

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

Financial Statements

September 30, 2022

(With Independent Auditors' Report thereon)

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

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INDEPENDENT AUDITORS´ REPORT

To the Board of Directors
Autoridad del Canal de Panamá

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Autoridad del Canal de Panamá, (hereinafter, "ACP"), which comprise the statement of financial position as of September 30, 2022, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ACP as of September 30, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

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

Contingent liabilities for contractor claims
See Note 30 to the financial statements

The key audit matter

Contractor' claims are considered as a key audit matter, because of the assessment of provisions and contingencies, which requires significant judgments and analysis by management. Contingencies for arbitration claims with a contractor amounted to B/.4,207 million for two (2) arbitrations.

How the matter was addressed in our audit

Our procedures in this area included:

- We assessed, with the assistance of our own legal specialists, the available evidence obtained and conclusions reached for each claim by management and its legal counsel.
- We carried out confirmation procedures with internal and external legal counsel of ACP and we assessed the adequacy of disclosures.

Property, plant, and equipment, net
See Notes 3 (g) and 5 to the financial statements

The key audit matter

ACP is the owner of the Canal facilities, buildings, structures and equipment required to operate the Panama Canal. Property, plant, and equipment (PPE) are considered a key audit matter for its high transactional volume that involves the assessment of capitalization of additions, designation of useful lives and judgment applied in the estimation of impairment losses based on the value in use of PPE. The carrying value of property, plant, and equipment is B/.8,332 million, representing 56% of the total assets of ACP.

How the matter was addressed in our audit

- We obtained an understanding and test the operational effectiveness of controls on the additions of PPE.
- We obtained an understanding of how the ACP determines the useful life and residual value of each class of PPE and assessed reasonableness of such determination.
- We performed test of additions during the year through selective sampling, and we inspected relevant documentation such as invoices, bank transfers and reports of staff assigned to the construction underway to assess if the additions have been capitalized in accordance with IFRS.
- We selectively visited and inspected actual PPE.
- We assessed, with the assistance of our own valuation specialists, the impairment evaluation carried out by ACP on PPE to determine its reasonableness, including the methodology applied.

Other information

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

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACP's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

Report on Other Legal Requirements

In compliance with Law 280 of December 30, 2021, which regulates the certified public accounting profession in the Republic of Panama, we declare the following:

- That the direction, execution and supervision of this audit engagement has been physically performed in the Panamanian territory.
- The partner in charge of the audit who has prepared this independent auditors' report is Luis G. Venegas R.
- The engagement team that has participated in the audit to which this report refers to, is formed by Luis G. Venegas R., Partner; Kevin Rojas, Manager; and Carmen Caballero, Manager.

KPMG

Panama, Republic of Panama
December 15, 2022



Luis G. Venegas R.
Partner
C.P.A 0215-2012

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Financial Position

September 30, 2022

(In thousands of balboas B/.)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Assets:			
Non-current assets:			
Property, plant and equipment:			
Property, plant and equipment, net		8,226,660	8,335,257
Constructions in progress		105,200	143,094
Total property, plant and equipment, net	5	<u>8,331,860</u>	<u>8,478,351</u>
Investment properties	6	92,848	93,131
Reimbursement right of ACP	25	285,453	352,056
Inventories, net	7	65,696	63,927
Right-of-use assets	27	8,020	8,246
Trade and other receivables	8, 26	0	354
Total non-current assets		<u>8,783,877</u>	<u>8,996,065</u>
Current assets:			
Inventories	7	11,967	8,355
Investment securities and other financial assets	9, 26	5,802,739	5,057,097
Accrued interest receivable	10	4,358	10,856
Trade and other receivables	8, 26, 28	21,228	27,495
Other assets		3,098	482
Cash and cash equivalents	11, 26	137,932	626,173
Total current assets		<u>5,981,322</u>	<u>5,730,458</u>
Total assets		<u>14,765,199</u>	<u>14,726,523</u>

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

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Equity and liabilities:			
Equity:			
Contributed capital	12	1,906,132	1,906,336
Investment program contributions	13	6,653,996	6,387,625
Reserves	13	2,246,745	1,995,489
Other equity accounts	14	(27,065)	(82,430)
Earnings available for distribution	15, 31	1,894,000	1,487,818
Total equity		<u>12,673,808</u>	<u>11,694,838</u>
Non-current liabilities:			
Bonds payable:			
Bonds payable		450,000	450,000
Less: discount and issuing costs		6,818	7,383
Bonds payable, net	16, 26	<u>443,182</u>	<u>442,617</u>
Borrowings	17, 26	757,308	1,495,000
Employee benefits	25	294,281	362,944
Lease liabilities	26, 27	3,811	4,125
Other financial liabilities	18, 26	6,326	77,451
Total non-current liabilities		<u>1,504,908</u>	<u>2,382,137</u>
Current liabilities:			
Provision for marine accidents	19	18,498	15,299
Accrued salaries and vacations payable		186,714	169,390
Borrowings	17, 26	148,281	238,738
Other liabilities	20	35,549	40,457
Lease liabilities	26, 27	4,709	4,617
Accrued interest payable on bonds	16, 26	3,713	3,712
Accrued interest payable on other financial liabilities	26	5,360	10,143
Trade and other payables	21, 26, 28	183,659	167,192
Total current liabilities		<u>586,483</u>	<u>649,548</u>
Total liabilities		<u>2,091,391</u>	<u>3,031,685</u>
Total equity and liabilities		<u>14,765,199</u>	<u>14,726,523</u>

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Profit or Loss

For the year ended September 30, 2022

(In thousands of balboas B/.)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Revenue:			
Toll revenue		3,027,943	2,968,213
Other Canal transit services		1,175,199	874,677
		<u>4,203,142</u>	<u>3,842,890</u>
Other revenue:			
Sales of electricity and power		42,594	30,099
Sales of potable water	28	35,971	35,405
Miscellaneous	23	40,901	50,218
Total other revenue		<u>119,466</u>	<u>115,722</u>
Total revenue		<u>4,322,608</u>	<u>3,958,612</u>
Expenses:			
Salaries and wages	22	661,113	635,180
Employee benefits	22, 28	93,999	78,281
Materials and supplies	22	66,199	55,202
Fuel	22	47,577	34,523
Transportation and allowances	22	2,026	988
Contracted services and fees	22	140,147	97,020
Insurance	22	32,941	24,692
Provision for marine accidents	19, 22	6,337	2,617
Provision for obsolete inventory	7, 22	574	290
Depreciation and impairment loss	5, 6, 22	222,247	232,063
Depreciation of right-of-use assets	22, 27	5,545	4,761
Fees paid to the Panamanian Treasury	15, 21, 22, 28	600,420	592,812
Other expenses	22	18,498	15,381
Total expenses		<u>1,897,623</u>	<u>1,773,810</u>
Results of operations		2,424,985	2,184,802
Finance income		62,032	39,737
Finance costs	17	(75,390)	(88,575)
Finance costs, net		<u>(13,358)</u>	<u>(48,838)</u>
Profit for the year		<u>2,411,627</u>	<u>2,135,964</u>

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

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Comprehensive Income

For the year ended September 30, 2022

(In thousands of balboas B/.)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Profit for the year		2,411,627	2,135,964
Other comprehensive income (loss):			
Items that will not be reclassified to profit or loss:			
Net remeasurement of employee defined benefit plans' actuarial gain		1,755	580
		<u>1,755</u>	<u>580</u>
Items that are or may be reclassified to profit or loss:			
Reclassification of loss (gain) on financial instruments to profit for the year		236	(2,924)
Net unrealized loss on instruments at fair value with changes in other comprehensive income (FVOCI)	9, 14	(14,254)	(5,026)
Net (loss) gain on cash flow hedges - light-diesel purchase call options		(3,303)	1,093
Net gain on cash flow hedges - interest rate swap contracts		70,931	37,668
		<u>53,610</u>	<u>30,811</u>
Total other comprehensive income	14	<u>55,365</u>	<u>31,391</u>
Total comprehensive income		<u>2,466,992</u>	<u>2,167,355</u>

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

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

Statement of Changes in Equity

For the year ended September 30, 2022

(In thousands of balboas B/.)

	<u>Note</u>	<u>Contributed capital</u>	<u>Investment program contributions</u>	<u>Reserves</u>	<u>Other equity accounts</u>	<u>Earnings available for distribution</u>	<u>Total equity</u>
Balance as of September 30, 2020		1,906,336	6,197,479	1,537,489	(113,821)	1,281,448	10,808,931
Profit for the year		0	0	0	0	2,135,964	2,135,964
Other comprehensive income (loss):							
Net remeasurement of employee defined benefit plans' actuarial gain		0	0	0	580	0	580
Reclassification of gain on financial instruments to profit for the year		0	0	0	(2,924)	0	(2,924)
Net unrealized loss on instruments at FVOCI		0	0	0	(5,026)	0	(5,026)
Net gain on cash flow hedges		0	0	0	38,761	0	38,761
Total other comprehensive income		<u>0</u>	<u>0</u>	<u>0</u>	<u>31,391</u>	<u>0</u>	<u>31,391</u>
Total comprehensive income of the year		<u>0</u>	<u>0</u>	<u>0</u>	<u>31,391</u>	<u>2,135,964</u>	<u>2,167,355</u>
Transfer to the Panamanian Treasury		0	0	0	0	(1,281,448)	(1,281,448)
Net increase in contributions	13	0	190,146	0	0	(190,146)	0
Net increase in equity reserves	13	0	0	458,000	0	(458,000)	0
Balance as of September 30, 2021		<u>1,906,336</u>	<u>6,387,625</u>	<u>1,995,489</u>	<u>(82,430)</u>	<u>1,487,818</u>	<u>11,694,838</u>
Profit for the year		0	0	0	0	2,411,627	2,411,627
Other comprehensive income (loss):							
Net remeasurement of employee defined benefit plans' actuarial gain		0	0	0	1,755	0	1,755
Reclassification of loss on financial instruments to profit for the year		0	0	0	236	0	236
Net unrealized loss on instruments at FVOCI		0	0	0	(14,254)	0	(14,254)
Net gain on cash flow hedges		0	0	0	67,628	0	67,628
Total other comprehensive income		<u>0</u>	<u>0</u>	<u>0</u>	<u>55,365</u>	<u>0</u>	<u>55,365</u>
Total comprehensive income of the year		<u>0</u>	<u>0</u>	<u>0</u>	<u>55,365</u>	<u>2,411,627</u>	<u>2,466,992</u>
Transfer to the Panamanian Treasury	15	0	0	0	0	(1,487,818)	(1,487,818)
Properties transferred to the Republic of Panama		(204)	0	0	0	0	(204)
Net increase in contributions	13	0	266,371	0	0	(266,371)	0
Net increase in equity reserves	13	0	0	251,256	0	(251,256)	0
Balance as of September 30, 2022		<u>1,906,132</u>	<u>6,653,996</u>	<u>2,246,745</u>	<u>(27,065)</u>	<u>1,894,000</u>	<u>12,673,808</u>

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

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Statement of Cash Flows

For the year ended September 30, 2022

(In thousands of balboas B/.)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:			
Profit for the year		2,411,627	2,135,964
Adjustments to reconcile profit for the year to cash from operating activities:			
Depreciation and impairment loss	5, 6, 22	222,247	232,063
Depreciation of right-of-use assets	22, 27	5,545	4,761
Amortization of diesel option premium		(2,177)	(575)
Loss on disposal of property, plant and equipment	5	639	738
Provision for marine accidents	19	6,337	2,617
Provision for obsolete inventory	7	574	290
Materials and supplies inventory usages		37,395	33,181
Amortized discount on bonds payable		565	565
Finance costs, net		13,358	48,838
Changes in operating assets and liabilities:			
Decrease (increase) in trade and other receivables		6,258	(6,760)
Increase in fuel inventory		(3,612)	(84)
(Increase) decrease in other assets		(2,616)	381
Increase (decrease) in trade and other payables		16,467	(43,866)
Payment of marine accident claims	19	(3,138)	(6,905)
Increase in accrued salaries and vacations payable		17,324	21,347
Employee benefits plans		(304)	(389)
Decrease in other liabilities		(4,908)	(1,525)
Cash provided by operating activities:		<u>2,721,581</u>	<u>2,420,641</u>
Interest paid		(77,493)	(93,809)
Net cash provided by operating activities		<u>2,644,088</u>	<u>2,326,832</u>
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(76,317)	(150,207)
Acquisition of inventories		(39,738)	(33,304)
Acquisition of investment securities and other financial assets		(11,011,095)	(9,910,756)
Proceeds from sale and redemption of investment securities and other financial assets		10,268,789	8,648,249
Collection of long-term trade and other receivables		471	17,128
Receivable from contractor		0	244,700
Interest received		48,919	34,293
Net cash used in investing activities		<u>(808,971)</u>	<u>(1,149,897)</u>
Cash flows from financing activities:			
Payment of borrowings		(830,000)	(230,000)
Payment of lease liabilities		(5,540)	(4,855)
Transfer to Panamanian Treasury		(1,487,818)	(1,281,448)
Net cash used in financing activities		<u>(2,323,358)</u>	<u>(1,516,303)</u>
Net decrease in cash and cash equivalents		(488,241)	(339,368)
Cash and cash equivalents at the beginning of year		<u>626,173</u>	<u>965,541</u>
Cash and cash equivalents at the end of year	11	<u><u>137,932</u></u>	<u><u>626,173</u></u>

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

Notes to the Financial Statements

September 30, 2022

(In thousands of balboas B/.)

(1) General Information

The Autoridad del Canal de Panamá, (“ACP”) is an autonomous legal entity of public law established by Article 316 of Title XIV of the Political Constitution of the Republic of Panama and subject to a special regime comprised of the provisions of the aforementioned Title, of Law No. 19 of June 11, 1997, and regulations dictated by the Board of Directors as mandated by articles 319 and 323 of the same Title. This legal framework provides, inter alia, that the administration, operation, conservation, maintenance, and modernization of the Panama Canal (the Canal) and its related activities correspond to ACP exclusively. In addition, it establishes a special labor regime applicable to ACP and its workforce, as well as provides ACP with its own patrimony and the right to its administration.

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

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

The Panama Canal, as established in Article 2 of the Organic Law, is the inalienable patrimony of the Republic of Panama and includes (i) the waterway itself, (ii) its anchorages, berths, and entrances, (iii) land, marine, river and lake waters, (iv) locks, (v) auxiliary dams, and (vi) dikes and water control structures. ACP owns Canal installations, buildings, structures, and equipment that support the operation of the Panama Canal. In addition, pursuant to Article 49 of Law No. 19 of 1997, ACP is entitled to dispose of assets to the extent they are not necessary for the functioning of the Panama Canal. These assets include electrical power plants and water purification plants, piers and docks, dry docks, radio stations, telemetric and hydro meteorological stations, dredge spoil areas, spillways, lighthouses, buoys, pipelines, and other aids to navigation.

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

(2) Basis of Preparation

(a) Statement of compliance

The financial statements of ACP, as of September 30, 2022, and for the year then ended, have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), approved by the Board of Directors and authorized to be issued on December 13, 2022.

Notes to the Financial Statements

(2) Basis of Preparation, continued

(b) Measurement basis

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

1. Financial assets measured at fair value through other comprehensive income (FVOCI);
2. Derivative financial instruments;
3. Reimbursement right of ACP; and
4. Employee benefits.

