

**Financial Statements**

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

**Report**

**Autoridad del Canal de Panama**

*Year ended September 30, 2013  
with Independent Auditors' Report*

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

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

We have audited the accompanying financial statements of the Autoridad del Canal de Panama, which comprise the statement of financial position as of September 30, 2013, and the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Autoridad del Canal de Panama as of September 30, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



November 25, 2013  
Panama, Republic of Panama

**Autoridad del Canal de Panama**  
**Statement of Financial Position**  
**September 30, 2013**

*(In thousands of balboas B/.)*

<i>Notes</i>		<b>2013</b>	<b>2012</b>
	Assets:		
	Non-current assets:		
	Property, plant and equipment:		
11	Properties, plant, and equipment, net	<b>B/. 2,648,483</b>	B/. 2,326,406
5	Construction in progress	<b>3,674,314</b>	2,695,222
5	Total properties, plant, and equipment	<b>6,322,797</b>	5,021,628
6	Accounts receivable	<b>810,567</b>	598,628
	Total non-current assets	<b>7,133,364</b>	5,620,256
	Current assets:		
7	Inventories, net	<b>80,222</b>	73,001
6, 24	Trade and other receivables	<b>34,657</b>	42,991
8	Other financial assets	<b>640,912</b>	423,443
9	Accrued interest receivable and other assets	<b>15,401</b>	15,526
10	Cash and bank deposits	<b>1,525,040</b>	2,259,770
	Total current assets	<b>2,296,232</b>	2,814,731
	Total assets	<b>B/. 9,429,596</b>	B/. 8,434,987
	Equity and liabilities:		
	Equity:		
11	Contributed capital	<b>B/. 1,905,223</b>	B/. 1,904,473
12	Contributions for investment programs	<b>4,309,164</b>	3,769,045
12	Reserves	<b>684,250</b>	621,503
23	Other equity accounts – cash flows hedge	<b>(131,845)</b>	(227,770)
14	Unappropriated retained earnings	<b>610,537</b>	648,991
	Total equity	<b>7,377,329</b>	6,716,242
	Non-current liabilities:		
15	Borrowings	<b>1,450,000</b>	1,000,000
17, 24	Trade and other payables	<b>62,319</b>	32,456
16, 23	Other financial liabilities	<b>131,845</b>	227,770
	Total non-current liabilities	<b>1,644,164</b>	1,260,226
	Current liabilities:		
17, 24	Trade and other payables	<b>247,952</b>	303,069
18	Provision for marine accident claims	<b>16,689</b>	20,235
	Accrued salaries and vacation payable	<b>121,468</b>	113,954
16	Other financial liabilities	<b>13,007</b>	12,076
19	Other liabilities	<b>8,987</b>	9,185
	Total current liabilities	<b>408,103</b>	458,519
	Total equity and liabilities	<b>B/. 9,429,596</b>	B/. 8,434,987

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

**Autoridad del Canal de Panama**  
**Income Statement**  
**For the year ended September 30, 2013**  
*(In thousands of balboas B/.)*

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<i>Notes</i>		<b>2013</b>	<b>2012</b>
	Revenues:		
	Toll revenues	<b>B/. 1,849,679</b>	B/. 1,852,379
	Other Canal transit services	<b>374,266</b>	395,498
		<b>2,223,945</b>	2,247,877
	Other revenues:		
	Electric power sales	<b>127,646</b>	97,092
24	Potable water sales	<b>28,597</b>	26,486
	Interest earned	<b>16,693</b>	22,787
	Miscellaneous	<b>14,404</b>	16,639
	Total other revenues	<b>187,340</b>	163,004
	Total revenues	<b>2,411,285</b>	2,410,881
	Expenses:		
	Salaries and wages	<b>474,099</b>	453,643
24	Employee benefits	<b>61,730</b>	60,204
	Materials and supplies	<b>59,573</b>	51,590
	Fuel	<b>115,093</b>	101,289
	Transportation and allowances	<b>2,317</b>	2,600
	Contracted services and fees	<b>69,502</b>	60,768
	Insurance	<b>10,505</b>	10,176
18	Provision for marine accidents	<b>391</b>	3,626
7	Provision for obsolete inventory	<b>144</b>	144
5	Depreciation	<b>92,817</b>	86,525
	Other expenses	<b>12,736</b>	13,165
		<b>898,907</b>	843,730
20	Labor, materials, and other capitalized costs	<b>(72,256)</b>	(74,652)
	Total expenses	<b>826,651</b>	769,078
	Income before fees	<b>1,584,634</b>	1,641,803
14, 17, 24	Fees per net ton	<b>(369,003)</b>	(381,130)
14, 24	Panamanian Treasury (Tesoro Nacional) - public service fees	<b>(2,228)</b>	(2,218)
	Net income of the year	<b>B/. 1,213,403</b>	B/. 1,258,455

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

**Autoridad del Canal de Panama**  
**Statement of Comprehensive Income**  
**For the year ended September 30, 2013**

*(In thousands of balboas B/.)*

<i>Note</i>	<b>2013</b>	<b>2012</b>
Net income of the year	<b><u>B/. 1,213,403</u></b>	<b><u>B/. 1,258,455</u></b>
Other comprehensive income:		
13 Net change on cash flows hedges	<b><u>95,925</u></b>	<b><u>(30,528)</u></b>
Total comprehensive income of the year	<b><u>B/. 1,309,328</u></b>	<b><u>B/. 1,227,927</u></b>

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

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

**Autoridad del Canal de Panama**  
**Statement of Changes in Equity**  
**For the year ended September 30, 2013**

*(In thousands of balboas B/.)*

		Contributed capital	Contribution for investment programs	Reserves	Other equity accounts - cash flows hedge	Unappropriated retained earnings	Total equity
<i>Notes</i>	<b>Balance as of September 30, 2011</b>	<b>B/. 1,904,473</b>	<b>B/. 3,167,137</b>	<b>B/. 613,947</b>	<b>B/. (197,242)</b>	<b>B/. 674,292</b>	<b>B/. 6,162,607</b>
	Net income of the year	-	-	-	-	1,258,455	1,258,455
13	Other comprehensive income:						
	Cash flows hedge	-	-	-	(30,528)	-	(30,528)
	Comprehensive income of the year	-	-	-	(30,528)	1,258,455	1,227,927
14	Transfer to Panamanian Treasury	-	-	-	-	(674,292)	(674,292)
12	Contributions to the investment program	-	601,908	-	-	(601,908)	-
12	Net decrease in equity reserves	-	-	7,556	-	(7,556)	-
	<b>Balance as of September 30, 2012</b>	<b><u>1,904,473</u></b>	<b><u>3,769,045</u></b>	<b><u>621,503</u></b>	<b><u>(227,770)</u></b>	<b><u>648,991</u></b>	<b><u>6,716,242</u></b>
	Net income of the year					1,213,403	1,213,403
13	Other comprehensive income:						
	Cash flows hedge	-	-	-	95,925	-	95,925
	Comprehensive income of the year	-	-	-	95,925	1,213,403	1,309,328
14	Transfer to Panamanian Treasury	-	-	-	-	(648,991)	(648,991)
12	Contributions to the investment program	-	540,119	-	-	(540,119)	-
12	Net increase in equity reserves	-	-	62,747	-	(62,747)	-
	Properties transferred to ACP	750	-	-	-	-	750
	<b>Balance as of September 30, 2013</b>	<b><u>B/. 1,905,223</u></b>	<b><u>B/. 4,309,164</u></b>	<b><u>B/. 684,250</u></b>	<b><u>B/. (131,845)</u></b>	<b><u>B/. 610,537</u></b>	<b><u>B/. 7,377,329</u></b>

