(700,594)
Accounts payable	219,866	(219,866)	(219,866)	0	0	0	0
	2,960,788	(3,853,147)	(230,316)	(11,138)	(169,905)	(1,312,919)	(2,128,869)
Diesel Price swap, fixed payment and variable receipt, net	2,078	2,315	409	618	1,288	0	0
Interest rate swap, fixed payment and variable receipt, net	(55,760)	(64,082)	(2,387)	0	(7,530)	(34,831)	(19,334)
Net position	(53,682)	(61,767)	(1,978)	618	(6,242)	(34,831)	(19,334)

	September 30, 2017						
	Book value	**Input (output) of not discounted cash flows**	**Up to 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**
Assets							
Cash and cash equivalents	528,293	530,026	530,026	0	0	0	0
Investment held to maturity	1,105,000	1,111,339	676,979	414,348	20,012	0	0
Securities available for sale	1,457,096	1,483,823	389,885	511,685	582,253	0	0
Trade and other receivable	49,213	49,213	49,213	0	0	0	0
Advances and other receivables to contractor, net	857,686	857,686	547,959	0	0	309,727	0
	3,997,288	4,032,087	2,194,062	926,033	602,265	309,727	0
Liabilities							
Borrowings	2,300,000	(2,794,831)	(7,426)	0	(30,941)	(1,064,657)	(1,691,807)
Bonds payable	440,357	(834,244)	0	(11,138)	(11,138)	(89,100)	(722,869)
Accounts payable	196,321	(196,321)	(196,321)	0	0	0	0
	2,936,678	(3,825,396)	(203,747)	(11,138)	(42,079)	(1,153,757)	(2,414,676)
Interest rate swap, fixed payment and variable receipt, net	(114,366)	(130,763)	(10,297)	0	(12,359)	(71,228)	(36,879)

In order to finance the Canal Expansion Program for a total of B/.2,300,000, the ACP entered a Common Terms Agreement with five multilaterals agencies. Currently 4.3% of the debt has a fixed effective rate of 5.31%, and while the remaining 95.7% has a moving average effective rate of 2.92%. The effective rate for the financing is 3.02%.

(27) Risk Management, continued

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

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

	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
September 30, 2018							
Variable interest rate loans	2.92%	0	0	110,000	1,100,000	990,000	2,200,000
Fixed interest rate loans	5.31%	0	0	5,000	50,000	45,000	100,000
Fixed interest rate Bonds	5.14%	0	0	0	0	450,000	450,000
		0	0	115,000	1,150,000	1,485,000	2,750,000

The ACP used all of the credit facility totaling B/.2,300,000 on the Canal Expansion Program. Funds from the bond issuance totaling B/.450,000 were used in the construction of the bridge on the Atlantic side of the Canal.

Fuel price risk

The ACP is exposed to commodity price fluctuation risk, mainly on the fuel used in its transit and dredging operations, as in its power generation activities and 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

The ACP uses approximately between 10 and 12 million gallons of light diesel on its vessel transit operations. Since October 20, 2009, risk management for diesel price fluctuations is performed mainly within the fiscal year, period that is considered representative for the implementation of appropriate commercial policies. In order to manage the risk the ACP performs specific hedging transactions covering approximately 80% of the expected volume.

For fiscal year 2018, the ACP purchased a hedge instrument (cap) establishing a maximum annual price of B/.1.47 per gallon for 9.25 million gallons in order to hedge its operational diesel price fluctuation risk. As at June 30, 2018 the accumulated fuel consumption totaling 13.69 million of gallons was registered during the current fiscal year.

Energy generation

The ACP generates power for the consumption of the Canal's operations, while excess capacity is sold in the domestic electricity market. Until September 2018, the ACP consumed 23% of the power generated, while the remaining 77% was sold to the electric market. Power generated by hydroelectric and thermal plants was 22% and 78%, respectively.

(27) Risk Management, continued

Thermal plant generation is exposed to fuel price volatility risk. 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 statements when energy is not sold under contracts, namely, in the spot market.

Operational fuel price risk sensitivity analysis

As of September 30, 2018, the current price index for light diesel purchases made by the ACP was B/.2.08 per gallon. Fuel expenses registered an increase of B/.6.07 million. On August 2018, the ACP established a diesel price swap to protect its fiscal 2019 operational diesel budget totaling 11.1 million gallons.

Credit risk management

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

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 grade rating, which cannot be inferior to A-2 by Standard & Poors, P-2 by Moody’s Bank Deposit Ratings, or F-2 by Fitch Ratings. Additionally, these policies allow for a total investment of up to seven percent of the portfolio in financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-3 by Standard & Poors, P-3 by Moody’s Bank Deposit Ratings, or F-3 by Fitch Ratings.

