Aeropuerto Internacional de Tocumen, S.A.

(A wholly-owned Company of the Government of the Republic of Panama)

Financial statements as of and for each of the three years in the periods ended December 31, 2017 and Independent Auditors' Report of March 28, 2018

"This document has been prepared with the knowledge that its contents will be made available to the investing and general public"

Aeropuerto Internacional de Tocumen, S.A.
(A wholly-owned subsidiary of the Government of the Republic of Panama)

Independent Auditors' Report and Financial Statements for each of the three years in the period ended December 31, 2017, 2016 and 2015

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of
Aeropuerto Internacional de Tocumen, S.A.

Opinion

We have audited the financial statements of Aeropuerto Internacional de Tocumen, S.A. ("the Company"), which comprise the statement of financial position as at December 31, 2017, 2016 and 2015, and the statement of profit or loss, the statement of changes in equity and the statement of cash flows for each of the three years in the periods ended December 31, 2017, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the periods ended December 31, 2017 in accordance with International Financial Reporting Standards (IFRSs).

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Panama, and we have fulfilled our other ethical responsibilities in accordance with 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, according to 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.

Weaknesses of controls on accumulation of expenses and liabilities

During the auditing procedures of previous years, we have identified breach errors for lack of accumulation of expenses and liabilities on the financial statements for those years. During the current year, through the planning procedures, we identified that Management has initiated a remediation process through the implementation of mitigating controls. There is a risk that the implemented mitigation controls of the accumulation process may not be effective that could result on a material error of accumulation for expenses and liabilities.

How the issue was addressed in our audit

Our audit procedures in this area include, but are not limited to:

- We have tested the design, implementation and operational effectiveness of the key controls on the evaluation process of accumulation of costs.
- We performed procedures focused on subsequent payments for payments to unrecognized liabilities.
- We performed procedures focused on information from different sources (Minutes of the Board of Directors, Agreements endorsed and countersigned by the Comptroller) in search of services performed and not accounted for.
- We performed analytical review of expenses account on material variations.

We did not find exceptions in our tests of controls and substantive tests.

Other information

Management is responsible for the other information. The other information comprises the information included in the IN-A Report, but does not include the financial statements and our auditor's report thereon. This report is expected to be made available to us after the date of this auditor's 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 IN-A report, if we conclude that there is a material statement therein, we are required to communicate the matter to those in charge of governance and to the regulatory authorities if applicable.

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 IFRSs, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company 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 consolidated 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 the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Luis Castro.

March 28, 2018
Panama, Republic of Panama

Aeropuerto Internacional de Tocumen, S.A.
(A wholly-owned Company of the Government of the Republic of Panama)

Statement of financial position
as at December 31, 2017, 2016 and 2015
(In balboas)

Assets	Notes	2017	2016	2015
Non-current assets				
Property, equipment and improvements, net of depreciation	4	636,299,439	615,859,231	549,714,015
Constructions in progress	5	927,030,856	685,296,137	592,653,226
Deferred tax assets	15	11,045,158	15,508,548	14,351,533
Advance to contractors	6,8,10	724,085	31,181,810	50,251,287
Advance to purchases abroad	7	80,228,315	30,171,228	37,087,836
Inventories, net		1,929,076	1,856,934	1,964,821
Unemployment fund		3,715,282	2,303,357	1,775,622
Guarantee deposits		29,689	29,689	29,689
Total non-current assets		1,661,001,900	1,382,206,934	1,247,828,029
Current assets				
Cash and bank deposits	9	162,276,078	428,617,838	109,719,310
Interests receivable		2,717,260	1,702,192	-
Accounts receivable:				
Customers	21	12,779,761	13,411,539	11,593,276
Related parties	10	206,148	95,751	20,308,622
Others		43,988	466	8,323
		13,029,897	13,507,756	31,910,221
Less: Provision for impairment of doubtful accounts		(1,800,294)	(1,800,294)	(1,923,235)
Total accounts receivable		11,229,603	11,707,462	29,986,986
Prepaid taxes	15	11,045,158	-	-
Prepaid expenses		255,428	674,211	488,165
Total current assets		187,523,527	442,701,703	140,194,461
Total assets		1,848,525,427	1,824,908,637	1,388,022,490

Equity and liabilities	Notes	2017	2016	2015
Equity				
Common shares; 1,000,000 authorized with par value; of B/.20.00 each, all issued and outstanding.		20,000,000	20,000,000	20,000,000
Additional paid-in capital		307,661,033	307,661,033	307,661,033
Retained earnings		131,923,433	99,529,698	52,880,233
Accounts receivable shareholder	10	-	(11,281,930)	(25,787,273)
Complementary tax		(11,969,993)	(10,821,255)	(9,092,701)
Total equity		447,614,473	405,087,546	345,661,292
Non-current liabilities				
Deferred revenue	12	19,665,988	24,454,905	52,870,074
Bonds payable	13	1,171,499,136	1,190,529,016	646,374,964
Accounts payable to concessionaires		189,252	467,420	267,409
Concessionaires' guarantee deposits		4,420,039	4,496,079	3,301,023
Provision for benefits to retirees	14	4,382,532	2,149,076	1,776,259
Seniority premium		2,291,037	1,976,376	1,764,942
Withholding to contractors	8	-	17,963,615	15,874,500
Total Non-current liabilities		1,202,447,984	1,242,036,487	722,229,171
Current liabilities				
Bonds payable	13	20,000,000	16,000,000	-
Interest payable		3,773,437	3,773,438	-
Withholding to contractors	8	26,043,057	-	-
Accounts payable related parties	10	29,433,477	45,247,132	59,829,195
Accounts payable and other accrued expenses payable	11	57,236,877	36,255,400	187,007,603
Accounts payable to concessionaires		267,211	359,707	39,055
Income tax payable	15	-	12,740,721	10,758,094
Other taxes payable	16	35,799,343	34,011,470	32,313,323
Deferred revenue	12	25,909,568	29,396,736	30,184,757
Total current liabilities		198,462,970	177,784,604	320,132,027
Total liabilities		1,400,910,954	1,419,821,091	1,042,361,198
Total equity and liabilities		1,848,525,427	1,824,908,637	1,388,022,490

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

Aeropuerto Internacional de Tocumen, S.A.
(A wholly-owned Company of the Government of the Republic of Panama)

Statement of profit or loss
for each of the three years in the period ended December 31, 2017, 2016 and 2015
(In balboas)

	Notes	2017	2016	2015
Continuing operations				
Revenue	10,17	233,551,413	232,173,564	188,461,592
Depreciation	4	(18,051,865)	(16,958,125)	(15,837,978)
Personnel costs	18	(35,953,261)	(27,085,230)	(23,310,650)
Repair and maintenance		(5,726,355)	(6,611,454)	(11,188,247)
Electricity, water and telephone		(8,611,920)	(7,895,795)	(10,525,916)
Special Fund for the Development of the National Aeronautics Infrastructure (FEDIAN)	10	(15,000,000)	(4,500,000)	(4,500,000)
International Civil Aviation Organization Fees and other related expenses	7	(8,004,448)	(4,868,790)	(3,062,646)
Ministry of Public Safety	10	-	(8,500,000)	-
Payment for Panama Pacific concession	25	(2,057,431)	(1,500,000)	(1,500,000)
Other expenses	10,16	(25,400,968)	(16,843,318)	(18,947,134)
Financial costs, net	10,19	(17,631,514)	(16,556,819)	(14,456,622)
Profit before tax		97,113,651	120,854,033	85,132,399
Income tax:				
Current		(27,474,596)	(37,399,847)	(25,268,542)
Deferred		(4,463,390)	1,157,015	(767,376)
Total income tax	15	(31,937,986)	(36,242,832)	(26,035,918)
Net profit		65,175,665	84,611,201	59,096,481

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

Aeropuerto Internacional de Tocumen, S.A.
(A wholly-owned Company of the Government of the Republic of Panama)

Statement of changes in equity
for each of the three years in the period ended December 31, 2017, 2016 and 2015
(In balboas)

	Notes	Common shares	Additional paid-in capital	Retained earnings	Accounts receivable shareholder	Complementary tax	Total equity
Balance at December 31, 2014		20,000,000	307,661,033	22,706,355	(40,292,615)	(7,898,475)	302,176,298
Net profit		-	-	59,096,481	-	-	59,096,481
Contributions and shareholder's distribution							
Declared dividends		-	-	(12,805,556)	-	-	(12,805,556)
Dividends declared with credit to accounts receivable shareholder	10,20	-	-	(16,117,047)	14,505,342	1,611,705	-
Complementary tax		-	-	-	-	(2,805,931)	(2,805,931)
Total contributions and distributions to shareholder		-	-	(28,922,603)	14,505,342	(1,194,226)	(15,611,487)
Balance at December 31, 2015		20,000,000	307,661,033	52,880,233	(25,787,273)	(9,092,701)	345,661,292
Net profit		-	-	84,611,201	-	-	84,611,201
Contributions and shareholder's distribution							
Declared dividends		-	-	(21,844,689)	-	-	(21,844,689)
Dividends declared with credit to accounts receivable shareholder	10,20	-	-	(16,117,047)	14,505,343	1,611,704	-
Complementary tax		-	-	-	-	(3,340,258)	(3,340,258)
Total contributions and distributions to shareholder		-	-	(37,961,736)	14,505,343	(1,728,554)	(25,184,947)
Balance at December 31, 2016		20,000,000	307,661,033	99,529,698	(11,281,930)	(10,821,255)	405,087,546
Net profit		-	-	65,175,665	-	-	65,175,665
Contributions and shareholder's distribution							
Declared dividends		-	-	(21,500,000)	-	600,000	(20,900,000)
Dividends declared with credit to accounts receivable shareholder	10,20	-	-	(11,281,930)	11,281,930	-	-
Complementary tax		-	-	-	-	(1,748,738)	(1,748,738)
Total contributions and distributions to shareholder		-	-	(32,781,930)	11,281,930	(1,148,738)	(22,648,738)
Balance at December 31, 2017		20,000,000	307,661,033	131,923,433	-	(11,969,993)	447,614,473

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

Aeropuerto Internacional de Tocumen, S.A.
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Statement of cash flows
for each of the three years in the period ended December 31, 2017, 2016 and 2015
(In balboas)

