Financial Statements

(Translation of financial statements originally issued in Spanish)

Report Panama Canal Authority

Year ended September 30, 2011
with Independent Auditors' Report

CONTENTS

Ernst & Young

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE PANAMA CANAL AUTHORITY

(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 Panama Canal Authority, which comprise the statement of financial position as of September 30, 2011, 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 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 the Panama Canal Authority as of September 30, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements of the Panama Canal Authority, for the year ended September 30 2010, were audited by another auditors, whose report dated November 26, 2010, expressed an unmodified opinion on those statements.

Ernst + Young

November 29, 2011
Panama, Republic of Panama

Panama Canal Authority
Statement of Financial Position
September 30, 2011
(In thousands of balboas B/.)

Notes		**2011**	2010
	Assets:		
5, 11	Non-current assets:		
	Properties, plant, and equipment, net (includes construction in progress of the expansion program for B/.1,438,455 in 2011 and B/.734,597 in 2010)	**B/. 3,884,891**	B/. 3,073,853
6	Accounts receivable	**614,275**	400,481
	Total non-current assets	**4,499,166**	3,474,334
	Current assets:		
7	Inventories, net	**68,623**	61,041
6, 23	Trade and other receivables	**46,796**	33,476
8	Other financial assets	**738,254**	561,261
9	Accrued interest receivable and other assets	**25,373**	22,617
10	Cash and bank deposits	**2,285,946**	2,119,074
	Total current assets	**3,164,992**	2,797,469
	Total assets	**B/. 7,664,158**	B/. 6,271,803
	Equity and liabilities:		
	Equity:		
11	Contributed capital	**B/. 1,904,473**	B/. 1,904,473
12	Reserves	**3,781,084**	3,225,942
13, 22	Other equity accounts – cash flow hedge	**(197,242)**	(150,226)
14	Unappropriated retained earnings	**674,292**	470,603
	Total equity	**6,162,607**	5,450,792
	Non-current liabilities:		
15	Borrowings	**900,000**	300,000
16, 22	Other financial liabilities	**202,773**	150,871
	Total non-current liabilities	**1,102,773**	450,871
	Current liabilities:		
17, 23	Trade and other payables	**261,761**	221,345
18	Provision for marine accident claims	**18,492**	32,693
	Accrued salaries and vacation payable	**102,213**	107,918
16	Other financial liabilities	**12,941**	3,056
19	Other liabilities	**3,371**	5,128
	Total current liabilities	**398,778**	370,140
	Total equity and liabilities	**B/. 7,664,158**	B/. 6,271,803

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

Panama Canal Authority
Income Statement
For the year ended September 30, 2011
(In thousands of balboas B/.)

Notes		2011	2010
	Revenues:		
	Toll revenues	**B/. 1,729,910**	B/. 1,482,086
	Other Canal transit services	**400,722**	319,732
		2,130,632	1,801,818
	Other revenues:		
	Electric power sales	**125,325**	112,687
23	Potable water sales	**25,520**	22,534
	Interest earned	**22,213**	20,462
	Miscellaneous	**14,783**	14,602
	Total other revenues	**187,841**	170,285
	Total revenues	**2,318,473**	1,972,103
	Expenses:		
	Salaries and wages	**425,913**	385,568
23	Employee benefits	**58,418**	51,423
	Materials and supplies	**53,301**	51,041
	Fuel	**106,541**	94,250
	Transportation and allowances	**2,182**	1,714
	Contracted services and fees	**47,544**	37,126
	Insurance	**9,971**	8,820
18	Provision for marine accidents	**(764)**	5,044
7	Provision for obsolete inventory	**1,637**	247
5	Depreciation	**79,991**	74,585
	Other expenses	**11,698**	10,023
		796,432	719,841
20	Labor, materials, and other capitalized costs	**(76,286)**	(55,804)
	Total expenses	**720,146**	664,037
	Income before fees	**1,598,327**	1,308,066
14, 17, 23	Fees per net ton	**(366,987)**	(342,220)
14, 23	Panamanian Treasury (Tesoro Nacional) - public service fees	**(1,906)**	(1,855)
	Net income	**B/. 1,229,434**	B/. 963,991

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

Panama Canal Authority
Statement of Comprehensive Income
For the year ended September 30, 2011
(In thousands of balboas B/.)

Note		**2011**	2010
	Net income	**B/. 1,229,434**	B/. 963,991
	Other comprehensive income:		
13	Net movement on cash flow hedges	**(47,016)**	(156,704)
	Total comprehensive income for the year	**B/. 1,182,418**	B/. 807,287

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 period in the hypothetical event that the Authority liquidated those hedge instruments at the end of the fiscal year and at the market rate of the moment.

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

Panama Canal Authority
Statement of Changes in Equity
For the year ended September 30, 2011

(In thousands of balboas B/.)

Notes		Contributed capital	Reserves	Other equity accounts – cash flow hedge	Unappropriated retained earnings	Total equity
	Balance as of September 30, 2009	**B/. 1,904,968**	**B/. 2,732,554**	**B/. 6,478**	**B/. 434,120**	**B/. 5,078,120**
14	Transfer to Panamanian Treasury	-	-	-	(434,120)	(434,120)
	Net income	-	-	-	963,991	963,991
	Other comprehensive income:					
13	Cash flow hedge	-	-	(156,704)	-	(156,704)
	Comprehensive income of the year	-	-	(156,704)	529,871	373,167
12	Contributions to the investment program	-	487,247	-	(487,247)	-
12	Increase in equity reserves	-	6,141	-	(6,141)	-
	Properties received from the Republic of Panama	3,432	-	-	-	3,432
	Properties transferred to the Republic of Panama	(3,927)	-	-	-	(3,927)
	Balance as of September 30, 2010	**1,904,473**	**3,225,942**	**(150,226)**	**470,603**	**5,450,792**
14	Transfer to Panamanian Treasury	-	-	-	(470,603)	(470,603)
	Net income	-	-	-	1,229,434	1,229,434
	Other comprehensive income:					
13	Cash flow hedge	-	-	(47,016)	-	(47,016)
	Comprehensive income of the year	-	-	(47,016)	758,831	711,815
12	Contributions to the investment program	-	576,117	-	(576,117)	-
12	Net decrease in equity reserves	-	(20,975)	-	20,975	-
	Balance as of September 30, 2011	**B/. 1,904,473**	**B/. 3,781,084**	**B/. (197,242)**	**B/. 674,292**	**B/. 6,162,607**

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

Panama Canal Authority
Statement of Cash Flows
For the year ended September 30, 2011
(In thousands of balboas B/.)