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

**Autoridad del Canal de Panama**  
**Statement of Cash Flows**  
**For the year ended September 30, 2013**  
*(In thousands of balboas B/.)*

<i>Notes</i>		<b>2013</b>	<b>2012</b>
	<b>Cash flows from operating activities:</b>		
	Net income of the year	<b>B/. 1,213,403</b>	B/. 1,258,455
5	Depreciation	<b>89,719</b>	83,584
5	Loss on disposal of fixed asset	<b>481</b>	519
7	Provision for obsolete inventory	<b>144</b>	144
18	Provision for marine accidents	<b>391</b>	3,626
	Changes in working capital:		
	Decrease in trade and other receivables	<b>8,334</b>	3,805
	Increase in inventories	<b>(7,365)</b>	(4,522)
	Decrease in accrued interest receivable and other assets	<b>125</b>	9,847
	(Decrease) increase in trade and other payables	<b>(25,254)</b>	73,764
18	Payments of marine accident claims	<b>(3,937)</b>	(1,883)
	Increase in accrued salaries and vacation payable	<b>7,514</b>	11,741
	Increase (decrease) in other current financial liabilities	<b>931</b>	(865)
	(Decrease) increase in other liabilities	<b>(198)</b>	5,814
	<b>Net cash provided by operating activities</b>	<b><u>1,284,288</u></b>	<u>1,444,029</u>
	<b>Cash flows from investing activities:</b>		
	Net increase of property, plant and equipment	<b>(1,390,619)</b>	(1,220,840)
	(Increase) decrease in other financial assets	<b>(217,469)</b>	309,280
6	(Increase) decrease in non-current assets, receivables	<b>(211,938)</b>	15,646
	Decrease in time deposits, over 90 days	<b>585,310</b>	352,685
	<b>Net cash used in investing activities</b>	<b><u>(1,234,716)</u></b>	<u>(543,229)</u>
	<b>Cash flows from financing activities:</b>		
15	Increase in long-term borrowings	<b>450,000</b>	100,000
14	Transfer to Panamanian Treasury	<b>(648,991)</b>	(674,292)
	<b>Net cash used in financing activities</b>	<b><u>(198,991)</u></b>	<u>(574,292)</u>
	Net (decrease) increase in cash and cash equivalents	<b>(149,419)</b>	326,508
	Cash and cash equivalents at beginning of the year	<b><u>602,957</u></b>	<u>276,449</u>
10	Cash and cash equivalents at end of the year	<b><u>B/. 453,538</u></b>	<u>B/. 602,957</u>
	<b>Investing activities that did not represent cash outflows:</b>		
5, 20	Fixed assets - capitalized depreciation	<b>B/. (3,098)</b>	B/. (2,941)
	Properties transferred to ACP	<b>(750)</b>	-
		<b><u>B/. (3,848)</u></b>	<u>B/. (2,941)</u>
	<b>Interests:</b>		
	Received	<b>B/. 29,798</b>	B/. 48,809
	Paid	<b>B/. 53,865</b>	B/. 52,444

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



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

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

### **1. General information**

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

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

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

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

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

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

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

The financial statements have been prepared on a historical cost basis, except for hedging instruments which have been measured at fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

##### *Potable water sales revenue*

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

##### *Services rendered*

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

##### *Interests*

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

##### *Borrowing cost*

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

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

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

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

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

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

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

The following estimated useful lives were used to calculate depreciation:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

##### *Employee benefits for voluntary retirement*

The ACP recognizes its benefit plan for retirement as a liability only when the ACP commits to grant these termination benefits as a result of an offer made to employees in order to encourage voluntary retirement. The employee should resign and retire from the ACP when completing the required age (regular or anticipated) according to the rules of the Panamanian Social Security (Caja de Seguro Social).

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

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

##### *Trade and other receivables*

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

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

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

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

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

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

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

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

##### ***Recognition***

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

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

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

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

##### ***Borrowings***

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

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

##### *Trade and other payables*

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

##### *Other financial liabilities*

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

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

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

##### *Hedge accounting*

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



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

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

##### *Cash flow hedges*

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

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

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

##### *Derecognition of financial liabilities*

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

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

##### ***Changes in accounting policies***

##### ***IAS 19 Employee Benefits***

The amendment to IAS 19 became effective for accounting periods beginning on January 1, 2013. As the ACP's fiscal year 2013 began on October 1, 2012, this amendment will be applicable to ACP starting on fiscal year 2014. During fiscal year 2013, the ACP evaluated the possible financial impact of this amendment and its effect on its accounting records for the programs: Voluntary Retirement Incentive (VRI) and the Labor Retirement Benefit Program (LRB). Changes to IAS 19 require that the employment benefit plans lacking a defined time frame, such as the IRV and the BRL shall be classified as long term defined benefit plans due to the existence of a constructive obligation and in consequence an actuarial liability should be recognized. It is an ACP policy to fund all its liabilities. Consequently, it is estimated that application of IAS 19 might require ACP to provide funds for approximately B/.228 million in fiscal year 2014. The ACP is evaluating the alternatives provided in this standard to reduce the need of resources in the implementation of IAS 19.

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

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

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

##### ***IFRIC 21 Levies***

IFRIC 21, issued in May 2013, is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and establishes the criteria for the recognition of a liability, one of which is that, the entity has a present obligation as a result of a past event. This interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

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

##### ***IFRS 9 Financial Instruments***

This standard introduces new requirements for the classification and measurement of financial assets and its early application is permitted. It requires that all financial assets be classified in its entirety by the entity's business model for the administration of financial assets and its characteristics of the contractual cash flows of the financial assets. Under this standard, financial assets are measured either at amortized cost or at fair value. Only financial assets measured at amortized cost should be assessed for impairment. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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

##### **IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements**

Amendments to IFRS 10 and 12 and IAS 27 result from proposals of the Standard Project of Investment Entities published in August 2011. These modifications define investment entities and an exception is introduced in order to consolidate certain subsidiaries pertaining to investment entities. The amendments require that an investment entity registers the subsidiaries at fair value with changes in profit or loss according to IFRS 9 Financial Instruments in its consolidated and separate financial statements. These amendments also introduce new information requirements to disclose related to investment entities in IFRS 12 and IAS 27. It is required that entities apply these amendments for annual periods beginning on or after January 1, 2014.

##### **IAS 32 Financial Instruments, Presentation**

The amendments to IAS 32, issued in December 2011, are aimed to clarify the differences in the application of balance set-off in order to reduce the level of diversity in current practice. These modifications are applicable to annual periods beginning on or after January 1, 2014.

##### **IAS 36 Impairment of Assets**

The amendments to IAS 36, issued in May 2013, refer to the disclosure of information about the recoverable amount of the impaired assets, if the amount is based on the fair value less cost of disposal. These modifications are related to IFRS 13 Fair Value Measurement. Amendments should be applied retrospectively for annual periods beginning on or after January 1, 2014. Early application of this amendment is permitted when the entity had already applied IFRS 13.

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

##### **IAS 39 Financial Instruments, Recognition and Measurement**

The amendments to IAS 39, issued in June 2013, provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which over the counter derivatives are designated in hedging relationships and are directly or indirectly novated to an entity of central counterparty, as a consequence of laws or procedures, or the introduction of laws or procedures. It is required that entities apply these modifications to annual periods beginning on or after January 1, 2014.