	Notes	2017	2016	2015
Cash flows from operating activities:				
Net profit		65,175,665	84,611,201	59,096,481
Adjustments for:				
Depreciation	4	18,051,865	16,958,125	15,837,978
Provision for impairment of doubtful accounts	21	-	-	338,129
Property tax provision for improvements	16	1,787,873	1,787,872	1,787,873
Reversal provision for benefit to retirees	14	2,240,028	582,298	144,867
Provision for seniority premium		457,946	369,157	318,465
Loss on disposal of fixed assets	4	107,815	633,608	31,793
Financial costs, net	19	17,631,514	16,556,819	14,456,622
Income tax recognized in the statement of profit or loss and other comprehensive income	15	31,205,978	36,242,832	26,035,918
		136,658,684	157,741,912	118,048,126
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable		477,859	(1,930,010)	(1,979,083)
(Increase) decrease in inventories		(72,142)	107,887	(371,661)
Increase in prepaid expenses and other assets		(10,626,375)	(186,046)	1,811,157
(Increase) decrease in advance purchases abroad and contractor		(50,057,087)	6,916,608	(30,810,302)
Decrease in deferred revenue		(8,276,085)	(29,203,190)	(11,013,615)
Increase in accounts payable and other accrued expenses payable		12,081,377	46,955,023	3,347,208
Decrease in accrued expenses and other liabilities		(9,563,845)	(10,458,868)	(678,427)
(Decrease) increase in accounts with related parties, net		(15,813,655)	5,417,937	119,854
Decrease in unemployment fund		(1,411,925)	(527,735)	(154,024)
		53,396,806	174,833,518	78,319,233
Flows from operating activities:				
Income tax paid		(26,742,588)	(25,311,266)	(12,739,888)
Interest received		595,385	292,272	153,956
Interest paid		(21,030,217)	(13,075,653)	(14,610,578)
Net cash provided by operating activities		6,219,386	136,738,871	51,122,723
Cash flows from investing activities:				
Payment for construction in progress	5	(225,770,245)	(77,027,880)	(46,924,730)
Time deposit		200,000,000	(280,000,000)	-
Payments to contractors		-	(212,220,743)	-
Proceeds from sale of properties		-	20,209,534	-
Proceeds from payment of properties		-	(20,000,000)	-
Acquisition of fixed assets	4	(38,599,888)	(83,736,949)	(8,828,616)
Change in advance to contractors	6	30,457,725	19,069,477	22,676,483
Net cash used in investing activities		(33,912,408)	(633,706,561)	(33,076,863)
Cash flows from financing activities:				
Dividends paid	20	(21,500,000)	(21,844,689)	(14,417,260)
Guarantee trust fund	21	4,247,177	(29,354,901)	(2,995,693)
Complementary tax		(1,148,738)	(1,728,554)	(2,805,931)
Payment of bonds	23	(16,000,000)	(3,000,000)	-
Proceeds from issuance of corporate bonds	13	-	562,439,461	-
Net cash (used in) provided by financing activities		(34,401,561)	506,511,317	(20,218,884)
Net (decrease) increase in cash and cash equivalents		(62,094,583)	9,543,627	(2,173,024)
Cash and cash equivalents at beginning of year		90,312,620	80,768,993	82,942,017
Cash and cash equivalents at end of year	9	28,218,037	90,312,620	80,768,993

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

1. General information

a) Incorporation and general information

Aeropuerto Internacional de Tocumen, S.A. (hereinafter “the Company”) was established by Deed No. 2018 of April 11, 2003, and registered in the commercial section of corporations, under the regulatory framework for the management of airports and airfields in Panama in accordance to Law No. 23 of April 20, 2003. Through Resolution No. 30 of April 9, 2003, the Ministry of Economy and Finance authorized the issuance of the Articles of Incorporation of the Company that manages the Tocumen International Airport (hereinafter “Airport”).

The activity of the Company is to manage the Airport´s public services with efficiency, transparency and equal treatment criteria, in order to ensure a quality service to the users. Its main income comes from charging fees to airlines for international flights and departure taxes to passengers as well as commercial rentals and concessions of areas within the airport facilities.

The main office of the Company is located in Tocumen, District of Panama.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) and regulations

2.1 New and revised International Financial Reporting Standards (IFRSs) that affect the financial statements

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

Amendments to IAS 7 Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company’s liabilities arising from financing activities consist of bonds (note 13). A reconciliation between the opening and closing balances of these items is provided in Note 23. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 23, the application of these amendments has had no impact on the Company financial statements.

2.2 New and revised IFRSs issued but not yet effective

A series of standards and amendments to the new standards and interpretations are effective for annual periods beginning on or after January 1, 2018, and have not been applied in the preparation of these financial statements. With the exception of the new standards described below, it is not expected that any of these will have a significant effect on the financial statements. However, it is not practical to provide a reasonable estimate of the impact on the financial statement until a detailed review has been completed.

IFRS 9 – Financial Instruments: IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to include requirements for classification and measurement of financial liabilities and derecognition, and in November 2013, included new requirements for general hedge accounting. In July 2014, another revised version of IFRS 9 was issued mainly to include: a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a measurement category at “fair value with changes in other comprehensive income” (FVTOCI) for certain simple debtor instruments.

Key requirements of IFRS 9

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 - *Financial Instruments: Recognition and Measurement* are subsequently measured at amortized cost or at fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal usually measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting the contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent account periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities that are designated at fair value through profit and loss, IFRS 9 requires that the amount of the change in the fair value of the financial liability attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income creates or increases an accounting disparity in profit or loss. Changes in fair value attributable to credit risk of financial liabilities are not subsequently reclassified to profit or loss. Under IAS 39, the total amount of the change in fair value of financial liabilities designated at fair value with change in results was recognized in profit or loss.

Under IAS 39, the total amount of the change in the fair value of the financial liability designated at fair value through profit or loss was recognized in profit or loss.

- With respect to impairment of financial assets, IFRS 9 requires an impairment model for expected credit loss, as opposed to the model of incurred credit loss impairment in accordance with IFRS 39. The credit loss impairment model requires an entity to account for expected credit losses and their changes in these credit losses expected on each date on which the report is presented to reflect changes in credit risk from the initial recognition. In other words, a credit event is no longer needed before credit losses are recognized.

- The new general requirements for hedge accounting hold the three types of hedge accounting mechanisms that are currently available in IAS 39. In accordance with IFRS 9, ideal types of transactions for hedge accounting are much more flexible, specifically when expanding the types of instruments that are classified as hedging instruments and types of risk components of non-financial items ideal for hedge accounting. In addition, the effectiveness test by the principle of "economic relationship" has been revised and replaced. It no longer requires a retrospective evaluation to measure the hedge effectiveness. Enhanced disclosure requirements were also added on risk management activities of an entity.

The effective date for the application of IFRS 9 is for annual periods beginning on or after January 1, 2018. However, this Standard may be adopted earlier.

IFRS 15 - *Revenue from Contracts with Customers*: In May 2014, IFRS 15 was issued, which provides an extensive and detailed model to be used by entities in accounting for revenue from contracts with customers. IFRS 15 will replace the current revenue recognition guideline, including IAS 18 – *Revenue*, IAS 11 - *Construction Contracts* and related interpretations on the date it comes into effect.

The fundamental principle of IFRS 15 is that an entity should recognize revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. Specifically, the rule adds a 5-step model to account for revenue:

- Step 1: Identify the contract with customers.
- Step 2: Identify performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Distribute the transaction price to performance obligations in the contract.
- Step 5: Recognize revenue when (or whenever) the entity meets the requirement.

Under IFRS 15, an entity accounts for an income when (or whenever) a performance obligation is met, that is, when the "control" of goods and services based on an obligation of individual performance is transferred to the customer. Guidelines that are more prescriptive have been added in IFRS 15 to deal with specific situations. In addition, IFRS 15 requires more extensive disclosures.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 – *Leases*: On January 13, 2016, IFRS 16 Leases was issued, which replaces current IAS 17 Leases. IFRS 16 eliminates the classification of leases, as either operating leases or financial leases for the lessee. Instead, all leases are recognized in a manner similar to financial leases under IAS 17. Leases are measured at the present value of future lease payments and are presented either as leased assets (assets for right of use) or together with property, furniture and equipment. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 - *Revenue from Contracts with Customers*.

Management anticipates that all of the above standards and interpretations will be adopted in the Company's financial statements as of the next accounting periods.

In performing the preliminary assessment of the impact of the adoption of IFRS 9 and IFRS 15, Management does not anticipate material impact on the adoption of these standards. However, the actual impacts of adopting these standards as of January 1, 2018 may change because the news accounting policies are subject to change until the Company presents its first financial statements that include the date of the initial application

In addition, Management anticipates that the following amendments will not have an impact in the Company's financial statements as of the next accounting periods: Amendments to IFRS2, Amendments to IFRS 10 and IAS 28, Amendments to IAS 40; Amendments to IFRS1, IAS 28 and IFRS 12 and IFRIC 22.

For the other accounting standards, Management is in the process of evaluating the impact of its adoption on the Company's financial statements for the initial period of application.

3. Summary of significant accounting policies

A summary of the principal accounting policies applied in the preparation of the financial statements is presented below:

3.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

3.2 Basis of presentation

The financial statements have been prepared on the basis of historical cost. Generally, historical cost is based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants consider these characteristics when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or the value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized as Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets and liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3.3 Functional and presentation currency

The financial statements are expressed in balboas (B /.), the official currency of the Republic of Panama, which is at par and is freely exchangeable with the US dollar (US$) of the United States of America. The balboa is the functional and presentation currency of the Company's financial statements.

3.4 Financial instruments

Financial assets and liabilities are recognized when the Company becomes part of the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and liabilities (other than financial assets and liabilities designated at fair value through profit or loss) are added to or deducted from the fair value of financial assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities designated at fair value through profit or loss are recognized immediately in profit or loss.

3.5 Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity investments", "available-for-sale financial assets", "cash and cash equivalents", and “loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular purchases or sales are all purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market.

3.5.1 Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and allocating financial income over the relevant period. The effective interest rate is the discount rate that exactly discounts the estimated cash flows receivable or payable (including commission, basic points of interest paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate), over the expected life of the financial instrument or, where appropriate, in a shorter period, with the net carrying amount on initial recognition.

Income is recognized on the basis of the effective interest rate for debt instruments other than financial assets classified at fair value through profit or loss.

The following are the financial assets at the date of the statement of financial position:

3.5.2 Accounts receivable

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable (including trade accounts, other accounts receivable, bank balance and cash, among others) are measured at amortized cost using the current interest method and subtracting any impairment.

Interest income is recognized when the current interest rate is applied, except for short-term accounts receivable when the effect of not discounting is immaterial.

3.5.3 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. A financial asset will be impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the estimated future cash flows of the financial asset have been affected.For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or the counterparty; or
- Breach of contract, such as arrears or failure to pay interest or principal; or the borrower is likely to fall into bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset due to financial difficulties.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

3.5.4 Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers or retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

3.6 Financial liabilities and equity instruments

3.6.1 Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.6.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a Company after deducting all of its liabilities. Equity instruments issued by a Company entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.6.3 Other financial liabilities

Other financial liabilities (including bonds payable and trade and other payables) are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating financial expense over the relevant period. The effective interest rate is the discount rate that exactly discounts the estimated cash flows receivable or payable (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, (where appropriate) in a shorter period to the net carrying amount on initial recognition.

3.7 Inventories

Inventories consist of parts, spare parts and materials that are valued at acquisition cost, less provision for impairment or obsolescence. The Company evaluates annually the need to record any adjustment for inventory obsolescence.

3.8 Constructions in progress

Constructions in progress represent project costs considered in the “Expansion Plan of South Terminal” and other infrastructure projects, which are under construction.

The costs of the projects under construction are transferred to property and improvements to property in exploitation throughout the fiscal period or at the end of the financial year, once the infrastructure has been commissioned to enter into commercial exploitation and the corresponding minutes of substantial or final acceptance are available.

The costs of the constructions in progress include salary costs, employee benefits, loan interest attributable to construction and other direct costs directly associated with the project.

Interest incurred on financings acquired for the projects under construction are capitalized as a component of construction costs in progress. Capitalization ends when the infrastructure under development is available for use. The other interests are recognized as financial costs when incurred. At December 31, 2017, capitalized interest costs were for B/.49,978,626 (2016: B/.40,330,088 and 2015:B/.26,366,657).

3.9 Property, equipment and property improvements

i. Recognition and measurement

Property, equipment and property improvements for use in the production or supply of goods and leasing services to third parties or for administrative purposes are stated at cost less accumulated depreciation and subsequent accumulated impairment losses, except for the land that is valued at cost. Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss.

Costs include expenses that are directly attributable to the acquisition of the asset. Cost of the constructed assets include the cost of materials and direct labor, borrowing costs capitalized in accordance with the Group’s accounting policy and any other costs directly related to the asset in order to be in the required conditions and to operate as intended. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Gains and losses on disposal of an item of property, equipment and property improvements are determined by comparing the disposal proceeds with the carrying amount of the assets and are recognized net within “other income” in the statement of profit or loss.