(27) Risk Management, continued

Investment credit quality

Financial instruments available for sale were classified according to their international credit rating assigned by the rating firms.

	2018		
	Fair Value	Amortized Cost	Unrealized gain or loss
Aaa to Aa3	67,676	67,729	(53)
A1 to A3	398,240	398,367	(127)
Baa1	545,606	543,798	1,808
Baa2	715,082	715,589	(508)
Baa3	315,954	318,054	(2,100)
	2,042,558	2,043,538	(980)

Credit risk concentration

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

	2018
Basic materials	130,668
Communications	152,012
Consumer, cyclical	170,145
Consumer, non-cyclical	399,295
Energy	108,181
Financials	725,698
Government	21,659
Industry	145,643
Technology	60,994
Services	128,263
Total	2,042,558

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 “Risk Assessment System for Banking Institutions and Financial Instruments”. As of September 30, 2018 and 2017, the entire corporate debt security´s portfolio is concentrated in titles issued in the United States of America.

(27) Risk Management, continued

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

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

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

A. Up to B/.100,000
B. Up to B/.80,000
C. Up to B/.60,000

If the issuer of the financial instrument is a sovereign entity, the country risk is the only factor to be used, except in the case where the issuer is the government of the United States of America, in which case the total investment amount cannot exceed 50% of the total liquidity.

In addition to the credit risk of the treasury portfolio, the ACP maintains credit risk from advanced payments and other receivables made to GUPCSA under the Contract for the Design and Construction of the Third Set of Locks, as explained in note 6, for a total amount of B/.840,111, net of financial instrument losses for B/.7,519. ACP has bank and insurance guarantees totaling B/.547,959, which account for 65% 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/.292,152, 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 the requirements to give its consent for the assignment of the Contract for the Design and Construction of the Third Set of Locks to GUPCSA (current contractor). Under these guarantees, the companies mentioned above each undertakes 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.

(28) Related Party Transactions
Commercial transactions

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

	Sale of goods and services Year ended		Purchase of goods and services Year ended	
	2018	2017	2018	2017
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	34,265	28,337	0	0
Other government entities	15,514	20,103	0	0
Caja de Seguro Social	0	0	78,545	77,237
Fees paid to Panamanian Treasury	0	0	503,686	456,569
	49,779	48,440	582,231	533,806

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

	Amounts owned by the Republic of Panama		Amounts owned by the Republic of Panama	
	2018	2017	2018	2017
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,545	6,332	0	0
Other government entities	9,079	8,486	3,855	640
Advance payment from Ministerio de Obras Públicas (MOP)	0	0	30,297	20,198
Caja de Seguro Social	0	0	31,123	29,907
Public service fees	0	0	175	157
Panamanian Treasury – fees per net ton	0	0	42,786	37,873
	16,624	14,818	108,236	88,775

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 guarantees have been given or received. No expense has been recognized in the current or prior period for bad or doubtful debts with respect to the amounts owed by related parties.

Compensation and benefits to key executives

The ACP paid as of September 30, 2018 a total of B/.3,391 (2017: B/.3,068) for remuneration and benefits to its key management personnel. The Board of Directors compensation add a total of B/.459 (2017:B/.383). 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.

(29) Commitments

The commitments for construction contracts in process and purchase orders pending delivery amount approximately to September 30, 2018 to B/.230,485 (2017: B/.271,659), as follows:

	2018	2017
Investment program:		
Canal expansion	11,584	28,136
Others	150,812	173,300
Sub-total	162,396	201,436
Operations	68,089	70,223
	230,485	271,659

The commitments of the expansion program include the contracts awarded during the twelve months ending on September 30, 2018 for B/.17,314 (2017: B/.5,479).

This balance also includes the Vinson & Elkins Rllp contract for legal advice on contracts for the expansion and jurisdictional representation program for B/.17,000 (2017: B/.0).

Commitments of the investment program – others includes: Puente Atlántico, S.A. for construction of a bridge through the canal on the Atlantic side for B/.40,084 (2017: B/.79,897); Copisa-Cocige-Puentes Consortium for the rehabilitation of the Gatun highway; parking lots and bridge over the Colon landfill for B/.29,335 (2017: B/.31,000); and Derivados del Petróleo, S.A. by the east intersection of the bridge over the Canal in the Atlantic for B/.4,890 (2017: B/.0).

The commitments of operations include contracts awarded: for purchases of inventory for B/.24,148 (2017: B/.30,403), to Willis Limited for the multi-year insurance policy for three years for B/.13,082 (2017: B/.13,013), to Ingenieros Consultores Civiles y Electricos, S.A. for the feasibility study, other studies and designs of multi-purpose water deposit in Azuero rivers for B/.3,444 (2017: B/.0), and Bauer Foundations Panama, S.A. for the execution of the erosion control project north of the Pedro Miguel locks for B/.3,428 (2017: B/.0).