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

These financial statements are prepared in conformity with IFRS which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include the determination of the useful life of fixed assets (note 5), fair value of financial instruments (note 23), and the estimates for the provision for marine accident claims and contingencies (notes 18 and 26, respectively).

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**5. Properties, plant and equipment**

Property, plant and equipment are detailed as follows:

<b>Cost</b>	<b>Buildings</b>	<b>Structures</b>	<b>Equipment</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Total</b>
<i>Balance as of october 1, 2011</i>	B/. 93,809	B/. 771,007	B/. 1,143,914	B/. 1,022,228	B/. 1,569,299	B/. 4,600,257
<b>Additions</b>	950	533	96,376	-	1,125,923	1,223,782
<b>Adjustments:</b>						
Loss recognition on asset disposals	-	-	(46)	-	-	(46)
<b>Retirements</b>	(695)	(9)	(3,344)	-	-	(4,048)
<i>Balance as of september 30, 2012</i>	94,064	771,531	1,236,900	1,022,228	2,695,222	5,819,945
<b>Additions</b>	20,051	91,892	212,924	89,757	979,092	1,393,716
<b>Adjustments:</b>						
Loss recognition on asset disposals	-	-	(261)	-	-	(261)
<b>Retirements</b>	(39)	(7)	(9,608)	-	-	(9,654)
<b>Property transfers:</b>						
Received from the Republic of Panama	82	-	668	-	-	750
<i>Balance as of september 30, 2013</i>	<u>B/. 114,158</u>	<u>B/. 863,416</u>	<u>B/. 1,440,623</u>	<u>B/. 1,111,985</u>	<u>B/. 3,674,314</u>	<u>B/. 7,204,496</u>
<b>Accumulated Depreciation</b>	<b>Buildings</b>	<b>Structures</b>	<b>Equipment</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Total</b>
<i>Balance as of october 1, 2011</i>	B/. (33,632)	B/. (232,069)	B/. (449,665)	-	-	B/. (715,366)
<b>Depreciation expense</b>	(2,023)	(27,202)	(57,300)	-	-	(86,525)
<b>Reclassifications</b>				-	-	-
<b>Retirements</b>	271	9,000	3,294	-	-	3,574
<i>Balance as of september 30, 2012</i>	(35,384)	(259,262)	(503,671)	-	-	(798,317)
<b>Depreciation expense</b>	(2,686)	(26,302)	(63,829)	-	-	(92,817)
<b>Retirements</b>	39	7	9,389	-	-	9,435
<i>Balance as of september 30, 2013</i>	<u>B/. (38,031)</u>	<u>B/. (285,557)</u>	<u>B/. (558,111)</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. (881,699)</u>
<b>Net Book Value</b>						
<i>Balance as of september 30, 2013</i>	<u>B/. 76,127</u>	<u>B/. 577,859</u>	<u>B/. 882,512</u>	<u>B/. 1,111,985</u>	<u>B/. 3,674,314</u>	<u>B/. 6,322,797</u>
<i>Balance as of september 30, 2012</i>	<u>B/. 58,680</u>	<u>B/. 512,269</u>	<u>B/. 733,229</u>	<u>B/. 1,022,228</u>	<u>B/. 2,695,222</u>	<u>B/. 5,021,628</u>

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

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Others	Construction in progress total
Balance as of october 1, 2011	B/. 1,438,455	B/. 130,844	B/. 1,569,299
Net change	846,800	226,163	1,072,963
Interests, commissions and other financing expenses	<u>52,960</u>	<u>-</u>	<u>52,960</u>
Balance as of september 30, 2012	2,338,215	357,007	2,695,222
Net change	975,951	(52,239)	923,712
Interests, commissions and other financing expenses	<u>55,380</u>	<u>-</u>	<u>55,380</u>
Balance as of september 30, 2013	<u>B/. 3,369,546</u>	<u>B/. 304,768</u>	<u>B/. 3,674,314</u>

During fiscal year 2013, the ACP recorded losses of B/.481 (2012: B/.519) as a result of the derecognition of assets. Main assets derecognized included infrared camera, boat, tractors, spectrometer, centralized security system and tugboats. During fiscal year 2012, main assets derecognized included tape backup system, vehicles, copying machine, switch W2 and buildings.

Depreciation of B/.3,098 (2012: B/.2,941) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

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**6. Accounts Receivable**

**Non-current**

Non-current accounts receivable are detailed as follows:

	2013	2012
Grupo Unidos Por El Canal, S.A. (GUPCSA)		
Mobilization	B/. 247,959	B/. 247,959
Plant	300,000	300,000
Reinforced steel	1,654	13,894
Suppliers of key project materials	68,279	23,074
Specific suppliers	148,903	-
Lock gates	19,132	-
Sub-total	<u>785,927</u>	<u>584,927</u>
Others:		
Miraflores thermal power plant	2,323	13,701
Construction of bridge over the Atlantic side of the Canal	22,317	-
Sub-total	<u>24,640</u>	<u>13,701</u>
	<u><b>B/. 810,567</b></u>	<u><b>B/. 598,628</b></u>

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

*Mobilization and Plant*

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

On August 10, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to provide for a temporary suspension of the repayment of the advance payment and the provisions and timing for repayment were further modified at the request of GUPSCA by subsequent amendments to the contract on February 14, 2013 and on June 24, 2013. These amendments introduced various conditions with which the contractor must comply in order to prolong the suspension of repayment of the advance payment and provide that it must be repaid in full by the payment certificate of April 2015 to be issued in May 2015, otherwise the ACP shall be entitled to claim under the letter of credit for the outstanding amount.

**6. Accounts Receivable (continued)**

The contract provides that the letter of credit must remain valid and enforceable until the advance payment for mobilization has been repaid in full. If the advance payment has not been repaid in full by the date 45 days prior to the specified expiry date of the letter of credit, which is currently January 31, 2014, no later than 30 days before such expiry date GUPSCA is obliged to extend the validity of the letter of credit for a period of not less than one year (or such lesser period as may be required).

As of July 2012, the ACP has withheld B/.52,041.

Advance payment for plant for B/.300,000, fully guaranteed with two irrevocable letters of credit, one for B/.100,000 issued by a bank with an investment grade rating of A from S&P and the other for B/.200,000 issued by a bank with an investment grade rating of BBB- from S&P. According to the contract, this advance payment was to be repaid by withholdings of 19% from each payment certificate from the ACP to the contractor until the advance payment has been repaid, commencing with the payment certificate in which the total of all certified interim payments exceeds 50% of the Accepted Contract Amount.

On February 14, 2013 at the request of GUPSCA, it was agreed by the parties to amend the contract to provide for a temporary suspension of the repayment of the advance payment. This amendment along with a subsequent amendment also agreed at the request of the GUPSCA on June 24, 2013, introduced various conditions with which the contractor must comply in order to prolong the suspension of repayment of the advance payment and provide that it must be repaid in full by the payment certificate of April 2015 to be issued in May 2015, otherwise the ACP shall be entitled to claim under the letters of credit for the outstanding amount.

The contract provides that the letter of credit must remain valid and enforceable until the advance payment for plant has been repaid in full. If the advance payment has not been repaid in full by the date 45 days prior to the specified expiry date of the letter of credit, which is currently March 31, 2014, no later than 30 days before such expiry date GUPSCA is obliged to extend the validity of the letter of credit for a period of not less than one year (or such lesser period as may be required).

As of September 30, 2013, no amounts have been withheld by the ACP.



