

**Financial Statements**

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

**Report**

**Autoridad del Canal de Panamá**

*Year ended September 30, 2012  
with Independent Auditors' Report*

**(Translation of financial statements originally issued in Spanish)**  
**Autoridad del Canal de Panamá**  
**Financial Statements**

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**CONTENTS**

Independent Auditors' Report	1
Statement of Financial Position	2
Income Statement	3
Statement of Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 51

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

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

We have audited the accompanying financial statements of the Autoridad del Canal de Panamá, which comprise the statement of financial position as of September 30, 2012, and the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Autoridad del Canal de Panamá as of September 30, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young*

November 27, 2012  
Panama, Republic of Panama

**Autoridad del Canal de Panamá**  
**Statement of Financial Position**  
**September 30, 2012**

*(In thousands of balboas B/.)*

<i>Notes</i>	<b>2012</b>	2011
Assets:		
Non-current assets:		
5, 11	<b>B/. 2,326,406</b>	B/. 2,315,592
5	<u>2,695,222</u>	<u>1,569,299</u>
	<b>5,021,628</b>	3,884,891
6	<u>598,628</u>	<u>614,275</u>
	<u><b>5,620,256</b></u>	<u>4,499,166</u>
Current assets:		
7	<b>73,001</b>	68,623
6, 23	<b>42,991</b>	46,796
8	<b>423,443</b>	738,254
9	<b>15,526</b>	25,373
10	<u>2,259,770</u>	<u>2,285,946</u>
	<u><b>2,814,731</b></u>	<u>3,164,992</u>
	<b>B/. 8,434,987</b>	B/. 7,664,158
Equity and liabilities:		
Equity:		
11	<b>B/. 1,904,473</b>	B/. 1,904,473
12	<b>3,769,045</b>	3,167,137
12	<b>621,503</b>	613,947
13, 22	<b>(227,770)</b>	(197,242)
14	<u>648,991</u>	<u>674,292</u>
	<u><b>6,716,242</b></u>	<u>6,162,607</u>
Non-current liabilities:		
15	<b>1,000,000</b>	900,000
17, 23	<b>32,456</b>	29,818
16, 22	<u>227,770</u>	<u>202,773</u>
	<u><b>1,260,226</b></u>	<u>1,132,591</u>
Current liabilities:		
17, 23	<b>303,069</b>	231,943
18	<b>20,235</b>	18,492
	<b>113,954</b>	102,213
16	<b>12,076</b>	12,941
19	<u>9,185</u>	<u>3,371</u>
	<u><b>458,519</b></u>	<u>368,960</u>
	<b>B/. 8,434,987</b>	B/. 7,664,158

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

**Autoridad del Canal de Panamá**  
**Income Statement**  
**For the year ended September 30, 2012**

*(In thousands of balboas B/.)*

<i>Notes</i>	<b>2012</b>	<b>2011</b>
Revenues:		
Toll revenues	<b>B/. 1,852,379</b>	B/. 1,729,910
Other Canal transit services	<b>395,498</b>	400,722
	<b><u>2,247,877</u></b>	<u>2,130,632</u>
Other revenues:		
Electric power sales	<b>97,092</b>	125,325
23     Potable water sales	<b>26,486</b>	25,520
Interest earned	<b>22,787</b>	22,213
Miscellaneous	<b>16,639</b>	14,783
Total other revenues	<b><u>163,004</u></b>	<u>187,841</u>
Total revenues	<b><u>2,410,881</u></b>	<u>2,318,473</u>
Expenses:		
Salaries and wages	<b>453,643</b>	425,913
23     Employee benefits	<b>60,204</b>	58,418
Materials and supplies	<b>51,590</b>	53,301
Fuel	<b>101,289</b>	106,541
Transportation and allowances	<b>2,600</b>	2,182
Contracted services and fees	<b>60,768</b>	47,544
Insurance	<b>10,176</b>	9,971
18     Provision for marine accidents	<b>3,626</b>	(764)
7     Provision for obsolete inventory	<b>144</b>	1,637
5     Depreciation	<b>86,525</b>	79,991
Other expenses	<b>13,165</b>	11,698
	<b><u>843,730</u></b>	<u>796,432</u>
20     Labor, materials, and other capitalized costs	<b>(74,652)</b>	(76,286)
Total expenses	<b><u>769,078</u></b>	<u>720,146</u>
Income before fees	<b>1,641,803</b>	1,598,327
14, 17, 23     Fees per net ton	<b>(381,130)</b>	(366,987)
14, 23     Panamanian Treasury (Tesoro Nacional) - public service fees	<b>(2,218)</b>	(1,906)
Net income	<b><u>B/. 1,258,455</u></b>	<u>B/. 1,229,434</u>

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

**Autoridad del Canal de Panamá**  
**Statement of Comprehensive Income**  
**For the year ended September 30, 2012**

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*(In thousands of balboas B/.)*

<i>Note</i>	<b>2012</b>	<b>2011</b>
Net income	<b><u>B/. 1,258,455</u></b>	<b><u>B/. 1,229,434</u></b>
Other comprehensive income:		
13 Net change on cash flow hedges	<b><u>(30,528)</u></b>	<b><u>(47,016)</u></b>
Total comprehensive income for the year	<b><u>B/. 1,227,927</u></b>	<b><u>B/. 1,182,418</u></b>

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

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

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**Autoridad del Canal de Panamá**  
**Statement of Changes in Equity**  
**For the year ended September 30, 2012**