Notes			**2011**		2010
	Cash flows from operating activities:				
	Net income	**B/.**	**1,229,434**	B/.	963,991
5	Depreciation		**78,031**		73,641
	Loss on disposal of fixed asset		**1,167**		573
7	Provision for obsolete inventory		**1,637**		247
18	Provision for marine accidents		**(764)**		5,044
	Changes in working capital:				
	Increase in trade and other receivables		**(13,320)**		(343)
	Increase in inventories		**(9,218)**		(11,635)
	Increase in accrued interest receivable and other assets		**(2,756)**		(15,013)
	Increase in trade and other payables		**40,417**		95,442
18	Payments of marine accident claims		**(13,437)**		(4,719)
	(Decrease) increase in accrued salaries and vacation payable		**(5,705)**		17,163
	Increase in other current financial liabilities		**9,885**		3,056
	Decrease in other liabilities		**(1,757)**		(2,511)
	Net cash provided by operating activities		**1,313,614**		1,124,936
	Cash flows from investing activities:				
	Net increase of fixed assets		**(890,237)**		(469,495)
	Increase in other financial assets		**(172,107)**		(509,637)
6	Increase in non-current assets		**(213,794)**		(400,000)
	(Increase) decrease in time deposits, over 90 days		**(83,369)**		369,036
	Net cash used in investing activities		**(1,359,507)**		(1,010,096)
	Cash flows from financing activities:				
15	Increase in long-term borrowings		**600,000**		300,000
14	Transfer to Panamanian Treasury		**(470,603)**		(434,120)
	Net cash provided by (used in) financing activities		**129,397**		(134,120)
	Net increase (decrease) in cash and cash equivalents		**83,504**		(19,280)
	Cash and cash equivalents at beginning of the year		**192,945**		212,225
10	Cash and cash equivalents at end of the year	**B/.**	**276,449**	B/.	192,945
	Investing activities that did not represent cash outflows:				
5, 20	Fixed assets - capitalized depreciation	**B/.**	**(1,960)**	B/.	(944)
	Properties received from the Republic of Panama		**-**		3,432
	Properties transferred to the Republic of Panama		**-**		(3,927)
		B/.	**(1,960)**	B/.	(1,439)
	Interests:				
	Received	**B/.**	**51,849**	B/.	26,035
	Paid	**B/.**	**28,808**	B/.	8,143

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

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

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

The main PCA offices are located at the Administration Building No. 101, Balboa, Republic of Panama.

2. Statement of compliance

The Panama Canal Authority financial statements, 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. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies are set out below.

Functional currency

The PCA 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 in its place utilizes the U.S. dollar as legal tender.

Foreign currency

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

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

4. Significant accounting policies

Revenue recognition

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

Toll revenue

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

Electric power sales revenue

Electricity sales revenues are recognized based on contractual and physical delivery of energy and valuated capacity at specified rates in their respective contracts or at rates that prevail in the electric market. The revenues include unbilled electricity sales revenue and supplied capacity but not liquidated at the end of each period, which are recorded at contractual rates or at estimated prices in the existent occasional market at the end of each period.

4. Significant accounting policies (continuation)

Potable water sales revenue

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

Services rendered

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

Interests

Interest earned on all financial instruments, measured at amortized cost, is recognized using the effective interest rate; this is the rate which accurately, discounts payments or estimated future cash collections during the financial instrument life expectation, at financial asset or liability book value. Interest earned is included in a separate line in the income statement.

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. PCA recognizes income or losses in the income statement when the financial liability is written off or as well as during its amortization process.

Borrowing cost

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

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.

4. Significant accounting policies (continuation)

Properties, plant, and equipment (continuation)

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.

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

Depreciation is calculated on the asset acquisition cost, net of its residual value, using the straight-line method, with the understanding that the land on which buildings and other constructions are settled have an indefinite useful life and, therefore, are not subject to depreciation.

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.

Impairment of non-financial assets

At the end of each reporting period, the PCA makes a revision of the book value of its non-financial assets to identify if impairment had occurred when facts or circumstances indicate that their registered value may not be recoverable. If any such indication exists, and the book value exceeds the recoverable amount, the PCA will estimate the assets or the cash generating units to their recoverable amount, defined as the higher of an asset's fair value less costs to sell and its value in use. The adjustments generated due to this assessment are recorded in the income statement for the year in which they are determined.

PCA makes an assessment, at the end of each accounting period, to determine if there is any indication of loss due to an impairment of previously recognized non-financial asset, different from goodwill, if its value has diminished or if it is not in existence. If such indication exists, PCA will reevaluate the asset's recoverable amount, and if it is the case, it reverses the loss increasing the asset value up to its new recoverable amount, which will not exceed, the asset's net book value before the recognition of the original impairment, recognizing the credit in operating results.

4. Significant accounting policies (continuation)

Cash and cash equivalent

The cash and cash equivalent represents the 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 valuated 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, PCA presents the cash and cash equivalent net of overdrafts, if any.

Inventories

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

Provisions

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

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

When the recovery of some or all economic benefits required to cancel a provision is expected, an account receivable is recognized as an asset if it is virtually certain the disbursement will be received and the amount of the account receivable can be reliably measured.

Provision for marine accidents

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

4. Significant accounting policies (continuation)

Provision for marine accidents (continuation)

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

Financial assets

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

Trade and other receivables

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

Held-to-maturity investments

Investments in commercial paper and debt instruments with fixed maturities are classified as held-to-maturity when the PCA has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. 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.

Derecognition of financial assets

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

4. Significant accounting policies (continuation)

Impairment of financial assets

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

Recognition

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

Financial liabilities

The PCA, 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 PCA recognizes the profit or loss in the income statement when a financial liability is derecognized as well as through the amortization process.

The PCA 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. PCA recognizes income or losses in the income statement when the financial liability is written off or as well as during its amortization process.

Trade and other payables

The accounts payable do not earn interest and are booked at their face value. The PCA does not make payments or transfers of funds to any legal or natural person, whether public or private, except for services contracted by the PCA, for property it may acquire, or for an obligation it has legally contracted. The PCA 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.

4. Significant accounting policies (continuation)

Other financial liabilities

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

Financial instruments are initially recognized at fair value at the date the hedge contract is entered into, and are subsequently measured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately, except for the effective portion of a hedging instrument for which the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The PCA designates certain financial instruments as 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 PCA designates certain hedging instruments as either fair value hedges or cash flow hedges. Hedges of foreign exchange on firm commitments are accounted for as cash flow hedges.