(c) Functional and presentation currency

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

(3) Summary of Significant Accounting Policies

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

(a) Fair value measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction among the main market participants on the measurement date, or in its absence, in the most advantageous market to which ACP has access at the time. The fair value of a liability reflects the effect of a default risk. When applicable, ACP measures the instrument's fair value using a quoted price for that instrument in an active market. A market is considered active if the transactions of these assets or liabilities take place frequently and with sufficient volume and, in addition, information is provided on a continuous basis allowing prices to be set. When there is no quoted price in an active market, ACP uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable input data. The chosen valuation technique incorporates all the factors that the market participants would consider when setting the price of a transaction. The best evidence of fair value is a quoted market price in an active market. If the market for a financial instrument is not considered active, a valuation technique is used. The decision as to whether a market is active can include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and sales. In markets that are not active, to guarantee that the transaction price provides evidence of fair value or to determine the adjustments to the transaction prices that are necessary to measure the instrument's fair value, additional work is required during the valuation process.

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

(b) Transactions with related parties

All transactions with related parties are disclosed based on the established criteria in the International Accounting Standard (IAS 24) - "Related Party Disclosures". ACP is an autonomous legal entity of public law, created and organized by the Constitution with legal personality (separate from the Government), with institutional, financial, and budgetary autonomy.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

ACP has been granted with normative powers to approve its own regulations regarding the maintenance, preservation, and modernization of the Canal.

For the purposes of IAS 24 only, ACP considers as related parties all Government entities and any public servant that interacts as part of its activities with key ACP's personnel that participate in operational or financial decisions or have representation from ACP in other decision-making bodies, taking part of the preparation and results of ACP's financial statements. This definition includes and considers as related parties, the members of the board of directors and ACP's key management personnel, their relatives, dependents, or close persons, which include the spouse, their children or children of the spouse, or persons of analogous relationship of affinity.

(c) Revenue recognition

ACP uses the following five-step model for accounting revenue arising from contracts with customers: (i) identify the contract(s) with the customer; (ii) identify performance obligations; (iii) determine the transaction price; (iv) assign the transaction price to performance obligations to the extent that the contract covers more than one performance obligation; and (v) recognize income when performance obligations are met. Revenue is recognized in an amount that reflects the consideration that ACP expects to receive in exchange for transferring goods or services to a customer. Depending on whether certain criteria are met, revenue is recognized: over time, in a way that represents ACP's performance; or at a point in time, when the control of the goods or services is transferred to the client. Specific recognition criteria described below are met before revenue is recognized:

Toll revenue and other Canal transit services

Toll revenue is recognized at a point in time when the ship concludes its transit through the Canal. Toll revenue and other Canal transit services such as: tug services, linehandlers, locomotives, admeasurement services, transit booking fee, pilotage and other services are paid in advance, during transit or within twenty-four (24) hours after the invoice is presented for payment when services are secured by a bank guarantee.

Sales of electricity and power

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

Sales of potable water

Revenue from the sale of water is recognized over time when treated water is delivered based on prices contracted with the Panamanian water supply institution (Instituto de Acueductos y Alcantarillados Nacionales - IDAAN).

Miscellaneous services

Revenue from other services that include leases of communication structures and buildings, and extraction of raw water, among others, are recognized over time when the customer simultaneously receives and consumes the benefits provided by ACP's activities.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Some long-term concession contracts include the transfer to ACP of improvements built by the concessionaire free of charge in exchange for its right of use during the concession period. At the time of transfer, those improvements are recognized as investment property using the cost method and depreciated accordingly. A related liability is also recognized for the same value which is amortized to profit or loss through the concession period using the straight-line method. Initial cost is assigned by an independent appraiser at the time of initial recognition.

Interest

Interest accrued on financial instruments measured at amortized cost and financial assets measured at fair value through other comprehensive income (FVOCI) are recognized using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts throughout the financial instrument expected life to the carrying amount of the financial asset or liability. Interest income is included in a separate line in the statement of profit or loss. Interest income includes interest earned net of amortized premium and discount.

(d) *Transfer to the Panamanian Treasury*

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

(e) *Fees paid to the Panamanian Treasury*

As mandated by the Panamanian Constitution, fees paid to the Panamanian Treasury, which correspond to payments of per net ton transit fees and public service fees, are recognized when incurred. Also, by constitutional mandate, ACP is not subject to the payment of taxes, duties, tariffs, charges, rate, or tributes of a national or municipal nature, except for certain public service fees, per net ton transit fees and employer's contributions related to social security, educational insurance, and workers' compensation.

(f) *Finance costs*

Finance costs that are directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period to prepare for their intended use are capitalized as part of the cost of the assets, until all or practically all activities necessary to prepare the asset for its use are completed. All other finance costs are recognized as expenses in the statement of profit or loss in the period they are incurred. Finance costs consist of interest and other costs that ACP incurs in connection with long-term agreements, including amortized discount, if applicable.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(g) Property, plant and equipment

Property, plant, and equipment held for use, for 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 losses. Replacements and improvements of complete elements that increase the useful life of the asset or its economic capacity are accounted for as property, plant, and equipment, with the respective retirement of any replaced element. When different parts of significant relative value of property, plant, and equipment have different useful lives, they are accounted for separately. Following the accrual principle, major maintenance that does not increase the useful life of the asset, regular maintenance, and repair costs are recognized in profit or loss when incurred. Depreciation is calculated on the cost values following a straight-line method over the estimated useful life of the assets. Land on which buildings and other constructions are settled has an indefinite useful life and, therefore, are not subject to depreciation. The following estimated useful lives are used to calculate depreciation:

<u>Years</u>	<u>Buildings</u>	<u>Structures</u>	<u>Equipments</u>
3 – 15	-	Asphalt roads	Automobiles, trucks, technological devices
20 – 50	Concrete, steel	Water tanks, floating piers, concrete streets	Locomotives, tugs, dredges, floating cranes
75	-	Concrete piers, bridges, range towers	Gates, cranes
100	-	Lock structures, dams, dry-dock	-

ACP estimates useful lives based on experience. When there is an indication of a change in an asset's useful life, management reviews the estimates for individual assets or groups of assets with similar characteristics due to factors such as technical development, environmental requirements or quality of maintenance and repair. Estimated useful lives and residual values are reassessed on a regular basis.

Constructions in progress include all direct charges for materials, labor, research, equipment, professional fees, and indirect costs related to the works. Upon completion, the construction value will become part of property, plant and equipment and will start depreciating. Items of property, plant, and equipment are derecognized when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and carrying amount of the asset) is included in profit or loss when the asset is derecognized.

(h) Investment properties

Investment properties are measured at acquisition cost, including other related transaction costs. After their initial recognition, investment properties are stated at cost by applying the same requirements as for property, plant, and equipment.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

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

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

(i) Impairment of non-financial assets

ACP assesses at the reporting date whether there is an indication that a non-financial asset, other than inventories, may be impaired. If any indication exists, 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 discount rate that reflects current market assessments of the time value of money and the specific risks to the asset. Impairment losses are recognized in profit or loss, accordingly. A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The reversal of an impairment loss is recognized in profit or loss. An impairment loss can only be reversed up to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset.

(j) Inventories

Supplies and materials for operations and fuel inventories are shown at the lower of their acquisition cost and their net realizable value. Inventories are valued using the average cost method based on purchase cost to suppliers, not exceeding the realizable value, net of impairment of supplies and materials. ACP classifies its inventories as non-current when expected to be used or consumed in the operation after more than twelve (12) months.

(k) Provisions

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

The amount recognized as a provision must be the best estimate of the disbursement required to settle the present obligation, at the reporting period, considering the corresponding risks and uncertainties. When a provision is measured using an estimated cash flow to settle the present obligation, its carrying amount is the present value of such cash flow at a rate that reflects current market assessments of the time value of money and the risk specific to the liability. When the recovery of some or all the economic benefits required to settle a provision is expected, an account receivable is recognized if it is virtually certain that the income will be received and the amount of the account receivable can be measured with certainty.

Notes to the Financial Statements**(3) Summary of Significant Accounting Policies, continued***(l) Provision for marine accidents and other claims*

ACP is responsible for recording the provision for marine accidents and for claims from counterparties as soon as an economic obligation with high probability derived from these events are known. When a marine accident occurs, ACP performs a detailed investigation to determine the causes of the accident. Once the causes are determined, if applicable, a provision is recorded based on the estimated cost of both permanent and temporary repairs and other related costs, which the Administration concludes are the responsibility of ACP. On each reporting date, the amount of the provision is reviewed and, if necessary, adjusted to reflect the best estimate at that time.

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

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

(m) Employee benefits

Six bargaining units cover ninety three point two percent (93.2%) of ACP workforce, each represented by unions and with collective bargaining unit agreements that are periodically negotiated. The remaining six point eight percent (6.8%) corresponds to personnel excluded from collective bargaining unit agreements.

During fiscal year 2022, three (3) collective agreements were settled: the Non-professionals (82.4%) and the Professionals (2.1%), which will be in effect until 2025, and the Firefighters (0.9%) that will be in effect until year 2027.

As of September 30, 2022, the following two (2) agreements are under negotiation:

<u>Collective bargaining unit agreement</u>	<u>% of workforce</u>	<u>Starting date</u>	<u>Expected completion date</u>
Captains and Deck Officers	2.2	Fiscal year 2020	Fiscal year 2023
Marine Engineers	2.3	Fiscal year 2020	Fiscal year 2023

The Panama Canal Pilots agreement, which comprises 3.3% of workforce, will continue in effect until the end of calendar year 2024.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Voluntary retirement plans

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

For defined benefit plans, an actuarial liability is recognized not only for the legal obligation under the formal terms of the plan, but also for the implicit projections of constructive nature arising from expectations created by informal practices.

(n) Reimbursement right of ACP

ACP's right to reimbursement is an insurance policy that guarantees 100% reimbursement to ACP of all benefits paid to employees as an incentive for voluntary retirement. It is recognized at fair value as a separate asset when it is virtually certain that a third party will reimburse some or all the disbursements required to settle a defined benefit obligation.

Changes in the carrying amount of the right to reimbursement are disaggregated and recognized in the same way as for changes in the carrying amount of the related obligation plan. The components of defined benefit cost are recognized net of changes in the carrying amount of the right to reimbursement. The carrying amount of the right to reimbursement to ACP, arising from an insurance policy that exactly matches the amount and timing of some or all defined benefits payable in terms of a defined benefit plan, is considered the present value of the related constructive actuarial obligation, subject to any reduction required if the reimbursement is not fully recoverable.

Defined benefit contribution plan

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

(o) Advances to Contractors

Advance payments to contractors for the acquisition of goods and services, are initially recognized as a non-financial asset since repayment is expected to be realized with works and not with cash or another financial instrument. When these advances are expected to be settled in cash or through the execution of third-party guarantees, ACP reclassifies the advance payment as a financial instrument in the prepayments account and other accounts receivable from the contractor.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(p) Financial assets and liabilities

Financial assets

Financial assets are recognized initially at fair value, usually being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification, as set out below.

Financial assets are classified as measured at amortized cost and at fair value through OCI. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

Financial assets are classified as measured at amortized cost when they are held in a business model whose objective is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the asset is derecognized or impaired and when interest is recognized using the effective interest method. This category of financial assets includes accounts receivable and bank deposits.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified as measured at FVOCI when they are held in a business model, whose objective is both, to collect contractual cash flows and sell the financial assets, and the contractual cash flows represent solely payments of principal and interest. This category of financial assets includes debt instruments not classified as financial instruments at fair value through profit and loss or at amortized cost. After initial recognition, these assets are subsequently measured at fair value. Interest income calculated under the effective interest method and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in profit or loss. Unrealized gains or losses are reported as net increases or decreases in OCI in the statement of changes in equity until they are realized.

Derivatives designated as hedging instruments in an effective hedge

Derivatives designated as hedging instruments in an effective hedge are carried out on the statement of financial position at fair value. The treatment of gains or losses arising from revaluation is further described in the accounting policy for hedge accounting.

Cash equivalents

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of change in value and generally have a maturity of three months or less from the date of acquisition. Cash equivalents are classified as financial assets measured at amortized cost.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Evaluation of the business model

The evaluation at the portfolio level and the objective of the business model that applies to the financial instruments of these portfolios include the following:

- The policies and objectives set for the portfolio and the operation of those policies in practice that include the Administration's strategy relating to:
 - (i) collecting contractual interest income
 - (ii) maintaining a defined interest yield profile
 - (iii) capacity to sell at any time for liquidity needs or to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration, and the defined goal.
- The way in which ACP Senior Management team and Board of Directors are informed about the behavior of the different portfolios;
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which these risks are managed;
- The frequency and value of sales in previous periods, the reasons for those sales and expectations about future sales activity.

Evaluation of whether contractual cash flows are solely payments of principal and interest (SPPI)

For this evaluation, principal is defined as the fair value of the financial asset at the time of initial recognition. Interest is defined as the consideration of the value of money over time and the credit risk associated to the amount of the outstanding principal for a particular period and for other risks consistent with a basic loan agreement and other associated costs, as well as the profit margin. In assessing whether contractual cash flows are solely payments of principal and interest, ACP focuses on the contractual terms of the instrument.

This evaluation considers, among others:

- Contingent events that could change the amount and / or periodicity of cash flows;
- Leverage conditions;
- Advance payment terms and extension;
- Terms that limit ACP to obtain cash flows from specific assets (example, asset agreements without recourse); and
- Characteristics that modify the considerations for the value of money over time (example, periodic review of interest rates).

Impairment of financial assets

At the reporting date, ACP determines whether there is objective evidence of impairment in the financial instruments, and, if so, the reserve method to be used in order to provide for losses in the financial instruments. ACP applies an Expected Credit Loss Model (ECL) to assess impairment on trade and other accounts receivable, bank deposits and debt instruments.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

The assessment of whether the credit risk of a financial asset has significantly increased is one of the critical judgments in the impairment model. Loss allowances are recognized for the amount equivalent to the 12-month ECL or for the residual maturity of the financial asset, whichever is lower, for financial instruments on which the credit risk has not significantly increased since their initial recognition. The 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date. For impaired assets, the ECL is the difference between the carrying amount and the present value of the estimated future cash flows to be collected. A financial asset is considered impaired when it is unlikely that the debtor will fully pay his credit obligations to ACP, without recourse from ACP to enforce compliance such as executing the collateral, if available or the debtor has a delinquency of more than 90 days in any significant credit obligation. For fixed income financial instruments, ACP also considers low external rating of the issuer; lack of contractual payments on the due date or in the stipulated period; if there is a virtual certainty of suspension of payments; if there is likelihood of a bankruptcy; filing of a bankruptcy petition or similar action; and/or the financial asset stops trading in an active market given its financial difficulties. The inputs used in the evaluation of whether financial assets are impaired and their importance may vary over time to reflect changes in circumstances.

Inputs for measurement of ECL

The following variables are key inputs used for measuring ECL:

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

PD is the probability of default of one year applied to the portfolio to account for 12-month ECL and lifetime probability of default to account for more than 12-month ECL. The default rates are obtained from the Bloomberg system (1-yr Default Probability) for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, the source used is the result of the published study by S&P for corporate and financial services entities titled “Annual Global Corporate Default and Rating Transition Study” and “Annual Global Financial Services Default and Rating Transition Study”, respectively. The LGD for financial assets is the estimated loss percentage of the amount exposed in case of default. The LGD is obtained from the Bloomberg system for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, Bloomberg (1-yr Default Probability and Loss Given Default) is used in the same way. The EAD represents the outstanding balances of the principal amount and interest on financial assets at the reporting date.