*(In thousands of balboas B/.)*

	Contributed capital	Contribution for investment programs	Reserves	Other equity accounts - cash flow hedge	Unappropriated retained earnings	Total equity
<i>Notes</i> <b>Balance as of September 30, 2010</b>	<b>B/. 1,904,473</b>	<b>B/. 2,591,020</b>	<b>B/. 634,922</b>	<b>B/. (150,226)</b>	<b>B/. 470,603</b>	<b>B/. 5,450,792</b>
Net income					1,229,434	1,229,434
13 Other comprehensive income:						
Cash flow hedge	-	-	-	(47,016)	-	(47,016)
Comprehensive income of the year	-	-	-	(47,016)	1,229,434	1,182,418
14 Transfer to Panamanian Treasury	-	-	-	-	(470,603)	(470,603)
12 Contributions to the investment program	-	576,117	-	-	(576,117)	-
12 Net decrease in equity reserves	-	-	(20,975)	-	20,975	-
<b>Balance as of September 30, 2011</b>	<b><u>1,904,473</u></b>	<b><u>3,167,137</u></b>	<b><u>613,947</u></b>	<b><u>(197,242)</u></b>	<b><u>674,292</u></b>	<b><u>6,162,607</u></b>
Net income					1,258,455	1,258,455
13 Other comprehensive income:						
Cash flow hedge	-	-	-	(30,528)	-	(30,528)
Comprehensive income of the year	-	-	-	(30,528)	1,258,455	1,227,927
14 Transfer to Panamanian Treasury	-	-	-	-	(674,292)	(674,292)
12 Contributions to the investment program	-	601,908	-	-	(601,908)	-
12 Net decrease in equity reserves	-	-	7,556	-	(7,556)	-
<b>Balance as of September 30, 2012</b>	<b><u>B/. 1,904,473</u></b>	<b><u>B/. 3,769,045</u></b>	<b><u>B/. 621,503</u></b>	<b><u>B/. (227,770)</u></b>	<b><u>B/. 648,991</u></b>	<b><u>B/. 6,716,242</u></b>

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

**Autoridad del Canal de Panamá**  
**Statement of Cash Flows**  
**For the year ended September 30, 2012**

*(In thousands of balboas B/.)*

<i>Notes</i>	<b>2012</b>	2011
<b>Cash flows from operating activities:</b>		
Net income	B/. 1,258,455	B/. 1,229,434
5 Depreciation	83,584	78,031
Loss on disposal of fixed asset	519	1,167
7 Provision for obsolete inventory	144	1,637
18 Provision for marine accidents	3,626	(764)
Changes in working capital:		
Decrease (increase) in trade and other receivables	3,805	(13,320)
Increase in inventories	(4,522)	(9,218)
Decrease (increase) in accrued interest receivable and other assets	9,847	(2,756)
Increase in trade and other payables	73,764	40,417
18 Payments of marine accident claims	(1,883)	(13,437)
Increase (decrease) in accrued salaries and vacation payable	11,741	(5,705)
(Decrease) increase in other current financial liabilities	(865)	9,885
Increase (decrease) in other liabilities	5,814	(1,757)
<b>Net cash provided by operating activities</b>	<u><b>1,444,029</b></u>	<u>1,313,614</u>
<b>Cash flows from investing activities:</b>		
Net increase of fixed assets	(1,220,840)	(890,237)
Decrease (increase) in other financial assets	309,280	(172,107)
6 Decrease (increase) in non-current assets	15,646	(213,794)
Decrease (increase) in time deposits, over 90 days	352,685	(83,369)
<b>Net cash used in investing activities</b>	<u><b>(543,229)</b></u>	<u>(1,359,507)</u>
<b>Cash flows from financing activities:</b>		
15 Increase in long-term borrowings	100,000	600,000
14 Transfer to Panamanian Treasury	(674,292)	(470,603)
<b>Net cash used in (provided by) financing activities</b>	<u><b>(574,292)</b></u>	<u>129,397</u>
Net increase in cash and cash equivalents	326,508	83,504
Cash and cash equivalents at beginning of the year	276,449	192,945
10 Cash and cash equivalents at end of the year	<u><b>B/. 602,957</b></u>	<u>B/. 276,449</u>
<b>Investing activities that did not represent cash outflows:</b>		
5, 20 Fixed assets - capitalized depreciation	<u><b>B/. (2,941)</b></u>	<u>B/. (1,960)</u>
<b>Interests:</b>		
Received	B/. 48,809	B/. 51,849
Paid	B/. 52,444	B/. 28,808

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



**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

**Explanation Added for Translation into English**

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

**1. General information**

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

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

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

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

**2. Statement of compliance**

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

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

***Functional currency***

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

***Foreign currency***

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

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

**4. Significant accounting policies**

***Revenue recognition***

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

***Toll revenue***

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

***Electric power sales revenue***

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

***Revenue recognition (continued)***

*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*

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

***Borrowing cost***

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

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

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

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

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

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

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

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

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

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

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

***Cash and cash equivalent***

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

***Inventories***

Inventories of materials, operating supplies, and fuel are valued at the lower of cost or net realizable value. Inventories are valued using the average cost method based on purchase cost, net of allowance for obsolescence.

***Provisions***

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

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

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

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

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

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

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

*Provision for marine accidents and other claims (continued)*

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

***Financial assets***

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

*Trade and other receivables*

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

*Held-to-maturity investments*

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

***Derecognition of financial assets***

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

***Impairment of financial assets***

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

***Recognition***

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

***Financial liabilities***

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

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

***Borrowings***

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

*Trade and other payables*

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

*Other financial liabilities*

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

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

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

*Hedge accounting*

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



**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

*Hedge accounting (continued)*

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

*Cash flow hedges*

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

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

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

*Derecognition of financial liabilities*

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

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

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

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

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

###### ***IAS 1 Presentation of Financial Statements - 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 ACP's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

###### ***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 ACP is currently evaluating the possible impact of this amendment.

###### ***IAS 32-Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32***

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the ACP's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

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

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

##### **Standards issued but not yet in effect (continued)**

##### ***IFRS 7 Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7***

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable mastering arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the ACP's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

##### ***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 but an amendment issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the ACP's financial assets. The ACP 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.

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

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

##### **Standards issued but not yet in effect (continued)**

###### ***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 ACP 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 ACP does not have this type of investments.

###### ***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 ACP is currently assessing the impact that this standard will have on the financial position and performance.

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

###### ***Improvements to IFRSs (issued in May 2012)***

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, 2013, however, the ACP expects no impact from the adoption of the amendments on its financial position or performance.