At inception date of the hedge, the PCA 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 PCA 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.

Note 22 include details on the fair value of financial instruments used for hedging purposes.

4. Significant accounting policies (continuation)

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 PCA 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 PCA derecognizes financial liability when, and only when, they are expired, cancelled, or met PCA's obligations.

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

Standards issued but not yet in effect

Standards and interpretations issued but not in yet in effect at the date of issuance of the financial statements are detailed below. PCA 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 PCA has the intention to adopt these standards when they are entered into effect:

IAS 1 Financial Statements Presentation – Presentation of items of Other Comprehensive income

The amendment to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the PCA's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

4. Significant accounting policies (continuation)

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

Standards issued but not yet in effect (continuation)

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for periods beginning on or after January 1, 2013. The PCA is currently evaluating the possible impact of this amendment.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The PCA does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting and disclosure for investment in subsidiaries, jointly controlled entities, and associates when the entity prepares separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The PCA does not have this type of investments.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures of information about the continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the entity's financial position.

4. Significant accounting policies (continuation)

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

Standards issued but not yet in effect (continuation)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 and 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the PCA's financial assets. The PCA will quantify the effect in conjunction with other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes the principles for the preparation and presentation of the consolidated financial statements when the entity controls one or more entities. IFRS 10 replaces consolidation requirements of SIC-12 Consolidation – Special purpose entities and IAS 27 Separate financial statements, and becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in joint ventures and SIC-13 Jointly controlled entities – Non-monetary contributions by ventures. IFRS 11 provides a more realistic judgment on joint arrangements, focusing on the arrangement's rights and obligations instead of on the jurisdiction form. It becomes effective for annual periods beginning on or after January 1, 2013. Currently, the PCA does not have this type of investments.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 is a new standard on disclosure requirements in all types of participation in other entities, including subsidiaries, joint arrangements, associates and non-consolidated structured entities. It includes all disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously in IAS 31 and IAS 28, as well as new disclosure requirements. This standard becomes effective for annual periods beginning on or after January 1, 2013. Currently, the PCA does not have this type of investments.

4. Significant accounting policies (continuation)

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

Standards issued but not yet in effect (continuation)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013. The PCA is currently assessing the impact that this standard will have on the financial position and performance.

IFRS 14 Prepayment of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is not expected to have a material impact on the financial statements of the PCA.

Improvements to IFRSs (issued in May 2010)

The IASB issued a series of improvements to IFRS. The amendments have not been adopted as they become effective for annual periods beginning on January 1, 2011, however, the PCA expects no impact from the adoption of the amendments on its financial position or performance.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IFRIC 13 Customer Loyalty Programs

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 22), and the estimates for the provision for marine accident claims (note 18).

(In thousands of balboas B/.)

5. Properties, plant, and equipments, net

Properties, plant, and equipment are detailed as follows:

Cost	**Buildings**	**Structures**	**Equipments**	**Land**	**Construction in progress**	**Total**
Balance as of October 1, 2009	B/. 92,428	B/. 748,287	B/. 880,861	B/. 1,022,767	B/. 514,388	B/. 3,258,731
Additions	860	5,936	46,424	-	417,220	470,440
Adjustments:						
Loss recognition on asset retirements	-	-	(311)	-	-	(311)
Reclassifications	328	(711)	383	-	-	-
Retirements	(1,033)	(49)	(9,434)	-	-	(10,516)
Property transfers:						-
To the Republic of Panama	(1,463)	-	-	(3,907)	-	(5,370)
From the Republic of Panama	12	52	-	3,368	-	3,432
	91,132	753,515	917,923	1,022,228	931,608	3,716,406
Balance as of September 30, 2010						
Additions	2,782	17,286	234,438	-	637,691	892,197
Adjustments:						
Loss recognition on asset retirements	-	-	(335)	-	-	(335)
Reclassifications	-	210	(210)	-	-	-
Retirements	(105)	(4)	(7,902)	-	-	(8,011)
Balance as of September 30, 2011	B/. 93,809	B/. 771,007	B/. 1,143,914	B/. 1,022,228	B/. 1,569,299	B/. 4,600,257
Accumulated Depreciation						
Balance as of October 1, 2009	B/. (31,858)	B/. (179,043)	B/. (368,763)	B/. -	B/. -	B/. (579,664)
Depreciation	(2,194)	(26,531)	(45,860)	-	-	(74,585)
Reclassifications	(84)	313	(229)	-	-	-
Retirements	1,032	49	9,172	-	-	10,253
Property transfers:						
To the Republic of Panama	1,443	-	-	-	-	1,443
Balance as of September 30, 2010	(31,661)	(205,212)	(405,680)	-	-	(642,553)
Depreciation	(2,011)	(26,861)	(51,119)	-	-	(79,991)
Retirements	40	4	7,134	-	-	7,178
Balance as of September 30, 2011	B/. (33,632)	B/. (232,069)	B/. (449,665)	B/. -	B/. -	B/. (715,366)
Net Book Value						
Balance as of September 30, 2011	B/. 60,177	B/. 538,938	B/. 694,249	B/. 1,022,228	B/. 1,569,299	B/. 3,884,891
Balance as of September 30, 2010	B/. 59,471	B/. 548,303	B/. 512,243	B/. 1,022,228	B/. 931,608	B/. 3,073,853

(In thousands of balboas B/.)

5. Properties, plant, and equipments, net (continuation)

Construction in progress is detailed as follows:

		Investment program - Canal expansion		Investment program - others		Construction in progress total
Balance as of October 1, 2009	B/.	362,399	B/.	151,989	B/.	514,388
Net change		360,204		45,022		405,226
Interests, commissions and other financing expenses		11,994		-		11,994
Balance as of September 30, 2010		734,597		197,011		931,608
Net change		662,924		(66,167)		596,757
Interests, commissions and other financing expenses		40,934		-		40,934
Balance as of September 30, 2011	B/.	1,438,455	B/.	130,844	B/.	1,569,299

During fiscal year 2011, the PCA recorded losses as a result of retirements or disposal of assets of B/.1,167 (2010: B/.573). The main assets that were retired included locomotives, launch diesel motors, vehicles, air compressors, servers, hydro-demolition systems and synthetic buoys. During fiscal year 2010, the main assets that were retired included digital servers for Scada system; trunk radio system and buildings in the Gatun area demolished due to Canal expansion activities.