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**6. Accounts Receivable (continued)**

*Reinforced steel*

On July 26, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to allow an advanced payment for the reinforced steel escalating price in the amount of B/.19,632 (120.041 tm). According to the contract, this advance payment is to be repaid by withholding the amount that would otherwise have been payable to the contractor for The adjustment amount due this period in respect of reinforcing steel from each payment certificate from the ACP to the contractor until the advance payment has been repaid, commencing from the first adjustment date following July 26, 2012. This advance payment is fully guaranteed with a payment bond issued by Nacional de Seguros de Panama y Centroamerica, S.A., and the ACP shall be entitled to make a claim under the payment bond should the contractor fail to repay the advance payment in full within 45 days of January 24, 2014.

The contract provides that the payment bond must remain valid and enforceable until the advance payment has been repaid in full. If the advance payment has not been repaid in full by the date 45 days prior to the specified expiry date of the payment bond, then no later than 30 days before such expiry date GUPSCA is obliged to extend the validity of the payment bond for a period of not less than one year (or such lesser period as may be required).

As of September 30, 2013, the ACP has withheld B/.17,978 (2012: B/.5,738).

*Key Suppliers*

On August 29, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to enable the ACP to make advance payments of amounts to be paid by the contractor to certain key suppliers for invoices dated between May 2012 and the contractor's application for interim payment in December 2012 for a maximum amount of B/.82,500. As of September 30, 2013, the amount remitted by ACP to GUPCSA was B/.68,279 (2012:B/.23,074). According to the contract, this advance payment was to be repaid by withholdings of 5% from each payment certificate from the ACP to the contractor commencing with the payment certificate issued in response to the January 2013 interim application for payment until the advance payment is repaid in full. Subsequent amendments to the contract on November 23, 2012, February 14, 2013 and June 24, 2013, at the request of GUPSCA, introduced a temporary suspension of the repayment of the advance payment for the key suppliers, which set out various production targets and conditions with which the contractor must comply in order to prolong the suspension of repayments.

## **6. Accounts Receivable (continued)**

If the contractor complies with all the various production targets and conditions, then the maximum period of suspension of the repayment that it could achieve is until the end of December 2013, with the advance payment to be repaid by way of equal withholdings from each payment certificate from the ACP to the contractor commencing with the payment certificate issued in February 2014 in response to the January 2014 interim application for payment and continuing until the advance payment is repaid in full. This advance payment shall be repaid in full and shall become due and payable if it is not repaid prior to July 2014.

### *Specified suppliers*

On December 24, 2012, at the request of GUPCSA, it was agreed by the parties to amend the contract to enable the ACP to make advance payments of the amounts to be paid by the contractor to certain specified suppliers up to a maximum amount of B/.150,000 or up to a cut-off date of April 30, 2013, whichever occurs earlier. As of September 30, 2013, the amount remitted by ACP to GUPCSA was B/.148,903. According to the contract, which was further amended at the request of GUPSCA on June 24, 2013 and June 28, 2013, this advance payment is to be repaid by equal withholdings from each payment certificate from the ACP to the contractor commencing with the payment certificate of January 2014 to be issued in February 2014, in order that the advance payment is repaid in full by the payment certificate of June 2014 to be issued in July 2014.

This advance payment is protected by a joint and several guarantee issued by the shareholders of the contractor and the ACP shall be entitled to claim under such guarantee should the advance payment not be repaid in full by July 2014.

### *Lock gates*

On June 28, 2013, at the request of GUPCSA, it was agreed by the parties to amend the contract to enable the ACP to make advance payments of the amounts to be paid by the contractor to the Lock Gates Fabricator for a maximum amount of B/.150,000. As of September 30, 2013, the amount remitted by ACP to GUPCSA was B/.19,132. According to the contract, which was further amended at the request of GUPSCA on September 30, 2013, this advance payment is to be repaid by equal withholdings from each payment certificate from the ACP to the contractor commencing with the payment certificate of December 2013 issued in January 2014, in order that the advance payment is repaid in full by the payment certificate of May 2014 to be issued in June 2014.

This advance payment is fully guaranteed with a payment bond issued by Zurich American Insurance Company, Inc., and the ACP shall be entitled to claim under such bond should the advance payment not be repaid in full by June 2014.

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**6. Accounts Receivable (continued)**

Others:

*Miraflores thermal power plant*

The contract for the expansion at the Miraflores Thermal Power Plant was awarded to Hyundai Heavy Industries Co., Ltd., for an amount of B/.114,284, which includes the incorporation of heat recovery system of the gas exhaust. The contract establishes the ACP to advance 20% of the contract value, which represents B/.22,780 paid in August 2011. This receivable is backed by a performance bond and an irrevocable letter of credit for 100% of the value of this advanced payment by the Korea Exchange Bank. This advance will be repaid through agreed deductions from payments to Hyundai Heavy Industries Co., Ltd. for work performed, which according to modification of the contract has been extended until October 29, 2013. As of September 30, 2013, the amount retained was B/.20,457 (2012:B/.9,078).

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

The contract for the construction of the bridge over the Atlantic side of the Canal was awarded to the company Vinci Construction Grands Projects on October 26, 2012. Advances are for a maximum amount of B/.35,000 which will be made in three payments; the first for B/.20,000, second for B/.10,000 and the third for B/.5,000. As of September 30, 2013, the ACP disbursed to the contractor B/.23,317. This advance is guaranteed with an advance payment bond from a bank with international investment rating A of S&P, in full and expired on August 4, 2016. According to the contract, the repayment of this advance will be through deductions that will perform the ACP to payments to the contractor for work performed.

**Trade and other receivables**

Trade and other current receivables are detailed as follows:

	2013	2012
Transit-related services	<b>B/. 6,853</b>	B/. 15,752
Electric power sales	<b>17,427</b>	16,001
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	<b>5,457</b>	6,129
Other government entities	<b>1,366</b>	1,555
Other services	<b>3,554</b>	3,554
	<b><u>B/. 34,657</u></b>	<b><u>B/. 42,991</u></b>

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

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**6. Accounts Receivable (continued)**

Aging of past due but not impaired receivables:

	<b>2013</b>	<b>2012</b>
60 - 90 days	<b>B/. 10</b>	B/. 93
90 - 180 days	<b>79</b>	132
	<b><u>B/. 89</u></b>	<b><u>B/. 225</u></b>

**7. Inventories, net**

Inventories are detailed as follows:

	<b>2013</b>	<b>2012</b>
Supplies and materials	<b>B/. 73,308</b>	B/. 71,449
Fuel	<b>11,014</b>	6,267
Provision for obsolete inventory	<b>(4,100)</b>	(4,715)
	<b><u>B/. 80,222</u></b>	<b><u>B/. 73,001</u></b>

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

	<b>2013</b>	<b>2012</b>
Balance at the beginning of the year	<b>B/. 4,715</b>	B/. 4,363
Increases	<b>144</b>	144
Reversion	<b>-</b>	208
Write-off	<b>(759)</b>	-
Balance at the end of the year	<b><u>B/. 4,100</u></b>	<b><u>B/. 4,715</u></b>

The amount of material and supplies, recognized in the income statement during fiscal year 2013, was B/.37,330 (2012: B/.27,466).

The amount of fuel, recognized in the income statement during fiscal year 2013, was B/.102,284 (2012: B/.88,524).

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**8. Other financial assets**

Other financial assets are detailed as follows:

	<b>2013</b>	2012
Financial assets measured at amortized cost		
Investments in bonds (i)	<b><u>B/. 640,912</u></b>	<u>B/. 423,443</u>

- (i) At September 30, 2013, bonds' annual interest rate of return is 0.89% (2012: 1.15%) payable at the end of each term with a maximum maturity date of up to one year.