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

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

###### *Improvements to IFRSs (continued)*

###### *Improvements to IFRSs (issued in May 2012) (continued)*

###### **IFRS 1 First-time Adoption of International Financial Reporting Standards**

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

###### **IAS 1 Presentation of Financial Statements**

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

###### **IAS 16 Property, Plant and Equipment**

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

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

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

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

These financial statements are prepared in conformity with IFRS which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include the determination of the useful life of fixed assets (note 5), fair value of financial instruments (note 23), and the estimates for the provision for marine accident claims and contingencies (notes 18 and 25, respectively).

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

(In thousands of balboas B/.)

**5. Properties, plant and equipment**

Property, plant and equipment are detailed as follows:

<i>Cost</i>	<b>Buildings</b>		<b>Structures</b>		<b>Equipments</b>		<b>Land</b>		<b>Construction in progress</b>		<b>Total</b>	
	B/.		B/.		B/.		B/.		B/.		B/.	
<i>Balance as of October 1, 2010</i>	B/.	91,132	B/.	753,515	B/.	917,923	B/.	1,022,228	B/.	931,608	B/.	3,716,406
<b>Additions</b>		2,782		17,286		234,438		-		637,691		892,197
<b>Adjustments:</b>												
Loss recognition on asset retirements		-		-		(335)		-		-		(335)
<b>Reclassifications</b>		-		210		(210)		-		-		-
<b>Retirements</b>		(105)		(4)		(7,902)		-		-		(8,011)
<i>Balance as of September 30, 2011</i>		93,809		771,007		1,143,914		1,022,228		1,569,299		4,600,257
<b>Additions</b>		950		533		96,376		-		1,125,923		1,223,782
<b>Adjustments:</b>												
Loss recognition on asset retirements		-		-		(46)		-		-		(46)
<b>Retirements</b>		(695)		(9)		(3,344)		-		-		(4,048)
<i>Balance as of September 30, 2012</i>	B/.	94,064	B/.	771,531	B/.	1,236,900	B/.	1,022,228	B/.	2,695,222	B/.	5,819,945
<i>Accumulated Depreciation</i>												
<i>Balance as of October 1, 2010</i>	B/.	(31,661)	B/.	(205,212)	B/.	(405,680)	B/.	-	B/.	-	B/.	(642,553)
<b>Depreciation</b>		(2,011)		(26,861)		(51,119)		-		-		(79,991)
<b>Retirements</b>		40		4		7,134		-		-		7,178
<i>Balance as of September 30, 2011</i>		(33,632)		(232,069)		(449,665)		-		-		(715,366)
<b>Depreciation</b>		(2,023)		(27,202)		(57,300)		-		-		(86,525)
<b>Retirements</b>		271		9		3,294		-		-		3,574
<i>Balance as of September 30, 2012</i>	B/.	(35,384)	B/.	(259,262)	B/.	(503,671)	B/.	-	B/.	-	B/.	(798,317)
<i>Net Book Value</i>												
<i>Balance as of September 30, 2012</i>	B/.	58,680	B/.	512,269	B/.	733,229	B/.	1,022,228	B/.	2,695,222	B/.	5,021,628
<i>Balance as of September 30, 2011</i>	B/.	60,177	B/.	538,938	B/.	694,249	B/.	1,022,228	B/.	1,569,299	B/.	3,884,891

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

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

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Others	Construction in progress total
Balance as of october 1, 2010	B/. 734,597	B/. 197,011	B/. 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	<u>1,438,455</u>	<u>130,844</u>	<u>1,569,299</u>
Net change	846,800	226,163	1,072,963
Interests, commissions and other financing expenses	52,960	-	52,960
Balance as of september 30, 2012	<u><u>B/. 2,338,215</u></u>	<u><u>B/. 357,007</u></u>	<u><u>B/. 2,695,222</u></u>

During fiscal year 2012, the ACP recorded losses of B/.519 (2011: B/.1,167) as a result of the derecognition of assets. Main assets derecognized included tape backup system, vehicles, copying machine, switch W2 and buildings. During 2011, main assets derecognized included locomotives, boat's diesel motors, vehicles, air compressors, servers, hydro-demolition systems and synthetic buoys.

Depreciation of B/.2,941 (2011: B/.1,960) corresponding to equipment used in investment projects was capitalized as properties, plant and equipment during the period.

The following estimated useful lives were used to calculate depreciation:

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

**6. Accounts receivable**

**Non-current**

Non-current accounts receivable are detailed as follows:

	<b>2012</b>	2011
Advance payment to contractor	<b>B/. 584,926</b>	B/. 591,226
Others	<u><b>13,702</b></u>	<u>23,049</u>
	<u><b>B/. 598,628</b></u>	<u>B/. 614,275</u>

**Contracts:**

Advance payments to contractor correspond to the balance of B/.547,958 to Grupo Unidos por el Canal, S.A. (GUPCSA) for mobilization and installation, as interest free interest advance payments. Advances are to be collected by withholdings between 10% and 19% from payments made by the ACP to GUPCSA for advanced work performed. The advance payment for mobilization was made for B/.300,000 of which, at September 30 2012, the ACP has retained B/.52,041 (2011: B/.8,774). The advance payment for installation was made for B/.300,000, of which no retentions have been made. These advances are 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 ACP 45 days before September 30, 2013, and March 31, 2014, respectively, unless GUPCSA extends the validity of each letter of credit.

On June 16, 2012, GUPCSA requested a contract amendment to allow a unique advanced payment for the reinforced steel escalating price in the amount of B/.19,632 (120,041 tm), of which the ACP has retained B/.5,738, as of September 30, 2012. This advance is backed with a payment bond issued by Barents Re Reinsurance Company, Inc., due on January 24, 2014.

On July 20, 2012, GUPCSA requested through a contract amendment, that the ACP make an advance payment to cover the invoices generated by suppliers of key project materials between May and December 2012 for a maximum of B/.82,500. As of September 30, 2012, the amount remitted by ACP to GUPCSA was B/.23,074. The advance payment will be repaid by the contractor beginning in January 2013, through 5% deductions from payments for work performed. This advance will be guaranteed by materials delivered on site.