A portion of the depreciation of B/.1,960 (2010: B/.944) corresponding to equipment utilized in investment projects was capitalized as properties, plant, and equipment during the period (see note 20).

As of September 30, 2011, construction in progress included the regular investment program of B/.130,844 (2010: B/.197,011) and the expansion investment program of B/.1,438,455 (2010: B/.734,597). The latest included interests, commissions and other financing expenses of B/.40,934 incurred during fiscal year 2011 (2010: B/.11,994).

The following estimated useful lives were used to calculate depreciation:

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

(In thousands of balboas B/.)

6. Accounts receivable

Non-current

Non-current accounts receivable are detailed as follows:

		2011		2010
Advance payment to contractor	**B/.**	**591,226**	B/.	400,000
Others		**23,049**		481
	B/.	**614,275**	B/.	400,481

Advance payments to contractor correspond to the balance of B/.591,226 to Grupo Unidos por el Canal, S.A. (GUPCSA) for mobilization and installation as free interest advance payments. These advances are to be collected by withholdings between 10% and 19% from payments made by the PCA to GUPCSA for advanced work performed. The advance payment for mobilization was made for B/.300,000, of which the PCA has retained on September 30, 2011 B/.8,774 (2010:B /-). The advance payment for installation was made for B/.300,000, of which as of to date, no retentions have been made. This receivable is guaranteed with bank guarantee letters received from two financial institutions with international credit ratings of Moodys Aa1 and Standard and Poors AA-, and will be reimbursed to the PCA 45 days before September 30, 2013, and March 31, 2014, respectively, unless GUPCSA extends the validity of each letter of credit.

The contract for the expansion at the Miraflores Thermal Power Plant was awarded to Hyundai Heavy Industries Co., Ltd., for an amount of B/.113,898, which includes the incorporation of heat recovery system of the gas escape. The contract establishes the PCA to make a 20% advanced payment of the contract value, which represents B/.22,780 paid in August 2011. This non-current accounts receivable is guaranteed by the surety payment and performance bond, as well as an irrevocable letter of credit for 100% of the value of this advanced payment. According to the contract, this advanced payment is amortized in 14 months instead of 24 months of contract execution.

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

(In thousands of balboas B/.)

6. Accounts receivable (continuation)

Non-current (continuation)

EDEMET shall reimburse the PCA the amount of B/.481 whenever the projected annual power consumption and minimum monthly demand supply for the plant are met. The life of that reimbursement agreement shall be for 5 years without extension, beginning on the date in which EDEMET completes the project. Annual repayments will represent 25% of the total cost paid at the end of each subsequent year to the termination of the project until completing the fifth anniversary of that date. As of September 30, 2011, EDEMET reimbursed B/.211 (2010: B/.-), in compliance with the Construction and Reimbursement of Timeline Agreement for the Mendoza´s Potable Water Treatment Plant.

Trade and other receivables

Trade and other current receivables are detailed as follows:

		2011		2010
Transit-related services	**B/.**	**5,735**	B/.	6,121
Electric power sales		**31,264**		14,111
National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales)		**6,990**		4,319
Other government entities		**1,426**		1,838
Other services		**1,381**		7,087
	B/.	**46,796**	B/.	33,476

Aging of past due but not impaired receivables:

		2011		2010
60 - 90 days	**B/.**	**398**	B/.	18
90 - 120 days		**1,612**		95
	B/.	**2,010**	B/.	113

(In thousands of balboas B/.)

7. Inventories, net

Inventories are detailed as follows:

		2011		2010
Supplies and materials	**B/.**	**60,612**	B/.	56,441
Fuel		**12,374**	B/.	11,221
Provision for obsolete inventory		**(4,363)**		(6,621)
	B/.	**68,623**	B/.	61,041

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

		2011		2010
Balance at the beginning of the year	**B/.**	**6,621**	B/.	6,705
Increases		**1,637**		247
Charges		**(3,895)**		(331)
Balance at the end of the year	**B/.**	**4,363**	B/.	6,621

The amount of material and supplies, recognized in the income statement during fiscal year 2011, was B/.40,281 (2010: B/.39,002).

8. Other financial assets

Other financial assets are detailed as follows:

		2011		2010
Financial assets measured at amortized cost				
Investments in bonds (i)	**B/.**	**732,723**	B/.	545,103
Financial assets designated as hedging instruments carried at amortized cost:				
Time deposit in euros (ii)		**-**		16,158
		732,723		561,261
Financial instruments designated as hedges at fair value				
Commodity swap (iii)		**5,531**		-
Total	**B/.**	**738,254**	B/.	561,261

(In thousands of balboas B/.)

8. Other financial assets (continuation)

(i) Bonds´ annual interest rate of return is 0.9334% (2010: 0.8139%) payable at the end of each term with a maximum maturity date of up to one year.

(ii) Hedge instrument comprises a time deposit in Euros with the exclusive purpose to cancel obligations contracted in this currency for the construction and acquisition of a dredge. The dredge was delivered in fiscal year 2011. The financial instrument was valuated using Bloomberg´s currency exchange rate in EUR-USD at the closing of September 30, 2010.

(iii) On April 22, 2010, the PCA conducted a hedge contract with the financial institution J. Aron & Co. for 36.5 million gallons of light diesel to cover the risk of variability of the future cash flows attributable to the variability in the diesel price index from April 26, 2010 to July 25, 2012. The B/.5,531 (2010:B/.-) shown in other financial assets corresponds only to the market value of the hedge instrument at September 30, 2011 and it results from the forecasted flow of the swap price of diesel against the fixed price.

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

Article 44 of the PCA´s Organic Law establishes that the PCA´s funds must be placed in short-term investment grade debt instruments and may not be used to buy other types of investment instruments issued by Panamanian or foreign public or private entities, nor to grant loans to said entities or to the National Government.

9. Accrued interest receivable and other assets

Accrued interest receivable and other assets are detailed as follows:

		2011		2010
Interest receivable	**B/.**	**19,536**	B/.	16,791
Prepayments		**5,837**		5,826
	B/.	**25,373**	B/.	22,617

(In thousands of balboas B/.)