The Company classifies property and property improvements as that portion of the assets that issued for purposes of generating income when these assets cannot be sold separately and when the portion of the asset used for production or supply purposes of goods or services or administrative purposes is not significant.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

ii. Depreciation

Depreciation of property, equipment and improvements to property is recognized in profit or loss. Depreciation is recognized so as to write off the cost of assets (other than land and property under construction less its residual value over its useful life).

The items of property, equipment and property improvements are depreciated using the straight-line method in profit and loss based on the estimated useful lives of each component. Land does not depreciate. The items of property, equipment and property improvements are depreciated from the date on which they are installed and ready for use or in the case of assets constructed internally, from the date on which the asset is completed and in useful conditions.

The estimated useful lives of the assets are as follows:

	Estimated useful life
Furniture and fixtures	10
Vehicles	5
Sweeper equipment	10
Computer equipment	5
Machinery, equipment and others	10
Office equipment	10
Equipment of boarding bridges	18
Infrastructure and improvements	40

The estimated useful life, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

iii. Subsequent Costs

The cost of replacing an item of property, equipment and property improvements is recognized in the carrying amount of the item if it is probable that future economic benefits associated with the item will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced item is written off. The daily maintenance cost of furniture, equipment and improvements is recognized in the line of repair and maintenance in the statement of profit or loss as incurred.

3.10 Impairment of non-financial assets

The carrying amounts of the non-financial assets of the Company are reviewed at each reporting date to determine if there is an indication of impairment. If such an indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also assigned to the individual cash-generating units, or else assigned to the smaller group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable value of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs required for its disposal. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to which the asset belongs. For purposes of impairment testing, assets are brought together in the lower group of assets that generates cash inflows from continued use, having great independence of the cash inflows from other assets or groups of assets (the cash-generating unit).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable value. Impairment losses are recognized in the statement of profit or loss.

In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date with respect to any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount; however so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3.11 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered, a receivable is recognized as an asset if it is virtually certain that the reimbursement will be received and the amount receivable can be measured reliably.

3.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is for estimated customer returns, rebates and other similar allowances.

3.12.1 Provision of services

Revenue from contracts to provide services is recognized when the service is provided or by reference to the stage of completion of the contract.

Revenues from rendering of services of airport operation include:

A) Operations – Correspond to the right of landing of an aircraft, ground handling services, equipment leasing of ramp and boarding bridge for commercial, private and cargo flights, as well as the rate applied to each of the persons as national and international passengers to use the terminal facilities of the Company on outbound flights. These revenues are recognized once the service invoice is issued each month, on an accrual basis.

B) Business - Includes revenues from use of parking lots for vehicles entering the airport facilities and the fuel marketing margins, which is the margin invoiced to the oil companies for the sale of fuel to aircrafts dispatched within the Company's facilities.

These revenues are recognized on an accrual basis, considering the monthly sales reports of the sales agents.

3.12.2 Rental income

The Company's policy for the recognition of revenue from operating leases is described in section 3.13.1 below:

3.12.3 Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow into the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows receivable or payable through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.13 Leases

3.13.1 The Company as a lessor

Concession agreements generally include a payment for the right to keys, a fixed rental income per square meter of rented commercial premises and a variable income based on a percentage of gross revenue generated in the leased premises to the tenant, which is determined according to the commercial activity and is usually in the range of 5% to 10%. Payments for right to keys received from administrative concessions for the lease of commercial premises in the airport terminal are recognized as income over the term of the contract and are included as part of the rental income in the statement of profit or loss.

Fixed rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Variable income is recognized when it is probable that the economic benefit will flow to the Company and the amount of income can be measured reliably.

3.14 Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss during the period in which they are incurred.

3.15 Income tax

Income tax expense comprises current and deferred tax and is recognized in the statement of profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income, if any, in which case it is recognized in other comprehensive income and presented in equity.

The tax currently payable is based on taxable profit for the year, using the tax rates in effect or to take effect on the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for tax purposes. Deferred tax is not recognized for temporary differences related to the initial recognition of assets and liabilities in a transaction other than a business combination that affects neither the accounting profit or the taxable income and differences related to the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applicable to the temporary differences when they are reversed, based on the laws that are in effect or are expected to be in effect on those dates. Deferred tax assets and liabilities are offset if there are enforceable legal rights to offset tax assets and liabilities, and are related to income taxes determined by the same authority on the same tax paying entity, or on different tax paying entities but intended to liquidate current tax assets and liabilities in a compensated manner so that their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable net profits will be available against which they can be used for temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not likely that related tax benefits will be realized.

3.16 Provision for seniority premium and severance fund

The Labor Code establishes in the Panamanian labor law the recognition of a premium for seniority services. To this end, the Company has established a provision, which is calculated based on one week of severance pay per every year of work, or what is equal to 1.92% of wages paid in the year.

According to the Labor Code of the Republic of Panama, at the termination of any contract of indefinite duration, regardless of the cause, the employee is entitled to a seniority premium at the rate of one week’s salary for each year worked since the beginning of the employment relationship.

Law No.44 of December 12, 1995 provides as of its entry into effect, that it is the obligation of the employers to set up a severance fund to pay employees the seniority premium and compensation for unfair dismissal established by the Labor Code. Labor, which amounted to B/.2,291,037 (2016: B/.1,976,376 and 2015: B/.1,764,942).

3.17 Provision for retiree benefits

In accordance with Article No. 34 of Law No. 21 of October 18, 1982, and Official Gazette No. 19678 of October 25, 1982, relating to Special Retirements, the Board of Directors recognized as of January 1, 2009, a provision for employee benefits charged to income which was established based on the last salary of the employees upon reaching 25 years of continuous service, and the years that follow until they meet the age required to apply for Retirement from the Social Security. The information used for the recognition of the provision for retirement benefits is determined based on the eligible firefighters who remained employed by the Company.

A defined benefit plan is a post-employment plan different from a defined contribution plan. The net obligation of the Company related to defined pension benefits is calculated separately for the plan, calculating the amount of future benefits that retirees have earned in exchange for their services in the current and prior periods; that benefit is discounted to determine its present value. The cost for previously unrecognized services and the fair value of any asset of a plan are deducted. The discount rate or cost is a financial measure that is applied to determine the present value of a future payment. In Panama there is no active market for observable securities, so the rate related to the bonds issued by the Government of the Republic of Panama has been considered in US dollars for the discount of this obligation.

The calculation is performed annually by a qualified actuary using the projected credit unit method. When the calculation produces a benefit to the Company, the recognized asset is limited to the net total of any unrecognized prior service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, any minimum funding requirements that apply to any plan of the Company must be considered. An economic benefit is available to the Company if it is realizable in the duration of the plan, or to the liquidation of the obligations of the plan. When the benefits of a plan are improved, the portion of the improved benefit that relates to past services performed by employees is recognized in profit or loss using the straight-line method over the average period until the benefits are delivered. To the extent benefits are granted immediately, the expense is immediately recognized in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans and all related expenses, personnel costs, in profit or loss.

When reductions or liquidations take place in the defined benefit plan, the Company shall recognize gains or losses arising thereof. These gains or losses will include any changes that could result in the present value of the defined benefit obligations incurred by the entity, any actuarial gains and losses and past service costs that had previously been unrecognized.

3.18 Service concession arrangements

The Company recognizes service concession arrangements in accordance with the requirements of IFRIC 12 - Service Concession Arrangements.

This interpretation is applicable for concessions in which:

- The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and

- The grantor controls, through ownership, from beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Company does not recognize these infrastructures as property, plant and equipment. The Company recognized the consideration received on contracts that meet the above conditions at their fair value as intangible assets to the extent that the Company receives a right to make charges to users of the service, provided these rights are conditioned to the use of the service, or as a financial asset, to the extent that there is an unconditional contractual right to receive cash or another financial asset, whether directly from the transferor or a third party. In cases where construction services are paid to the Company in part by a financial asset and partly by an intangible asset, each component of the consideration is accounted for separately.

Financial assets of service concession arrangements are recognized in the statement of financial position as operating financial assets and are subsequently measured at amortized cost using the effective interest rate. The assessment of impairment of these financial assets is performed according to the policy for impairment of financial assets.

Intangible assets of service concession arrangements are recognized in the statement of financial position as intangible assets called "intangible assets for service concession arrangements" and are amortized linearly within the duration of the same.

Revenues from ordinary activities and costs associated with operating services are recognized according to the accounting policy for ordinary revenue.

3.19 Segment information

The Company reports operating segments under IFRS 8 "Operating segments". Operating segments are components of an entity that: (a) develops business activities from which it may earn income from ordinary activities and incur in expenses; (b) whose operating results are regularly reviewed by the highest authority in decision-making operation of the entity, to decide on the resources to be assigned to the segment and assess its performance; (c) on which differentiating financial information is available.

The Company maintains a reportable segment - "management and airport operations".

3.20 Funds retained to contractors

The Company retains five percent (5%) to ten percent (10%) from the amount owed for each payment made to contractors subject to the provisions of construction contracts, as established by each contract. Upon completion of the works and satisfactorily received, the retained funds are paid to the respective contractors.

3.21 Dividends

Dividends are recognized in the statement of financial position as liabilities when the Company has the obligation to make the payment for the distribution approved by the Board of Directors.

3.21.1 The complementary tax is an advance of the dividend tax, that is recognized based on 4% of the taxable net profit of each period. This tax is amortized when the Company files its tax return and pays dividends which are discounted from the dividend tax caused.

3.22 Critical accounting judgments and key sources of estimation uncertainly

In the application of the accounting policies of the Company, which are described in Note 3, Management must make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing and current basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.22.1 Critical judgments in applying accounting policies

Below are presented judgments, apart from those involving estimates (see Note 3.22.2), made by Management during the process of applying the accounting policies of the Company and that have a significant effect on the amounts recognized in the financial statements.

Recognition of items in the financial statements

As part of the control and supervision of the Company, in some circumstances the endorsement of the General Comptroller of the Republic is legally required for the transaction to be valid. In circumstances where it is probable that the economic benefits associated with the transaction will flow to or from the entity, the item has a cost or value that can be measured reliably, reaching an agreement with the counterparty. Also, the Company has obtained all the required approvals from Management, thus the transaction is still recognized without the approval of the Comptroller although considered a transaction with a high probability of execution.

3.22.2 Key sources of estimation uncertainty

The information about assumptions and estimates in cases of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Provision for impairment of financial assets (see Note 22).
- Provision for property taxes (see Note 16).
- Provision for employee benefits (see Note 14).
- Contingencies (see Note 26).