**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

**Non-current (continued)**

Others:

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 exhaust. The contract establishes the ACP to advance 20% of the contract value, which represents B/.22,780 paid in August 2011. This receivable is backed by a performance bond and an irrevocable letter of credit for 100% of the value of this advanced payment. According to the contract, this advance will be repaid in 14 months through agreed deductions from payments to Hyundai Heavy Industries Co., Ltd. for work performed. As of September 30, 2012, the amount retained was B/.9,078.

On June 3, 2008, the ACP 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 ACP, for an amount of B/.481. The power supply line will be EDEMET's property, thereby making EDEMET responsible for its operation and maintenance. As of September 30, 2012, EDEMET reimbursed B/.269 (2011: B/.211), 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:

	<b>2012</b>		2011
Transit-related services	<b>B/. 15,752</b>	B/.	5,735
Electric power sales	<b>16,001</b>		31,264
National Institute of Pipelines and Sewerage (Instituto de Acueductos y Alcantarillados Nacionales)	<b>6,129</b>		6,990
Other government entities	<b>1,555</b>		1,426
Other services	<b>3,554</b>		1,381
	<b><u>B/. 42,991</u></b>	B/.	<u>46,796</u>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**6. Accounts receivable (continued)**

**Trade and other receivables (continued)**

Aging of past due but not impaired receivables:

	<b>2012</b>	2011
60 - 90 days	B/. 93	B/. 398
90 - 120 days	<u>132</u>	<u>1,612</u>
	<u><b>B/. 225</b></u>	<u><b>B/. 2,010</b></u>

**7. Inventories, net**

Inventories are detailed as follows:

	<b>2012</b>	2011
Supplies and materials	B/. 71,449	B/. 60,612
Fuel	6,267	12,374
Provision for obsolete inventory	<u>(4,715)</u>	<u>(4,363)</u>
	<u><b>B/. 73,001</b></u>	<u><b>B/. 68,623</b></u>

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

	<b>2012</b>	2011
Balance at the beginning of the year	B/. 4,363	B/. 6,621
Increases	144	1,637
Charges	<u>208</u>	<u>(3,895)</u>
Balance at the end of the year	<u><b>B/. 4,715</b></u>	<u><b>B/. 4,363</b></u>

The amount of material and supplies, recognized in the income statement during fiscal year 2012, was B/.27,466 (2011: B/.27,484)

The amount of fuel, recognized in the income statement during fiscal year 2012, was B/.88,524 (2011: B/.97,525).

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**8. Other financial assets**

Other financial assets are detailed as follows:

	<b>2012</b>	2011
Financial assets measured at amortized cost		
Investments in bonds (i)	<b>B/. 423,443</b>	B/. 732,723
Financial instruments designated as hedges at fair value:		
Commodity swap (ii)	<u>-</u>	<u>5,531</u>
Total	<b><u>B/. 423,443</u></b>	<b><u>B/. 738,254</u></b>

(i) At September 30, 2012, bonds' annual interest rate of return is 1.1541% (2011: 0.9334%) payable at the end of each term with a maximum maturity date of up to one year.

(ii) At September 30, 2011, the balance of B/.5,531 shown in other financial assets corresponds only to the market value of the hedge instrument and it results from the forecasted flow of the swap price of diesel against the fixed price.

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

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

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

Accrued interest receivable and other assets are detailed as follows:

	<b>2012</b>	2011
Interest receivable	<b>B/. 11,106</b>	B/. 19,536
Prepayments	<u>4,420</u>	<u>5,837</u>
	<b><u>B/. 15,526</u></b>	<b><u>B/. 25,373</u></b>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**10. Cash and bank deposits**

Cash and bank deposits are comprised of the following:

	<b>2012</b>	2011
Cash on hand	<b>B/. 47</b>	B/. 39
Deposits in current accounts	<b>80,823</b>	29,000
Deposits in saving accounts	<b>285,163</b>	247,410
Time deposits with original maturities under 90 days	<b><u>236,924</u></b>	<u>-</u>
Total cash and cash equivalents	<b>602,957</b>	276,449
Time deposits with original maturities over 90 days not exceeding one year	<b><u>1,656,813</u></b>	<u>2,009,497</u>
	<b><u>B/. 2,259,770</u></b>	<b><u>B/. 2,285,946</u></b>

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 ACP obligations and earn interest rates which vary between 0.15% and 1.44% (2011: 0.74% and 0.94%).

As of September 30, 2012 and 2011, there were no restrictions over the balance of cash and bank deposits.

**11. Contributed capital**

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

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

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

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

Changes in reserves are detailed as follows:

	2012	Increase (decrease)	2011	Increase (decrease)	2010
<b>Reserves for:</b>					
Canal expansion	B/. 156,572	B/. 65,266	B/. 91,306	B/. -	B/. 91,306
Investment projects - others	-	-	-	(49,300)	49,300
Catastrophic risks	36,000	-	36,000	-	36,000
Contingencies and working capital	196,290	7,556	188,734	28,325	160,409
Enterprise capitalization	232,641	(65,266)	297,907	-	297,907
	<b>621,503</b>	7,556	613,947	(20,975)	634,922
<b>Contributions for:</b>					
Investment programs	3,769,045	601,908	3,167,137	576,117	2,591,020
	<b>B/. 4,390,548</b>	B/. 609,464	B/. 3,781,084	B/. 555,142	B/. 3,225,942

***Canal expansion***

The ACP maintains an equity reserve for the construction program of the Panama Canal third set of locks. The funds for this reserve are segregated based on the levels of earnings obtained, according to the financing needs of the ACP for determined projects during the execution of the program. In fiscal year 2012, an increase was approved for B/.65,266 and in 2011, no changes were made to this reserve.

***Investment projects -others***

The ACP maintained an equity reserve for the investments programs in the Panama Canal. The funds for this reserve were segregated based on the levels of profits obtained, in attention to the financing needs of the ACP for specific projects during the execution of the programs. During fiscal year 2011, this reserve was eliminated.

***Catastrophic risks***

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

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

***Contingencies and working capital***

The ACP maintains an equity reserve for contingencies and working capital which is calculated based on the ACP's level of revenues and is defined as 30 days of average revenues or billing of the Canal. During fiscal year 2012, it was approved to increase this reserve by B/.7,556 (2011: B/.28,325) for a total reserve of B/.196,290 (2011: B/.188,734).