Generating the probability of default (PD) term structure

Credit risk ratings are the main input to determine the PD term structure for different exposures. The PD is estimated using approximates of liquid markets based on international credit risk ratings of investments or deposits.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Credit risk rating

At initial recognition, a credit rating is assigned to each exposure based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in a change to a different credit risk rating. For investments in debt instruments and time deposits, credit risk ratings of international short-term investments from Standard & Poors, Moody's or Fitch Ratings, Inc. and their revisions are used to establish whether a significant increase in risk has occurred.

Significant increase in credit risk

The assessment of whether a credit risk of a financial asset has increased significantly since its initial recognition, considers reasonable and sustainable information that is relevant and available without disproportionate cost or effort. The credit risk evaluation includes information and analysis of a quantitative and qualitative nature based on historical experience and the expert evaluation of credit such as: projections of future cash flows, variations in the credit risk rating, and atypical increases in the credit margin or in the reference prices of the credit default swaps (CDS) for the financial instruments.

Assessment of significant increase in credit risk

The criteria for determining whether the credit risk has increased significantly will vary by portfolio and will include limits based on defaults. ACP assesses whether the credit risk of a particular exposure has increased if, based on a quantitative model, the probability of expected credit loss in the remaining life increased significantly since its initial recognition. In determining the increase in credit risk, the expected credit loss in the remaining life is adjusted for changes in maturities. In certain circumstances, by using credit expert's judgment and relevant historical information, ACP may determine that an exposure has experienced a significant increase in credit risk if qualitative factors indicate so and those factors may not be fully captured by the quantitative analysis performed periodically. The effectiveness of the criteria used to identify significant increases in credit risk is monitored through regular reviews.

Derecognition of financial assets

A financial asset is derecognized only when the contractual rights to receive the cash flows from the asset have expired; or when all the risks and rewards of ownership of the financial asset have been substantially transferred. If all the risks and rewards of the property are not transferred or substantially withheld and control of the transferred asset is continued, then the interest withheld on the asset and a related liability for the amounts that ACP may have to pay are recognized. If substantially all the risks and rewards of ownership of a transferred financial asset are retained, the financial asset continues to be recognized and a guaranteed liability is also recognized for the amount received.

Financial liabilities

Financial liabilities are initially recognized 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. Gain or loss is recognized in profit or loss when a financial liability is derecognized as well as through the amortization process. Financial liabilities include borrowings, bonds payable, trade and other payables, and other financial liabilities.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Borrowings and bonds payable

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

Trade and other payables

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

Hedge accounting

Derivative financial instruments held for risk management purposes are measured at fair value in the statement of financial position. These instruments are initially recognized at fair value on the date a hedging contract is initiated and are subsequently remeasured to their fair value at each reporting date.

On initial designation of the hedge, ACP formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. ACP makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the term of the designated hedge. ACP uses financial instruments designated as hedges to manage the interest rate risks and the variability of light diesel prices used in its operations. These financial instrument contracts designated as hedges are classified as cash flow hedges and they are reported as assets or liabilities, as applicable. Any ineffectiveness must be reported in current-year profit or loss.

Hedge accounting relationship

When ACP enters into a hedge accounting relationship, the first requirement is that the hedging instrument and the hedged item must be expected to move in opposite directions as a result of the change in the hedged risk. This requirement is fulfilled for the hedging relationships carried out by ACP as the underlying of the hedging instrument matches or is closely aligned with the hedged risk. ACP makes a qualitative assessment which considers the following: a) maturity; b) nominal amount; c) cash flow dates; d) interest rate basis or commodity reference price; and e) credit risk.

Hedge ratio

The hedge ratio is the relation between the amount of hedged item and the amount of the hedging instrument. For most of the hedging relationships, the hedge ratio is 1:1 as the underlying hedging instrument perfectly matches the designated hedged risk. For a hedging relationship with a correlation between the hedged item and the hedging instrument that is not 1:1 relationship, generally the hedge ratio is adjusted for the type of relation in order to improve effectiveness.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

Discontinuation of hedge accounting

ACP discontinues hedge accounting prospectively in the following situations: when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated, or exercised; or it is determined that designation of the derivative as a hedging instrument is no longer appropriate.

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 effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. 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 statement of profit or loss as the recognized hedged item. However, when a 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. Any gain or loss accumulated in equity, at the time of discontinuation of the hedge, 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, any gain or loss accumulated in equity is recycled from equity to profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized if it expires, cancels, or is settled and when its conditions are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognized based on the new conditions at fair value.

(q) Leases

At the beginning of a contract, ACP assesses whether a contract is or comprises a lease. A contract is or comprises a lease if it provides the right to control the use of an asset for a period of time in exchange for a consideration.

As a lessee

At the beginning or when a contract containing a lease component is modified, ACP assigns consideration in the contract to each lease component based on their individual prices. However, for lease contracts including non-lease components, ACP has decided not to separate them from the lease components and, instead, for each contract both components are accounted for as a single lease component.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

ACP recognizes a right-of-use asset and a lease liability on the initial date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payment made on or before the initial date, plus the initial direct costs incurred and an estimate of the costs required to dismantle and remove the underlying asset or to restore the underlying asset or the site where it is located, less any lease incentive received. The right-of-use asset is subsequently depreciated using the straight-line method from the initial date to the end of the lease term, unless the lease transfers ownership of the underlying asset to ACP at the end of the lease term or the cost of the right-of-use asset shows that ACP will exercise a purchase option. In such case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is based on the same method applied for property, plant, and equipment. Additionally, the cost of the right-of-use asset may be reduced periodically due to impairment, if any, and adjusted by new measurements of the lease liability.

A lease liability is initially measured at the present value of unpaid lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at ACP's incremental borrowing rate. ACP determines its incremental interest rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of leased asset.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments; variable lease payments that depend on an index or a rate initially measured using the index or rate on the initial date; amounts expected to be paid under a residual value warranty; the price to be exercised under a purchase option that ACP is reasonably sure to exercise; the lease payments in an optional renewal period if the entity is reasonably certain to exercise an extension option; and the penalties for early termination of a lease unless ACP is reasonably certain not to terminate it early.

A lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments derived from: a change in an index or rate, if there is a change in the estimate of the amount expected to be paid under a residual value warranty; if the entity changes its assessment of whether it will exercise a purchase, extension, or termination option; or, if there is a revised fixed lease payment. Consequently, the corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

ACP presents right-of-use assets and lease liabilities on separate lines in the statement of financial position.

Short-term leases and low-value asset leases

ACP has decided not to recognize right-of-use assets and lease liabilities from short-term lease contracts and those involving low-value assets of B/.10. Lease payments associated with these contracts are recognized as contract service expenses during the lease term.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

As a lessor

At the beginning or when a contract containing a lease component is modified, ACP assigns consideration in the contract to each lease component based on their individual prices. When ACP acts as lessor, it determines at the beginning of the lease whether it is financial or operational. To classify each lease, ACP performs a general assessment of whether the lease transfers substantially all the risks and rewards related to ownership of the underlying asset. If this is the case, then the lease is financial, if not, then it is operational. As part of this assessment, certain indicators are considered such as whether the lease is for most of the economic life of the underlying asset. If an agreement contains lease components and non-lease components, then IFRS 15 applies to allocate the consideration in the contract.

Lease payments received under operating leases are recognized as revenue during the lease term as part of *Other Income* in the statement of profit or loss.

- (r) *New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted*
A series of new rules go into effect for annual periods beginning after January 1st, 2022, and early application is allowed; however, ACP has not early adopted these new standards or amendments when preparing these financial statements as of September 30, 2022, since the annual period began on October 1st, 2021.

**Effective date -
annual periods
beginning on:**

New standards or amendments (upcoming IFRS requirements)

January 1, 2022	<ul style="list-style-type: none"> • Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) • Annual Improvements to IFRS Standards 2018-2020 • Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
January 1, 2023	<ul style="list-style-type: none"> • Classification of Liabilities as Current or Non-current (Amendments to IAS 1) • Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

(4) 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 reporting date, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include, but are not limited to:

- determination of whether revenue is recognized over time or at a point in time;
- determination of the useful life of property, plant and equipment (Note 3g);
- recoverability of property, plant, and equipment (Note 5);
- measurement of ECL allowance and key assumptions in determining the weighted average loss rate and the fair value of financial instruments (Note 26);
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (Note 25); and
- estimates for the provision for marine accidents and other claims and contingent liabilities (Notes 19 and 30, respectively).

Notes to the Financial Statements

(5) Property, Plant and Equipment

The movement and reconciliation of property, plant, and equipment are detailed as follows:

	<u>Buildings</u>	<u>Structures</u>	<u>Equipment</u>	<u>Land</u>	<u>Constructions in progress</u>	<u>Total</u>
Cost:						
Balance at October 1, 2020	217,121	6,084,126	2,997,878	1,023,318	178,371	10,500,814
Additions and other adjustments	(93)	10,478	4,198	0	136,868	151,451
Transfers	14,085	141,896	16,106	58	(172,145)	0
Retirements	(748)	(516)	(53,697)	(394)	0	(55,355)
Balance at September 30, 2021	<u>230,365</u>	<u>6,235,984</u>	<u>2,964,485</u>	<u>1,022,982</u>	<u>143,094</u>	<u>10,596,910</u>
Additions and other adjustments	0	1,330	(4,333)	0	80,275	77,272
Transfers	4,727	44,805	68,637	0	(118,169)	0
Retirements	(656)	(520)	(16,752)	0	0	(17,928)
Balance at September 30, 2022	<u>234,436</u>	<u>6,281,599</u>	<u>3,012,037</u>	<u>1,022,982</u>	<u>105,200</u>	<u>10,656,254</u>
Accumulated depreciation and impairment loss:						
Balance at October 1, 2020	(59,793)	(763,954)	(1,116,346)	0	0	(1,940,093)
Depreciation	(5,186)	(101,487)	(114,805)	0	0	(221,478)
Impairment loss	0	(2,488)	(9,117)	0	0	(11,605)
Retirements	459	516	53,642	0	0	54,617
Balance at September 30, 2021	<u>(64,520)</u>	<u>(867,413)</u>	<u>(1,186,626)</u>	<u>0</u>	<u>0</u>	<u>(2,118,559)</u>
Depreciation	(4,989)	(106,581)	(111,720)	0	0	(223,290)
Adjustments	0	131	35	0	0	166
Retirements	557	393	16,339	0	0	17,289
Balance at September 30, 2022	<u>(68,952)</u>	<u>(973,470)</u>	<u>(1,281,972)</u>	<u>0</u>	<u>0</u>	<u>(2,324,394)</u>
Net carrying amount:						
Balance at September 30, 2022	<u>165,484</u>	<u>5,308,129</u>	<u>1,730,065</u>	<u>1,022,982</u>	<u>105,200</u>	<u>8,331,860</u>
Balance at September 30, 2021	<u>165,845</u>	<u>5,368,571</u>	<u>1,777,859</u>	<u>1,022,982</u>	<u>143,094</u>	<u>8,478,351</u>

In July 2021, an increase of B/.69,760 was applied to the Atlantic Bridge assets, based on a settlement of the Partial Award issued by the International Chamber of Commerce (ICC) arbitration tribunal. In 2022, the cost of the Atlantic Bridge assets remains unchanged.

As of September 2022, ACP has not capitalized costs related to the Panama Canal Expansion Program (2021: B/.0). Moreover, the Performance Certificate of the Contract for the Design and Construction of the Third Set of Locks was issued on January 28, 2022. Consequently, the Performance and Defects Bond for B/.200,000 was duly returned to GUPCSA and the Payment Bond for B/.50,000 issued to guarantee payment from GUPCSA, of labor, materials and equipment used for the execution of the Contract remained valid and enforceable until September 2022 (see also Note 30).

During fiscal year 2022, ACP derecognized assets at a cost of B/.17,928 (2021: B/.55,355), mainly comprised of steam turbine generators for B/.3,805, outboard motors for B/.1,971, vehicle and construction equipment for B/.1,848, air compressor systems for B/.1,756, software and technological equipment for B/.1,938 (2021: three electrical power units for B/.33,024 and maritime equipment such as boats, a ferry, a dredge, and a tugboat for B/.13,155). The remaining B/.6,610 corresponds to other assets (2021: B/.9,176). As a result, ACP recognized losses on disposal of assets for an amount of B/.639 (2021: B/.738).

Depreciation expense for B/.1,240 (2021: B/.1,310) corresponds to equipment used in investment projects that were capitalized as property, plant, and equipment.

Notes to the Financial Statements

(5) Property, Plant and Equipment, continued
Impairment loss

ACP carried out an impairment test of the Energy Cash Generating Unit (CGU) by applying the value in use method on June 30, 2022. As a result, the value in use of the Energy CGU exceeded its carrying amount; therefore, no impairment loss was recognized as of September 30, 2022 (2021: B/.11,605). The impairment charges are recorded as part of depreciation and impairment loss expense in profit and loss.

According to the method used, the value in use of the CGU is equal to the expected present value of the unit's projected cash flows for the weighted average residual life of the assets in the unit. Annual cash flows for Energy CGU were adjusted for risk and included income and costs; meanwhile, financial income and costs, depreciation and corporate costs were excluded. The corporate costs were awarded in full to the transit CGU. Revenue projections for Energy CGU consider internal and external sales. The internal demand is supplied mainly by hydroelectric generation and supported by thermal generation. The projection of hydroelectric generation is based on estimates of rainfall and water consumption that affect the generation capacity of the hydroelectric plants in Alhajuela and Gatun lakes. The excess of hydro generation and thermal capacity is sold in the energy market and used to cover power purchase agreements. To project the level of thermal generation sales in the energy market, ACP based its projections on the results of the tool used by the National Dispatch Center (CND, for its acronym in Spanish) to model and plan the weekly energy dispatch. This tool is also used by the government-owned energy transmission company Empresa de Transmisión Eléctrica, S.A. (ETESA) to prepare the Expansion Plan of the National Interconnected System. The discount rate used to estimate the value in use of the Energy CGU was 5.51% (2021: 5.26%) and is based on the cost of financing that ACP derived from an established method that incorporates the capital structure of market participants and the country risk premium.

As of September 30, 2022, the carrying amount of the assets related to the Energy CGU is B/.76,036 (2021: B/.81,731).