4. Property, equipment and property improvements, net of depreciation

Property, equipment and property improvements are detailed as follows:

Cost	Balance at January 1, 2017	Acquisitions	Disposal or withdrawal of assets	Capitalization	Balance at December 31, 2017
Land	270,393,709	-	-	-	270,393,709
Infrastructure and improvements	365,053,877	833,769	-	27,624,306	393,511,952
Furniture and fixtures	3,416,578	154,624	-	-	3,571,202
Vehicles	10,656,809	1,102,437	-	-	11,759,246
Sweeping equipment	689,753	-	-	-	689,753
Computer equipment	10,348,860	1,128,369	(649,920)	-	10,827,309
Machinery, equipment and others	42,816,657	302,177	-	-	43,118,834
Office equipment	47,444	624	-	-	48,068
Boarding bridge equipment	21,185,762	-	-	-	21,185,762
Works of art	70,360	-	-	-	70,360
Other cultural assets	19,860	-	-	-	19,860
Other assets	3,354,788	7,453,582	-	-	10,808,370
Total	728,054,457	10,975,582	(649,920)	27,624,306	766,004,425

Depreciation	Balance at January 1, 2017	Depreciation Expense	Disposal or withdrawal of assets	Capitalization	Balance at December 31, 2017
Infrastructure and Improvements	56,882,128	9,249,201	-	-	66,131,329
Furniture and fixtures	1,780,485	276,362	-	-	2,056,847
Vehicles	7,293,734	1,311,436	-	-	8,605,170
Sweeping equipment	469,186	56,729	-	-	525,915
Computer equipment	7,380,828	2,162,911	(542,105)	-	9,001,634
Machinery, equipment and others	28,658,423	3,758,074	-	-	32,416,497
Office equipment	24,407	4,589	-	-	28,996
Boarding bridge equipment	8,797,227	1,110,349	-	-	9,907,576
Other cultural assets	19,860	-	-	-	19,860
Other assets	888,948	122,214		-	1,011,162
Total	112,195,226	18,051,865	(542,105)	-	129,704,986
	615,859,231				636,299,439

Cost	Balance at January 1, 2016	Acquisitions	Disposal or withdrawal of assets	Capitalization	Balance at December 31, 2016
Land	270,393,709	-	-	-	270,393,709
Infrastructure and improvements	286,401,153	830,666	(697,550)	78,519,608	365,053,877
Furniture and fixtures	3,281,013	135,565	-	-	3,416,578
Vehicles	9,964,235	692,574	-	-	10,656,809
Sweeping equipment	689,753	-	-	-	689,753
Computer equipment	9,538,138	810,722	-	-	10,348,860
Machinery, equipment and others	41,655,485	1,161,172	-	-	42,816,657
Office equipment	41,497	5,947	-	-	47,444
Boarding bridge equipment	21,185,762	-	-	-	21,185,762
Works of art	68,143	2,217	-	-	70,360
Other cultural assets	19,860	-	-	-	19,860
Other assets	1,776,310	1,578,478	-	-	3,354,788
Total	645,015,058	5,217,341	(697,550)	78,519,608	728,054,457

Depreciation	Balance at January 1, 2016	Depreciation expenses	Disposal or withdrawal of assets	Capitalization	Balance at December 31, 2016
Infrastructure and Improvements	49,294,687	7,651,383	(63,942)	-	56,882,128
Furniture and fixtures	1,410,617	369,868	-	-	1,780,485
Vehicles	5,943,356	1,350,378	-	-	7,293,734
Sweeping equipment	406,847	62,339	-	-	469,186
Computer equipment	5,624,072	1,756,756	-	-	7,380,828
Machinery, equipment and others	24,427,770	4,230,653	-	-	28,658,423
Office equipment	20,057	4,350	-	-	24,407
Boarding bridge equipment	7,409,350	1,387,877	-	-	8,797,227
Other cultural assets	19,860	-	-	-	19,860
Other assets	744,427	144,521	-	-	888,948
Total	95,301,043	16,958,125	(63,942)	-	112,195,226
	549,714,015				615,859,231

Cost	Balance at January 1, 2015	Acquisitions	Disposal or withdrawal of asset	Capitalization	Balance at December 31, 2015
Land	290,603,243	-	(20,209,534)	-	270,393,709
Infrastructure and improvements	279,727,813	6,673,340	-	-	286,401,153
Furniture and fixtures	3,081,462	207,200	(7,649)	-	3,281,013
Vehicles	9,683,926	311,915	(31,606)	-	9,964,235
Sweeping equipment	689,753	-	-	-	689,753
Computer equipment	9,443,042	95,096	-	-	9,538,138
Machinery, equipment and others	40,251,699	1,403,786	-	-	41,655,485
Office equipment	38,051	3,446	-	-	41,497
Boarding bridge equipment	21,185,762	-	-	-	21,185,762
Works of art	68,143	-	-	-	68,143
Other cultural assets	19,860	-	-	-	19,860
Other assets	1,642,477	133,833	-	-	1,776,310
Total	656,435,231	8,828,616	(20,248,789)	-	645,015,058

Depreciation	Balance at January 1, 2015	Depreciation expenses	Disposal or withdrawal of asset	Capitalization	Balance at December 31, 2015
Infrastructure and improvements	42,253,784	7,040,903	-	-	49,294,687
Furniture and fixtures	938,478	475,387	(3,248)	-	1,410,617
Vehicles	4,592,274	1,355,296	(4,214)	-	5,943,356
Sweeping equipment	344,510	62,337	-	-	406,847
Computer equipment	3,877,768	1,746,304	-	-	5,624,072
Machinery, equipment and others	20,242,497	4,185,273	-	-	24,427,770
Office equipment	16,931	3,126	-	-	20,057
Boarding bridge equipment	6,580,840	828,510	-	-	7,409,350
Other cultural assets	19,860	-	-	-	19,860
Other assets	603,585	140,842		-	744,427
Total	79,470,527	15,837,978	(7,462)	-	95,301,043
	576,964,704				549,714,015

In accordance with public deed No.19,333, dated November 27, 2015, the Company sold of 10.6 hectares of land adjacent to the airport for a total amount of B/.20,209,534. The registration on the Public Registry of Panama was made in December 18, 2015. The land was acquired by the Ministry of Education for the construction and development project of the Superior Technical Institute of the East (ITSE), a technical education institute. On March 24, 2016, the Company received the payment of the total amount.

5. Constructions in progress

Constructions in progress are detailed below:

	Balance at January 1, 2017	Additions	Capitalizations	Balance at December 31, 2017
South terminal	667,712,569	224,878,537	(8,629,461)	883,961,645
Other contracts:				
Celmec, S. A.	-	12,257,398	-	12,257,398
Landscape Vison Corporation (lanvicorp)	1,548,185	7,193,712	-	8,741,897
Constructora RODSA	1,573,400	5,695,694	-	7,269,094
Sampol Ingenieria y Obras, S. A.	-	4,981,245	-	4,981,245
Transeq, S.A.	-	4,264,570	-	4,264,570
Constructora MECO	11,189,515	6,107,763	(15,038,299)	2,258,979
Other less than B/. 2,000,000	3,272,468	3,980,106	(3,956,546)	3,296,028
	17,583,568	44,480,488	(18,994,845)	43,069,211
	685,296,137	269,359,025	(27,624,306)	927,030,856

	Balance at January 1, 2016	Additions	Capitalizations	Balance at December 31, 2016
South terminal	585,216,259	156,258,945	(74,061,469)	667,413,735
Other Contracts:				
Concepto y Espacios, S.A.	2,809,221	-	-	2,809,221
Transeq, S. A.	3,580,093	-	(3,580,093)	-
Constructora MECO	-	11,189,515	-	11,189,515
Other less thanB/. 2,000,000	1,047,653	3,714,059	(878,046)	3,883,666
	7,436,967	14,903,574	(4,458,139)	17,882,402
	592,653,226	171,162,519	(78,519,608)	685,296,137

	Balance at January 1, 2015	Additions	Capitalizations	Balance at December 31, 2015
South terminal	422,682,266	162,533,993	-	585,216,259
Other Contracts:				
Transeq, S. A.	3,580,093	-	-	3,580,093
Concepto y Espacios, S.A.	2,809,221	-	-	2,809,221
Other less thanB/. 2,000,000	1,047,653	-	-	1,047,653
	7,436,967	-	-	7,436,967
	430,119,233	162,533,993	-	592,653,226

The Company started the construction of the South terminal in 2013, under the work contract consisting of a new passenger terminal, an access boulevard from the Corredor Sur (including viaducts), expansion of the fire extinguishing system (SEI,) extension of the storage system and drinking water reservoir, taxiways and aircraft parking platform of the existing terminal, electrical substation and connection to the existing Tocumen substation.

The costs of the constructions in progress reflect the expenditures incurred by the Company for the construction of the South Terminal and other remodeling. As of 2013, the airport acquired a financial debt for the construction of the new South Terminal and construction costs include the capitalization of interest expenses attributable in proportion to the works in construction, as well as financial costs.

During the year ended December 31, 2017, the net capitalized interest costs amounted to B/.49,978,626 (2016: B/.40,330,088 and 2015: B/.26,366,657).

As at December 31, 2017, contracts other than the South Terminal are for an amount of B/.96,488,865 of which a total of B/.46,037,729 have been invoiced.

6. Advance to contractors

Below are the details of advances to contractors:

Counterparty	2017	2016	2015
Constructora Norberto Odebretch, S. A.	-	27,476,261	41,139,481
Ministy of Public Security - Facial recognition system	-	-	5,000,000
Landscape Vision Corporation	679,345	3,604,145	3,604,145
Transeq, S. A.	-	-	401,355
Others less than B/.1,000,000	44,740	101,404	106,306
	724,085	31,181,810	50,251,287

The most important terms are listed below:

(a) Constructora Norberto Odebrecht, S. A.

Contract No.038/12 dated May 31, 2013 between the Company and Constructora Norberto Odebrecht S.A. stipulated the objective of the contract for the project called “Expansion Program of Aeropuerto Internacional de Tocumen, S.A.” for an amount of B/.679,478,600. Additionally, the Company will recognize and pay for the execution of other works, constant services and supplies for “Costs Associated with Tocumen” that are formally ordered by the Company to the construction company or other charges for the amount of B/.100,000,000. In addition, the Company may order the execution of “Optional Works” by addendum to the contract as set out in the Statement of Objections for an amount of B/.157,109,170. The contract has a maximum execution time of 48 months.

On July 7, 2016, Addendum No.2 to contract No.038/12 was signed for a value of B/.99,004,390.90, which was ratified by the Comptroller on the same day. This addendum modifies:

a) the "Third" clause of contract No.038/12, which modifies the terms of Stage 2 construction of the South Terminal and which includes additional work for priority jobs;
b) the "Sixth" clause which modifies the period of time and delivery of the work, to finish in a period of 62 calendar months from the tenth working day as of the notification of the order to proceed is subject to the Company obtaining approval of the environmental impact;
c) the "Seventh" clause which modifies the amount of the contract up to a value of B/.878,432,990;
d) the "Eleventh" clause, which modifies the fines for non-compliance and bonuses, to include the acceptance of a fine for delay in delivery of the work, which will be measured and imposed upon final receipt of the works at a 4% of the value equivalent to the portion left to deliver or execute and the Contractor accepts the waiver for this contract to bonuses.
e) Clause "Fifteenth" which modifies the performance bond of B/. 219,608,247.

The contract establishes a price adjustment mechanism in which the contract amount should be adjusted by increasing or decreasing it, as appropriate, in order to take into account increases or reductions in prices of inputs from civil construction, according to the level of relevance for the composition of the total value offered for the works.

To ensure payment to the contractor, the Company is obliged to create a trust or other legal instrument on which an autonomous patrimony can be constituted, created for that purpose and to transfer revenue cash flows to the trust that will be proceeds from the concession of areas for the new South Terminal.

As at December 31, 2017, the Company has not constituted any trust or other legal instrument.

The contract establishes that payments for accounts related to construction progress will be made within a period not to exceed ninety (90) days as of the presentation date. In the event that the Company requests them, the contractor shall make every effort to engage a financing to defer payments for due to the progress of the work or advance, to avoid impacts on the project implementation. The amount and term of the financing is defined by the Ministry of Economy and Finance and will be paid during the first quarter of the fiscal year or on its own terms. During 2017, there was not required any financing activity related to this clause.

As at December 31, 2017, 2016 and 2015, the Company has recognized invoices related to this contract in the amount of B/.778,819,909, B/.617,908,966 and B/.512,964,393, respectively.

(b) Consorcio PM Terminal Sur Tocumen, S.A.

Contract No.054/13 dated February 15, 2013 between the Company and Consorcio PM Terminal Sur Tocumen, S.A., which states the purpose of the service contract for comprehensive monitoring, inspection and work control of the construction project of the south terminal of Aeropuerto Internacional de Tocumen, S.A. for an amount of B/.19,802,220.