***Enterprise capitalization***

The ACP maintains an equity reserve for capitalization with the purpose to ensure and facilitate the long-term financial projection of the ACP. During fiscal year 2012, it was approved to decrease this reserve for B/.65,266 and in 2011 this reserve was not increased.

***Contributions to investment programs***

At September 30, 2012, the ACP increased the funds of the investments programs by B/.601,908 (2011: B/.576,117) for a contributed total of B/.1,142,387 (2011: B/.1,121,380) for the Investment program – others and B/.2,626,658 (2011: B/.2,045,757) for the Investment program – Canal expansion. This reserve includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period

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

**13. Other equity accounts – cash 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:

	<b>2012</b>	2011
Cash flow hedges:		
Income (loss) during the year:		
Variability in interest rates	<b>B/. (24,733)</b>	B/. (55,137)
Variability in diesel prices	<b>(5,795)</b>	8,766
Time deposit in Euros	-	37
Reclassification adjustment of income, included as part of the suction dredge cost	-	(682)
Net change in cash flow hedges	<b><u>B/. (30,528)</u></b>	<b><u>B/. (47,016)</u></b>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

**Time deposit in euros (dredge contract payment)**

In March 2008, the ACP signed a €63.5 million investment contract for the manufacturing of a cutter suction dredge.

In order to mitigate the euro-dollar exchange rate variability risk, in November of 2008 the ACP 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 in the payments to the contractor. At September 30, 2011, all programmed payments of the contract were made and the accumulated gain in the hedge was reclassified to the dredge's initial cost.

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

On December 9, 2008, the ACP signed a loan agreement for USD 2,300,000 with five multilateral agencies to finance a portion of the Expansion Program, of which USD 500,000, the ACP has the option to choose either a fixed or a floating rate at the date of each disbursement, and a floating rate for USD 1,800,000. In March 2010, the ACP received its first loan disbursement in the amount of USD 100,000 at a fixed rate, and USD 200,000 at a floating rate. In October 2010, the ACP received a disbursement of a floating rate for USD 300,000, USD 300,000 in April 2011 and USD 100,000 in June 2012.

To eliminate the interest rate fluctuation risk on loans obtained at floating rates, the ACP 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. The hedge transaction of USD 800,000 was fixed at a 5.42% rate for 18.5 years, which is 83 basis points lower than the 6.25% rate that was originally estimated in the Master Plan for the Expansion Program.

**Variability of diesel prices (Price adjustment in the contract for the design and construction of the locks)**

In July 2009, the ACP awarded the contract for the design and construction of the third set of locks to the consortium "Grupo Unidos por el Canal, S. A." The contract includes adjustment clauses in the event of fluctuations in the price of the diesel to be used during execution. With the purpose of mitigating the volatility risk in the price of light diesel agreed in this contract, in April 2010, the ACP competitively hired the bidder with the lowest price to provide a hedge instrument to transfer some of this risk to the financial markets. This transaction guarantees the fuel costs in the lock's contract to the ACP for the first two years of execution.

The unrealized loss of B/.264 at the end of the fiscal year 2012, and the unrealized gain of B/.5,531 in fiscal year 2011, 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.

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

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

**Variability of diesel prices (Price adjustment in the contract for the design and construction of the locks) (continued)**

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

	<u>Total</u>	<u>1 year</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
<b>2012</b>				
Cash flow covered	<u>B/. 217,662</u>	<u>B/. 26,368</u>	<u>B/. 31,286</u>	<u>B/. 160,008</u>
<b>2011</b>				
Cash flow covered	<u>B/. 305,117</u>	<u>B/. 24,922</u>	<u>B/. 49,416</u>	<u>B/. 230,779</u>

**14. Unappropriated retained earnings**

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 12, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.648,991 to the Panamanian Treasury which corresponds to the year ended September 30, 2012 (2011: B/.674,292). (See note 26)

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

Payments to the Panamanian Treasury	<b>2012</b>	2011
Unappropriated retained earnings	<b>B/. 648,991</b>	B/. 674,292
Fees per net ton	<b>381,130</b>	366,987
Public service fees	<b>2,218</b>	1,906
Total	<u><b>B/. 1,032,339</b></u>	<u>B/. 1,043,185</u>



**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**15. Borrowings**

Financing received for the Canal Expansion Investment Program, presented at amortized cost as of September 30, 2012, is detailed as follows:

	<b>2012</b>	2011
Japan Bank for International Cooperation (JBIC)	<b>B/. 800,000</b>	B/. 800,000
European Investment Bank (EIB)	<b>100,000</b>	100,000
Inter-American Development Bank (IADB)	<b>100,000</b>	-
Balance at the end of the year	<b><u>B/. 1,000,000</u></b>	<b><u>B/. 900,000</u></b>

Financing from JBIC and IADB was subscribed at a floating rate (6-month Libor plus margin), with 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 ACP complies with the semiannual verification of the financial covenants over this debt related to two debt indicators to be maintained: Total Debt to EBITDA Ratio and the Debt Service Coverage Ratio.

**16. Other financial liabilities**

Other financial liabilities are detailed as follows:

	<b>2012</b>	2011
Financial instruments designated as hedging instruments carried at fair value		
Interest rate swaps	<b>B/. 239,582</b>	B/. 215,714
Commodities swap	<b>264</b>	-
	<b><u>B/. 239,846</u></b>	<b><u>B/. 215,714</u></b>
Current	<b>B/. 12,076</b>	B/. 12,941
Non-current	<b><u>227,770</u></b>	<u>202,773</u>
	<b><u>B/. 239,846</u></b>	<b><u>B/. 215,714</u></b>

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

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**17. Trade and other payables**

Trade and other payables are as follows:

	<b>2012</b>	2011
Panamanian Treasury	<b>B/. 31,263</b>	B/. 28,973
Suppliers and others	<u><b>304,262</b></u>	<u>232,788</u>
	<u><b>B/. 335,525</b></u>	<u>B/. 261,761</u>
Current	<b>B/. 303,069</b>	B/. 231,943
Non current	<u><b>32,456</b></u>	<u>29,818</u>
	<u><b>B/. 335,525</b></u>	<u>B/. 261,761</u>

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

The Organic Law establishes that the ACP shall annually pay the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by the ACP. The total of such fees amounted to B/.381,130 (2011: B/.366,987).