Bond:

The ACP subscribes the following contracts for the purchase of energy, which are guaranteed with a bond of compliance issued by a bank with investment grade A+ of Standards & Poors: ACP and Gas Natural Fenosa for B/.3,285, ACP and ENSA for B/.2,503, and ACP and ETESA for B/.288.

(30) Contingent Liabilities

As of September 30, 2018, GUPCSA has filed 119 Claims (117 formal claim notifications), of which 41 have been resolved or canceled. According to the latest revision of the Statement at Completion and recent updates, the total amount sought is B/.5,852,446. Out of this total, the ACP has paid a total of B/.378,263 to date. As of September 30, 2017, the contingent liability of the ACP resulting from the claims of GUPCSA, in relation to the Third Set of Locks, is B/.5,197,491. This contingent liability does not have provisioned funds. Claims presented have been submitted to arbitration. Below, general information about the status of these claims is described:

(30) Contingent Liabilities, continued

The Cofferdam Arbitration

GUPCSA has filed seven arbitration proceedings against the ACP, all governed by the Arbitration Rules of the International Chamber of Commerce (ICC) and seated in Miami, United States.

The first arbitration identified as CCI 19962/ASM, was filed in December 2013, and was related to the temporary cofferdam on the Pacific side. Claims filed against the ACP, subject to this arbitration, were analyzed and denied by the Dispute Adjudication Board (DAB). GUPCSA filed a Notice of Dissatisfaction and, then, a request for arbitration in December 2013. The amount in dispute was B/.194,067 and GUPCSA also requested 246 days of extension to the date of termination of the contract. The arbitration hearing was held in July 2016 and the final hearing, scheduled by the arbitral tribunal, was held in January 2017. The arbitral tribunal issued its final award on July 31, 2017, rejecting all of GUPCSA's claims and ordering GUPCSA to pay more than B/.22,544 for legal expenses and B/.900 for reimbursement of expenses paid by the ACP to the ICC.

The Concrete Arbitration

Two of the claims, on concrete mixtures and aggregates, were denied by the ACP and subsequently submitted by GUPCSA to the Dispute Adjudication Board (DAB), which, in deciding the case in December 2014, ordered the ACP to pay B/.233,234 plus interest, out of the B/.463,935 sought by GUPCSA (updated at the time of the decision). The ACP paid this amount, and subsequently paid B/.10,827 for additional costs incurred by GUPCSA after September 2014 until the concrete works were completed, in conformity with DAB No. 11 decision. Both sides have referred this dispute to arbitration in March 2015, in two separate arbitration proceedings, which resulted in a consolidated arbitration Case CCI No. 20910/ASM//JPA (C-20911/ASM//JPA). GUPCSA requested the inclusion, in this second arbitration, of Dispute 13A for B/.99,000, previously decided and rejected in its entirety in favor of the ACP by the DAB. GUPCSA expects to recover from the ACP a total of B/.347,079 and the ACP, is in turn calling for the return of the amount that was paid pursuant to DAB decision in Dispute 11 for B/.244,061, Dispute 10 for B/.14,823 and Dispute 14B for B/.6,415. The Jurisdiction Award on this case was delivered on May 22, 2017. The merits hearing is set for January 2019.

In Arbitration 20910/ASM//JPA (C-20911/ASM), the ACP claims compliance with Subclause 8.7 of the delay damages in the amount of B/.54,600 corresponding to 182 days. GUPCSA filed objections alleging that the claim is premature, inadmissible and beyond the jurisdiction of the arbitral tribunal, stating that the date of delivery of the works depends on the confirmation of the requests for extension of time presented in the other arbitrations and that any determination of the arbitral tribunal would be provisional.

The arbitral tribunal rejected GUPCSA's jurisdictional objections, declaring that it does have jurisdiction to resolve the ACP's claims in relation to the delay damages and, therefore, the arbitral tribunal will decide the merits of this claim in the respective phase.

The Lock Gate Arbitration

In December 2016, GUPCSA submitted the arbitration ICC No.22465/ASM//JPA, which included DAB references 15, 6 and 13C regarding the design of gates and labor cost adjustments. In July 2017, GUPCSA submitted the arbitration ICC No. 22966/JPA on exactly the same claims.

(30) Contingent Liabilities, continued

Subsequently, both arbitrations were consolidated in the arbitration ICC No. 22465/ASM//JPA (C-22966/JPA), which is pending the appointment of the president of the arbitral tribunal to begin the process. The amount of this dispute was estimated by the ACP using the amounts presented by GUPCSA in its Statement at Completion and subsequent updates, in B/. 506,907.