In October 2015, the Board of Directors approved the addendum to Contract No. 054/13 signed with PM South Terminal Consortium in the amount of B/.4,625,000, for professional services on the development of a comprehensive master and technical assistance in management, comprehensive monitoring, inspection and control of projects related to the construction and operation of the New South Terminal (T2).

As at December 31, 2017, 2016 and 2015, the Company has recognized bills related to this contract presented in the amount of B/.22,999,044, B/.18,484,855 and B/.11,208,057, respectively.

(c) Ministry of Public Security

During 2014, an agreement was held between Aeropuerto Internacional de Tocumen, S.A. and the Ministry of Public Security in order to execute the implementation of the second phase of activities to ensure airport security, meaning everything related to safeguard the security and integrity of persons at Aeropuerto Internacional de Tocumen, S.A. In this agreement, the Company is committed to providing financial resources required to purchase the supply, installation and integration of a facial recognition security system, for which the amount of B/.8,500,000 was established of which the sum of B/.5,000,000 was paid.

As part of the agreement, it was stipulated that the Ministry of Public Security is committed to deliver the acquired equipment to the Company, once the procurement process is completed and the equipment is received satisfactorily.

According to Management, and as informed by the Ministry of Public Security, the project has not had the results nor expected functionality and has decided not to continue and/or use the tool. Given the above, during the year ended December 31, 2016, Management decided to withdraw the asset in advance to the Ministry of Security for B/.5,000,000 and to recognize it as an expense of the year and is in the process of requesting the termination of this agreement.

(d) Landscape Vision Corporation

Contract No. 010/13 to extend the areas of Immigration, customs and checkpoints in the passenger and cargo terminal in the amount of B/.9,500,000. For this contract, the Company paid an advance deposit of 50% of the value of the work, which amounted to B/.4,500,000 of which a total of B/.895,855 have been applied to the construction in progress.

7. Advances to purchases abroad

During the year ended December 31, 2017, the Company has contributed to ICAO an amount of B/.66,040,916, which will be used for the development of improvements as established in the contract No . PAN/03/902/Y; at the same time, the ICAO has reported expenses for an amount of B/.9,268,372 and fixed assets for an amount of B/.7,058,566.

	2017	2016	2015
Initial balance	30,171,228	37,087,836	6,277,534
Plus:			
Advance paid	66,040,916	-	34,026,846
Interest earned	343,109	106,584	10,129
	96,555,253	37,194,420	40,314,509
Less:			
Acquisition of assets	(8,322,490)	(2,152,402)	(170,433)
Supplies and other costs	(8,004,448)	(4,870,790)	(3,056,240)
	80,228,315	30,171,228	37,087,836

8. Advance and account payable to Constructora Norberto Odebretch, S. A.

As at December 31, 2017, the Company has the following balances with Constructora Norberto Odebrecht, S.A.:

	2017	2016	2015
Assets			
Advance to contractors	-	27,476,261	41,139,481
Liabilities			
Accounts payable	23,413,617	12,424,402	143,393,427
Withholding to contractors	23,739,163	17,963,615	15,874,500
	47,152,780	30,388,017	159,267,927

The contract establishes that payments for accounts related to construction progress will be made within a period not to exceed ninety (90) days as of the presentation date. In the event that the Company requests them, the contractor shall make every effort to engage a financing to defer payments for due to the progress of the work or advance, to avoid impacts on the project implementation. The amount and term of the financing is defined by the Ministry of Economy and Finance and will be paid during the first quarter of the fiscal year or on its own terms. The financing costs will be paid in full by the State through the Company and will not be part of the contract price.

During year ended December 31, 2015, the Company requested the constructor to delay the payments of the account related to constructions progress and to make its best effort to undertake a financing. As a result, on May 12, 2015 the contractor signed a factoring framework agreement without resources for a maximum value of B/.150,000,000, with an annual interest rate of 5.375%. During the year ended December 31, 2016, the contractor sold accounts receivable in the amount of B/.20,697,425 (2015: B/.128,310,431), which caused a financial cost offset in the amount of B/.4,617,763 (2015: B/.2,792,920), which have been capitalized as part of the construction in process. During the year ended December 31, 2016 and as a result of the proceeds from the funds received for the issuance of bonds as indicated in note 13 of the financial statements, the accounts payable that the contractor had sold in factoring were cancelled.

9. Cash and bank deposits

Cash and bank deposits are detailed as follows:

	2017	2016	2015
Cash	118,133	28,800	28,800
Bank balances	28,099,904	90,283,820	80,740,193
Time deposits	80,000,000	280,000,000	-
Guarantee trust fund	54,058,041	58,305,218	28,950,317
	162,276,078	428,617,838	109,719,310

The guarantee trust fund was created by an irrevocable guarantee trust between the Company and The Bank of Nova Scotia (Panama), S.A. It guarantees the payment of principal, interest, default interest or other fees owed or that may be owed to the registered holders of the issuance by the trustor issuer in the future under the terms and conditions of the issuance bonds. It also guarantees the payment of any other amounts that the trustor issuer owes the registered holders and other beneficiaries, in accordance with the issuance documents. This fund generates monthly interest at an average rate of 0.25%. (See Note 13).

The Company has time deposits for an amount of B/.80,000,000, with an average interest rate of 2.3750%. In July 17, 2017, the Company cancelled a time deposit for B/.200,000,000.

Below is the reconciliation of cash and bank deposits shown in the statement of financial position with cash and cash equivalents shown in the statement of cash flows:

	2017	2016	2015
Total cash and bank deposits	162,276,078	428,617,838	109,719,310
Unavailable cash:			
Time deposits with a maturity date of over 90 days	(80,000,000)	(280,000,000)	-
Guarantee trust fund	(54,058,041)	(58,305,218)	(28,950,317)
Total cash and cash equivalents	28,218,037	90,312,620	80,768,993

10. Balances and transactions with related parties

Balances and transactions with related parties are summarized as follows:

	2017	2016	2015
Assets:			
Accounts receivable:			
Banco Nacional de Panamá	88,997	-	3,780
Caja de Ahorros	285	285	285
Panama's Tourism Authority	16,023	14,064	4,593
Ministry of Agrarian Development	27,000	27,000	27,000
Ministry of Commerce and Industries	15,192	15,192	15,192
Ministry of Economy and Finance	58,651	-	-
Post and telegraph	-	39,210	48,238
Ministry of Education	-	-	20,209,534
	206,148	95,751	20,308,622
Advance to contractors	-	-	5,000,000
Liabilities:			
Accounts payable:			
Civil Aeronautics Authority	48,614	49,097	44,480
Panama's Tourism Authority	4,885,717	5,675,270	3,767,150
Ministry of Public Security	3,500,000	3,500,000	-
Lotería Nacional de Beneficencia	407	407	407
Attorney General's Office (National Commission for the Prevention of Commercial Sexual Explotation)	146,571	170,190	164,990
University of Panama	20,852,168	35,852,168	55,852,168
	29,433,477	45,247,132	59,829,195
Equity:			
Accounts receivable shareholder	-	11,281,930	25,787,273
Declared dividends	21,500,000	37,961,736	16,117,047

Accounts receivable and payable with related parties do not generate interest, with the exception of the account payable to the University of Panama, as detailed below.

Accounts receivable and payable with related parties are not guaranteed.

	2017	2016	2015
Income:			
Concession of commercial areas	144,186	144,186	144,186
Expenses:			
Special Fund for the Development of the National Aeronautics Infrastructure	15,000,000	4,500,000	4,500,000
Distinguished Fire Brigade of the Republic of Panama	-	-	250,000
Attorney General's Office (National Commission for the Prevention of Commercial Sexual Exploitation)	618,261	645,895	613,610
Ministry of Public Security	-	8,500,000	-
	15,618,261	13,645,895	5,363,610
Financial costs, net:			
Interest earned (expense)	15,068	(1,702,192)	(7,008)

All transactions between the Company and each of the government agencies, autonomous or semi-autonomous institutions, are considered transactions with related parties.

Below is the detailed nature of transactions with related parties:

(a) Accounts receivable shareholder

The account receivable shareholder arises from transfers to the National Treasury from the extraordinary income received in 2007 from Duty Free Bid No. 001-05 CONCE, which were paid in installments as specified by the Board of Directors of the Company for the dividends declared in the Board of Directors' Resolution No.001-JD-10 of April 22, 2010.

(b) Universidad de Panama

By Public Deed No. 5,373 of February 28, 2014, the University of Panama granted by way of transfer to actual and effective sale title of property No. 455263 resulting from the segregation of Property No. 17,908 and Property No. 18,454 in the amount of B/.109,852,167, according to the average of valuations made by the Ministry of Economy and Finance and the Comptroller General of the Republic.

At December 31,2017 the Company owed to the University of Panama the amount of B/.14,852,168 (2016: B/.29,852,168 and 2015: B/.49,852,168), which had a contractual payment date of December 2014.

On 2014, the Company requested the University to delay the payment in order to pay B/.20,000,000 in July 2015, and the remaining amount in 2016. During the month of January 2015, the Company received a letter from the University accepting (a) the new terms of payment and (b) requesting an annual interest payment of 4% of the amount owed (c) to include in the addenda to the original contract the payment for the additional six (6) hectares of land of Globes A and B of Property 17908, Roll, Seat 1, located in the township of Tocumen which increased the amount owed by B/.6,000,000.

As at December 31, 2017, the Company has recorded the amount related to the land of Globes A and B but has not recognized any amount related to interest since according to Management's perspective, it was not included in the contractual terms of the original contracts.

(c) Distinguished Fire Brigade of the Republic of Panama – Interagency Cooperation Agreement No. 001 / 14

During the years ended December 31, 2014, an agreement was held between Aeropuerto Internacional de Tocumen, S.A. and the Distinguished Fire Brigade of the Republic of Panama, in order to provide the required personnel to allow an effective participation of the Aeronautical Firemen within the Panama Pacific International Airport, in the amount of B/.250,000 for year for performing rescue and firefighting tasks, emergency control or any other similar situation that may happen within the perimeter of 271.19 hectares in the Panama Pacific International Airport, managed and operated by Aeropuerto Internacional de Tocumen, S.A.

(d) Special Fund for the Development of the National Aeronautics Infrastructure (FEDIAN)

In accordance with Law No. 23 of April 20, 2003, which establishes the regulatory framework for the management of Panama's airports and airfields, the Special Fund for the Development of the National Aeronautics Infrastructure (FEDIAN in Spanish) was created, which aims to ensure that resources for the development of the aviation sector will be used exclusively for investments in airports and airfields, in systems of assistance and operational safety, and protection to air navigation.

By Cabinet Resolution No. 37 of September 30, 2003, it was determined that Tocumen International Airport, S.A. must make a non-reimbursable annual contribution to the Special Fund for the Development of the National Aeronautics Infrastructure (FEDIAN). Until December 31, 2016 the annual contribution was B/.4,500,000. On December 2, 2016, through the Cabinet Resolution No. 95 of July 5, 2016, the annual contribution for 2017 was approved for an amount of B/. 15,000,000. As was stated in the Executive Decree that regulated the operation of the Fund, the amount of the contribution is approved by the Cabinet Council.

As indicated in Note 1, the Company is a wholly-owned Company of the Government of the Republic of Panama, and therefore, all tax and social security expenses and balances are with related parties. In addition, the Government has different interests and significant influence on energy distribution and telecommunications companies, where related expenses are transactions with related parties.

11. Accounts payable and other accrued expenses payable

The details of the accounts payable and other accrued expenses payable are as follows:

	2017	2016	2015
Suppliers and others	31,020,900	22,530,998	42,441,563
Constructora Norberto Odebrecht, S.A.	23,413,617	12,424,402	143,393,427
Labor reserves payable	1,445,584	885,985	753,249
Employer obligations payable	1,357,571	414,015	419,364
	57,237,672	36,255,400	187,007,603

The average credit period for payments to the contractor is 90 days. The average credit period for other suppliers is 60 days.