**18. Provision for marine accident claims**

The provision for marine accident claims of B/.20,235 (2011: B/.18,492), represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the ACP expects to be liable.

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

	<b>2012</b>	2011
Balance at beginning of the year	<b>B/. 18,492</b>	B/. 32,693
Provision (reversion) for the year	<b>3,626</b>	(764)
Payments made	<u><b>(1,883)</b></u>	<u>(13,437)</u>
Balance at end of the year	<u><b>B/. 20,235</b></u>	<u>B/. 18,492</u>

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**19. Other liabilities**

Other liabilities are detailed as follows:

	<b>2012</b>	2011
Inventories – in transit	<b>B/. 4,427</b>	B/. 1,183
Miscellaneous claims	<b>3,027</b>	425
Other trusts	<b>1,203</b>	1,187
Trust-National Institute of Pipelines and Sewerage (i)	<b><u>528</u></b>	<u>576</u>
	<b><u>B/. 9,185</u></b>	<u>B/. 3,371</u>

- (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 ACP executes the construction of the conduction line, property of IDAAN, and for this purpose, uses funds provided by this entity.

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(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 ACP's own resources and equipment are detailed as follows:

	<b>2012</b>	2011
<b>Investment Program</b>		
Widening and straightening of the Gaillard (Culebra) Cut	<b>B/. 18,065</b>	B/. 16,487
Assets administration system	<b>517</b>	456
Improvement to locks fender system at approach walls	<b>1,350</b>	2,039
Cutter suction dredge (multiannual project)	-	478
Replace water treatment plant for tugboat fleet	<b>418</b>	-
Complementary projects of dredging at the entrance of the Canal	<b>2,397</b>	-
Sewer treatment project at ACP	<b>574</b>	-
Other various projects	<b>1,902</b>	1,689
	<b><u>25,223</u></b>	<u>21,149</u>
<b>Investment Program - Canal Expansion</b>		
Dredging of Gatun Lake	<b>40,767</b>	38,368
Dredging at the Pacific entrance	<b>2,534</b>	3,167
Dry excavation No. 4 of the North Pacific channel access and construction of Borinquen's dam	<b>1,279</b>	1,186
Program administration	<b>821</b>	824
Increase of maximum operational level of Gatun Lake	<b>935</b>	946
Design and construction of post-panamax locks	<b>1,590</b>	2,123
Disposal site studies in the Atlantic Side	<b>1,461</b>	8,360
Other various projects	<b>42</b>	163
	<b><u>49,429</u></b>	<u>55,137</u>
	<b><u>B/. 74,652</u></b>	<u>B/. 76,286</u>

**21. Income taxes**

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**22. Risk management**

**Financial risk management**

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

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

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

**Categories of financial instruments**

	2012	2011
<b><i>Financial assets</i></b>		
Cash and bank deposits (note 10)	B/. 2,259,770	B/. 2,285,946
Amortized cost:		
Trade and other receivables (note 6)	42,991	46,796
Other financial assets at amortized cost (note 8)	<u>423,443</u>	<u>732,723</u>
	<b><u>B/. 2,726,204</u></b>	<b><u>B/. 3,065,465</u></b>
<b><i>Financial liabilities</i></b>		
Financial instruments designated as hedging instruments (note 16)	B/. 239,846	B/. 215,714
Amortized cost:		
Trade and other payables (note 17)	335,525	261,761
Borrowings (note 15)	<u>1,000,000</u>	<u>900,000</u>
	<b><u>B/. 1,575,371</u></b>	<b><u>B/. 1,377,475</u></b>

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

### **Financial risk management objectives**

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

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

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

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

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

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

### **Market risk**

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

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

**Exchange rate risk management**

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

As of September 30, 2012 the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

**Interest rate risk management**

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

*Interest rate swap contracts*

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

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

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.

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

*Interest rate swap contracts (continued)*

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

Contracts with floating interest rates and outstanding fixed payment rates	Average contracted fixed interest rate		Notional principal value		Fair value	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	5 years or more	4.67%	4.67%	B/. 800,000	B/. 800,000	B/. (239,582)

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

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

*Interest rate sensitivity analysis*

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

As of September 30, 2012, 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/.1,004.5. 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, 2012, the ACP expects that the Libor would maintain its value through the remaining term of the contract during fiscal 2013.

**Fuel price risk**

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



**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

*Maritime Operations*

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

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

For fiscal year 2012, the ACP purchased a hedge instrument (cap) establishing a maximum price of B/.3.35 per gallon for 10.45 million annual gallons in order to hedge the price fluctuation risk for the diesel used in operations, of which 11.9 million gallons were consumed by September 2012.

*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 2012, the ACP consumed 22% of the energy produced, while the remaining 78% was sold to the electricity market. The energy is produced by hydroelectric plants 39% and by thermal plants 61%.

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, 2012, the current price index for light diesel purchases made by the ACP was B/.3.20 per gallon. With an estimated consumption for fiscal year 2012 of 12.9 million gallons, assuming an downward variation trend that decreases diesel prices to B/.3.13 per gallon during fiscal year 2013, fuel expense would show a decrease of approximately B/.0.903 million. Up to date it has not been established an exercise price of the hedging instrument for the 2013 fiscal year.

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

As mentioned in Note 24, the ACP has different commitments related to the Canal Expansion Program. These commitments include adjustment clauses related to the main commodities that will be used during construction, such as: reinforced steel, cement, structural steel, and light diesel. The clauses use, as adjustment references, representative price indexes of the commodities' fair value, a fixed reference price for each commodity, the quantities or maximum volume, and the target dates for adjustment calculations.