Notes to the Financial Statements

(6) Investment Properties

The reconciliation of the carrying amounts of investment properties, which are measured by ACP using the cost model, is as follows:

	<u>Buildings</u>	<u>Structures</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
Cost:					
Balance at October 1, 2020	6,944	185	1,891	89,831	98,851
Additions and other adjustments	<u>92</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>92</u>
Balance at September 30, 2021	7,036	185	1,891	89,831	98,943
Additions and other adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at September 30, 2022	<u>7,036</u>	<u>185</u>	<u>1,891</u>	<u>89,831</u>	<u>98,943</u>
Accumulated depreciation and impairment loss:					
Balance at October 1, 2020	(5,232)	(49)	(215)	0	(5,496)
Depreciation	(128)	(30)	(131)	0	(289)
Impairment loss	<u>(27)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(27)</u>
Balance at September 30, 2021	(5,387)	(79)	(346)	0	(5,812)
Depreciation	(35)	(31)	(131)	0	(197)
Impairment loss	<u>(86)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(86)</u>
Balance at September 30, 2022	<u>(5,508)</u>	<u>(110)</u>	<u>(477)</u>	<u>0</u>	<u>(6,095)</u>
Net carrying amount:					
Balance at September 30, 2022	<u>1,528</u>	<u>75</u>	<u>1,414</u>	<u>89,831</u>	<u>92,848</u>
Balance at September 30, 2021	<u>1,649</u>	<u>106</u>	<u>1,545</u>	<u>89,831</u>	<u>93,131</u>

ACP's investment properties are comprised of:

- An area of 180,345 square meters of land, water area and underwater bottom, with a carrying amount of B/.52 (2021: B/.52) and fair value of B/.81,110 (2021: B/.79,016), granted in concession to the PSA Panama International Terminal, S.A. for a period of twenty (20) years, with a renewal option for the same period subject to ACP determination to develop, build, operate and manage a container yard and two docks.
- A plot of land of 1,499.95 square meters, property No.196761, with a carrying amount of B/.22 (2021: B/.22); and a cinema consisting of a building, improvements and equipment with a fair value of B/.7,705 on its initial recognition date, built on that plot, granted in concession to Large Screen Cinema Corp. for a period of ten (10) years. As of September 30, 2022, the carrying amount of the concession is B/.2,123 (2021: B/.2,293). The fair value was determined at B/.2,100 (2021: B/.2,271), recognizing an impairment loss of B/.86 (2021: B/.27).
- Land with an area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal bordering the Canal channel and other land owned by ACP, with a carrying amount of B/.89,757 (2021: B/.89,757) and fair value of B/.308,610 (2021: B/.204,208).
- Fully depreciated buildings leased to third parties with a fair value of B/.22,475 (2021: B/.24,233).
- Toll road structures and equipment with a carrying amount of B/.917 (2021: B/.1,029) and fair value of B/.9,704 (2021: B/.7,124).

AUTORIDAD DEL CANAL DE PANAMÁ

(Panama, Republic of Panama)

Notes to the Financial Statements

(6) Investment Properties, continued

During fiscal year 2022, income generated by ACP from the rental of buildings and land concessions was B/.6,305 (2021: B/.5,895).

(7) Inventories, Net

Inventories, net are detailed as follows:

	<u>2022</u>	<u>2021</u>
Supplies and materials	70,096	67,927
Fuel	11,967	8,355
Less: provision for inventories obsolescence	<u>(4,400)</u>	<u>(4,000)</u>
Inventories, net	<u><u>77,663</u></u>	<u><u>72,282</u></u>
Non-current	65,696	63,927
Current	<u>11,967</u>	<u>8,355</u>
Total	<u><u>77,663</u></u>	<u><u>72,282</u></u>

Changes in the estimate for obsolescence of supplies and materials inventories are as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	4,000	6,700
Increase	574	290
Write-offs	<u>(174)</u>	<u>(2,990)</u>
Balance at the end of the year	<u><u>4,400</u></u>	<u><u>4,000</u></u>

(8) Trade and Other Receivables

Trade and other receivables are detailed as follows:

	<u>2022</u>	<u>2021</u>
Tolls and other marine services	9,579	12,495
Sale of electricity and power	6,239	5,913
Sale of potable water	4,667	7,550
Other government entities	549	789
Other services	<u>231</u>	<u>1,247</u>
Sub-total	21,265	27,994
Less: allowance for expected credit loss (ECL)	<u>(37)</u>	<u>(145)</u>
Total trade and other receivables	<u><u>21,228</u></u>	<u><u>27,849</u></u>
	<u>2022</u>	<u>2021</u>
Non-current	0	354
Current	<u>21,228</u>	<u>27,495</u>
Total	<u><u>21,228</u></u>	<u><u>27,849</u></u>

Notes to the Financial Statements

(8) Trade and Other Receivables, continued

Accounts receivable do not earn interest and their maturity term is 30 days or less. The aging analysis of past due, but not impaired receivables is as follows:

	<u>2022</u>	<u>2021</u>
61 – 90 days	3	24
91 – 180 days	2	98
More than 181 days	<u>202</u>	<u>564</u>
Total	<u>207</u>	<u>686</u>

(9) Investment securities and other financial assets

Investment securities and other financial assets are detailed as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial instruments measured at amortized cost:				
Time deposits with maturities over 90 days	1,889,306	1,876,672	1,578,586	1,580,288
Accrued interest receivable	<u>17,163</u>	<u>16,751</u>	<u>5,646</u>	<u>5,643</u>
	1,906,469	1,893,423	1,584,232	1,585,931
Financial instruments measured at fair value with changes in other comprehensive income (FVOCI):				
Corporate debt securities	3,895,429	3,895,429	3,470,829	3,470,829
Financial instruments designated as cash flow hedging instruments:				
Diesel purchase call option contracts	<u>841</u>	<u>841</u>	<u>2,036</u>	<u>2,036</u>
	<u>5,802,739</u>	<u>5,789,693</u>	<u>5,057,097</u>	<u>5,058,796</u>

At September 30, 2022, the unrealized loss on financial instruments measured at FVOCI amounted to B/.17,784 (2021: B/.3,530), recognized in OCI.

During fiscal year 2022, ACP sold financial instruments measured at FVOCI amounting to B/.174,244 (2021: B/.111,022), recognizing a net realized loss of B/.916 (2021: net realized gain of B/.4); and redeemed corporate debt securities that were collected upon expiration amounting to B/.7,647,811 (2021: B/.4,683,514).

In accordance with the Organic Law, ACP's funds must be placed in short-term investment grade debt instruments and may not be used to buy other types of investment financial instruments issued by public or private entities, Panamanian or foreign, neither to grant loans to those entities nor to the Panamanian Government. Investments in securities and time deposits are negotiated and recorded in US dollars. At September 30, 2022, all ACP's investments were placed in instruments with an investment grade and short-term maturity. The average annual interest rate of return of the investments and other financial assets (excluding current and savings accounts) was 1.1490% (2021: 0.5870%) paid at the end of each term and with a maximum maturity of one year.

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Notes to the Financial Statements

(9) Investment Securities and other financial assets, continued

Financial instruments designated as hedge instruments:

In August 2022 (2021: July 2021), ACP subscribed an Asian style call option contract effective September 1, 2022 (2021: September 1, 2021), with the objective of hedging the risk of variability of future cash flows attributable to the price fluctuation of light diesel that ACP expects to purchase for its operations during fiscal year 2023 (2021: 2022), in accordance with its forecast.

(10) Accrued Interest Receivable

Accrued interest receivable is detailed as follows:

	<u>2022</u>	<u>2021</u>
Accrued interest receivable on:		
Corporate debt securities at FVOCI	<u>4,358</u>	<u>10,856</u>

(11) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash on hand	35	35
Deposits in current accounts	7,440	128,274
Deposits in savings accounts	304	197,831
Time deposits with maturities under 90 days	130,000	300,000
Accrued interest receivable	<u>153</u>	<u>33</u>
Total cash and cash equivalents	<u>137,932</u>	<u>626,173</u>

Cash deposits in bank accounts earn interest based on daily rates determined by banks. On September 30, 2022, interest rates ranged from 0.01% to 3.12% (2021: 0.01% to 0.15%). These resources are primarily to cover ACP obligations and there were no restrictions over the balance of cash and cash equivalents (2021: no restrictions).

(12) Contributed Capital

Article 316 of the Political Constitution of the Republic of Panama states that 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, ACP became the administrator of all goods and real estate property identified in the Organic Law of ACP as the required patrimony to operate and maintain the Canal.

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

On September 30, 2022, the contributed capital of ACP amounted to B/.1,906,132 (2021: B/.1,906,336).

Notes to the Financial Statements

(13) Investment Program Contributions and Reserves

Changes in investment programs contributions, debt repayment contributions, and reserves, as of September 30, 2022, are detailed as follows:

	<u>2022</u>	<u>Increase (decrease)</u>	<u>2021</u>	<u>Increase (decrease)</u>	<u>2020</u>
Contributions:					
Investment programs	5,248,996	(563,629)	5,812,625	(39,854)	5,852,479
Debt repayment	<u>1,405,000</u>	<u>830,000</u>	<u>575,000</u>	<u>230,000</u>	<u>345,000</u>
	<u>6,653,996</u>	<u>266,371</u>	<u>6,387,625</u>	<u>190,146</u>	<u>6,197,479</u>
Reserves:					
Working capital, contingencies, and catastrophic events	896,008	42,719	853,289	86,000	767,289
Strategic for growth, sustainability, and debt service	925,737	48,537	877,200	107,000	770,200
Financing relevant projects	<u>425,000</u>	<u>160,000</u>	<u>265,000</u>	<u>265,000</u>	<u>0</u>
	<u>2,246,745</u>	<u>251,256</u>	<u>1,995,489</u>	<u>458,000</u>	<u>1,537,489</u>
Total	<u>8,900,741</u>	<u>517,627</u>	<u>8,383,114</u>	<u>648,146</u>	<u>7,734,968</u>

Contributions

Investment programs

At September 30, 2022, ACP decreased the funds of the investment programs by a net amount of B/.563,629 (2021: B/.39,854). This amount includes a contingency amount for the Investment Program - Others, which is set each year. The unused balance is transferred to earnings available for distribution at end of the year.

Debt repayment

ACP established an equity contribution to segregate the funds required for the scheduled repayments of its long-term debt used to finance the investment programs.

Reserves

Working capital, contingencies, and catastrophic events

ACP maintains an equity reserve for working capital and contingencies, as well as to cover deductible amounts related to catastrophic risks insurance policies to ensure and facilitate its long-term financial standing.

Strategic reserves to cover growth, sustainability, and debt service

ACP established an equity reserve to maintain strategic sustainability and competitiveness of the Canal ensuring the availability of funds to meet additional needs of existing investment projects and to take advantage of growth opportunities requiring the implementation of new investment projects, as well as to cover debt service.

Financing relevant projects

ACP established an equity reserve to meet the financing needs of the projects of the Water Management System Program and the Consolidation of facilities in the Atlantic and Pacific.

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 Law and Regulations, any surplus shall be forwarded to the National Treasury in the following fiscal period.

Notes to the Financial Statements

(14) Other Equity Accounts – Components of Other Comprehensive Income (OCI)

Other equity accounts are composed by the unrealized gain (loss) in actuarial valuations of the defined post-employment benefit plans, the unrealized gain (loss) on financial instruments, and the unrealized gain (loss) for the valuation of the cash flow hedging instruments.

Adjustments during fiscal year to the other equity accounts – other comprehensive income (loss) (OCI) are as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	(82,430)	(113,821)
<u>Actuarial valuations:</u>		
Net remeasurement of employee defined benefit plans' actuarial gain	<u>1,755</u>	<u>580</u>
Other comprehensive income not to be reclassified to profit or loss	<u>1,755</u>	<u>580</u>
<u>Financial instruments with changes in OCI:</u>		
Reclassification of loss (gain) to profit for the year	236	(2,924)
Net unrealized loss during fiscal year	(14,254)	(5,026)
<u>Cash flow hedges:</u>		
Light diesel purchase call option contracts:		
Net (loss) gain of non-yet matured contracts	(3,303)	1,093
Interest rate swap contracts:		
Reclassification of gain to profit for the year	21,366	27,977
Net gain of non-yet matured contracts	<u>49,565</u>	<u>9,691</u>
Other comprehensive income to be reclassified to profit or loss	<u>53,610</u>	<u>30,811</u>
Other comprehensive profit for the year	<u>55,365</u>	<u>31,391</u>
Balance at the end of the year	<u>(27,065)</u>	<u>(82,430)</u>

(15) Earnings available for distribution

The Organic Law establishes that after covering the costs of the investment programs and reserves (Note 13), any surplus shall be remitted to the Panamanian Treasury in the following fiscal period, subject to the approval of the Board of Directors which declares surpluses. Therefore, upon Board of Directors order, ACP will transfer the total amount of B/.1,894,000 to the Panamanian Treasury which corresponds to the earnings available for distribution for the year ended September 30, 2022 (2021: B/.1,487,818). See Note 31.

The contributions transferred and to be transferred to the Panamanian Treasury are as follows:

	<u>2022</u>	<u>2021</u>
<u>Payments to the Panamanian Treasury:</u>		
Per net ton transit fees	598,732	591,070
Public service fees	<u>1,688</u>	<u>1,742</u>
Sub-total	600,420	592,812
Earnings available to distribute (Note 31)	<u>1,894,000</u>	<u>1,487,818</u>
Total	<u>2,494,420</u>	<u>2,080,630</u>

Notes to the Financial Statements

(16) Bonds Payable

Bonds payable are detailed as follows:

	<u>Interest rate%</u>	<u>Maturity</u>	<u>2022</u>	<u>2021</u>
Bond 2035	4.95	July 29, 2035	450,000	450,000
Less: discount and issuing costs			(6,818)	(7,383)
Plus: accrued interest payable			<u>3,713</u>	<u>3,712</u>
Total bonds payable			<u>446,895</u>	<u>446,329</u>

These bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. The bonds have been offered and sold in the United States only to persons reasonably believed to be qualified institutional buyers according to Rule 144A under the Securities Act ("Rule 144A") and to certain non-U.S. persons in transactions outside the United States according to Regulation S under the Securities Act ("Regulation S").

These bonds have a fixed annual rate of 4.95% and their effective interest rate is 5.14%. Their principal amount will be repaid in four semi-annual installments of B/.112,500, from January 29, 2034, and maturing on July 29, 2035.

As long as the bonds remain outstanding, ACP (the Issuer) will furnish to holders:

- as soon as available, but in any event within 120 calendar days after the end of each fiscal year of the Issuer, copies of its audited financial statements in respect of such fiscal year, in English, prepared in accordance with IFRS and audited by an internationally recognized firm of independent accountants; and
- as soon as available, but in any event within 90 calendar days after the end of each of the first, second and third fiscal quarters of the Issuer, copies of its unaudited financial statements in respect of the relevant period, that include a profit and loss statement, statement of financial position and cash flow statement, in English, prepared on a basis consistent with the audited financial statements of the Issuer and in accordance with IFRS.

(17) Borrowings

Borrowings are detailed as follows:

<u>Credit Facilities</u>	<u>Interest rate %</u>	<u>Maturity</u>	<u>2022</u>	<u>2021</u>
European Investment Bank (EIB)	Libor 6 months + 0.811	15-Nov-28	129,565	225,000
European Investment Bank (EIB)	Libor 6 months + 0.824	15-Nov-28	0	75,000
European Investment Bank (EIB)	5.196	15-Nov-28	65,000	75,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.20	15-Nov-28	58,370	112,500
Development Bank of Latin America (CAF)	Libor 6 months + 1.40	15-Nov-28	58,369	112,500
International Finance Corporation (IFC)	Libor 6 months + 1.30	15-Nov-28	116,739	225,000
Inter-American Development Bank (IDB)	Libor 6 months + 1.05	15-Nov-28	155,653	300,000
Japan Bank for International Cooperation (JBIC)	Libor 6 months + 0.75	15-Nov-28	<u>311,304</u>	<u>600,000</u>
	Sub-total		895,000	1,725,000
			10,589	8,738
	Total borrowings		<u>905,589</u>	<u>1,733,738</u>

Notes to the Financial Statements

(17) Borrowings, continued

Through fiscal year 2022, a prepayment was applied on a pro rata basis to the principal of the credit facilities and accordingly, semi-annual repayment installments were updated from B/.115,000 to B/.68,850, until final due date on November 15, 2028.