12. Deferred revenue

	2017	2016	2015
Payments received to secure the award of the lease	45,575,556	53,851,641	83,054,831
Current	25,909,568	29,396,736	30,184,757
Non-current	19,665,988	24,454,905	52,870,074
	45,575,556	53,851,641	83,054,831

Deferred revenue arises as a result of the benefit of the initial payments for the right to key received from licensees who participate in the concession contracts for the lease of commercial premises located in the duty free zone of Aeropuerto Internacional de Tocumen, S.A. Concession contracts are done for a period of 10 years.

Since 2015, the Company requested concessionaires to pay in advance a minimal income guarantee (IMG in Spanish) for the new concession. The minimal income guarantee is usually established for a period of 24 months in which the concessionaire is requested to pay 12 months in advance and the remaining 12 months need to be paid on the 13 month.

The movement of deferred revenue is as follows:

	2017	2016	2015
Balance at beginning of the year	53,851,641	83,054,831	94,068,446
Right of key received and guaranteed minimum income	27,220,456	4,645,106	12,805,868
Amortization of the right of key and guaranteed minimum income	(35,496,541)	(33,848,296)	(23,819,483)
Balance at the end of the year	45,575,556	53,851,641	83,054,831

13. Bonds payable

Bonds payable consist of the following:

	2017	2016	2015
Bond Issuance 2013	628,286,281	643,838,309	646,374,964
Bond Issuance 2016	563,212,855	562,690,707	-
	1,191,499,136	1,206,529,016	646,374,964

13.1 The detail of the 2013 issuance is summarized below:

	Maturity	Annual Interest Rate	2017	2016	2015
Bonds - Series A	July 2023	5.75%	631,000,000	647,000,000	650,000,000
Debt issuance costs			(2,713,719)	(3,161,691)	(3,625,036)
			628,286,281	643,838,309	646,374,964

The movement of bonds payable is detailed below:

	2017	2016	2015
Initial balance	643,838,309	646,374,964	646,098,129
Payment to capital	(16,000,000)	(3,000,000)	-
Amortization costs	447,972	463,345	276,835
Total	628,286,281	643,838,309	646,374,964

The balance as at December 31, 2017 of the bond issuance costs is detailed as follows:

	2017	2016	2015
Bond issuance costs at beginning of the year	4,407,732	4,407,732	4,407,732
Increase from issuance of bonds	-	-	-
	4,407,732	4,407,732	4,407,732
Accumulated amortization:			
Balance at beginning of the year	(1,246,041)	(782,696)	(505,861)
Increase in the year	(447,972)	(463,345)	(276,835)
Balance at end of the year	(1,694,013)	(1,246,041)	(782,696)
Cost of bond issuance, net	2,713,719	3,161,691	3,625,036

13.1.1 General terms of issuance

According to the ninth Special Meeting of the Board of Directors dated December 5, 2012, the purpose was to authorize the Chief Executive Officer and Legal Representative to deal with the National Economic Council. The Cabinet Council approved the Company to have access to various available local and international financing sources to finance the programs of expansion, performance, operation and maintenance of the Company up to a total of B/.550,000,000.

In addition, according to the Minutes of the second ordinary meeting of the Board of Directors dated April 4, 2013, the article of Resolution J030-JD of December 5, 2012 authorized the President and Legal Representative of the Company to make arrangements with the Cabinet and the National Economic Council to have access to different funding sources for B/.550,000,000, increasing such amount by B/.100,000,000, totaling an amount of B/.650,000,000.

Cabinet Resolution No. 87 issued by the Cabinet Council and dated June 11, 2013 authorized the bond issuance. This resolution resolved to authorize the President and legal representative of the Company to restructure operations of the financings contracted, through prepayments or early, partial and total cancellations, exchanges or swaps to finance programs for expansion, performance and operation of the airport.

The authorization of the Superintendency of the Securities Market of Panama allows the issuer to sell the issuance at any time and in sections up to twelve months after the date of offer.

The purpose of the bond issuance had the following applications in order of:

Cancellation of current debt	275,000,000
Opening of Guarantee Trust Fund	26,000,000
Advance work of South Terminal	200,000,000
Payment of different taxes	100,000,000
Purchase of land for expansion from the University of Panama	39,000,000
General corporate uses and issuance expenses	10,000,000
	650,000,000

According to the final prospectus, the bonds have a nominal value up to B/.650,000,000 issued in nominal and registered form and recorded in a series A without coupons, in denominations of B/.1,000 and its multiples.

The issued Series A bonds bear interest at a rate based on an annual fixed rate on its outstanding balance payable on the 30th of the months of April, July, September and December each year.

The issuer will have a grace period of 3 years for payments to capital and must make the first payment to capital on December 30, 2016 and the second payment to capital on December 30, 2017, according to the amortization schedule to capital.

A Guarantee Trust secures the bonds interest payment. The "Airport Departure Fee" flows will be assigned to the guarantee trust corresponding to the issuer, that is, the amount resulting after deducting the amounts that correspond by law or may correspond to third parties. This assignment will be made in favor of a trust administered by the trustee of the issuance.

13.1.2 Guarantees

The bonds will be backed by the general credit of the issuer and secured by a Guarantee Trust that will contain the following:

i. Assigned flows.

ii. Common trust assets

iii. Proprietary trust assets

iv. Any other monies, assets or rights that from time to time are transferred to the Trustee to become subject to the trust.

v. The monies, assets and rights produced by the trust assets in respect of capital gains, interest, credits, compensations or other concepts or that result from said assets by reason of sales, swaps, or for any other reason.

vi. Any other monies, assets or rights that, from time to time, are transferred to the trustee so that they are subject to the Trust or that are incorporated into the trust.

13.1.3 Relevant conditions and compliance

Here are some of the relevant and compliance conditions for the Company:

(a) Maintain updated all relevant obligations and commitments in its line of business with third parties, including but not limited to trade agreements and any bank obligation.

(b) Use the proceeds from the issuance only and exclusively for the objects identified in the prospectus.

(c) Maintain at all times, the terms and conditions of the issuance and its guarantees, at least in the same degree of priority or preference (pari passu), regarding other future issuances or credits that the issuer holds in the future with other financial institutions.

(d) Increase the departure airport rate in order to comply with the warranty coverage of flows, in case of payment deductions or exemptions thereof, involving a decrease in the coverage ratio of warranty of flows.

(e) Acquire, assume or contract by any legal structure, additional credit facilities, as either a debtor or issuer, if not in compliance with the financial conditions agreed for the issuances contained in paragraph 11 of the bonus, excepting those acquired, assumed or contracted or to be acquired, assumed or contracted in connection with the ordinary course of business of the issuer.

(f) Restriction to (i) consolidate, merge or sell tangible assets, except the sale and/or transfer of assets that are made in the ordinary course of business of the issuer, such as the sale and transfer of obsolete assets or those referred to in the budget of the issuer; or (ii) to acquire or receive any assets or interests in companies at any title, or advance mergers or reorganizations, to abstain from or engage in activities other than the ordinary course of business of the issuer.

(g) Support third parties debts without prior approval of the majority of registered holders, excluding debts and obligations incurred by subsidiaries of the issuer.

(h) Change directly or indirectly, the issuer's shareholding structure so that it results in a change of control.

(i) Pay dividends when it is not in compliance with the financial conditions established in this prospectus.

(j) Maintain the required balance in the reserve account (Guarantee Trust Fund).

(k) To maintain throughout the term of the issuance, a net debt coverage ratio warranty of flows with a minimum of 1.10 times. The coverage ratio from October to December was 0.56 which was below the ratio required. During January and February 2018, B/.12.1 million were credited in the payment account of the Guarantee Trust Fund in order to meet the debt service payment for the 2018 first quarter and comply with the coverage ratio required. According to Management and the payment, registration and transfer agent, the coverage ratio as of February 2018 is 1.34.

(l) The issuer may not create or allow any actual right or lien to subsist on all or part of the present or future assets of Aeropuerto Internacional de Tocumen, S.A. terminal, excluding any other airports or airfields owned or under the management of the issuer, except: (i) charges imperatively required by law (in which case the issuer must previously inform the agent its constitution in writing as soon as he/she becomes aware of this) ("the excluded taxes") - and/or (ii) any encumbrance or assignment of their income from aeronautical services fees, fees for non-aeronautical commercial services, extraordinary income and present or future revenues (except the airport departure rate) (excluded income) for the development of activities and projects within the ordinary course of business of the issuer.

(m) The issue will be at least pari passu with any other issuer credit facility.

(n) The Issuer cannot cancel the bond before the fifth (5th) anniversary of the bond. If after the fifth anniversary, the Issuer wishes to redeem part or all of the issuance, it will have a decreasing penalty depending on the redemption date. Such penalty will be calculated on the difference between the amount of the redemption and the total of capital payment corresponding to that period, according to the capital payment schedule established and the following rate:

i. During the sixth (6th) year from the Issue Date, the penalty for partial or full early redemption will be equal to 3.0%;
ii. During the seventh (7th) year from the Issue Date, the penalty for partial or full early redemption will be equal to 2.0%;
iii. During the eighth (8th) year from the Issue Date year, the penalty for early partial or total redemption will be 1.0%.

It is not applicable penalty for early redemption after the 9th anniversary of the issue date.

At December 31, 2017, except as indicated in paragraph k, the Company is in compliance with the financial conditions required.

13.2 The details of the 2016 bond issuance are as follows:

	Maturity	Annual interest rate	2017	2016
Bond	May 2036	5.625%	575,000,000	575,000,000
Debt issuance costs			(11,787,145)	(12,309,293)
			563,212,855	562,690,707

Bonds payable movement is as follows:

	2017	2016
Proceeds of bond issuance, net of costs	562,690,707	562,215,910
Amortizations costs	522,148	474,797
Total	563,212,855	562,690,707

Balance as at December 31, 2016 of the bond issuance costs is detailed as follows:

	2017	2016
Bond issuance costs at beginning of year		
Increase from issuance of bonds	12,784,090	12,784,090
	12,784,090	12,784,090
Accumulated amortization:		
Balance at beginning of the year	(474,797)	-
Increase in the year	(522,148)	(474,797)
Balance at end of the year	(996,945)	(474,797)
Cost of bond issuance, net	11,787,145	12,309,293

13.2.1 General terms of issuance:

According to the Minutes of the meeting of the Board of Directors of Aeropuerto Internacional de Tocumen, S.A. dated April 18, 2016, Resolution No. 250-16 of April 26, 2016 of the Superintendency of the Securities Market of Panama, authorizes the issuance of senior guaranteed bonds in the amount of B/.575,000,000.

13.2.2 Guarantees:

The bonds will be backed by the general credit of the issuer and secured by a Guarantee Trust for which an amendment and reform has been made between the Company, the Bank of Nova Scotia (Panamá), S.A. and Prival Bank, S.A. dated April 19, 2016. This amendment establishes the flows ceded to guarantee payment to the bonds issued and comprising the aeronautical and non-aeronautical revenues as detailed below:

i. Airport departure tax and other passenger departure rates, if any, transit charges, and any other charges including without limitation the “passenger service charge” and the “airport development fee”
ii. Security charges
iii. Landing charges
iv. Parking charges and Aircraft Services
v. Charges for the use of boarding bridges
vi. Revenue from cargo/loading operations
vii. Utility charges
viii. Lease of airline club areas and
ix. Any sub-leases or sub-contracts related to the above.