10. Cash and bank deposits

Cash and bank deposits are comprised of the following:

		2011		2010
Cash on hand	**B/.**	**39**	B/.	36
Deposits in current accounts		**29,000**		40,255
Deposits in saving accounts		**247,410**		125,054
Time deposits with original maturities under 90 days		**-**		27,600
Total cash and cash equivalents		**276,449**		192,945
Time deposits with original maturities over 90 days not exceeding one year		**2,009,497**		1,926,129
	B/.	**2,285,946**	B/.	2,119,074

Cash deposit in bank accounts earns interest based on daily rates determined by corresponding banks. The investment of these resources has the priority to cover all PCA obligations and earn interest rates which vary between 0.74% and 0.94%.

As of September 30, 2011 and 2010, 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 PCA has its own patrimony and the right to manage it.

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

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

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

(In thousands of balboas B/.)

12. Reserves

Changes in reserves are detailed as follows:

		2011		Increase (decrease)		2010		Increase (decrease)		2009
Reserves for:										
Canal expansion	**B/.**	**91,306**	B/.	-	B/.	91,306	B/.	-	B/.	91,306
Investment projects - others		**-**		(49,300)		49,300		(15,700)		65,000
Catastrophic risks		**36,000**		-		36,000		-		36,000
Social and environmental program of the Canal watershed		**-**		-		-		(10,000)		10,000
Contingencies and working capital		**188,734**		28,325		160,409		1,841		158,568
Enterprise capitalization		**297,907**		-		297,907		30,000		267,907
		613,947		(20,975)		634,922		6,141		628,781
Contributions for:										
Investment programs		**3,167,137**		576,117		2,591,020		487,247		2,103,773
	B/.	**3,781,084**	**B/.**	**555,142**	**B/.**	**3,225,942**	**B/.**	**493,388**	**B/.**	**2,732,554**

Canal expansion

The Board of Directors approved an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the PCA for determined projects during the implementation of the program. The Board of Directors did not increase this reserve for fiscal years 2011 and 2010.

Investment projects - others

The Board of Directors approved an equity reserve for the investment programs of the Panama Canal. The funds of this reserve are segregated based on earning levels, according to the PCA's financing needs for particular projects during the programs' execution. During fiscal year 2011, the Board of Directors approved to cancel this reserve while in fiscal year 2010, a decrease of B/.15,700 was approved.

Catastrophic risks

The Board of Directors approved an equity reserve to cover the deductibles of the catastrophic risks insurance policies with a maximum amount of B/.36,000. As a result, the Board of Directors did not increase this reserve for fiscal years 2011 and 2010.

12. Reserves (continuation)

Social and Environmental Program of the Canal Watershed

The Board of Directors approved the establishment of a reserve to finance the Social and Environmental Program of the Canal Watershed. The purpose of this program is to preserve natural resources and promote the development and integral management of the watershed. During fiscal year 2010, the Board of Directors approved the cancellation of this reserve.

Contingencies and working capital

The Board of Directors approved an equity reserve for contingencies and working capital based on the PCA's level of revenues. The amount of this reserve is based on the average of 30 days of Canal revenues or billing, and is funded in stages, periodically, as agreed by the Board of Directors. During fiscal year 2011, the Board of Directors approved the increase of this reserve by B/.28,325 (2010: B/.1,841) for a total reserve of B/.188,734 (2010: B/.160,409).

Enterprise capitalization

The Board of Directors approved a reserve for PCA capitalization. The purpose of this reserve is to ensure and facilitate the long-term financial projection of the PCA. This reserve will be funded in stages, according to the periodicity agreed by the Board of Directors. During fiscal year 2011, the Board of Directors did not increase this reserve (2010: B/.30,000) for a reserved total of B/.297,907 for both fiscal years 2011 and 2010.

Contributions to investment programs

The budget approved by the Board of Directors includes an increase in funds of the investment programs of B/.576,117 (2010: B/.487,247) for a contributed total of B/.1,121,380 (2010: B/.867,338) for the Investment program – others and B/.2,045,757 (2010: B/.1,723,682) for the Investment program – Canal expansion.

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

(In thousands of balboas B/.)

13. Other equity accounts – cash flow hedge

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

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

		2011		2010
Cash flow hedges:				
Income (loss) during the year:				
Variability in interest rates	**B/.**	**(55,137)**	B/.	(147,636)
Variability in diesel prices		**8,766**		(3,235)
Time deposit in Euros		**37**		(5,833)
Reclassification adjustment of income, included as part of the suction dredge cost		**(682)**		-
Net change in cash flow hedges	**B/.**	**(47,016)**	B/.	(156,704)

Time deposit in Euros (dredge contract payment)

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

In order to mitigate the Euro-Dollar exchange rate variability risk, in November of 2008 the PCA established a deposit in Euros for the balance of the contract at that time (€ 38.9 million /USD $60.6 million), eliminating its exposure to the exchange rate risk. These funds were used exclusively to make payments to the contractor. At September 30, 2011, all programmed payments of the contract were made and the balance was reclassified to the dredge´s initial cost.

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

On December 9, 2008, the PCA 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 PCA 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. In March 2010, the PCA received its first loan disbursement in the amount of USD 100,000 at a fixed rate of the USD 500,000, and USD $200,000 at a floating rate. Based on the expansion program's implementation schedule, subsequent disbursements were made a floating rate, USD 300,000 in October 2010, and USD 300,000 in April 2011.

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

(In thousands of balboas B/.)

13. Other equity accounts – cash flow hedge (continuation)

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

The hedge transaction of USD 800,000 was fixed at a 5.42% rate for 18.5 years. This fixed rate 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 (Price adjustment in the contract for the design and construction of the locks)

In July 2009, the PCA awarded the contract for the design and construction of the third set of locks to the consortium "Grupo Unidos por el Canal, 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 the contract for the design and construction of the locks, in April 2010, the PCA competitively hired the bidder with the lowest price to provide a hedge instrument to transfer some of this risk to the financial markets. This transaction guarantees the fuel costs in the lock's contract to the PCA for the first two years of execution.

The unrealized gain of B/.5,531 at the end of the fiscal year 2011, and the unrealized loss of B/.3,235 in fiscal year 2010, correspond exclusively to the hedge instrument's market value as of September 30 of each year, as a result of the projected cash flow exchange of future diesel prices compared to the fixed price agreed, shown in other equity accounts.

The PCA 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:

	Total	1 year	1 - 5 years	More than 5 years
Cash flow covered	B/. 305,117	B/. 24,922	B/. 49,416	B/. 230,779

(In thousands of balboas B/.)