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

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

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

<b>Commodity</b>	<b>Agreed volume (thousands)</b>	<b>Fixed reference price</b>	<b>Fair value reference index</b>
Reinforced steel	279.0 metric tons	B/.575 per metric ton	“Reinforcing Bar - Platts Steel Market Daily”
Structural steel	67.2 metric tons	B/.1,000 per metric ton	“Plate - Platts Steel Market Daily”
Cement	1,278.6 short tons	B/.100 per short ton	“Portland and Other Cements, Commodity Code 13220161” from the US Bureau of Labor Statistics
Light Diesel (Third Set of Locks contract)	60,000 gallons	B/.1.40 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 ACP shall determine the fair value of the commodities and consumed materials among periods established in the proposal in order to define the difference with the fixed referenced price. This price difference shall be multiplied by the agreed quantities of commodities or consumed materials in order to obtain the amount over which the ACP must pay or charge the contractor during periodic payments for work progress made. Additionally, the locks construction contract allows compensation for a portion of the incremental local labor cost, as it was considered to cover exclusively over costs in Panamanian labor costs.

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

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

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

**Light diesel**

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

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

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

**Reinforced steel and cement**

For these commodities, under market conditions, it has not been feasible to obtain financial hedge services to allow the mitigation of future cash flows risk due to price variability.

The following table shows the quantities established in the lock design and construction contract and the estimated adjustments at the beginning of fiscal year 2012:

<b>Commodity</b>	<b>Unit</b>	<b>Quantity</b>	<b>Total (in thousands)</b>
Reinforced Steel	Metric Ton	143,307	B/. 33,054
Cement	Short Ton	788,253	(B/. 7,575)

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

**Reinforced steel and cement (continued)**

*Reinforced Steel*

During fiscal year 2012, the scaling adjustment for reinforced steel resulted in a B/.31,978; it was B/.1,076 lower than the B/.33,054 estimated at the beginning of fiscal year 2012. As of September, 30 2012, the reinforced steel price (moving average as stipulated in the contract) was B/.757.58 per metric ton, which is B/.182.58 over the reference price of B/.575.00 per metric ton. If the average price remains unchanged for fiscal year 2013, for the established volume of 82,890 metric tons, ACP's exposure shall be B/.15,134.

*Cement*

During fiscal year 2012, the scaling adjustment for cement resulted in a credit of B/. 7,774 in favor of ACP; it was B/.199 higher than the estimated amount at the beginning of fiscal year 2012. As of September 30, 2012 the price was B/.90.02 per short ton. For fiscal year 2013, if the average price remains unchanged and with an established consumption of 455,750 short tons, the margin between the reference price and the current price would represent a credit of B/.4.548 in favor of ACP.

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

**Credit risk management**

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

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

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

**Credit risk management (continued)**

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

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

1. Short-term risk rating
2. Capital 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 ACP's risk system:

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

**Liquidity risk management**

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

(In thousands of balboas B/.)

**22. Risk management (continued)**

**Interest and liquidity risk tables**

To finance the expansion program, the ACP has a credit facility with various financial institutions. Currently, 10 percent of the debt is contracted at fixed effective rate of 5.196 percent, and the remaining 90 percent shows a moving average effective rate of 2.611 percent, calculated based on undiscounted cash flows to the date in which the ACP shall make the payments.

	Weighted average effective interest rate (%)	1 month or less	1 - 3 months	1 - 5 years	More than 5 years	Total
<b>September 30, 2012 (2011)</b>						
Variable interest loan	2.611 (1.22191)	B/. -	B/. -	B/. -	B/. 900,000	B/. 900,000
Fixed interest loan	5.196 (5.196)	-	-	-	100,000	100,000
		<u>B/. -</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 1,000,000</u>	<u>B/. 1,000,000</u>

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

2012		Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
Time deposits	B/. 60,001	B/. 176,924	B/. 1,656,812	B/. -	B/. -	B/. 1,893,737	
Held-to-maturity securities	-	-	423,443	-	-	423,443	
	<u>B/. 60,001</u>	<u>B/. 176,924</u>	<u>B/. 2,080,255</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 2,317,180</u>	
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	
	<u>B/. -</u>	<u>B/. 6,067</u>	<u>B/. 2,736,153</u>	<u>B/. -</u>	<u>B/. -</u>	<u>B/. 2,742,220</u>	

The ACP has access to financing facilities, as described afterward, of which USD 1,300,000 were not utilized at the end of the 2012 period. The ACP expects to comply with its other obligations with the cash flows from its operations and from the maturity of financial assets.

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

(In thousands of balboas B/.)

**22. Risk management (continued)**

**Interest and liquidity risk tables (continued)**

	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
<b>September 30, 2012</b>				
Trade and other payables	B/. 303,069	B/. -	B/. 32,456	B/. -
Other financial liabilities	12,076	-	-	227,770
Borrowings	-	-	-	1,000,000
	<b>B/. 315,145</b>	<b>B/. -</b>	<b>B/. 32,456</b>	<b>B/. 1,227,770</b>
 September 30, 2011				
Trade and other payables	B/. 231,943	B/. -	B/. 29,818	B/. -
Other financial liabilities	12,941	-	-	202,773
Borrowings	-	-	-	900,000
	<b>B/. 244,884</b>	<b>B/. -</b>	<b>B/. 29,818</b>	<b>B/. 1,102,773</b>

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

**Financing Structure**

Used and available borrowing amounts until 2014:

	<b>2012</b>	2011
<b>Amount used</b>		
Japan Bank for International Cooperation (JBIC)	<b>B/. 800,000</b>	B/. 800,000
European Investment Bank (EIB)	<b>100,000</b>	100,000
Inter-American Development Bank (IADB)	<b>100,000</b>	-
 <b>Available Amount</b>		
European Investment Bank (EIB)	<b>400,000</b>	400,000
Inter-American Development Bank (IADB)	<b>300,000</b>	400,000
International Finance Corporation (IFC)	<b>300,000</b>	300,000
Andean Development Corporation (ADC)	<b>300,000</b>	300,000
	<b>B/. 2,300,000</b>	<b>B/. 2,300,000</b>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