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

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

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

Accrued interest receivable and other assets are detailed as follows:

	<b>2013</b>	2012
Interest receivable	<b>B/. 12,548</b>	B/. 11,106
Prepayments	<b><u>2,853</u></b>	<u>4,420</u>
	<b><u>B/. 15,401</u></b>	<u>B/. 15,526</u>

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**10. Cash and bank deposits**

Cash and bank deposits are comprised of the following:

	<b>2013</b>	2012
Cash on hand	<b>B/. 43</b>	B/. 47
Deposits in current accounts	<b>79,336</b>	80,823
Deposits in saving accounts	<b>260,070</b>	285,163
Time deposits with original maturities under 90 days	<b>114,089</b>	236,924
Total cash and cash equivalents	<b>453,538</b>	602,957
Time deposits with original maturities over 90 days not exceeding one year	<b>1,071,502</b>	1,656,813
	<b>B/. 1,525,040</b>	B/. 2,259,770

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. At September 30, 2013, the investment of these resources has the priority to cover all ACP obligations and earn interest rates which vary between 0.13% and 1.01% (2012: 0.15% and 1.44%).

As of September 30, 2013 and 2012, there were no restrictions over the balance of cash and bank deposits.

**11. Contributed capital**

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

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

In compliance with these requirements, the Government of Panama transferred the related land and buildings: for its recognition, a conservative method was used to reflect an estimated fair value for each asset subsequently registered in the Public Registry.

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**12. Reserves and contributions for investment programs**

Changes in reserves are detailed as follows:

	2013	Increase (decrease)	2012	Increase (decrease)	2011
<b>Reserves for:</b>					
Canal expansion	B/. 186,572	B/. 30,000	B/. 156,572	B/. 65,266	B/. 91,306
Catastrophic risks	36,000	-	36,000	-	36,000
Contingencies and working capital	196,830	540	196,290	7,556	188,734
Enterprise capitalization	264,848	32,207	232,641	(65,266)	297,907
	<u>684,250</u>	<u>62,747</u>	<u>621,503</u>	<u>7,556</u>	<u>613,947</u>
<b>Contributions for:</b>					
Investment programs	4,309,164	540,119	3,769,045	601,908	3,167,137
	<u>B/. 4,993,414</u>	<u>B/. 602,866</u>	<u>B/. 4,390,548</u>	<u>B/. 609,464</u>	<u>B/. 3,781,084</u>

***Canal expansion***

The ACP maintains an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the ACP for determined projects during the execution of the program. In fiscal year 2013, an increase to this reserve was approved for B/.30,000 while in 2012, the increase of this reserve was of B/.65,266.

***Catastrophic risks***

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

***Contingencies and working capital***

The ACP maintains an equity reserve for contingencies and working capital which is calculated based on the ACP's level of revenues and is defined as 30 days of average revenues or billing of the Canal. During fiscal year 2013, it was approved to increase this reserve by B/.540 (2012: B/.7,556) for a total reserve of B/.196,830 (2012: B/.196,290).

***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 2013, it was approved to increase this reserve for B/.32,207 and in 2012, it was approved to decrease this reserve by B/.65,266.

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**12. Reserves and contributions for investment programs (continued)**

***Contributions to investment programs***

At September 30, 2013, the ACP increased the funds of the investments programs by B/.540,119 (2012: B/.601,908) for a contributed total of B/.1,444,134 (2012: B/.1,142,387) for the Investment program – others and B/.2,865,030 (2012: B/.2,626,658) for the Investment program – Canal expansion. This reserve includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period

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.

**13. Other equity accounts – cash flows hedge**

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

Adjustments to other comprehensive income (loss) are as follows:

	<b>2013</b>	2012
Cash flow hedges:		
Income (loss) during the year:		
Variability in interest rates	<b>B/. 95,940</b>	B/. (24,733)
Variability in diesel prices	<b>(15)</b>	(5,795)
Net change in cash flow hedges	<b><u>B/. 95,925</u></b>	<b><u>B/. (30,528)</u></b>

**Variability of the interest rates (financing for the Canal expansion program)**

On December 9, 2008, the ACP signed a loan agreement for USD 2,300,000 with five multilateral agencies to finance a portion of the Expansion Program, of which USD 500,000, the ACP has the option to choose either a fixed or a floating rate at the date of each disbursement, and a floating rate for USD 1,800,000.



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**13. Other equity accounts – cash flows hedge (continued)**

<b>Loan disbursements (millions of balboas)</b>	<b>Fixed Rate</b>	<b>Floating Rate</b>	<b>Total Disbursements</b>	<b>Total Available</b>
European Investment Bank (EIB)	100	100	200	300
Japan Bank for International Cooperation (JBIC)	-	800	800	-
Inter-American Development Bank (IADB)	-	400	400	-
Andean Development Corporation (ADC)	-	50	50	250
International Finance Corporation (IFC)	-	-	-	300
<b>Total</b>	<b>100</b>	<b>1,350</b>	<b>1,450</b>	<b>850</b>

To eliminate the interest rate fluctuation risk on loans obtained at floating rates, the ACP subscribed an interest rate swap contract in March 2010. This hedge instrument was competitively placed among three specialized entities for the amount of USD 800,000. The hedge transaction of USD 800,000 was fixed at a 5.42% rate for 18.5 years, which is 83 basis points lower than the 6.25% rate that was originally estimated in the Master Plan for the Expansion Program.

**Variability of diesel prices**

In July 2009, the ACP awarded the contract for the design and construction of the third set of locks to the consortium “Grupo Unidos por el Canal, S. A.” The contract includes adjustment clauses in the event of fluctuations in the price of the diesel to be used during execution. With the purpose of mitigating the volatility risk in the price of light diesel agreed in this contract, in April 2012, the ACP competitively hired the bidder with the lowest price to provide a hedge instrument to transfer some of this risk to the financial markets. This transaction guarantees the fuel costs in the lock’s contract to the ACP until July 2014.

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

	<b>Total</b>	<b>1 year</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>
<b>2013</b>				
<b>Cash flows covered</b>	<b><u>B/. 262,619</u></b>	<b><u>B/. 6,861</u></b>	<b><u>B/. 54,613</u></b>	<b><u>B/. 201,145</u></b>
<b>2012</b>				
Cash flows covered	<u>B/. 217,662</u>	<u>B/. 26,368</u>	<u>B/. 31,286</u>	<u>B/. 160,008</u>

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**14. Unappropriated retained earnings**

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 12, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.610,537 to the Panamanian Treasury which corresponds to the year ended September 30, 2013 (2012: B/.648,991). (See note 27)

In compliance with Law 28 of July 17, 2006, during the construction period of the third set of locks, the ACP will continue to make increasing payments to the Panamanian Treasury based on Canal tonnage fees and any operational surplus. Any payments based on an operational surplus shall not be less than those made to the Panamanian Treasury in 2005 for the amount of B/.268,850.