14. Unappropriated retained earnings

Article 41 of the Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 12, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the PCA should transfer the total amount of B/.674,292 to the Panamanian Treasury which corresponds to the year ended September 30, 2011 (2010: B/.470,603). (See note 26)

In compliance with Law 28 of July 17, 2006, during the construction period of the third set of locks, the PCA will continue to make increasing payments to the Panamanian Treasury based on Canal tonnage fees and any operational surplus. Any payments based on an operational surplus shall not be less than those made to the Panamanian Treasury in 2005 for the amount of B/.268,850. The combined payments based on Canal tonnage fees and operational surpluses shall not be less than the payments effected in fiscal year 2006 for the amount of B/.568,128.

Payments to the Panamanian Treasury		**2011**		2010
Unappropriated retained earnings	**B/.**	**674,292**	B/.	470,603
Fees per net ton		**366,987**		342,220
Public service fees		**1,906**		1,855
Total	**B/.**	**1,043,185**	B/.	814,678

15. Borrowings

Financing received for the Canal Expansion Investment Program, presented at amortized cost as of September 30, 2011, is detailed as follows:

		2011		2010
Japan Bank for International Cooperation (JBIC)	**B/.**	**800,000**	B/.	200,000
European Investment Bank (EIB)		**100,000**		100,000
Balance at the end of the year	**B/.**	**900,000**	B/.	300,000

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

The PCA complies with the semiannual verification of the financial restrictions over this debt which consist of Total Debt to EBITDA Ratio and the Debt Service Coverage Ratio.

(In thousands of balboas B/.)

16. Other financial liabilities

Other financial liabilities are detailed as follows:

		2011		2010
Financial instruments designated as hedging instruments carried at fair value				
Interest rate swaps	**B/.**	**215,714**	B/.	150,692
Commodities swap		**-**		3,235
	B/.	**215,714**	B/.	153,927
Current	**B/.**	**12,941**	B/.	3,056
Non-current		**202,773**		150,871
	B/.	**215,714**	B/.	153,927

In order to cover the variability risk of the future cash flows related to the volatility of the interest rate used for the financial needs of the Canal Expansion Program, the PCA subscribed the interest rate swap contract which pays at a fixed rate and receives at a floating rate.

17. Trade and other payables

Trade and other payables are as follows:

		2011		2010
Panamanian Treasury	**B/.**	**28,973**	B/.	27,944
Suppliers and others		**232,788**		193,401
	B/.	**261,761**	B/.	221,345

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

Article 39 of the Organic Law establishes that the PCA shall annually pay the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by the PCA. The total of such fees amounted to B/.366,987 (2010: B/.342,220).

(In thousands of balboas B/.)

18. Provision for marine accident claims

The provision for marine accident claims of B/.18,492 (2010: B/.32,693), represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the PCA expects to be liable.

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

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

		2011		2010
Balance at beginning of the year	**B/.**	**32,693**	B/.	32,368
(Reversion) provision for the year		**(764)**		5,044
Payments made		**(13,437)**		(4,719)
Balance at end of the year	**B/.**	**18,492**	B/.	32,693

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

19. Other liabilities

Other liabilities are detailed as follows:

		2011		2010
Inventories – in transit	**B/.**	**1,183**	B/.	1,882
Miscellaneous claims		**425**		1,714
Other trusts		**1,187**		945
Trust-National Institute of Pipelines and Sewerage (i)		**576**		587
	B/.	**3,371**	B/.	5,128

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

(In thousands of balboas B/.)

20. Labor, materials and other capitalized costs

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

		2011		2010
Investment - Others:				
Widening and straightening of the Gaillard (Culebra) Cut	**B/.**	**16,487**	B/.	8,004
Test bank for tow locomotive electric propulsion		**-**		438
Purchase of tow locomotive components		-		2,567
Projects administration system		-		744
Assets administration system		**456**		**-**
Improvement to locks´ fender sytem at approach walls		**2,039**		841
Cutter suction dredge (multiannual project)		**478**		**-**
Other various projects		**1,689**		1,806
		21,149		14,400
Investment - Canal expansion:				
Dredging of Gatun Lake		**38,368**		30,909
Dredging at the Pacific entrance		**3,167**		750
Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen´s dam		**1,186**		754
Program administration		**824**		793
Increase of maximum operational level of Gatun Lake		**946**		356
Design and construction of post-panamax locks		**2,123**		1,482
Disposal site studies in the Atlantic side		**8,360**		5,733
Dry excavation No. 3 of the North Pacific channel access		**-**		419
Other various projects		**163**		208
		55,137		41,404
	B/.	**76,286**	B/.	55,804

21. Income taxes

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

(In thousands of balboas B/.)

22. Risk management

Capital risk management

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

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

Significant accounting policies

Details of the significant accounting policies and adopted methods (including the criteria for recognition, the bases of measurement, and the bases for revenue and expense recognition) for each type of financial assets and financial liabilities are disclosed in note 4.

Categories of financial instruments

		2011		2010
Financial assets				
Cash and bank deposits (note 10)	**B/.**	**2,285,946**	B/.	2,119,074
Amortized cost:				
Trade and other receivables (note 6)		**46,796**		33,476
Other financial assets at amortized cost (note 8)		**732,723**		561,261
	B/.	**3,065,465**	B/.	2,713,811
Financial liabilities				
Financial instruments designated as hedging instruments (note 16)	**B/.**	**215,714**	B/.	153,927
Amortized cost:				
Trade and other payables (note 17)		**261,761**		221,345
Borrowings (note 15)		**900,000**		300,000
	B/.	**1,377,475**	B/.	675,272

22. Risk management (continuation)

Financial risk management objectives

The main PCA's financial liability, in addition to the hedge financial instruments, consists of borrowings and trade accounts payable. The main purpose of these financial liabilities is to finance the Canal expansion program. The PCA also has trade and other receivables, cash and bank deposits which originate directly from its operations. It also keeps investments held to maturity and negotiates hedge instruments.

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

The PCA administration monitors these risks. The treasury function coordinates the access to international financial markets, monitors and manages the financial risks related to the PCA'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 risk hedging are performed by teams of specialists with the knowledge, experience and appropriate supervision.

The PCA 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 PCA does not subscribe or negotiate financial instruments for speculative purposes.

The PCA'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

PCA 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 PCA 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.

(In thousands of balboas B/.)

22. Risk management (continuation)

Exchange rate risk management

The PCA 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, 2011 the PCA 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 PCA is exposed to interest rate risk because it borrows funds at both fixed and floating interest rates. The risk is managed by the PCA through the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rates and the defined risk tolerance, ensuring that the most cost-effective hedging strategies are applied.