The classification analysis of the borrowings for these credit facilities in accordance with their repayment schedule is as follows:

	<u>2022</u>	<u>2021</u>
Non-current borrowings	757,308	1,495,000
Current borrowings	137,692	230,000
Accrued interest payable	<u>10,589</u>	<u>8,738</u>
Total	<u><u>905,589</u></u>	<u><u>1,733,738</u></u>

Through the life of these credit facilities, ACP (the Borrower) shall demonstrate compliance with the following two (2) financial ratios:

- **Total debt to EBITDA:** ACP shall maintain, as of the end of every semi-annual fiscal period of ACP, a ratio of less than 2.5 at the end for such measurement period; and
- **Debt service coverage:** ACP shall maintain at the end of every semi-annual fiscal period of ACP, a ratio of no less than 3.0 at the end for such measurement period.

The compliance with the financial covenants is reported on an annual basis to the lenders (five multilateral agencies) detailed above. The following are the key definitions from the Common Terms Agreement that are used to calculate the financial ratios:

- EBITDA means, for any period, the sum, without duplication, of (a) net income (or net loss), (b) interest expense (if it has not been capitalized for purposes of calculating net income), (c) depreciation expense, and (d) amortization expense, in each case determined by reference to and in accordance with the Borrower's financial statements for such period.
- Debt for borrowed money means, without duplication, (a) all credit facility obligations, (b) all indebtedness of the Borrower for borrowed money, (c) all obligations of the Borrower evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of the Borrower under acceptance, letter of credit or similar facilities, (e) all obligations of the Borrower as lessee under any capitalized lease, synthetic or financial lease, (f) all obligations of the Borrower created or arising under any conditional sale or other title retention agreement with respect to property acquired by the Borrower (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (g) all obligations arising under any other instrument or transaction related to project financings, all contingent liabilities and all operating leases, in each case that would be treated as a borrowing for purposes of IFRS (and in each case as quantified in accordance with IFRS and set forth (or to be set forth) in the Borrower's financial statements), and (h) any debt of the type referred to in clauses (a), (b), (c), (d), (e), (f) or (g) hereof of any other person, which is guaranteed by the Borrower or secured by the liens permitted pursuant to Section 5.02 (a) (Limitations on Liens) of the Common Terms Agreement.

Notes to the Financial Statements

(17) Borrowings, continued

- Debt service means, for any period or at any time, as the context may require, the sum of regularly scheduled interest payable on and amortization of debt discount in respect of all debt for borrowed money, plus regularly scheduled principal amounts of all debt for borrowed money payable, in each case, by the Borrower during such period or at such time (it being understood that regularly scheduled payments do not include mandatory or optional prepayments or redemptions).

As of September 30, 2022, ACP is in compliance with the financial covenants as set forth:

	<u>2022</u>	<u>2021</u>
Total debt to EBITDA	0.5	0.9
Debt service coverage	17.0	9.8

Finance cost is detailed as follows:

	<u>2022</u>	<u>2021</u>
Interest on bonds, loans and other	53,040	59,712
Cash flow hedges	21,366	27,977
Leases (Note 27)	155	168
Other finance costs	<u>829</u>	<u>718</u>
Total finance cost	<u>75,390</u>	<u>88,575</u>

(18) Other Financial Liabilities

Other financial liabilities are detailed as follows:

	<u>2022</u>	<u>2021</u>
Derivative financial instruments designated as hedging instruments recognized at fair value:		
Interest rate swaps – cash flow hedges	<u>6,326</u>	<u>77,451</u>

(19) Provision for Marine Accidents

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

Changes in the provision for marine accidents are detailed as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	15,299	19,587
Provision for the year	6,337	2,617
Payments made	<u>(3,138)</u>	<u>(6,905)</u>
Balance at the end of the year	<u>18,498</u>	<u>15,299</u>

The provision for the year is included as an expense under *Provision for marine accidents* in the statement of profit or loss.

Notes to the Financial Statements

(20) Other Liabilities

Other liabilities are detailed as follows:

	<u>2022</u>	<u>2021</u>
Supplies – Inventories in transit	7,714	3,810
Deferred liability in contracts	24,149	29,953
Others	<u>3,686</u>	<u>6,694</u>
Total other liabilities	<u>35,549</u>	<u>40,457</u>

During fiscal year 2017, ACP subscribed an agreement with the Public Works Ministry (MOP, for its acronym in Spanish) for the use of specific buildings and land belonging to ACP required for the construction of the fourth bridge over the Panama Canal, either through demolition or for its occupation during the construction period. In exchange, MOP paid ACP B/.33,663, which was recognized as a deferred liability. During fiscal year 2022, the deferred liability was amortized by B/.5,552 (2021: B/.4,920) representing the fair value of the right of use for the land and buildings transferred to the MOP for an indefinite term.

During fiscal year 2022, the deferred liability of the large format cinema concession contract was amortized for an amount of B/.252 (2021: B/.170), which was recognized under *Other income* in the statement of profit or loss.

(21) Trade and Other Payables

Trade and other payables are as follows:

	<u>2022</u>	<u>2021</u>
Panamanian Treasury	46,949	45,117
Suppliers and others	<u>136,710</u>	<u>122,075</u>
Total trade and other payables	<u>183,659</u>	<u>167,192</u>

Accounts payable to the Panamanian Treasury correspond to per net ton transit fees pending for payment. The Organic Law establishes that ACP shall annually pay the Panamanian Treasury a per net ton transit fee, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by ACP. During fiscal year 2022, the fees recognized by ACP to the Panamanian Treasury for this concept amounted to B/.598,732 (2021: B/.591,070).

(22) Labor, Materials and Other Capitalized Costs

The investment program has been executed partially or totally with ACP's own resources and equipment. ACP capitalizes eligible operating costs incurred in developing the investment program.

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(22) Labor, Materials and Other Capitalized Costs, continued

The operating expenses and capitalized costs are detailed as follows:

	<u>Total expenses</u>	<u>2022 Less capitalized costs</u>	<u>Net operating expenses</u>
Salaries and wages	671,727	10,614	661,113
Employee benefits	94,679	680	93,999
Materials and supplies	67,990	1,791	66,199
Fuel	50,504	2,927	47,577
Depreciation and impairment loss	223,487	1,240	222,247
All other expenses	<u>806,488</u>	<u>0</u>	<u>806,488</u>
Total	<u>1,914,875</u>	<u>17,252</u>	<u>1,897,623</u>

	<u>Total expenses</u>	<u>2021 Less capitalized costs</u>	<u>Net operating expenses</u>
Salaries and wages	647,464	12,284	635,180
Employee benefits	79,137	856	78,281
Materials and supplies	56,871	1,669	55,202
Fuel	35,954	1,431	34,523
Depreciation and impairment loss	233,373	1,310	232,063
All other expenses	<u>738,561</u>	<u>0</u>	<u>738,561</u>
Total	<u>1,791,360</u>	<u>17,550</u>	<u>1,773,810</u>

(23) Other Miscellaneous Revenues

Other miscellaneous revenues are detailed as follows:

	<u>2022</u>	<u>2021</u>
Sales of entrance tickets to Canal visitor centers	3,502	195
Government of Panama:		
Studies and conceptual design services (Rio Indio)	0	2,967
Operational leasing	3,272	5,773
Right of use of land and buildings (Public Works Ministry)	5,552	4,920
Other revenues:		
Port concession	4,466	4,080
Sales of retired assets and scrap	3,463	1,679
Telecommunications	3,555	4,088
Proceeds from arbitration settlements, net	0	17,635
Other	<u>17,091</u>	<u>8,881</u>
Total other miscellaneous revenues	<u>40,901</u>	<u>50,218</u>

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(24) Income Taxes

ACP is not subject to income taxes, as stated in Article 43 of the Organic Law, which exempts it from the payment of taxes, duties, tariffs, charges, rates, or tributes of a national or municipal nature, except for certain public service fees, per net ton transit fees and employer's contributions related to social security, educational insurance, and workers' compensation.

(25) Employee Benefits

The constructive and formal liability of the employee benefit plans is as follows:

	<u>2022</u>	<u>2021</u>
Benefit for employment retirement	<u>294,281</u>	<u>362,944</u>

In July 2012, ACP established the Voluntary Retirement Incentive Plan (VRI) for the retreat, at the required retirement age, of permanent employees and managers of ACP. Prior to the establishment of the VRI, the Labor Retirement Benefit Plan (LBR) existed and remains active to date. Employees that are willing to accept the incentive must select between the two plans; that is, in no case they will be able to choose both. The VRI plan was established for an indefinite period and could be suspended or modified by the Board of Directors.

The LRB plan remains an option because it is included as such in collective bargaining agreements of ACP; however, the probability that the employees choose the LRB over VRI is very low since the latter offers higher benefits.

The eligibility requirements for the LRB are: 1) applicable to permanent employees in positions of trust and permanent employees covered by collective bargaining agreements from the moment in which they comply with the required retirement age, according to the standards of the Social Security Administration (Caja del Seguro Social's early or regular retirement plans), except for temporary employees, officials and permanent employees covered by the Canal pilots' collective agreements; 2) eligible employees must retire from ACP within the period of time between the age of early retirement (55 years old for women and 60 years old for men) and up to 60 days after the regular retirement age (57 years old for women and 62 years for old men); and 3) employees must submit the "Termination of Employment Relationship Form" at least 30 calendar days before retirement, and not beyond the date they meet the regular retirement age.

The eligibility requirements to qualify for the VRI are: 1) applicable to permanent employees and heads of principal offices 2) employees must retire at the required age established by the Social Security Administration (Caja del Seguro Social's early or regular retirement plans), 3) at the date of retirement, the employee must have worked at least 10 years in the Canal; 4) must accept, in writing, the VRI offer, 5) must terminate work no later than 60 calendar days after reaching the required age, 6) must file the termination of employment form through voluntary resignation, 7) must not have an investigation initiated against them for the alleged commission of serious offenses against ACP regulations that could result in dismissal; and 7) in case the employee is separated from ACP to hold a public or private position, should not have exceeded a maximum of two years of labor discontinuity. Employees that have been separated more than two years from ACP will lose their eligibility to receive the VRI.

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(25) Employee Benefits, continued

ACP contracted an independent actuarial service to estimate the present value of the total expected cash flows to be paid by ACP if the plan is maintained through the years. The actuary also determines the accrued liability on September 30, 2022. This estimate is formulated by using the projected unit credit method and by taking into consideration actuarial assumptions, such as: personnel average age statistics, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate, in accordance with IFRS, the present value of the liability of both post-employment benefit plans.

The fair value was calculated at different interest rates and at different case scenarios incorporating historical data provided by ACP to the actuary and using a discount rate equivalent to the yield curve for corporate bonds with investment grade in the United States of America (AAA, AA, A).

Expenses related to the employee benefit plans are recorded in the bonus account for voluntary separation, mutual agreement or voluntary retirement, within the line item *Salaries and wages* in the statement of profit or loss.

The components recognized in the statements of financial position, profit or loss and comprehensive income for retirement plans are detailed as follows:

	Statement of Financial Position	Statement of Profit or Loss	Statement of Profit or Loss	Statement of Financial Position	Statement of OCI	Statement of Financial Position
	October 1, 2021	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2022
2022						
Fair value of the benefits	<u>362,944</u>	<u>15,927</u>	<u>6,360</u>	<u>32,432</u>	<u>(58,518)</u>	<u>294,281</u>
	Statement of Financial Position	Statement of Profit or Loss	Statement of Profit or Loss	Statement of Financial Position	Statement of OCI	Statement of Financial Position
	October 1, 2020	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2021
2021						
Fair value of the benefits	<u>395,236</u>	<u>13,721</u>	<u>5,299</u>	<u>31,981</u>	<u>(19,331)</u>	<u>362,944</u>

During fiscal year 2022, the actuarial adjustments include the recognition of a decrease in the liability for B/.44,244 associated to the following events:

- Increase in the discount rate;
- Decrease in the wage increase rate

Notes to the Financial Statements

(25) Employee Benefits, continued

The main actuarial assumptions used in the estimate calculations are presented below:

	<u>Age</u>	<u>2022</u> <u>%</u>	<u>2021</u> <u>%</u>
Discount rate		4.46	2.65
Salary increases		2.25 – 2.31	3.75
Mortality			
Female	57 years	2.8	2.8
Male	62 years	5.9	5.9
Disability			
Female	57 years	1.2	1.2
Male	62 years	1.9	1.9

In the event the plans are maintained without modifications, the projected disbursements of voluntary retirement benefits expected in future years are as follows:

	<u>2022</u>
<u>Maturity of the obligation:</u>	
From 0 to 1 year	0
From 1 to 5 years	182,074
From 5 to 10 years	185,931
From 10 to 25 years	286,901
Beyond 25 years	47,974

At September 30, 2022, the average duration of the obligation for the defined benefit plans for voluntary retirement of employees (VRI/LRB) is approximately 6.60 years (2021: 7.49 years).

A quantitative sensitivity analysis, based on variation in basis points (bp), for significant assumptions, as of September 30, 2022, is as follows:

<u>Assumption</u>	<u>2022</u>			
	<u>Discount rate</u>		<u>Salary</u>	
	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>
Sensitivity level				
Impact on defined benefit obligation	<u>(5,075)</u>	<u>5,381</u>	<u>5,143</u>	<u>(5,009)</u>

<u>Assumption</u>	<u>2021</u>			
	<u>Discount rate</u>		<u>Salary</u>	
	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>	<u>25 bp</u> <u>Increase</u>	<u>25 bp</u> <u>Decrease</u>
Sensitivity level				
Impact on defined benefit obligation	<u>(7,026)</u>	<u>7,487</u>	<u>7,129</u>	<u>(6,925)</u>

Notes to the Financial Statements

(25) Employee Benefits, continued
Reimbursement right of ACP

ACP contracted a reimbursement policy, for the defined benefit plans for voluntary employee retirement. The policy ensures the reimbursement of all payments made by ACP in respect of defined benefit plans for voluntary employee retirement during the term of the plan. This reimbursement is valid if ACP makes annual installments to the insurance company as a guaranteed deposit equal to the probable amount that ACP would pay during the year for the retirement benefit plans. In addition, the reimbursement policy provides protection in each year of its term against the risk that ACP suffers any event that financially incapacitates it from complying with payment of obligations to its employees, for any reason, including illiquidity. This protection will be provided if the event occurs during the term of the policy, ACP is current in the payments of the premium and if the defined benefit plans for voluntary retirement are in effect.

The policy does not cover the risk of default that could arise from internal fraud, catastrophic physical risks, nuclear war, terrorism, and epidemics, which has been estimated at 3.0% (2021: 3.0%) of the total insured amount.