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

	<b>2013</b>	2012
Payments to the Panamanian Treasury		
Unappropriated retained earnings	<b>B/. 610,537</b>	B/. 648,991
Fees per net ton	<b>369,003</b>	381,130
Public service fees	<b>2,228</b>	2,218
Total	<b><u>B/. 981,768</u></b>	<b><u>B/. 1,032,339</u></b>

**15. Borrowings**

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

	<b>2013</b>	2012
Japan Bank for International Cooperation (JBIC)	<b>B/. 800,000</b>	B/. 800,000
European Investment Bank (EIB)	<b>200,000</b>	100,000
Inter-American Development Bank (IADB)	<b>400,000</b>	100,000
Andean Development Corporation (ADC)	<b>50,000</b>	-
Balance at the end of the year	<b><u>B/. 1,450,000</u></b>	<b><u>B/. 1,000,000</u></b>

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

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**15. Borrowings (continued)**

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

**16. Other financial liabilities**

Other financial liabilities are detailed as follows:

	2013	2012
Financial instruments designated as hedging instruments carried at fair value		
Interest rate swaps	B/. 144,573	B/. 239,582
Commodities swap	<u>279</u>	<u>264</u>
	<u>B/. 144,852</u>	<u>B/. 239,846</u>
Current	B/. 13,007	B/. 12,076
Non-current	<u>131,845</u>	<u>227,770</u>
	<u>B/. 144,852</u>	<u>B/. 239,846</u>

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

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.

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**17. Trade and other payables**

Trade and other payables are as follows:

	<b>2013</b>	<b>2012</b>
Panamanian Treasury	<b>B/. 31,336</b>	B/. 31,263
Suppliers and others	<b>278,935</b>	304,262
	<b><u>B/. 310,271</u></b>	<b><u>B/. 335,525</u></b>
Current	<b>B/. 247,952</b>	B/. 303,069
Non current	<b>62,319</b>	32,456
	<b><u>B/. 310,271</u></b>	<b><u>B/. 335,525</u></b>

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, 2013, the total of such fees amounted to B/.369,003 (2012: B/.381,130).

**18. Provision for marine accident claims**

The provision for marine accident claims of B/.16,689 (2012: B/.20,235), represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the ACP expects to be liable.

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

	<b>2013</b>	<b>2012</b>
Balance at beginning of the year	<b>B/. 20,235</b>	B/. 18,492
Provision for the year	<b>391</b>	3,626
Payments made	<b>(3,937)</b>	(1,883)
Balance at end of the year	<b><u>B/. 16,689</u></b>	<b><u>B/. 20,235</u></b>

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

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**19. Other liabilities**

Other liabilities are detailed as follows:

	<b>2013</b>	2012
Inventories – in transit	<b>B/. 4,010</b>	B/. 4,427
Miscellaneous claims	<b>2,594</b>	3,027
Other trusts	<b>1,929</b>	1,203
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	<b>454</b>	528
	<b><u>B/. 8,987</u></b>	<b><u>B/. 9,185</u></b>

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

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

	<b>2013</b>	2012
<b>Investment Program</b>		
Widening and straightening of the Gaillard (Culebra) Cut	B/. 23,936	B/. 18,065
Assets management system	324	517
Bridge over the Canal in the Atlantic	852	-
Improvement to locks fender system at approach walls	-	1,350
Expansion of the thermoelectric plant at Miraflores	3,319	-
Replace water treatment plant for tugboat fleet	-	418
Complementary projects of dredging at the entrance of the Canal	4,395	2,397
Sewer treatment project at ACP	1,093	574
Widening of the Pacific entrance of the Canal at 300 square meters	1,117	-
Widening of the north reach of Bas Obispo and Gamboa tie-up station	759	-
Replace and repair plumbing line for potable water	438	-
Replace of RMC dredge for new hydraulic backhoe dredge	319	-
Other various projects	1,610	1,902
	<u>38,162</u>	<u>25,223</u>
<b>Investment Program - Canal Expansion</b>		
Dredging of Gatun Lake	27,041	40,767
Dredging at the Pacific entrance	1,203	2,534
Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen's dam	1,304	1,279
Program management	857	821
Increase of maximum operational level of Gatun Lake	1,530	935
Design and construction of post-panamax locks	1,985	1,590
Environmental management	51	-
Disposal site studies in the Atlantic Side	123	1,461
Other various projects	-	42
	<u>34,094</u>	<u>49,429</u>
	<u>B/. 72,256</u>	<u>B/. 74,652</u>

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**21. 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.

**22. Employee benefits Benefit programs to employees**

In July 2012, the ACP established an incentive program for voluntary retirement (VRI) at the required retirement age for permanent employees and managers of the ACP. Before the establishment of the VRI, there is other program named 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.

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 by firefighters' and 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 Form 194 "Termination of Employment Relationship" 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 receives the benefit of VRI only if it complies with 10 years of service and retires to the required age (early or regular) as may be established by the Caja del Social Social, 2) be not less than 10 years working in the Canal; 3) accept the offer of VRI, 4) cease its work no later than 60 calendar days after completing the required age, and 5) providing the form of termination of employment through voluntary resignation.

The cost of benefit programs to employees are detailed as follows:

	2013	2012
Labor Retirement Benefit (LRB)	B/. 140	B/. 2,015
Voluntary Retirement Incentive (VRI)	31,584	-
Balance at the end of the year	<u>B/. 31,724</u>	<u>B/. 2,015</u>

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## **23. Risk management**

### **Financial risk management**

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

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

Historically, the ACP has operated with its own resources due to its high levels of cash generated by its operations; however, on December 9, 2008, the ACP subscribed to a common term agreement with five multilateral and bilateral agencies, which committed to grant borrowings totaling B/.2,300 with the purpose of partially finance the Canal Expansion Program (see note 15).

### **Categories of financial instruments**

	<b>2013</b>	2012
<b><i>Financial assets</i></b>		
Cash and bank deposits (note 10)	<b>B/. 1,525,040</b>	B/. 2,259,770
Amortized cost:		
Trade and other receivables (note 6)	<b>34,657</b>	42,991
Other financial assets at amortized cost (note 8)	<b>640,912</b>	423,443
	<b><u>B/. 2,200,609</u></b>	<b><u>B/. 2,726,204</u></b>
<b><i>Financial liabilities</i></b>		
Financial instruments designated as hedging instruments (note 16)	<b>B/. 144,852</b>	B/. 239,846
Amortized cost:		
Trade and other payables (note 17)	<b>310,271</b>	335,525
Borrowings (note 15)	<b>1,450,000</b>	1,000,000
	<b><u>B/. 1,905,123</u></b>	<b><u>B/. 1,575,371</u></b>



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

### **Financial risk management objectives**

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

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

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

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

The ACP's treasury quarterly updates the Board of Directors Finance Committee and follows up the risks and implemented policies to mitigate risk exposure.

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

### **Market risk**

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

- Interest rate swaps to mitigate the risk of interest rate increases.
- Diesel price swaps to mitigate the risk of fluctuations in the price of this commodity used in the third set of locks contract for the expansion program.
- Option contracts for future diesel purchases to mitigate the risk of fluctuations in the price of light diesel required in the Canal's regular operations.

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

### **Exchange rate risk management**

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

As of September 30, 2013 the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

### **Interest rate risk management**

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

#### *Interest rate swap contracts*

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

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

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**23. Risk management (continued)**

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

Cash flow hedges

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

Contracts with floating interest rates and outstanding fixed payment rates	Average contracted fixed interest rate		Notional principal value		Fair value	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
5 years or more	<b>4.67%</b>	4.67%	<b>B/. 800,000</b>	B/. 800,000	<b>B/. (144,573)</b>	B/. (239,582)

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

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

*Interest rate sensitivity analysis*

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

As of September 30, 2013, for each basis point increase/decrease in the Libor rate curve through the remaining term of the contract, the unrealized loss on the interest rate swap contract would decrease/increase by B/.834.4. This amount was calculated based on the DV01 indicator generated by Bloomberg's valuation model tool used in the valuation of interest rate swap contracts.

As of September 30, 2013, the ACP expects that the Libor rate would increase its value by 30 basis points through the remaining term of the contract during fiscal 2014, representing an equity increase of B/.25,032.