13.2.3 Relevant terms of compliance:

1. Insurance: To maintain the insurance in the ordinary course of its commercial activity and in the terms and conditions established in the Indenture 2016.

2. Rights to Inspections: Allow reasonable inspections of the Issuer's goods and assets by the representative of the majority of the bondholders once per calendar year, but such inspections shall only be effective if a written notice is sent to the Issuer with reasonable notice.
3. Notification of Certain Events: Immediately report (and, in all instances, within the deadlines established in the relevant documents) to the Issue Trustee and the Trustee of the Guarantee of:

   (a) The occurrence of an *Event of Default* or a *Default*.
   (b) In the event of an *Event of Default* or *Default*, a notice specifying the facts and measures that were and will be taken in respect of those events;
   (c) Notification of any event that would have had a *Material Adverse Effect*; and
   (d) Notice of commencement of a relevant proceeding before a court, other Governmental Authority or arbitrator in connection with a *Material Proyecto Contract*.

4. Information duties:

   (a) Copy of the Unaudited Quarterly Financial Statements. In case of reports sent after the closing of each accounting period, they must be accompanied by an independent audit report and a presentation of the financial state of the Issuer and the Income Statement. The obligation to send financial statements mentioned above shall be deemed to have been fulfilled if the Issuer uploads them to its website, notifies the Trustee thereof and keeps them in the same website for at least two years.
   (b) Certificate of Coverage Index. The Issuer shall deliver to the Trustee a Certificate from an Officer of the Issuer indicating the calculations of (A) the most recent DSCR and (B) the DSCR projected for the Calculation Period ending on the next payment date. The minutiae and contents of these calculations are detailed in Indenture 2016.
   (c) Traffic Information. Provide the Trustee with traffic information for each newly completed quarterly or annual period (the information for the annual period shall also include separate information for the fourth quarter of that annual period), indicating passenger traffic information for that quarterly or annual period (including geographic information).
   (d) Copies of Relevant Filings. Copies (including electronic copies) of each relevant public filing made by the Issuer and/or any of the Limited Subsidiaries to the SMV (Superintendency of the Securities Market of Panama), the BVP (Panamanian Stock Exchange) and/or any other agency or securities regulator or stock exchange authority. The Issuer shall be deemed to have provided such reports to the Issuer Trustee and the bondholders if the Issuer uploads them to its public website.

   Likewise, within 10 days after such filing, the Issuer shall send to the Issuance Trustee copies of each relevant public filing made by the Issuer and/or any of its Subsidiaries Limited to the SMV, BVP and/or any other agency or securities regulator or stock exchange authority.

5. Annual Operating Budget: Deliver the Annual Operational Budget to the Trustor and Trustee within five (5) Business Days after its approval in each accounting year for the following fiscal year accompanied by a certificate from the Issuer's financial director, validating that the Annual Operating Budget constitutes a reasonable estimate for the period it comprises.

6. Ratings: Obtain and maintain international ratings of at least two Rating Agencies and pay the monitoring fees of said Rating Agencies in respect of the Bonds, and deliver the reports, records and documents to at least two Rating Agencies (at the exclusive expense of the Issuer), that they reasonably request to monitor or confirm the rating.

7. Projected Minimum DSCR: In the event that the projected minimum DSCR in a Calculation Period is less than 1.25: 1.0010, the Issuer shall immediately take reasonable measures to increase the projected DSCR above 1.25: 1.00.

14. Provision for benefits to retirees

The Company maintains a labor liability of B/.4,382,532 (2016: B/.2,149,076 and 2015: B/.1,776,259), of a Complementary Pension Plan for firefighters, which, have reached the retirement age established by the Social Security Institution (women: 57 years and men: 62 years) and who in addition, have 30 years of service, the seniority required to opt for said plan, which is not backed by assets.

For the calculation of the present value of the obligation, the behavior of some factors was estimated, such as: base date of the valuation; currency of valuation; projected credit unit method; base population; probability of death of active and retired participants; leaving due to retirement; leaving due to old age; exit function for other causes; annual wage growth; discount rate and duration of commitment; value of unit annuity income and value of the temporary unitary rent.

The main assumptions used for the actuarial calculation of the supplementary pension plan are presented below:

	2017	**2016**	**2015**
Discount rate	3.50%	4.00%	4.00%
Salary increase rate:			
Up to B/. 1,000.00	5.00%	5.00%	5.00%
From B/. 1,000.01 to B/. 2,000.00	4.00%	4.00%	4.00%
Over B/. 2,000.01	3.00%	3.00%	3.00%

- Number of participants: estimated for each of the assets, when they will die, retire or leave the Company for other reasons and also estimates how many of these employees survive up to December 31st of each year until the expiration of the collective agreement.
- Monthly base salary: for each of the active participants, the monthly salary is estimated each year until reaching the estimated retirement year, considering the growth rate of 3%, 4% and 5%, considering the new collective agreement in force as of 2017.
- Capital value of special retirement: considering the probability that the participant survives up to the age at which he can obtain special retirement, the amount of projected salary up to that age and the unitary temporary income that corresponds to that age.
- Capital value of the difference to be paid as of the retirement due to old age.
- Projected credit unit where two values are estimated for the credit unit, one considering the probable increases in the future salary and the other without considering such increases.
- Accumulated obligation as at December 31st of each year valued.

- Cost per service in each valued year corresponding to the following year equal to the UCP, considering the probable salary increases, plus the interest that this amount can produce in the following year.

The movement in the present value of defined benefit obligations:

Initial balance	2,149,076	1,776,259	1,845,100
Service cost	115,196	41,580	43,157
Interest cost	84,459	83,417	77,264
Actuarial loss	2,240,373	457,301	24,446
Benefits paid by the plan	(206,572)	(209,481)	(213,708)
	4,382,532	2,149,076	1,776,259

The amounts recognized in the statement of profit or loss are as follows:

	2017	2016	2015
Actuarial loss (gain)	2,240,373	457,301	24,446
Service cost	115,196	41,580	43,157
Interest cost	84,459	83,417	77,264
	2,440,028	582,298	144,867

15. Taxes

15.1 Income tax

The income tax return of Aeropuerto Internacional de Tocumen, S.A. is subject to review by the tax authorities for the last three years, according to current tax regulations, including the year ended December 31, 2017.

As of February 3, 2005, the date of entry into force of Law No. 6 of February 2, 2005, Article 699 of the Tax Code indicates that entities must pay income tax at a rate of thirty percent (30%) on the greater of (1) the net taxable income calculated by the traditional method established in Title I of the Fourth Book of the Tax Code, or (2) the net taxable income resulting from deducting ninety-five point thirty-three percent (95.33%) of the total taxable income. As of the year ended December 31, 2005, companies are required to make both income tax calculations, both the calculation according to the traditional method, as well as the Alternative Income Tax Calculation (CAIR).

Law No.8 of March 15, 2010, amends the application base on taxpayers to which the Alternate Calculation of Income Tax (CAIR) is applied and replaces it with another assumed taxation form of income tax forcing any entity which earns income in excess of one million five hundred thousand dollars (B/.1,500,000) to determine as the taxable base of this tax, the sum greater of: (a) the net taxable income calculated by the ordinary method set out in the Tax Code and the net taxable income resulting from applying four sixty-seven percent (4.67%) to the total taxable income. Entities that incur in losses because of the tax calculated under the presumptive method or that by reason of the application of such presumptive method their effective rate exceeds the tax rates applicable for the fiscal period in question, may request the National Revenue Authority - "ANIP" (formerly DGI - "DGI") to authorize the tax calculation under the ordinary method of calculation.

Through Official Gazette No.26489-A, Law No.8 of March 15, 2010 was published by which the general rates of income tax (ISR in Spanish), applicable to entities are changed. However, all companies in which the Government has a stock ownership greater than 40% will continue to pay income tax at the rate of 30%.

Law No.33 of June 30, 2010, amended by Law 52 of August 28, 2013, added Chapter IX of Title I of Book IV of the Tax Code, called Adequacy Standards to treaties or agreements to avoid international double taxation, establishing the transfer pricing regime applicable to taxpayers who conduct transactions of their income, costs and deductions for tax purposes in their tax returns, based on the price or amount which they would have agreed to unrelated parties under similar circumstances in arm's length conditions, using the methods set out in the Law No. 33. This law establishes the obligation to file an information affidavit on transactions with related parties (Report 930 implemented by the DGI) within six months following the closing of the corresponding fiscal year, and at the time of filing the report, having a transfer pricing study supporting the affidavit through Report 930. This study must be submitted at the request of the DGI, within 45 days as of the notification of the requirement. Failure to submit the information affidavit will result in the application of a fine equal to one percent (1%) of the total value of transactions carried out with related parties. The Company does not have transactions with related parties, residents or those domiciled abroad.

The amount of income tax caused and estimated to be paid by the Company for the years ended December 31, 2017, 2016 and 2015 determined in accordance with the traditional method.

The reconciliation between the tax rate and the effective rate of income tax expense of the Company as a percentage of profit before income tax is detailed below:

	2017	2016	2015
Profit before tax	97,113,651	120,854,033	85,132,399
Income tax using the corporate rate	(29,134,095)	(36,256,210)	(25,539,720)
Effect from:			
Difference in estimation of previous year	(424,030)	652,140	379,733
Non-taxable income	143,813	87,683	25,535
Non-deductible expenses	(2,523,674)	(726,445)	(901,466)
	(31,937,986)	(36,242,832)	(26,035,918)

Deferred income tax under comprehensive income is detailed below:

	2017	2016	2015
Asset deferred income tax:			
Effect from income recognition for right of key according to cash method	6,270,867	10,850,265	12,418,525
Provision for asset losses	3,128,666	3,128,666	578,666
Provision for benefit to retirees	760,731	644,723	532,878
Other provision	884,894	884,894	821,464
Asset deferred income tax	11,045,158	15,508,548	14,351,533

The reconciliation of the deferred income tax from last year with this year is as follows:

	2016	Charged to profit or loss	2017
Asset deferred income tax:			
Effect from income recognition for right of key according to cash method	10,850,265	(5,133,427)	5,716,838
Provision for asset losses	3,128,666	-	3,128,666
Provision for benefit to retirees	644,723	670,037	1,314,760
Other provision	884,894	-	884,894
Asset deferred income tax	15,508,548	(4,463,390)	11,045,158

	2015	Charged to profit or loss	2016
Asset deferred income tax:			
Effect from income recognition for right of key according to cash method	12,418,525	(1,568,260)	10,850,265
Provision for asset losses	578,666	2,550,000	3,128,666
Provision for benefit to retirees	532,878	111,845	644,723
Other provision	821,464	63,430	884,894
Asset deferred income tax	14,351,533	1,157,015	15,508,548

	2014	Charged to profit or loss	2015
Asset deferred income tax:			
Effect from income recognition for right of key according to cash method	13,986,785	(1,568,260)	12,418,525
Provision for asset losses	198,933	379,733	578,666
Provision for benefit to retirees	553,530	(20,652)	532,878
Other provision	379,661	441,803	821,464
Asset deferred income tax	15,118,909	(767,376)	14,351,533

15.2Current tax assets and liabilities

	2017	2016	2015
Current tax assets:			
Credit tax paid during the year	11,981,941	-	-
Current tax liabilities:			
Income tax payable	-	12,740,721	10,758,094

15.3 Other taxes

According to Law No.125 which amends Law No.23 of 2003 and Law No.32 of 2001, promulgated and entered into force on January 3, 2014, payment of property tax is exonerated of all land, buildings and other permanent constructions made or to be made on such land, owned or that are part of airports and airfields under the management of companies that manage airports and airfields, whether they have the title registered or not in the Property Section of the Public Registry.