Interest rate swap contracts

Since March 2010, the PCA established interest rate swap contracts, without collateral, to fix the floating interest rate of the B/.800,000 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. According to interest rate swap contracts, the PCA agrees to swap the difference between the fixed and floating interest rate amounts calculated on the agreed notional principal amounts. Such contracts allow the PCA to mitigate the risk of interest rate changes 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.

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**	
	2011	2010	**2011**	2010	**2011**	2010
5 years or more	**4.67%**	4.67%	**B/. 800,000**	B/. 800,000	**B/. (215,714)**	B/. (150,692)

22. Risk management (continuation)

Interest rate risk management (continuation)

Interest rate swap contracts (continuation)

The interest rate swaps are paid biannually. The floating rate on the interest rate swaps is at 6-month Libor rate. The PCA 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 PCA'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, 2011, 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/.1,038.5. 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, 2011, the PCA expects that the Libor would increase through the remaining term of the contract by 100 basis points during fiscal 2012, which would represent an increase of B/.103,849 in PCA´s equity.

Fuel price risk

The PCA 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 PCA's customers.

Maritime Operations

The PCA uses annually approximately 10 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 2011, the PCA purchased a hedge instrument (cap) establishing a maximum price of B/.2.40 per gallon for 9.35 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations, of which 11.4 million gallons were consumed.

22. Risk management (continuation)

Interest rate risk management (continuation)

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 2011, the PCA consumed 17% of the energy produced, while the remaining 83% was sold to the electricity market. The energy is produced by hydroelectric plants 41% and by thermal plants 59%.

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, 2011, the current price index for light diesel purchases made by the PCA was B/.2.95 per gallon. With an estimated annual consumption of 13.4 million gallons, assuming an upward variation trend that increases diesel prices to B/.3.25 per gallon during fiscal year 2012, fuel expense would show an increase of approximately B/.4.02 million, as long as the price remains below the hedging instrument's agreed strike price of B/.3.35.

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

As mentioned in Note 24, the PCA 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.

(In thousands of balboas B/.)

22. Risk management (continuation)

Price risk on adjustment clauses in contracts related to the Canal Expansion Program (continuation)

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

Commodity	Agreed volume (thousands)	Fixed reference price	Fair value reference index
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/.1.40 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

During the life of the project, the PCA 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 PCA 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 PCA'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 acquired by the PCA, in regards to the functioning, maintenance, operations, modernization, and expansion of the Canal.

22. Risk management (continuation)

Light diesel

On April 22, 2010, the PCA conducted a hedge transaction for 36.5 million gallons of light diesel, to cover the risk of variability of future cash flows related to the 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 PCA's income statement or its equity, as it is capitalized as part of the expansion program.

Reinforced steel, structural 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.

The following table shows the quantities established in the lock design and construction contract and the estimated adjustments at the beginning of fiscal year 2011:

Commodity	Unit	Quantity	Total (in thousands)
Reinforced steel	Metric Ton	47,077	B/. 5,623
Structural steel	Metric Ton	67,200	(B/. 1,778)

During fiscal year 2011, the scaling adjustment for structural steel resulted in a B/.983 credit in favor of the PCA, B/.795 less than estimated. As this year the structural steel scaling clause was concluded, the PCA no longer has any future cash flow risk for this commodity. Regarding reinforced steel, the cumulative adjustment at the end of the fiscal year was B/.10,881, representing an increase of B/.5,258 over the estimate.

As of September 30, 2011, the reinforced steel price (moving average as stipulated in the contract) was B/.805.65 per metric ton. If the average price remains unchanged for fiscal year 2012, and with an established consumption of 143,307 metric tons, the margin between the reference price and the current price would represent an adjustment of B/.33,054. For cement, the price as of September 30, 2011 was B/.90.39 per short ton, which with an established consumption of 788,253 short tons for fiscal year 2012, would represent a credit of B/.7,575.

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

22. Risk management (continuation)

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 PCA, which includes the following factors: short-term risk rating, issuer leverage index, economic factor, liquidity index, and deterioration index.

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

Credit risk refers to the risk that one of the parties does not comply with its contractual obligations, resulting in financial loss to the PCA. PCA'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 PCA shall not deposit its funds in a bank or financial instrument if one of its ratings is lower than what is indicated herein, except for the Banco Nacional de Panamá (National Bank of Panama). The PCA's exposure and the credit ratings of its counterparties are continuously monitored. The credit exposure is controlled by counterparty limits that are reviewed quarterly by the 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 hedging 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. Deterioration index

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

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

(In thousands of balboas B/.)

22. Risk management (continuation)

Liquidity risk management

The PCA 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 PCA's operations has been enough to cope with its operations and the requirements of its investments program, while generating adequate returns to the PCA. However, since 2008, the PCA faced the necessity to obtain financing for a portion of the Canal Expansion Program. The credit facilities available to the PCA to reduce the liquidity risk are detailed as follows:

Interest and liquidity risk tables

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

	Weighted average effective interest rate (%)	1 month or less	1-3 months	1 - 5 years	More than 5 years	Total
September 30, 2011						
Borrowing at a floating interest rate	1.22191	B/. -	B/. -	B/. -	B/. 800,000	B/. 800,000
Borrowing at a fixed interest rate	5.196	-	-	-	100,000	100,000
		B/. -	B/. -	B/. -	B/. 900,000	B/. 900,000

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

2011	**Up to 1 month**	**1-3 months**	**3 months - 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Time deposits	B/. -	B/. -	B/. 2,009,497	B/. -	B/. -	B/. 2,009,497
Held-to-maturity securities	-	6,067	726,656	-	-	732,723
	B/. -	B/. 6,067	B/. 2,736,153	B/. -	B/. -	B/. 2,742,220

2010	Up to 1 month	1-3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
Time deposits	B/. -	B/. 27,600	B/. 1,926,129	B/. -	B/. -	B/. 1,953,729
Held-to-maturity securities	-	-	545,103	-	-	545,103
	B/. -	B/. 27,600	B/. 2,471,232	B/. -	B/. -	B/. 2,498,832

The PCA has access to financing facilities, as described afterward, of which USD 1,400,000 were not utilized at the end of the 2011 period. The PCA expects to comply with its other obligations with the cash flows from its operations and from the maturity of financial assets.

(In thousands of balboas B/.)