The Disruption and other claims arbitration

In December 2016, GUPCSA submitted the arbitration ICC No. 22466/ASM//JPA that includes all of GUPCSA's claims that have not already been included in arbitration, among which is the claim for disruption (Claim 78) and some new claims that had not been announced or decided by the ACP and that have not been decided by the DAB. In July 2017, GUPCSA submitted the arbitration ICC No. 22967/JPA related exactly to the same claims.

Subsequently, in both arbitrations, the same arbitral tribunal was constituted and since both dealt with the same claims were consolidated, the arbitration ICC Case No. 22967 / JPA was consolidated in the arbitration ICC No. 22466/ASM//JPA. The Conduct of Procedural Conference was held on August 28, 2018 and it is estimated that the jurisdiction hearing would be held in the first week of May 2019.

The amount of this dispute was estimated by the ACP using the amounts presented by GUPCSA in its Statement at Completion and subsequent updates, in B/.4,344,000.

The Arbitration of Advance Payments

Subsequently, GUPCSA filed the arbitration ICC No. 22588/ASM//JPA, requesting that the Tribunal declare that the Advances are not due, so they are not liquid or enforceable yet. In this arbitration the ACP has been ordered to refrain from making any demand on the Letters of Credit until December 16, 2018, date by which the arbitral tribunal´s decision on this dispute is expected.

By virtue of the foregoing, in the fiscal period 2018, the claims maintained by GUPCSA against the ACP are for an estimated amount of B/.5,852,446. This amount does not include legal expenses.

In the opinion of the Administration and its legal advisors, the determination of said conditions will not have significant negative effects on the financial position of the ACP.

Others:

The ACP has claims related to construction contracts, in the amount of B/.39,466. It is worth mentioning that the above does not include a demand for B/.17, which was rejected by the Supreme Court in June 2018, culminating with the claim of the Contractor.

Also, there are eight claims related to the Contract for the Construction of a Bridge over the Canal on the Atlantic side of which six are compiled in a single arbitration process for an amount of B/.215,352 that includes costs of the process, ACP has effected payments for B/.3,413 related to the claim 3. Additionally, maintains another arbitration process that involves a single claim, for an amount of B/.6,070, and a claim that was resolved in the administrative stage for an amount of B/.1,772 making a total of B/.223,195 the amount claimed for this project.

(30) Contingent Liabilities, continued

On November 18, 2016, the ACP learned that a bailiff of the Republic of France had ordered a cautionary measure on a time deposit of approximately B/.49,356 owned by the ACP, deposited in the New York branch, of a bank whose head office is in the United Kingdom. The measure imposed was based on an arbitration award issued on January 27, 2005 in favor of a French individual against the Transit and Land Transportation Authority of Panama and the Republic of Panama. The individual alleges in his claim that the ACP was jointly and severally liable with the Republic of Panama for this obligation. The ACP, which is an autonomous legal entity with its own assets, as established by the Political Constitution of the Republic of Panama, is not part of the controversy that originated this award, nor in solidarity with the Republic of Panama, for which it rejected the legitimacy of the precautionary measure and filed a request to lift it and the dissociation of the process to not be part of the dispute. On April 26, 2017, a judge of first instance issued his decision ordering the lifting of the cautionary measure, so that all of the funds subject to the injunction were released and transferred to the ACP. This decision was confirmed by the Court of Appeal of Paris, by judgment issued on May 24, 2018. Notwithstanding the foregoing, the decision of the court of appeals is pending to be formally notified to the plaintiff, which could give him the option of file an extraordinary cassation appeal before the Supreme Court of France.

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.

(31) Events that Occurred after the Reporting Period

- On November 29, 2018, the ACP received the repayment of B/.12,000 from the B/.12,754 outstanding related to Lock Gates advance payments. Also, interests and reimbursement of legal expenses incurred in this process, that the Arbitral Tribunal ordered the Nacional de Seguros de Panamá y Centroamérica, S. A. (NASE) to pay ACP and that were already consigned to the Circuit Court of Panama, should be delivered to the ACP in the short term. The ACP continues to exercise all legal actions that assists for the effective repayment of B/.754 that are still pending on this payment advance on Lock Gates.

- On December 12, 2018, the ACP was notified of the decision of the arbitration tribunal with respect to the advances that GUPCSA and its shareholders had filed against the ACP.

  In that award, the Arbitral Tribunal determined that GUPCSA and its shareholders shall repay the ACP payment advances for B/.847,630 plus (i) B/.13,187 in interest, and (ii) B/.395 in expenses incurred related to tribunal costs and administrative expenses of the International Chamber of Commerce, and (iii) B/.5,444 to reimburse for legal expenses.

  Also, the Arbitration Tribunal determined that the ACP should pay GUPCSA maintenance services that had been withheld

- The Board of Directors approved at its meeting on December 13, 2018, the transfer to the National Treasury of the operating and functioning economic surplus corresponding to fiscal year 2018 by the amount of B/.1,199,101. (See note 16).