Changes in the reimbursement right of ACP during fiscal year 2022 are detailed as follows:

	<u>Statement of Financial Position</u>	<u>Statement of Profit or Loss</u>		<u>Statement of Financial Position</u>	<u>Statement of OCI</u>	<u>Statement of Financial Position</u>
	<u>October 1, 2021</u>	<u>Reimbursement right cost of the year</u>	<u>Net interest</u>	<u>Reimbursements during fiscal year</u>	<u>Actuarial adjustments</u>	<u>September 30, 2022</u>
2022						
Reimbursement right of ACP	<u>352,056</u>	<u>14,277</u>	<u>6,169</u>	<u>30,286</u>	<u>(56,763)</u>	<u>285,453</u>
	<u>Statement of Financial Position</u>	<u>Statement of Profit or Loss</u>		<u>Statement of Financial Position</u>	<u>Statement of OCI</u>	<u>Statement of Financial Position</u>
	<u>October 1, 2020</u>	<u>Reimbursement right cost of the year</u>	<u>Net interest</u>	<u>Reimbursements during fiscal year</u>	<u>Actuarial adjustments</u>	<u>September 30, 2021</u>
2021						
Reimbursement right of ACP	<u>383,379</u>	<u>15,738</u>	<u>5,140</u>	<u>33,450</u>	<u>(18,751)</u>	<u>352,056</u>

As of September 30, 2022, ACP paid the insurer B/. B/.32,213 (2021: B/.32,216) in premiums of the reimbursement insurance policy.

Notes to the Financial Statements

(26) Risk Management

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

ACP's capital structure consists of net debt (bonds and borrowings as detailed in Notes 16 and 17), compensated by cash and bank deposit balances, investment securities and other financial assets (Note 9), in addition to its equity (consisting of contributed capital, investment program contributions, reserves, other equity accounts, and earnings available for distribution, as disclosed in Notes 12, 13, 14 and 15, respectively).

Categories of financial instruments

	<u>2022</u>	<u>2021</u>
<i>Financial assets</i>		
Investment securities and other financial assets (Note 9)	5,802,739	5,057,097
Trade and other receivables (Note 8)	21,228	27,849
Cash and cash equivalents (Note 11)	<u>137,932</u>	<u>626,173</u>
	<u>5,961,899</u>	<u>5,711,119</u>
<i>Financial liabilities</i>		
Bonds payable (Note 16)	446,895	446,329
Borrowings (Note 17)	905,589	1,733,738
Lease liabilities (Note 27)	8,520	8,742
Financial instruments designated as hedging instruments (Note 18)	6,326	77,451
Trade and other payables (Note 21)	<u>183,659</u>	<u>167,192</u>
	<u>1,550,989</u>	<u>2,433,452</u>

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

The following tables show the carrying amount and the fair value of financial assets and liabilities, including their fair value hierarchy levels, except short-term accounts receivable and payable for which the carrying amount is approximately the same as the fair value:

2022	Carrying amount				Total	Fair Value			
	Hedging instruments at fair value	Debt securities at FVOCI	Financial assets at amortized cost	Financial liabilities at amortized cost		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:									
Investment securities and other financial assets									
Corporate debt securities	0	3,895,429	0	0	3,895,429	740,979	3,154,450	0	3,895,429
Instruments designated in cash flow hedging relationship:									
Diesel purchase call option contracts	841	0	0	0	841	0	841	0	841
	<u>841</u>	<u>3,895,429</u>	<u>0</u>	<u>0</u>	<u>3,896,270</u>	<u>740,979</u>	<u>3,155,291</u>	<u>0</u>	<u>3,896,270</u>
Financial assets not measured at fair value:									
Investment securities and other financial assets									
Time deposits with maturities over 90 days	0	0	1,889,306	0	1,889,306	0	1,876,672	0	1,876,672
Accrued interest receivable	0	0	17,163	0	17,163	0	16,751	0	16,751
	<u>0</u>	<u>0</u>	<u>1,906,469</u>	<u>0</u>	<u>1,906,469</u>	<u>0</u>	<u>1,893,423</u>	<u>0</u>	<u>1,893,423</u>
Financial liabilities measured at fair value:									
Other financial liabilities:									
Instruments designated in cash flow hedging relationship:									
Interest rate swaps	6,326	0	0	0	6,326	0	6,326	0	6,326
	<u>6,326</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,326</u>	<u>0</u>	<u>6,326</u>	<u>0</u>	<u>6,326</u>
Financial liabilities not measured at fair value:									
Bonds payable	0	0	0	446,895	446,895	0	0	436,073	436,073
Borrowings	0	0	0	905,589	905,589	0	0	935,188	935,188
	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,352,484</u>	<u>1,352,484</u>	<u>0</u>	<u>0</u>	<u>1,371,261</u>	<u>1,371,261</u>

Notes to the Financial Statements

(26) Risk Management, continued

	Carrying amount					Fair Value			
	Hedging instruments at fair value	Debt securities at FVOCI	Financial assets at amortized cost	Financial liabilities at amortized cost	Total	Level 1	Level 2	Level 3	Total
2021									
Financial assets measured at fair value:									
Investment securities and other financial assets									
Corporate debt securities	0	3,470,829	0	0	3,470,829	805,435	2,665,394	0	3,470,829
Instruments designated in cash flow hedging relationship:									
Diesel purchase call option contract	2,036	0	0	0	2,036	0	2,036	0	2,036
	<u>2,036</u>	<u>3,470,829</u>	<u>0</u>	<u>0</u>	<u>3,472,865</u>	<u>805,435</u>	<u>2,667,430</u>	<u>0</u>	<u>3,472,865</u>
Financial assets not measured at fair value:									
Investment securities and other financial assets									
Time deposits with maturities over 90 days	0	0	1,578,586	0	1,578,586	0	1,580,288	0	1,580,288
Accrued interest receivable	0	0	5,646	0	5,646	0	5,643	0	5,643
	<u>0</u>	<u>0</u>	<u>1,584,232</u>	<u>0</u>	<u>1,584,232</u>	<u>0</u>	<u>1,585,931</u>	<u>0</u>	<u>1,585,931</u>
Financial liabilities measured at fair value:									
Other financial liabilities:									
Instruments designated in cash flow hedging relationship:									
Interest rate swaps	77,451	0	0	0	77,451	0	77,451	0	77,451
	<u>77,451</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>77,451</u>	<u>0</u>	<u>77,451</u>	<u>0</u>	<u>77,451</u>
Financial liabilities not measured at fair value:									
Bonds payable	0	0	0	446,329	446,329	0	0	557,703	557,703
Borrowings	0	0	0	1,733,738	1,733,738	0	0	1,784,929	1,784,929
	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,180,067</u>	<u>2,180,067</u>	<u>0</u>	<u>0</u>	<u>2,342,632</u>	<u>2,342,632</u>

Hedging instruments such as interest rate swaps contracts are registered at their clean price and the interest is recognized under the line item of *Accrued interest payable* on other financial liabilities in the statement of financial position.

Notes to the Financial Statements

(26) Risk Management, continued

Fair value measurement

i. Valuation techniques and unobservable significant inputs

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

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Corporate debt securities	<i>Market comparison.</i> Fair value is estimated considering recent or current quoted prices for identical instruments on an inactive market; or prices obtained through alternative pricing models supported by observable inputs such as yield curves of instruments with similar credit quality.	None	Not applicable
Diesel purchase option contracts	<i>Option Model:</i> the fair value is calculated using the Black Scholes Model, which determines the reasonable price or theoretical price of an option based on six variables: volatility, type of option, underlying price, time, strike price and risk-free rate.	None	Not applicable
Interest rate swap contracts	<i>Swap model:</i> fair value is calculated as the present value of the estimated cash flows. The future cash flow estimates of variable rates curves are based on quoted swap rates, future prices, and interbank rates. Future cash flows are discounted using a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing interest rate swap contracts. The fair value is subject to an adjustment due to the credit risk of both ACP and the counterparty, calculated using credit margins derived from credit default swaps or bond prices.	None	Not applicable

Financial risk management objectives

ACP's main financial liabilities consist of borrowings, bonds payable, lease liabilities, and trade accounts payable. The main purpose of these financial liabilities was to finance the Canal Expansion Program and the new bridge on the Atlantic coast of the Canal. ACP also has cash, bank deposits, trade and other receivables, and funds invested in short term debt instruments. ACP also contracts hedging instruments.

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

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

Notes to the Financial Statements

(26) Risk Management, continued

ACP maintains policies that provide written principles about foreign exchange risk management, interest rate risk, credit risk, the use of hedging financial instruments and liquidity investments. The Office of the Inspector General periodically monitors compliance with the policies and exposure limits. ACP does not subscribe or negotiate financial instruments for speculative purposes.

ACP's Treasury quarterly updates the Board of Directors' Finance and Strategic Planning Committee and follows up the risks and the implemented policies to mitigate risk exposure. The Office of the Inspector General periodically audits treasury operations, and reports to the Board of Directors.

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

Market risk

Market risk is the risk that changes in market prices of interest rates affect the income of ACP or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure ACP's solvency while optimizing the return on risk.

ACP's activities are exposed primarily to financial risks due to variations of interest rates, and commodity prices beyond its control. ACP's financial instruments are at fixed rates; however, borrowings for B/.830,000 (2021: B/.1,650,000) are at variable rates (Note 17). With the purpose of managing exposure to these risks, ACP subscribes hedging instruments approved by its Board of Directors based on the recommendations of the Liquidity and Hedging Committee, including:

- Interest rate swaps to mitigate the risk of increases in interest rates.
- Diesel price options to mitigate the risk of fluctuations in the price of this commodity which is required for the Canal's regular operations.

Managing interest rate benchmark reform and any risks arising due to reform

Fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of interbank offered rates (IBORs) with alternative nearly risk-free rates. This reform has an impact on products referenced to IBOR. ACP has exposures to USD LIBOR only on its financial instruments that will be replaced or reformed.

ACP is working with its lenders to agree on an amendment language for the transition to the new rate. Also, internal specialists from different areas, including Treasury, Contracts, Risks and Controls, Budget, Accounting, Legal Advisory, and Internal Audit, are in coordination to determine the corresponding amendment language in internal regulations.

During the year 2020, ACP started the process of evaluating its existing contracts to incorporate the transition language to the new reference rate, following the recommendations of the Alternative Reference Rates Committee (ARRC) and the Loan Syndications and Trading Association (LSTA). During the fiscal year 2022, ACP has been evaluating the impact that the different adoption alternatives have on its borrowings and related hedge instruments and expects to finalize the modification process before the cessation date set out by the ARRC.

Notes to the Financial Statements

(26) Risk Management, continued

The USD LIBOR tenor utilized by ACP in its borrowings is 6-month LIBOR which will be available until June 30, 2023.

The borrowings that are in the process of transition to an alternative reference index are detailed in Note 17 – Borrowings.

Derivatives held for risk management

As of September 30, 2022, ACP's exposure is limited to USD LIBOR risk on derivative financial instruments for B/.520,000 which are amortized every six months for B/.40,000 until November 15, 2028. Once financial institutions of related hedged loans amend the respective contracts, ACP will formally engage the counterparties of derivatives to proceed accordingly.

ACP will assess the effectiveness of the hedge which is expected to be highly effective prospectively and reliably measured. The hedging relationship will not be discontinued as long as it meets all hedge accounting criteria. ACP's hedged items and hedging instruments continue indexed to USD LIBOR benchmark rates. These USD LIBOR benchmark rates are quoted each day and cash flows are exchanged as contractually agreed.

Exchange rate risk management

ACP has established a policy to avoid foreign currency risk related to its functional currency. ACP only accepts payments in dollars of the United States of America and the investment criteria and applicable guidelines require that all deposits and investments in banks shall be in dollars of the United States of America, or in other currencies authorized by the Board of Directors. ACP did not maintain commitments or deposits in currencies other than the U.S. dollar (USD).

Cash flow and fair value interest rate risk

The interest rate risk of the cash flow and the interest rate risk of fair value consist in the fact that future cash flows and the value of a financial instrument fluctuate due to changes in market rates. The net financial cost of ACP can fluctuate as a result of unanticipated variations on interest rates.

The following table summarizes ACP's interest rate risk exposure, in nominal values, due to interest repricing gaps based on the next repricing date or the maturity date of its financial assets and liabilities:

	<u>2022</u>					
	<u>Up to 3 months</u>	<u>3 to 6 months</u>	<u>6 months to 1 year</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
<u>Financial assets:</u>						
Corporate debt securities – FVOCI	2,005,930	1,295,307	594,192	0	0	3,895,429
Demand deposits and time deposits with banks	<u>534,401</u>	<u>500,000</u>	<u>1,010,000</u>	<u>0</u>	<u>0</u>	<u>2,044,401</u>
	<u>2,540,331</u>	<u>1,795,307</u>	<u>1,604,192</u>	<u>0</u>	<u>0</u>	<u>5,939,830</u>
<u>Financial liabilities:</u>						
Bonds payable	0	0	0	0	450,000	450,000
Borrowings	<u>830,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>65,000</u>	<u>895,000</u>
	<u>830,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>515,000</u>	<u>1,345,000</u>
Interest rate swap contracts	<u>(480,000)</u>	<u>0</u>	<u>40,000</u>	<u>320,000</u>	<u>120,000</u>	<u>0</u>
Total interest rate sensitivities	<u>2,190,331</u>	<u>1,795,307</u>	<u>1,564,192</u>	<u>(320,000)</u>	<u>(635,000)</u>	<u>4,594,830</u>

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Notes to the Financial Statements

(26) Risk Management, continued

	<u>2021</u>					
	<u>Up to 3 months</u>	<u>3 to 6 months</u>	<u>6 months to 1 year</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Financial assets:						
Corporate debt securities – FVOCI	1,270,586	972,445	1,227,798	0	0	3,470,829
Demand deposits and time deposits with banks	<u>1,351,404</u>	<u>125,100</u>	<u>733,901</u>	<u>0</u>	<u>0</u>	<u>2,210,405</u>
	<u>2,621,990</u>	<u>1,097,545</u>	<u>1,961,699</u>	<u>0</u>	<u>0</u>	<u>5,681,234</u>
Financial liabilities:						
Bonds payable	0	0	0	0	450,000	450,000
Borrowings	<u>1,650,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75,000</u>	<u>1,725,000</u>
	1,650,000	0	0	0	525,000	2,175,000
Interest rate swap contracts	<u>(560,000)</u>	<u>0</u>	<u>40,000</u>	<u>320,000</u>	<u>200,000</u>	<u>0</u>
Total interest rate sensitivities	<u>1,531,990</u>	<u>1,097,545</u>	<u>1,921,699</u>	<u>(320,000)</u>	<u>(725,000)</u>	<u>3,506,234</u>

ACP manages its interest rate risk change exposure partially by contracting fixed rate instruments and variable rate financing and uses interest rates swap contracts to hedge cash flows variability attributable to interest rate risk.

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

ACP performs simulations on its financial assets and liabilities to evaluate interest rate risk and its impact on the fair value of financial instruments. To manage interest rate risk, ACP has defined an interval on the limits to monitor the sensitivity of its financial assets and liabilities.

The interest rate change impact estimation by category assumes a 100 basis points (bp) increase or reduction on the financial assets and liabilities.