22. Risk management (continuation)

Interest and liquidity risk tables

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

	Less than 3 months	3 to 12 months	1 - 5 years	More than 5 years
September 30, 2011				
Trade and other payables	B/. 261,761	B/. -	B/. -	B/. -
Other financial liabilities	12,941	-	-	202,773
Borrowings	-	-	-	900,000
	B/. 274,702	**B/. -**	**B/. -**	**B/. 1,102,773**

	Less than 3 months	3 to 12 months	1 - 5 years	More than 5 years
September 30, 2010				
Trade and other payables	B/. 221,345	B/. -	B/. -	B/. -
Other financial liabilities	3,056	-	-	158,871
Borrowings	-	-	-	300,000
	B/. 224,401	B/. -	B/. -	B/. 458,871

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

(In thousands of balboas B/.)

22. Risk management (continuation)

Financing facilities

Borrowings with available balances in the following facilities until 2014 that could be extended by mutual agreement:

	2011	2010
Amount used		
Japan Bank for International Cooperation (JBIC)	**B/. 800,000**	B/. 200,000
European Investment Bank (EIB)	**100,000**	100,000
Amount not used		
Japan Bank for International Cooperation (JBIC)	**-**	600,000
European Investment Bank (EIB)	**400,000**	400,000
Inter-American Development Bank (IADB)	**400,000**	400,000
International Finance Corporation (IFC)	**300,000**	300,000
Andean Development Corporation (ADC)	**300,000**	300,000
	B/. 2,300,000	B/. 2,300,000

Fair value of financial instruments

Fair value of financial instruments measured at amortized cost

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

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Financial assets measured at amortized cost:				
Investment in bonds	**B/. 732,723**	**B/. 730,544**	B/. 545,103	B/. 545,304
Financial liabilities				
Financial liabilities measured at amortized cost:				
Borrowings at floating rate	**B/. 800,000**	**B/. 813,138**	B/. 200,000	B/. 186,165
Borrowings at fixed rate	**100,000**	**122,366**	100,000	107,030
	B/. 900,000	**B/. 935,504**	B/. 300,000	B/. 293,195

22. Risk management (continuation)

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.

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).

22. Risk management (continuation)

Fair value measurements recognized in the statement of financial position (continuation)

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS:				
Financial assets at fair value with changes in other comprehensive income				
Financial instruments in hedged relationships	B/. -	B/. 5,531	B/. -	B/. 5,531
LIABILITIES:				
Financial liabilities at fair value with changes in other comprehensive income				
Financial instruments in hedged relationships	B/. -	B/. 215,714	B/. -	B/. 215,714

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
LIABILITIES:				
Financial liabilities at fair value with changes in other comprehensive income				
Financial instruments in hedged relationships	B/. -	B/. 153,927	B/. -	B/. 153,927

(In thousands of balboas B/.)

23. Related party transactions

Commercial transactions

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

	Sale of goods and services				Purchase of goods and services			
	Year ended				Year ended			
	2011		2010		**2011**		2010	
Sale of potable water to the National Institute of Pipelines and Sewerage (IDAAN)	**B/.**	**25,520**	B/.	22,534	**B/.**	**-**	B/.	-
Other government entities		**5,176**		1,916		**-**		-
Employee benefits		**-**		-		**58,418**		51,423
Public service fees		**-**		-		**1,906**		1,855
Panamanian Treasury - surplus payment		**-**		-		**674,292**		470,603
Panamanian Treasury - fees per net ton		**-**		-		**366,987**		342,220
	B/.	**30,696**	B/.	24,450	**B/.**	**1,101,603**	B/.	866,101

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

	Amounts owed by the Republic of Panama				Amounts owed to the Republic of Panama			
	2011		2010		**2011**		2010	
Sale of potable water to the National Institute of Pipelines and Sewerage (IDAAN)	**B/.**	**6,990**	B/.	4,319	**B/.**	**-**	B/.	-
Other government entities		**1,426**		1,838		**-**		-
Employee benefits		**-**		-		**18,556**		16,806
Public service fees		**-**		-		**156**		143
Panamanian Treasury - fees per net ton		**-**		-		**28,973**		27,944
	B/.	**8,416**	B/.	6,157	**B/.**	**47,685**	B/.	44,893

(In thousands of balboas B/.)

23. Related party transactions (continuation)

Commercial transactions

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

Sales of good and services to the Republic of Panama were made at PCA´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 PCA paid a total of B/.2,905 (2010: B/.2,393) 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.

24. Commitments

Commitments as a result of construction in progress contracts and undelivered purchase orders amounted to approximately B/.3,537,000 (2010: B/.3,909,000), as follows:

		2011		2010
Investment programs:				
Canal Expansion	**B/.**	**3,088,000**	B/.	3,647,000
Others		**416,000**		229,000
Sub-total		**3,504,000**		3,876,000
Operations		**33,000**		33,000
	B/.	**3,537,000**	B/.	3,909,000

Total commitments include the Canal expansion program contracts awarded during the fiscal year for B/. 18,332 (2010: B/.406, 997).

24. Commitments (continuation)

Contracts awarded during fiscal year 2011, include cleaning unexploded ordinances to Fattuto, S.A. for B/.2,248; range towers at San Pablo and Tabernilla reach to Sociedad Española de Montajes Industriales for B/.2,000 and drainage channels in Marieta and Cocoli to Howard Group, Inc. for B/.1,588.

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

Fiscal year 2011 balance includes the design-build contract for the Canal Expansion Program´s major component, the third set of locks, to Grupo Unidos por el Canal (GUPC) of B/.2,823,744 (2010: B/.3,221,631).

25. Contingent liabilities

The PCA has received claims and is a defendant in various legal proceedings mainly related to marine accidents and investment contracts. For marine accidents, investment contracts demands, and other cases in the normal course of business, the contingent liability amounted to approximately B/.3,880 (2010: B/.18,402). The opinion of management and its legal advisors is that the outcome of these matters is not likely to have a material adverse effect on the PCA's financial position; therefore, no provisions were made regarding these claims and demands.

26. Events that occurred after the reporting period

On November 29, 2011 meeting, the Board of Directors approved the transfer to the Panamanian Treasury of the operating and functioning economic surplus corresponding to fiscal year 2011 in the amount of B/.674,292. (See note 14).

From total contingent liabilities of B/.3,880 at the end of fiscal year 2011, B/.1,455 corresponds to investment contract demands, decided in favor of PCA. (See note 25).

27. Approval of financial statements

The financial statements of the Panama Canal Authority for the period ended as of September 30, 2011, were approved by the Board of Directors and authorized for issuance on November 29, 2011.