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

### **Fuel price risk**

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

#### *Maritime Operations*

The ACP uses annually approximately between 10 and 12 million gallons of light diesel on its vessel transit operations. Since October 20, 2009, risk management for price fluctuations on this commodity is mainly performed during the fiscal year, as this period is considered representative for the implementation of appropriate commercial policies.

This process is carried out by means of specific hedging activities for approximately 80% of the forecasted fuel volume, with the objective of maintaining an economic balance of the commodities.

For fiscal year 2013, the ACP purchased a hedge instrument (cap) establishing a maximum price of B/.2.68 per gallon for 9.988 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations, of which 11.86 million gallons were consumed by September 2013.

#### *Energy generation*

Power generation is related to the consumption of the Canal operations, while excess capacity is sold in the domestic electricity market. During fiscal year 2013, the ACP consumed 20% of the energy produced, while the remaining 80% was sold to the electricity market. Hydroelectric plants produced 37% of the energy and thermal plants 63%.

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

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

As of September 30, 2013, the current price index for light diesel purchases made by the ACP was B/.3.20 per gallon. With an estimated consumption for fiscal year 2014 of 12.88 million gallons, assuming an upward variation trend that increases diesel prices to B/.3.37 per gallon during fiscal year 2014, fuel expenses would show an increase of approximately B/.5,394,000. Up to date it has not been established an exercise price of the hedging instrument for the 2014 fiscal year.

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**23. Risk management (continued)**

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

As mentioned in Note 25, the ACP has different commitments related to the Canal Expansion Program. These commitments include adjustment clauses related to the main commodities that will be used during construction, such as: reinforced steel, cement, structural steel, and light diesel. The clauses use, as adjustment references, representative price indexes of the commodities' fair value, a fixed reference price for each commodity, the quantities or maximum volume, and the target dates for adjustment calculations.

The maximum quantities, to which the ACP is exposed to when contracts were signed, are as follows:

<b>Commodity</b>	<b>Agreed volume (thousands)</b>	<b>Fixed reference price</b>	<b>Fair value reference index</b>
Reinforced steel	279.0 metric tons	B/.575 per metric ton	"Reinforcing Bar - Platts Steel Market Daily"
Structural steel	67.2 metric tons	B/.1,000 per metric ton	"Plate - Platts Steel Market Daily"
Cement	1,278.6 short tons	B/.100 per short ton	"Portland and Other Cements, Commodity Code 13220161" from the US Bureau of Labor Statistics
Light Diesel (Third Set of Locks contract)	60,000 gallons	B/.1.4000 per gallon	US Gulf Coast Diesel No.2 Oil from Platts Latin American Wire
Light Diesel (Pacific access channel excavation contracts)	2,054 gallons	B/.1.7580 per gallon	Diesel's Import Parity Price from the Secretariat of Energy for Light Diesel

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

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

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

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

#### **Light diesel**

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

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

The variation of light diesel prices will not affect the ACP's income statement or its equity, as it is capitalized as part of the expansion program.

#### **Reinforced steel and cement**

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

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**23. Risk management (continued)**

The following table shows the quantities established in the lock design and construction contract and the estimated adjustments at the beginning of fiscal year 2013:

<b>Commodity</b>	<b>Unit</b>	<b>Quantity</b>	<b>Total (in thousands)</b>
Reinforced Steel	Metric Ton	82,890	B/.14,995
Cement	Short Ton	455,750	B/.(3,720)

*Reinforced Steel*

During fiscal year 2013, the scaling adjustment for reinforced steel totaled B/.12,240, representing B/.2,755 less than the estimate at the beginning of fiscal year 2013. As of September, 30, 2013, the reinforced steel price (moving average as stipulated in the contract) was B/.694.44 per metric ton, which is B/.119.44 over the reference price of B/.575.00 per metric ton. If the average price remains unchanged for fiscal year 2014, for the established volume of 5,726 metric tons, ACP's exposure would total B/.683.9.

*Cement*

During fiscal year 2013 the scaling adjustment for cement resulted in a credit totaling B/. 3,801 in favor of ACP, exceeding by B/.81 the amount estimated at the beginning of fiscal year 2013. As of September 30, 2013 the price was B/.94.98 per short ton, B/.5.02 per short ton below the reference price of B/.100.00 per short ton. If the average price remains unchanged during fiscal year 2014, and with an established consumption of 34,597 short tons, it would represent a credit of B/.173.7 in favor of ACP.

The variation in price in these commodities will not affect the ACP's income statement nor its equity, as it is capitalized as part of the Canal expansion project.

**Credit risk management**

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

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

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

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

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

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

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

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

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



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**23. Risk management (continued)**

**Liquidity risk management**

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

**Interest and liquidity risk tables**

To finance the expansion program, the ACP has a credit facility with five multilateral financial institutions. Currently, 6.9% of the debt is contracted at fixed effective rate of 5.196%, and the remaining 93.1% shows a moving average effective rate of 2.89% percent, calculated based on undiscounted cash flows to the date in which the ACP shall make the payments.

	<b>Weighted average effective interest rate (%)</b>	<b>1 month or less</b>	<b>1 - 3 months</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>September 30, 2013 (2012)</b>						
Variable interest loan	<b>2.89%</b> (2.611%)	B/. -	B/. -	B/. -	B/. 1,350,000	B/. 1,350,000
Fixed interest loan	<b>5.196%</b> (5.196%)	-	-	-	100,000	100,000
		<u>B/. -</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 1,450,000</u>	<u>B/. 1,450,000</u>

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**23. Risk management (continued)**

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

<b>2013</b>						
	<u>Up to 1 month</u>	<u>1 - 3 months</u>	<u>3 months - 1 year</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Time deposits	B/. 35,000	B/. 79,088	B/. 1,071,503	B/. -	B/. -	B/. 1,185,591
Held-to maturity						
Securities	-	-	640,912	-	-	640,912
	<u>B/. 35,000</u>	<u>B/. 79,088</u>	<u>B/. 1,712,415</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 1,826,503</u>
<b>2012</b>						
	<u>Up to 1 month</u>	<u>1 - 3 months</u>	<u>3 months - 1 year</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Time deposits	B/. 60,000	B/. 176,924	B/. 1,656,813	B/. -	B/. -	B/. 1,893,737
Held-to maturity						
Securities	-	-	423,443	-	-	423,443
	<u>B/. 60,000</u>	<u>B/. 176,924</u>	<u>B/. 2,080,256</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 2,317,180</u>

The ACP has access to financing facilities, as described afterward, of which USD 850,000 were not utilized at the end of the 2013 period. The ACP expects to comply with its other obligations with the cash flows from its operations and from the maturity of financial assets.