The following table reflects the impact of applying those interest rate variations:

	Net interest income sensitivity			
	100 bp increase		100 bp decrease	
	2022	2021	2022	2021
Corporate debt securities – FVOCI	28,172	21,048	(27,056)	(7,983)
Demand deposits and time deposits with banks	9,293	10,977	(9,021)	(4,853)
Debt with multilateral credit agencies	(6,544)	(13,224)	6,544	2,719
Interest rate swap contracts	<u>4,100</u>	<u>4,810</u>	<u>(4,100)</u>	<u>(927)</u>
At the end of the year	<u>35,021</u>	<u>23,611</u>	<u>(33,633)</u>	<u>(11,044)</u>

	OCI sensitivity			
	100 bp increase		100 bp decrease	
	2022	2021	2022	2021
Corporate debt securities – FVOCI	(11,287)	(13,798)	11,253	8,435
Interest rate swap contracts	<u>16,568</u>	<u>25,703</u>	<u>(16,573)</u>	<u>(25,714)</u>
At the end of the year	<u>5,281</u>	<u>11,905</u>	<u>(5,320)</u>	<u>(17,279)</u>

Notes to the Financial Statements

(26) Risk Management, continued

Interest rate risk management

ACP is exposed to interest rate risk because it borrowed funds at fixed and variable rates and issued bonds at fixed rate. A portion of the risk attributable to borrowed funds at variable interest rates is managed with the use of interest rate swap contracts. Given market conditions, hedging activities are evaluated regularly to consider interest rates volatility and risk tolerance, ensuring that the most conservative hedging strategies are applied.

ACP determines whether an economic relationship between the hedged item and the hedging instrument exists based on the reference interest rates, terms, maturity dates and notional amounts. ACP expects that the hedging relationship will not be altered as a result of the change in the reference interest rate due to the IBOR Reform.

Interest rate swap contracts

Starting in March 2010, ACP established interest rate swap contracts without collateral to fix the interest rate on B/.800,000 variable rate loans. The notional amount and principal amortizations on the swap instruments match with the dates, disbursements, and amortizations of the underlying loans: B/.200,000 received on March 1st, 2010, B/.300,000 on October 29, 2010, and B/.300,000 on April 13, 2011, and semi-annual amortizations for B/.40,000 each, which began on May 15, 2019, until their maturity on November 15, 2028.

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

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:

	<u>Notional</u>	<u>Effective date</u>	<u>Maturity date</u>				
	520,000	May 17, 2010	November 15, 2028				
<u>Interest rate swap contracts, variable receipts and fixed payments</u>	<u>Average contracted fixed interest rate</u>		<u>Notional principal value</u>		<u>Fair value</u>		
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	
5 years or more	4.67%	4.67%	520,000	600,000	(6,326)	(77,451)	

Notes to the Financial Statements

(26) Risk Management, continued

Interest rate swaps are liquidated semi-annually. The floating rate on the interest rate swaps is the 6-month LIBOR rate. 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 to reduce ACP's cash flow exposure resulting from floating interest rates on borrowings. The interest rate swap contracts subscribed with ACP's counterparties stipulate that ACP would not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

Asset and liability derivative instruments designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, as well as the carrying amount of the hedging instruments:

	2022					2021				
	Carrying amount	Expected cash flows			Carrying amount	Expected cash flows				
		Total	1-6 months	6-12 months		More than 1 year	Total	1-6 months	6-12 months	More than 1 year
Interest rate swap contracts:										
Assets	0	0	0	0	0	0	0	0	0	0
Liabilities	(6,326)	(12,671)	(7,160)	(466)	(5,045)	(77,451)	(89,296)	(13,574)	(12,641)	(63,081)
Diesel purchase call option contracts:										
Assets	841	0	0	0	2,036	434	416	18	0	0
Total	<u>(5,485)</u>	<u>(12,671)</u>	<u>(7,160)</u>	<u>(466)</u>	<u>(5,045)</u>	<u>(75,415)</u>	<u>(88,862)</u>	<u>(13,158)</u>	<u>(12,623)</u>	<u>(63,081)</u>

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact gain or loss, as well as the carrying amount of hedging instruments:

	2022					2021				
	Carrying amount	Expected cash flows			Carrying amount	Expected cash flows				
		Total	1-6 months	6-12 months		More than 1 year	Total	1-6 months	6-12 months	More than 1 year
Interest rate swap contracts:										
Assets	0	0	0	0	0	0	0	0	0	0
Liabilities	(6,326)	(12,671)	(7,160)	(466)	(5,045)	(77,451)	(89,296)	(13,574)	(12,641)	(63,081)
Diesel purchase call option contracts:										
Assets	841	0	0	0	2,036	434	416	18	0	0
Total	<u>(5,485)</u>	<u>(12,671)</u>	<u>(7,160)</u>	<u>(466)</u>	<u>(5,045)</u>	<u>(75,415)</u>	<u>(88,862)</u>	<u>(13,158)</u>	<u>(12,623)</u>	<u>(63,081)</u>

Liquidity risk management

Liquidity risk is the risk that ACP will not be able to meet obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

ACP manages the liquidity risk by continuously monitoring its forecasted and actual cash flows, reconciling the financial asset and liability maturity profiles.

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Notes to the Financial Statements

(26) Risk Management, continued

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

2022

	Carrying amount	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years
Financial assets:							
Corporate debt securities – FVOCI	3,895,429	3,949,297	2,014,066	1,322,254	612,977	0	0
Time deposits with maturities over 90 days	1,906,469	1,942,668	384,759	509,468	1,048,441	0	0
Trade and other receivables	21,228	21,265	21,061	2	202	0	0
Cash and cash equivalents	137,932	138,093	138,093	0	0	0	0
	<u>5,961,058</u>	<u>6,051,323</u>	<u>2,557,979</u>	<u>1,831,724</u>	<u>1,661,620</u>	<u>0</u>	<u>0</u>
Financial liabilities:							
Bonds payable	446,895	722,870	0	11,138	11,138	89,100	611,494
Borrowings	905,589	1,052,388	82,974	0	91,382	661,483	216,549
Lease liabilities	8,520	9,287	1,406	1,393	2,217	4,271	0
Trade and other payables	183,659	183,659	183,654	0	5	0	0
	<u>1,544,663</u>	<u>1,968,204</u>	<u>268,034</u>	<u>12,531</u>	<u>104,742</u>	<u>754,854</u>	<u>828,043</u>
Hedging instruments:							
Diesel purchase call option	841	0	0	0	0	0	0
Interest rate swap, fixed payments and variable receipts, net	(6,326)	(12,671)	(7,160)	0	(466)	(3,977)	(1,068)
	<u>(5,485)</u>	<u>(12,671)</u>	<u>(7,160)</u>	<u>0</u>	<u>(466)</u>	<u>(3,977)</u>	<u>(1,068)</u>

2021

	Carrying amount	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years
Financial assets:							
Corporate debt securities – FVOCI	3,470,829	3,493,225	1,280,738	983,496	1,228,991	0	0
Time deposits with maturities over 90 days	1,584,232	1,887,999	1,025,899	125,659	736,441	0	0
Trade and other receivables	27,849	27,994	27,332	98	93	471	0
Cash and cash equivalents	626,173	626,222	626,222	0	0	0	0
	<u>5,709,083</u>	<u>6,035,440</u>	<u>2,960,191</u>	<u>1,109,253</u>	<u>1,965,525</u>	<u>471</u>	<u>0</u>
Financial liabilities:							
Bonds payable	446,329	745,144	0	11,138	11,137	89,100	633,769
Borrowings	1,733,738	1,893,904	119,386	0	134,182	1,049,215	591,121
Lease liabilities	8,742	8,806	1,242	1,242	2,464	3,858	0
Trade and other payables	167,192	167,192	167,180	0	12	0	0
	<u>2,356,001</u>	<u>2,815,046</u>	<u>287,808</u>	<u>12,380</u>	<u>147,795</u>	<u>1,142,173</u>	<u>1,224,890</u>
Hedging instruments:							
Diesel purchase call option	2,036	434	180	236	18	0	0
Interest rate swap, fixed payments and variable receipts, net	(77,451)	(89,297)	(13,574)	0	(12,641)	(55,137)	(7,945)
	<u>(75,415)</u>	<u>(88,863)</u>	<u>(13,394)</u>	<u>236</u>	<u>(12,623)</u>	<u>(55,137)</u>	<u>(7,945)</u>

In order to finance the Canal Expansion Program for a total of B/.2,300,000, ACP entered a Common Terms Agreement with five multilaterals credit agencies with an effective rate of 2.56% which is calculated as a weighted average of fixed and variable portions. Currently 7.3% of the debt (B/.65,000) has a fixed effective rate of 5.31%, while the remaining 92.7% (B/.830,000) has a variable average effective rate of 2.43%.

Notes to the Financial Statements

(26) Risk Management, continued

For the financing of the new bridge across the Atlantic Side of the Canal, bonds totaling B/.450,000 were issued at a fixed rate of 4.95% (effective rate of 5.14%) payable semi-annually in January and July of each year. The interest rate swap contracts subscribed with ACP's counterparties stipulate that ACP will not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

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

	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
2022							
Variable interest rate loans	2.43%	0	63,847	63,846	510,769	191,538	830,000
Fixed interest rate loans	5.31%	0	5,000	5,000	40,000	15,000	65,000
Fixed interest rate bonds	5.14%	0	0	0	0	450,000	450,000
		<u>0</u>	<u>68,847</u>	<u>68,846</u>	<u>550,769</u>	<u>656,538</u>	<u>1,345,000</u>

	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
2021							
Variable interest rate loans	2.13%	0	110,000	110,000	880,000	550,000	1,650,000
Fixed interest rate loans	5.31%	0	5,000	5,000	40,000	25,000	75,000
Fixed interest rate bonds	5.14%	0	0	0	0	450,000	450,000
		<u>0</u>	<u>115,000</u>	<u>115,000</u>	<u>920,000</u>	<u>1,025,000</u>	<u>2,175,000</u>

Fuel price risk

ACP is exposed to commodity price fluctuation risk on the fuel used in its transit and dredging operations, as well as in its power generation activities and the sale of surplus energy to Panama's National Grid ("Sistema Integrado Nacional"), to the extent that such variations cannot be transferred to ACP's customers.

Maritime operations

ACP consumes approximately between 13 and 14 million gallons annually of light diesel on its vessel transit and dredging operations. Since October 20, 2009, risk management for diesel price fluctuations is performed mainly within the fiscal year period that is considered representative for the implementation of appropriate commercial policies. In order to manage the risk, specific hedging operations are contracted for approximately 80% of the expected volume.

In August 2022, ACP purchased a diesel cap option contract to hedge its fiscal year 2023 operational diesel budget for 14.1 million gallons with a monthly notional of 940,000 gallons, with a strike price of 3.70 per gallon. During fiscal year 2022, the recorded accumulated annual fuel consumption totaled 13.3 million gallons (2021: 12.8 million gallons).

Energy generation

ACP generates power for the consumption of the Canal's operations, while excess capacity is sold in the domestic energy market. During fiscal year 2022, ACP consumed 37% of the power generated, while the remaining 63% was sold to the energy market (2021: 30% and 70%, respectively). Power generated by hydroelectric and thermal plants was 64% and 36%, respectively (2021: 48% and 52%).

Notes to the Financial Statements

(26) Risk Management, continued

Thermal plant generation is exposed to fuel price volatility risk; however, this price is indexed to the energy sale rate. These indexations are defined in contractual clauses when the energy is sold under previously agreed contracts or in weekly statements when energy is not sold under contracts, namely, in the spot market.

Maritime operations fuel price risk sensitivity analysis

As of September 30, 2022, the current price index for light diesel purchases made as of October 2022 is B/.3.37 (2021: B/.2.16) per gallon. Under the assumption of an increase / decrease of \pm B/.0.71 (2021: \pm B/.0.35) per gallon in the price of light diesel for the next 12 months, the annual increase / decrease in the operating expenses of light diesel would result in B/.5,738 and B/.-10,017, respectively (2021: B/.1,319 and B/.-4,852).

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 sets limits by industry and by issuer because of the categorization of the Risk Assessment System adopted by ACP, which includes the following factors: short-term international credit risk rating, capital/leverage coverage, country risk, liquidity index, impairment, performance, and credit risk. In the case of sovereign issuers, the country risk factor is the only one considered.

Counterparty risk refers to the risk of a counterparty settling in the payment of a security purchase transaction. ACP does not have counterparty risk, as it buys all its securities using the method of payment on delivery 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 ACP. To mitigate this risk, ACP's policies only allow deposits in banking institutions and financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-2 by Standard & Poor's, P-2 by Moody's Investor Services Ratings, or F-2 by Fitch Ratings, Inc. Additionally, these policies allow for a total investment of up to fifteen percent (15%) of the portfolio in financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-3 by Standard & Poor's, P-3 by Moody's Investor Services, or F-3 by Fitch Ratings, Inc.

Credit quality analysis

The tables below show the credit quality analysis of the different types of financial assets ACP maintains, which were classified based on their international risk rating reported by the risk rating agencies. The tables show whether assets measured at amortized cost or FVOCI were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit impaired.

Trade and other receivables

The assessment of the account receivables ECL utilized a similar approach to the one used on the debt instruments.

Notes to the Financial Statements

(26) Risk Management, continued

By law, all services provided by ACP, whether transit or commercial services, must be paid in advance or, in its replacement, an adequate banking guarantee of payment must be presented for the same amount as the one expected to be billed.

As of September 30, 2022, the ECL for the trade and other receivables is as follows:

	2022			Total
	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	
Balance at the beginning of the year	28	117	0	145
Transfer to 12-month ECL	43	(43)	0	0
Net remeasurement of the loss allowance	(31)	(29)	0	(60)
Financial assets derecognized	(12)	(45)	0	(57)
New financial assets acquired	9	0	0	9
Balance at the end of the year	<u>37</u>	<u>0</u>	<u>0</u>	<u>37</u>

	2021			Total
	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	
Balance at the beginning of the year	13	833	0	846
Net remeasurement of the loss allowance	2	(9)	0	(7)
Financial assets derecognized	(6)	(749)	0	(755)
New financial assets acquired	19	42	0	61
Balance at the end of the year	<u>28</u>	<u>117</u>	<u>0</u>	<u>145</u>

Bank deposits

As of September 30, 2022, all demand and time deposit accounts were placed in investment grade financial institutions.

	2022			2021		
	Amortized cost			Amortized cost		
	Cash and cash equivalents 12-month ECL	Time deposits – more than 90 days 12-month ECL	Total	Cash and cash equivalents 12-month ECL	Time deposits – more than 90 days 12-month ECL	Total
Aaa a Aa3	30,000	595,678	625,678	300,000	255,609	555,609
A1 a A3	0	988,807	988,807	197,866	1,128,895	1,326,761
Baa1	107,942	0	107,942	128,301	0	128,301
Baa2	0	322,678	322,678	7	200,143	200,150
Gross carrying amount	137,942	1,907,163	2,045,105	626,174	1,584,647	2,210,821
ECL loss allowance	(10)	(694)	(704)	(1)	(415)	(416)
Carrying amount	<u>137,932</u>	<u>1,906,469</u>	<u>2,044,401</u>	<u>626,173</u>	<u>1,584,232</u>	<u>2,210,405</u>

Notes to the Financial Statements

(26) Risk Management, continued

The line item of *Cash and cash equivalents* in the statement of financial position includes all demand deposits accounts, savings accounts, overnight deposits, and time deposits with original maturities of less than 90 days.