**Fair value of financial instruments**

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

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

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets</i>				
<b>Financial assets measured at amortized cost:</b>				
Investment in bonds	<u>B/. 423,443</u>	<u>B/. 424,258</u>	<u>B/. 732,723</u>	<u>B/. 730,544</u>
<i>Financial liabilities</i>				
<b>Financial liabilities measured at amortized cost:</b>				
Borrowings at floating rate	<u>B/. 900,000</u>	<u>B/. 884,863</u>	<u>B/. 800,000</u>	<u>B/. 813,138</u>
Borrowings at fixed rate	<u>100,000</u>	<u>123,203</u>	<u>100,000</u>	<u>122,366</u>
	<u>B/. 1,000,000</u>	<u>B/. 1,008,066</u>	<u>B/. 900,000</u>	<u>B/. 935,504</u>

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

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

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



**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**22. Risk management (continued)**

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

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

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

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

	<b>2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>ASSETS:</b>				
<b>Financial assets at fair value with changes in other comprehensive income</b>				
Financial instruments in hedged relationships	<u>B/. -</u>	<u>B/. 5,531</u>	<u>B/. -</u>	<u>B/. 5,531</u>

<b>LIABILITIES:</b>				
<b>Financial liabilities at fair value with changes in other comprehensive income</b>				
Financial instruments in hedged relationships	<u>B/. -</u>	<u>B/. 215,714</u>	<u>B/. -</u>	<u>B/. 215,714</u>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

*(In thousands of balboas B/.)*

**23. Related party transactions**

**Commercial transactions**

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

	<u>Sale of goods and services</u>		<u>Purchase of goods and services</u>	
	Year ended		Year ended	
	2012	2011	2012	2011
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	<b>B/. 26,486</b>	B/. 25,520	<b>B/. -</b>	B/. -
Other government entities	<b>1,581</b>	5,176	-	-
Employee benefits	-	-	<b>60,204</b>	58,418
Public service fees	-	-	<b>2,218</b>	1,906
Panamanian Treasury - fees per net ton	-	-	<b>381,130</b>	366,987
	<b><u>B/. 28,067</u></b>	<b><u>B/. 30,696</u></b>	<b><u>B/. 443,552</u></b>	<b><u>B/. 427,311</u></b>

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

	<u>Amounts owed by the Republic of Panama</u>		<u>Amounts owed to the Republic of Panama</u>	
	2012	2011	2012	2011
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	<b>B/. 6,129</b>	B/. 6,990	<b>B/. -</b>	B/. -
Other government entities	<b>1,555</b>	1,426	-	-
Employee benefits	-	-	<b>22,794</b>	18,556
Public service fees	-	-	<b>186</b>	156
Panamanian Treasury - fees per net ton	-	-	<b>31,263</b>	28,973
	<b><u>B/. 7,684</u></b>	<b><u>B/. 8,416</u></b>	<b><u>B/. 54,243</u></b>	<b><u>B/. 47,685</u></b>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

**Commercial transactions (continued)**

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 ACP's usual list prices without discount.

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

**Compensation and benefits to key managers**

The ACP paid a total of B/.2,768 (2011: B/.2,905) 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 contracts in progress and undelivered purchase orders amounted to approximately B/.2,677,000 (2011: B/.3,537,000), as follows:

	<b>2012</b>	2011
Investment programs:		
Canal Expansion	<b>B/. 2,362,000</b>	B/. 3,088,000
Others	<b>275,000</b>	416,000
Sub-total	<b>2,637,000</b>	3,504,000
Operations	<b>40,000</b>	33,000
	<b><u>B/. 2,677,000</u></b>	<b><u>B/. 3,537,000</u></b>

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

---

*(In thousands of balboas B/.)*

**24. Commitments (continued)**

Total commitments include the Panama Canal expansion program contracts awarded during the fiscal year totaling B/.30,271 (2011: B/.18,332).

During fiscal year 2012, the most significant contracts were awarded to: Celmec, S.A., for modifications to the Agua Clara substation on the Atlantic, East Side of the Canal for B/.3,797; Howard Group, S.A., for realignment of the Limon Road, new Telfers Road and improvements to the Bolivar Avenue at the Atlantic Side for B/.5,777; and J. Aron & Co. for the diesel swap hedging contract to cover the Panama Canal expansion program for B/.9,227.

During fiscal year 2011, the most significant contracts were awarded to: Fattuto, S.A. for cleaning unexploded ordinances for B/.2,248; Sociedad Española de Montajes Industriales for range towers at San Pablo and Tabernilla reach for B/.2,000; and Howard Group, S.A. for drainage channels in Marieta and Cocoli for B/.1,588.

Fiscal year 2012 balance includes the design-construction contract for the Canal Expansion Program of the third set of locks, to Grupo Unidos por el Canal, S.A. (GUPCSA) of B/.2,205,906 (2011: B/.2,823,744).

**25. Contingent liabilities**

During 2012, the contractor GUPCSA submitted to the ACP several claims, including one for B/.586,000. These claims are at different stages of the dispute resolution process provided for in the contract for the design and construction of the third set of locks. In some cases, this process has not begun because GUPCSA has not submitted the information to support the alleged costs and additional time claimed, and in others, the information presented is not sufficient to make a proper assessment of claims. As the contractor GUPCSA presents additional information regarding such claims, ACP analyzes and proceeds to evaluate it. This is an interactive process involving constant communication with the contractor until the information submitted is complete, in order to follow the dispute resolution process set out in the Contract and issue a determination as appropriate.

The ACP has received other claims from GUPCSA for an aggregate amount of B/.180,182, which have been denied by ACP, stating that the contractor has submitted these claims to the Dispute Adjudication Board (DAB) for its decision. Two other minor claims were received, that were already submitted to the DAB, and for which the DAB had ruled in favor of the contractor as to merit but not in regards to quantum by which the definition of the amount payable is being discussed by the parties.

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

**Autoridad del Canal de Panamá**  
**Notes to Financial Statements**  
**September 30, 2012**

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*(In thousands of balboas B/.)*

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

On November 27, 2012 meeting, the Board of Directors approved the transfer to the Panamanian Treasury of the operating and functioning economic surplus corresponding to fiscal year 2012 in the amount of B/.648,991. (See note 14).

**27. Approval of financial statements**

The financial statements of the Autoridad del Canal Panamá for the period ended as of September 30, 2012, were approved by the Board of Directors and authorized for issuance on November 27, 2012.

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