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

	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
<b>September 30, 2013</b>				
Trade and other payables	B/. 247,952	B/. -	B/. 62,319	B/. -
Other financial liabilities	13,007	-	-	131,845
Borrowings	-	-	-	1,450,000
	<u>B/. 260,959</u>	<u>B/. -</u>	<u>B/. 62,319</u>	<u>B/. 1,581,845</u>
<b>September 30, 2012</b>				
Trade and other payables	B/. 303,069	B/. -	B/. 32,456	B/. -
Other financial liabilities	12,076	-	-	227,770
Borrowings	-	-	-	1,000,000
	<u>B/. 315,145</u>	<u>B/. -</u>	<u>B/. 32,456</u>	<u>B/. 1,227,770</u>

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**23. Risk management (continued)**

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

**Financing structure**

Used and available borrowing amounts:

	<b>2013</b>	<b>2012</b>
<b>Amount used</b>		
Japan Bank for International Cooperation (JBIC)	<b>B/. 800,000</b>	B/. 800,000
Inter-American Development Bank (IADB)	<b>400,000</b>	100,000
European Investment Bank (EIB)	<b>200,000</b>	100,000
Andean Development Corporation (ADC)	<b>50,000</b>	-
	<b><u>1,450,000</u></b>	<b><u>1,000,000</u></b>
<b>Available amount</b>		
European Investment Bank (EIB)	<b>300,000</b>	400,000
Inter-American Development Bank (IADB)	<b>-</b>	300,000
International Finance Corporation (IFC)	<b>300,000</b>	300,000
Andean Development Corporation (ADC)	<b>250,000</b>	300,000
	<b><u>850,000</u></b>	<b><u>1,300,000</u></b>
	<b><u>B/. 2,300,000</u></b>	<b><u>B/. 2,300,000</u></b>

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**23. Risk management (continued)**

**Fair value of financial instruments**

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

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

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
<b>Financial assets measured at amortized cost:</b>				
Investment in bonds	<u>B/. 640,912</u>	<u>B/. 640,930</u>	<u>B/. 423,443</u>	<u>B/. 424,258</u>
<b>Financial liabilities</b>				
<b>Financial liabilities measured at amortized cost:</b>				
Borrowings at floating rate	<u>B/. 1,350,000</u>	<u>B/. 1,297,414</u>	<u>B/. 900,000</u>	<u>B/. 884,863</u>
Borrowings at fixed rate	<u>100,000</u>	<u>109,713</u>	<u>100,000</u>	<u>123,203</u>
	<u>B/. 1,450,000</u>	<u>B/. 1,407,127</u>	<u>B/. 1,000,000</u>	<u>B/. 1,008,066</u>

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

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

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

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**23. Risk management (continued)**

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

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

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

	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>LIABILITY:</b>				
<b>Financial liabilities at fair value with changes in other comprehensive income</b>				
Financial instruments in hedged relationships	<u>B/. -</u>	<u>B/. 144,852</u>	<u>B/. -</u>	<u>B/. 144,852</u>

	<b>2012</b>			
	<b>Nivel 1</b>	<b>Nivel 2</b>	<b>Nivel 3</b>	<b>Total</b>
<b>LIABILITY:</b>				
<b>Financial liabilities at fair value with changes in other comprehensive income</b>				
Financial instruments in hedged relationships	<u>B/. -</u>	<u>B/. 239,846</u>	<u>B/. -</u>	<u>B/. 239,846</u>

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**24. Related party transactions**

**Commercial transactions**

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

	<b>Sale of goods and services</b>		<b>Purchase of goods and services</b>	
	<b>Year ended</b>		<b>Year ended</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	<b>B/. 28,597</b>	B/. 26,486	<b>B/. -</b>	B/. -
Other government entities	<b>2,807</b>	1,581	-	-
Employee benefits	-	-	<b>61,730</b>	60,204
Purchase of land to Ministerio de Economía y Finanzas	-	-	<b>89,757</b>	-
Public service fees	-	-	<b>2,228</b>	2,218
Panamanian Treasury - fees per net ton	<u>-</u>	<u>-</u>	<u><b>369,003</b></u>	<u>381,130</u>
	<u><b>B/. 31,404</b></u>	<u>B/. 28,067</u>	<u><b>B/. 522,718</b></u>	<u>B/. 443,552</u>

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

	<b>Amounts owed by the Republic of Panama</b>		<b>Amounts owed to the Republic of Panama</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	<b>B/. 5,457</b>	B/. 6,129	<b>B/. -</b>	B/. -
Other government entities	<b>1,366</b>	1,555	-	-
Employee benefits	-	-	<b>19,413</b>	22,794
Public service fees	-	-	<b>177</b>	186
Panamanian Treasury - fees per net ton	<u>-</u>	<u>-</u>	<u><b>31,336</b></u>	<u>31,263</u>
	<u><b>B/. 6,823</b></u>	<u>B/. 7,684</u>	<u><b>B/. 50,926</b></u>	<u>B/. 54,243</u>

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

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

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

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

**Compensation and benefits to key managers**

The ACP paid a total of B/.3,352 (2012: B/.2,768) for remuneration and benefits to its key management personnel. It is the responsibility of the Administrator to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

**25. Commitments**

Commitments as a result of construction contracts in progress and undelivered purchase orders amounted to approximately B/.2,018,000 (2012: B/.2,677,000), as follows:

	<b>2013</b>	2012
Investment programs:		
Canal Expansion	<b>B/. 1,525,000</b>	B/. 2,362,000
Others	<b>463,000</b>	275,000
Sub-total	<b>1,988,000</b>	2,637,000
Operations	<b>30,000</b>	40,000
	<b><u>B/. 2,018,000</u></b>	<b><u>B/. 2,677,000</u></b>

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**25. Commitments (continuation)**

Total commitments include the Panama Canal expansion program contracts awarded during the fiscal year totaling B/.22,343 (2012: B/.30,271).

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

Contracts awarded during fiscal year 2012, include Modifications to Agua Clara Substation on the East Side of the Canal at the Atlantic Side to Celmec, S.A. for B/.3,797, realignment of Highway Limón, new Telfers Road and improvements to the Bolivar Avenue at the Atlantic Side to Howard Group, S.A for B/.5,777 and diesel swap hedge for the Panama Canal expansion program to J Aron Company for B/.9,227.

Fiscal year 2013 balance includes the design-build contract for the Canal Expansion Program's major component, the third set of locks, to Grupo Unidos por el Canal, S.A. (GUPCSA) of B/.1,408,126 (2012: B/.2,205,906 ).

**26. Contingent liabilities**

At September 30, 2013, the ACP has received claims from GUPCSA for a total of B/.589,000. These claims are at different stages of the dispute resolution process provided for in the contract for the design and construction of the third set of locks. One of these claims concerning mixtures of concrete and aggregates was denied by the ACP. At September 30, 2013, GUPCSA filed this claim for B/.498,000 to the Dispute Adjudication Board (known by its acronym as DAB) for evaluation and conclusion. A hearing is scheduled for January 2014 which is expected to have a decision during the first quarter of 2014. In addition, the ACP received other claims for an aggregate amount of B/.91,000 of which have been denied by the ACP. Some of these claims could be submitted to the DAB for its decision within the next few months.

The contractor submitted claims for B/.130,000 of which were rejected entirely by the DAB. GUPCSA has submitted a Notice of Dissatisfaction with which reserves the right to seek for an international arbitration, but has not indicated whether it will proceed to date like this.

ACP has received claims related to other contracts of the Expansion Program for an aggregate amount of B/.54,000 of which have been rejected in their entirety by the ACP.

Additionally, the ACP has received claims related to other investment projects for an aggregate amount of B/.7,000 which, likewise, have been denied entirely by the ACP.



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**26. Contingent liabilities (continued)**

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

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

On November 1, 2013, the ACP requested the EIB, a disbursement of B/.300,000 based on the agreement related to the financing contracted with multilateral agencies to fund a portion of the Canal Expansion Program. The funds will be received in the month of December 2013. (See note 15).

On November 25, 2013 meeting, the Board of Directors approved the transfer to the Treasury of the operating and functioning economic surplus corresponding to fiscal year 2013 in the amount of B/.610,537. (See note 14).

**28. Approval of financial statements**

The financial statements of the Autoridad del Canal Panama for the period ended as of September 30, 2013, were approved by the Board of Directors and authorized for issuance on November 25, 2013.