Changes in the ECL allowance for bank deposits:

	<u>2022</u> 12-month ECL	<u>2021</u> 12-month ECL
Balance at the beginning of the year	416	5,259
Net remeasurement of the loss provision	0	1
Financial assets derecognized	(415)	(5,259)
New financial assets acquired	<u>703</u>	<u>415</u>
Balance at the end of the year	<u><u>704</u></u>	<u><u>416</u></u>

Investment securities measured at FVOCI

ACP's investment portfolio consists of corporate debt securities classified at fair value with changes in OCI, acquired with the intention to be held for a period less or equal to one year, which are susceptible to being sold to attend the liquidity needs or changes in interest rates, which may impact significantly the debt service. Such instruments are measured and reported at fair value, although they do not impact the statement of profit or loss.

Considering the different political and economic events around the world, ACP continuously monitors the measures adopted by governments and the implications that these may have on the behavior of the different sectors, among others, the interruption in supply chains, extensive suspension of productive activity, increased unemployment, recession of income for some sectors, price behavior (inflation), economic slowdown, etc.

At the closing of September 30, 2022, the financial statements do not reflect representative impacts related to the impairment of the investment portfolio.

	<u>2022</u> FVOCI			<u>2021</u> FVOCI				
	12-month ECL	Lifetime ECL- without credit impairment	Lifetime ECL - with credit impairment	Total	12-month ECL	Lifetime ECL- without credit impairment	Lifetime ECL - with credit impairment	Total
Aaa to Aa3	99,363	0	0	99,363	0	0	0	0
A1 a A3	1,576,135	0	0	1,576,135	644,668	0	0	644,668
Baa1	855,951	0	0	855,951	1,059,959	0	0	1,059,959
Baa2	996,585	0	0	996,585	979,120	0	0	979,120
Baa3	<u>385,179</u>	<u>0</u>	<u>0</u>	<u>385,179</u>	<u>790,612</u>	<u>0</u>	<u>0</u>	<u>790,612</u>
Gross carrying amounts	3,913,213	0	0	3,913,213	3,474,359	0	0	3,474,359
ECL loss allowance	<u>(636)</u>	<u>0</u>	<u>0</u>	<u>(636)</u>	<u>(400)</u>	<u>0</u>	<u>0</u>	<u>(400)</u>
Amortized cost	<u><u>3,912,577</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>3,912,577</u></u>	<u><u>3,473,959</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>3,473,959</u></u>
Carrying amount	<u><u>3,895,429</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>3,895,429</u></u>	<u><u>3,470,829</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>3,470,829</u></u>

Notes to the Financial Statements

(26) Risk Management, continued

The ECL allowance for the investment securities measured at fair value with changes in other comprehensive income is presented below:

	<u>2022</u> 12-month ECL	<u>2021</u> 12-month ECL
Balance at the beginning of the year	400	3,324
Net remeasurement of the loss provision	0	0
Financial assets derecognized	(400)	(3,324)
New financial assets acquired	<u>636</u>	<u>400</u>
Balance at the end of the year	<u>636</u>	<u>400</u>

Measurement of the gain or impairment loss

ACP recognizes the gains or impairment losses on financial instruments measured at fair value with changes in other comprehensive income based on the difference between the carrying amount carried at amortized cost and the fair value of the instruments, as stated below:

	<u>2022</u>		
	<u>Fair value</u>	<u>Amortized cost</u>	<u>Unrealized gain or (loss)</u>
Aaa a Aa3	98,000	99,363	(1,363)
A1 to A3	1,563,772	1,576,135	(12,363)
Baa1	839,714	855,951	(16,237)
Baa2	994,836	996,585	(1,749)
Baa3	<u>399,107</u>	<u>385,179</u>	<u>13,928</u>
	<u>3,895,429</u>	<u>3,913,213</u>	<u>(17,784)</u>
	<u>2021</u>		
	<u>Fair value</u>	<u>Amortized cost</u>	<u>Unrealized gain or (loss)</u>
A1 to A3	644,443	644,668	(225)
Baa1	1,059,243	1,059,959	(716)
Baa2	984,745	979,120	5,625
Baa3	<u>782,398</u>	<u>790,612</u>	<u>(8,214)</u>
	<u>3,470,829</u>	<u>3,474,359</u>	<u>(3,530)</u>

AUTORIDAD DEL CANAL DE PANAMÁ

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Notes to the Financial Statements

(26) Risk Management, continued

Credit risk concentration

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

	<u>2022</u>	<u>2021</u>
Basic materials	301,347	221,049
Communications	221,925	336,587
Consumer, cyclical	104,393	53,888
Consumer, non-cyclical	395,126	778,144
Energy	351,728	316,184
Financials	1,361,338	1,019,610
Industry	369,290	164,806
Technology	290,259	138,653
Services	<u>500,023</u>	<u>441,908</u>
Total	<u>3,895,429</u>	<u>3,470,829</u>

According to the Board of Directors’ Agreement No. 365 of June 25, 2020, ACP may invest:

1. Not less than 20% of its funds in private and official banks with international credit rating of A-2, P-2 and F-2. On a case-by-case basis, the Investment and Hedge Committee may approve investments in private and official banks where one of its international credit ratings is A-3, P3 or F3.
2. Not more than 80% of its funds in corporate debt instruments with international credit ratings of A-2, P-2 and F-2, and up to 15% in instruments with international credit ratings of A-3, P-3 or F-3.

ACP’s credit exposure and counterparties credit rating are continuously monitored. The credit exposure is controlled by counterparty limits that are quarterly reviewed through the Risk Assessment System for Banking Institutions and Corporate Issuers.

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

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

Banking institutions and issuers are classified within three categories in ACP’s risk system:

- A. Up to B/.200,000
- B. Up to B/.120,000
- C. Up to B/. 60,000

Notes to the Financial Statements

(27) Leases

ACP maintains leases for buses to provide transportation services to employees and technology equipment, i.e., servers and switches. Generally, the lease contract periods are for one year and up to a maximum of four renewals. Upon completion, a new tender is conducted, and new assets are required. ACP also maintains leases of other equipment such as vehicles, forklifts, dump trucks and latrines, for periods of twelve months or less and office and technology equipment of low value; for which, ACP applies the exemptions for low-value assets and short-term leases.

ACP as lessee

Information about the leases for which ACP is the lessee is presented below:

Right-of-use assets

The carrying amounts of the recognized right-of-use assets of lease contracts and their changes during the period are detailed below:

	<u>2022</u>	<u>2021</u>
Equipment:		
Balance at the beginning of the year	8,246	10,504
Additions	5,319	3,653
Depreciation for the year	(5,545)	(4,761)
Derecognition	<u>0</u>	<u>(1,150)</u>
Balance at the end of the year	<u>8,020</u>	<u>8,246</u>

Lease liabilities

As of September 30, 2022, ACP's lease liabilities amounted to B/.8,520 (2021: B/.8,742). See Note 26 for maturity analysis of lease liabilities as of September 30, 2022.

The following are the amounts recognized in profit or loss:

	<u>2022</u>	<u>2021</u>
Interest on lease liabilities	<u>155</u>	<u>168</u>
Expenses relating to short-term leases	<u>2,253</u>	<u>1,612</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	<u>107</u>	<u>98</u>

The following are the amounts recognized in the statement of cash flows:

	<u>2022</u>	<u>2021</u>
Operating activities:		
Interest on lease liabilities	155	168
Expenses relating to short-term leases	1,956	1,502
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	94	80
Financing activities:		
Payments to principal of lease contracts	<u>5,540</u>	<u>4,855</u>
Total cash outflows for leases	<u>7,745</u>	<u>6,605</u>

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(27) Leases, continued

ACP as lessor

ACP leases its investment properties, such as land and buildings. All leases are classified as operating leases from a lessor perspective, mainly because they do not substantially transfer all the risks and benefits related to the ownership of the assets.

(28) Related Party Transactions

During fiscal year 2022, ACP executed commercial transactions with the following government institutions:

	<u>Sale of goods and services</u>		<u>Purchase of goods and services</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	35,971	35,405	0	0
Other government entities	5,155	10,683	0	0
Public Works Ministry (MOP)	5,552	4,920	0	0
Social Security Administration	0	0	94,679	79,137
Panamanian Treasury	<u>0</u>	<u>0</u>	<u>600,420</u>	<u>592,812</u>
	<u>46,678</u>	<u>51,008</u>	<u>695,099</u>	<u>671,949</u>

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

	<u>Amounts owed by the Republic of Panama</u>		<u>Amounts owed to the Republic of Panama</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	4,667	7,550	0	0
Other government entities	549	789	0	0
Public Works Ministry (MOP)	0	0	23,191	28,743
Social Security Administration	0	0	38,775	22,696
Public service fees	0	0	143	136
Panamanian Treasury – net ton transit	<u>0</u>	<u>0</u>	<u>46,949</u>	<u>45,117</u>
	<u>5,216</u>	<u>8,339</u>	<u>109,058</u>	<u>96,692</u>

As of September 30, 2022, ACP does not maintain deposits in Banco Nacional de Panamá; therefore, no interest income was generated for either fiscal year.

Amounts owed by and owed to the Republic of Panama are classified as accounts receivable and accounts payable, respectively. Additionally, the sales of goods and services to the Republic of Panama were made at ACP's usual prices or rates as published in the Commercial Tariff, without discount.

Based on ACP's legal autonomy and financial independence from the government institutions, ACP may only transfer funds for services hired, for acquisition of goods or real estate or for an obligation it has lawfully contracted.

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(28) Related Party Transactions, continued

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

Compensation and benefits to key executives

On September 30, 2022, ACP paid a total of B/.4,308 (2021: B/.3,268) for remuneration and benefits to its key management personnel. The Board of Directors' allowance for the fiscal year 2022 totalized B/.724 (2021: B/.816). It is the responsibility of ACP's Administration to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors' ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

(29) Commitments

Commitments for construction contracts in process and purchase orders pending of delivery are as follows:

	<u>2022</u>	<u>2021</u>
Investment Program - Others	73,786	53,913
Operations	<u>119,285</u>	<u>72,762</u>
Total	<u>193,071</u>	<u>126,675</u>

Commitments of the Investment Program - Others include: contracts with US Army Corps of Engineers for consulting services and expert technical advice for the Water Management System Program for B/.10,293 (2021: B/.451); Ingeniería Continental S. A. for the relocation of the Cristobal Pier for B/.8,485 (2021: B/.0); and R.G. Engineering Inc. for the design and construction of the replacement of the water and compressed air system of the Mount Hope Industrial Complex for B/.7,497 (2021: B/.0).

Commitments of operations include contracts awarded: Inventory purchases for B/.22,794 (2021: B/.10,641); Willis Towers Watson for multiperil policy renewal for B/.40,319 (2021: B/.15,094); MAPFRE Panama, S.A. for the annual health-life accident insurance policy for B/.10,132 (2021: B/.5,897) and Relleno Transporte y Equipo S. A. for the excavation of the eastern slope of Cucaracha Reach (phase 2) for B/.9,785 (2021: B/.13,897).

Guarantees

ACP subscribes contracts to carry out transactions in the domestic energy market, which are guaranteed with compliance bonds issued by a bank with investment grade A+ from Standard & Poor's. As of September 30, 2022, the active compliance bonds used to guarantee transactions between ACP and ETESA amounted to B/.416 (2021: B/.874).

(30) Contingent Liabilities

ACP is exposed to legal risk arising from disputes with contractors and other third parties. The outcome of any current or future proceedings normally cannot be predicted. Legal proceedings we currently consider to be material are outlined below. The legal proceedings referred to do not represent an exhaustive list.

Notes to the Financial Statements

(30) Contingent Liabilities, continued
Third Set of Locks litigation

As of September 30, 2022, claims from GUPCSA and its shareholders, other than CUSA (“the claimants”) amount to:

Lock Gates Arbitration	639,136
Disruption Arbitration	<u>3,567,811</u>
Total	<u>4,206,947</u>

The foregoing constitutes the contingent liability of ACP resulting from the claims under arbitration of plaintiffs, in relation to the Third Set of Locks. This contingent liability has no provisioned funds.

ACP is of the opinion that it has meritorious defenses in all these claims and intends to defend itself vigorously.

Below is described the general information regarding the status of these processes:

- *Motions to vacate the Concrete and Aggregate Arbitration awards before the US courts*
The Movants (GUPCSA, Sacyr, Webuild and JDN) sought to overturn the Partial Award and Final Award issued in the Concrete and Aggregate Arbitration which awarded some B/.238,000 to ACP plus costs. These proceedings were initiated in Federal court in Miami, Florida (the Miami Courts) in late November 2020. The Movants have alleged that the Partial and Final Awards should be vacated on multiple grounds, including arbitrator bias and denial of the opportunity to be heard. The motions to vacate the Partial and Final Awards were consolidated into one proceeding and on November 18, 2021, the Miami Courts issued the decision denying the motion to vacate and granting ACP’s motion to confirm in relation to both awards. The Movants have appealed the Court’s decision and the appeal is currently pending before the 11th Circuit.
- *The Lock Gates Arbitration*
In December 2016, the Claimants filed an ICC claim related to the design of the lock gates and labor costs adjustments, which is currently consolidated with another arbitration filed in July 2017, and includes the same claims, resulting in reference ICC Case No. 22465/ASM/JPA (C-22966/JPA). Claimants filed its Statement of Claim at the end of March 2020. ACP submitted its Statement of Defense in December 2020. The main merits hearing took place between 14 March 2022 and 1 April 2022. The Claimants quantified its claims at B/.639,136. This arbitration is pending for the award to be issued.
- *The Disruption Arbitration*
In December 2016, the Claimants filed their delay and disruption claim. This arbitration was consolidated with another arbitration filed in July 2017 related to exactly the same claims, resulting in ICC Case No.22466/ASM//JPA (C-22967/JPA).

Notes to the Financial Statements

(30) Contingent Liabilities, continued

In a Case Management Conference held on May 2, 2019, the claims were divided into two large tranches, taking into consideration their temporality and a Procedural Timetable was agreed. The Claimants filed their Statement of Claim for Tranche 1 in January 2020, quantifying their claims at B/.1,890,000. Since then, there had been interruption to the timetable, and it was granted a consolidation of both Tranches 1 and 2, as requested by the Claimants. As of September 30, 2021, the Claimants filed its consolidated Statement of Claim (covering both Tranches 1 and 2) and quantified its claims at B/.3,567,811. ACP is currently preparing its Statement of Defense which is due in January 2023. Afterwards, there is a Case Management Conference scheduled for March 2023 to confirm the procedural calendar to be followed in this arbitration.

- *Arbitration final awards*

At the date of the issuance of financial statements, three (3) of the arbitrations filed by the claimants against ACP under the Arbitration Rules of the ICC concluded with arbitral awards in favor of ACP in relation to the Temporary Cofferdam, Advance Payments, and the Concrete Aggregate and Mix Designs.

Others

ACP maintains marine claims for B/.3,534, miscellaneous claims outstanding for B/.11,430, and other claims related to various construction contracts for B/.7,836. ACP believes it has meritorious defenses in all these claims and intends to defend itself vigorously.

The notes contained herein describe claims raised against ACP and do not constitute any acceptance of the validity of such claims by ACP, which ACP deny in their entirety.

(31) Events that Occurred after the Reporting Period

By means of the Agreement No. 409, the Board of Directors approved at its meeting on December 13, 2022, the transfer to the National Treasury of the surplus corresponding to fiscal year 2022 in the amount of B/.1,894,000 (Note 15). The Agreement was effective as of December 15, 2022, date of its publication in the Panama Canal Record.