According to Law No.125 which amends Law No.23 the 2003 and Law No.32 of 2001, enacted and entered into force on January 3, 2014, Article 22-A states that services provided for entities that are concessionaires and operate in a free zone located within the perimeter of an international airport located in the country are exempt from the transfer tax of movable goods and rendering of services.

16 Other taxes payable

During 2013, the Company made a consultation to the National Authority of Public Revenue "the Authority" in order to know if the Company was or was not exempt from payment of property tax on which the Authority confirmed that the Company was not exempt of such tax. As a consequence, the Company paid B/.44,428,389 in such tax and recognized a liability related for an amount of B/.27,077,285. As of December 31, 2017, 2016 and 2015 such liability amounted B/.35,799,343, B/.34,011,470, and B/.32,313,323 respectively.

During 2017, Management together with its tax advisor obtained new information and, based on this information, Management considers that the Company could have had a technical merit basis to be exempted from property taxes. As of December 31, 2017, Management is in the process of evaluating and obtaining the necessary approvals, if applicable, to initiate a process to request the exemption from the tax authorities, the return of taxes that were paid and the derecognition of the liability.

Other taxes payable are detailed below:

	2017	2016	2015
Provision for Property and Services Transfer Tax	-	-	89,725
Provision for property tax on improvements	35,799,343	34,011,470	32,223,598
	35,799,343	34,011,470	32,313,323

Details of the movement for the provision of property tax on improvements is presented below:

	2017	2016	2015
Balance at beginning of the year	34,011,470	32,223,598	30,435,725
Increase for surcharges and interest	1,787,873	1,787,872	1,787,873
Balance at end of the year	35,799,343	34,011,470	32,223,598

17 Revenue

Revenue is detailed below:

	2017	2016	2015
Airport operation services	154,165,582	147,074,454	111,866,046
Rentals	75,444,000	76,533,746	70,768,405
Others	3,941,831	8,565,364	5,827,141
Total	233,551,413	232,173,564	188,461,592

By Resolution No.022 of the Board of Directors of the Civil Aviation Authority dated December 2, 2015, the amendment was approved for international landing fees, international aircraft parking, use of boarding bridges and the new airport development rate was created that shall apply to the Tocumen International Airport. Such amendment has taken effect as of January 2016. The new tax rate for airport development was established for B/.10 per passenger without discrimination.

18 Personnel costs

Below is the detail of the composition of personnel costs:

	2017	2016	2015
Salaries and other benefits to employees	26,937,662	20,159,277	16,994,556
Employee benefits	4,015,192	3,088,584	2,646,537
Thirteenth month	1,990,082	1,603,446	1,383,170
Bonds	1,996,249	1,110,018	958,050
Indemnity and advance notice	556,130	754,748	1,009,827
Seniority premium	457,946	369,157	318,510
	35,953,261	27,085,230	23,310,650

19 Financial costs, net

Financial costs, net are detailed as follows:

	2017	2016	2015
Interest expenses	68,089,516	57,179,179	40,977,235
Interest earned	(479,376)	(292,272)	(153,956)
Capitalized interest	(49,978,626)	(40,330,088)	(26,366,657)
	17,631,514	16,556,819	14,456,622

20 Dividends

In accordance with Resolution of the Board of Directors No.026-JD-12 dated November 23, 2010, dividends will be credited to the account receivable shareholder, as detailed below:

	2017	2016	2015
Declared dividends	21,500,000	21,844,689	12,805,556
Declared dividends (credited to accounts receivable)	11,281,930	16,117,047	16,117,047
	32,781,930	37,961,736	28,922,603
Declared dividends (credited to accounts receivable)	-	16,117,047	16,117,047
less:			
Complementary tax	-	1,611,704	1,611,704
Total dividends credited to account receivable	-	14,505,343	14,505,343

During 2017, dividends were declared in the amount of B/.11,281,930 (2016: B/.16,117,047 and 2015: B/.16,117,047), which were credited to the account receivable of the shareholder. As at December 31, 2017, the Company paid dividends for B/.21,500,000 (2016: B/.21,844,689 and 2015: B/.12,805,556).

21 Risk management of financial instruments

21.1 Objectives of financial risk management

The Board of Directors has the responsibility for establishing and monitoring of the reference framework for the risk management of the Company, and for developing and monitoring risk management policies for the Company.

Risk management policies of the Company are established to identify and analyze the risks to which the Company faces, to set risk limits and controls that are deemed appropriate, and to track risk and compliance limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities of the Company. The Company, through its training and management standards and procedures, aims to develop a constructive control and discipline environment in which all employees understand their roles and obligations.

The Board of Directors of the Company verifies how management monitors compliance with the Company's risk management policies and procedures in relation to the risks faced.

The Company is exposed to the following risks related to the use of financial instruments:

- Credit risk
- Liquidity and financing risk
- Market risk
- Operational risk

This note presents information about the Company's exposures to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and capital management of the Company. The financial statements also include additional quantitative disclosures.

21.2 Concentration

Revenues from airport services operations are generated mostly by the main Panamanian airline company operating at the airport which is Compañía Panameña de Aviación, S.A. (COPA) and its rental income is mainly generated by two economic groups.

21.3 Credit risk

Credit risk is the risk of financial loss to the Company and a customer or counterparty to a financial instrument fails to meet its contractual obligations arising. This risk arises mainly from accounts receivable and other receivables.

Exposure of the Company to credit risk is influenced mainly by the individual characteristics of each customer.

The Company establishes an allowance for impairment that represents its estimate of losses incurred in connection with accounts receivable. The main components of this allowance is a specific loss component that relates to significant exposures individually.

Accounts receivable have maturities as follows:

	2017	Provision for Impairment	2016	Provision for Impairment	2015	Provision for Impairment
Clients:						
Current	10,041,863	-	11,023,888	-	9,352,241	-
From 1 to 30 days	394,433	-	301,108	-	294,185	-
From 31 to 60 days	232,075	-	54,548	-	428,405	316,499
Over 61 days	2,111,390	1,712,003	2,031,995	1,712,003	1,518,445	1,518,445
	12,779,761	1,712,003	13,411,539	1,712,003	11,593,276	1,834,944
Related parties:						
Current	2,636	-	727	-	20,211,817	-
From 1 to 30 days	14,388	-	3,270	-	5,087	-
From 31 to 60 days	14,139	-	3,020	-	3,020	-
Over 61 days	174,985	88,291	88,734	88,291	88,698	88,291
	206,148	88,291	95,751	88,291	20,308,622	88,291
Others						
Current	43,988	-	466	-	8,323	-
	13,029,897	1,800,294	13,507,756	1,800,294	31,910,221	1,923,235

The movement of the provision for impairment to accounts receivable is detailed in the following manner:

	2017	2016	2015
Balance at beginning of the year	1,800,294	1,923,235	1,791,735
Less: write-offs of the year	-	(122,941)	(206,629)
Plus: provision charged to expenses	-	-	338,129
Balance at end of the year	1,800,294	1,800,294	1,923,235

<u>Cash and cash equivalents</u>

The Company has cash for B/.28,218,037 (2016: B/.90,312,620 and 2015: B/.80,768,993). Cash is held in Caja de Ahorros and Banco Nacional de Panamá, both state - owned banks and a trust fund as guarantee for B/.54,058,041 (2016: B/.58,305,218 and 2015: B/.28,950,317) in The Bank of Nova Scotia (Panamá), S.A. These banks have prestige and solidity.

21.4 Liquidity and financing risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The focus of the Company to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its obligations when due, under normal and stressed conditions, without incurring in unacceptable losses or risking damage to the reputation of the Company.

Liquidity risk management:

The Company ensures the liquidity management, maintaining sufficient cash available to liquidate the expected operating expenses.

The following are the contractual maturities of financial liabilities:

		2017 Contractual cash flows			
	Carrying amount	**Total**	**6 months or less**	**7 to 12 months**	**Over 1 year**
Bonds payable	1,191,499,136	1,191,499,136	-	20,000,000	1,171,499,136
Interest payable	3,773,437	3,773,437	3,773,437	-	-
Accounts payable concessionaires	456,463	456,463	-	189,252	267,211
Guarantee deposit from concessionaires	4,420,039	4,420,039	-	-	4,420,039
Accounts payable	86,670,354	86,670,354	86,670,354	-	-
Withholding to contractors	26,043,057	26,043,057	-	26,043,057	-
	1,312,862,486	1,312,862,486	90,443,791	46,232,309	1,176,186,386

		2016 Contractual cash flows			
	Carrying amount	**Total**	**6 months or less**	**7 to 12 months**	**Over 1 year**
Bonds payable	1,206,529,016	1,206,529,016	-	16,000,000	1,190,529,016
Interest payable	3,773,438	3,773,438	3,773,438	-	-
Accounts payable concessionaires	827,127	827,127	180,965	178,249	467,913
Guarantee deposit from concessionaires	4,496,079	4,496,079	-	-	4,496,079
Accounts payable	81,502,532	81,502,532	45,649,957	407	35,852,168
Withholding to contractors	17,963,615	17,963,615	-	-	17,963,615
	1,315,091,807	1,315,091,807	49,604,360	16,178,656	1,249,308,791

		2015			
		Contractual cash flows			
	Carrying amount	Total	6 months or less	7 to 12 months	Over 1 year
Bonds payable	646,374,964	646,374,964	-	-	646,374,964
Accounts payable concessionaires	306,464	306,464	306,464	-	-
Guarantee deposit from concessionaires	3,301,023	3,301,023	-	-	3,301,023
Accounts payable	246,836,798	246,836,798	115,775,195	131,061,603	-
Withholding to contractors	15,874,500	15,874,500	-	-	15,874,500
	912,693,749	912,693,749	116,081,659	131,061,603	665,550,487

Outflows disclosed in the above table represent contractual cash flows related to non-derivative financial liabilities held for risk management purposes and do not usually close before contractual maturity. The disclosure shows amounts of cash flows for obligations that are settled in cash.

As indicated in Note 27, the Company is in the process of obtaining additional debt in order to cover the current liquidity deficit, the additional cash flow required to complete the project in progress and commitments to purchase fixed assets, as indicated in Notes 5 and 27. Management believes it is more likely than not that additional debt will be acquired. In addition, the Company expects to meet its other obligations from the proceeds of the flow of operations and financial assets maturing.

21.5 Market risk

Market risk is the risk that changes in market prices, such as interest rates, stock prices, etc., may affect the Company's income or the value of its holdings in financial instruments.

Sensitivity analysis:

The Company has no significant exposures with respect to interest and market rate risk since their obligations are based on a fixed rate between 5.625% and 5.75% for bonds payable.

21.6 Capital management

The policy of the Company is to maintain a strong capital base. The Board of Directors monitors the return on capital, which the Company defines as the result from operating activities divided by total net equity, excluding preferred shares and minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with the highest level of loans and the advantages and security that the capital position provides.

The Company debt for the adjusted capital ratio at the end of the period is presented as follows:

	2017	2016	2015
Total liabilities	1,400,910,954	1,419,821,091	1,042,361,198
Less: cash	(162,276,078)	(428,617,838)	(109,719,310)
Net debt	1,238,634,876	991,203,253	932,641,888
Total equity	447,614,473	405,087,546	345,661,292
Debt at capital ratio	2.77	2.45	2.70

22 Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value estimates are made at a given date, based on market estimates and information on financial instruments. These estimates do not reflect any premium or discount that could result from offering a particular financial instrument for sale at a given date. These estimates are subjective in nature, involve uncertainty and much judgment; therefore, they cannot be determined accurately. Any changes in assumptions or criteria can significantly affect the estimates.

Fair value hierarchy

IFRS 13 specifies the hierarchy of valuation techniques based on transparency of the variables used in determining the fair value.

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 - Valuation techniques include significant variables that are not based on observable market variables.

When the fair value measurements are determined for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would make the transaction and considers assumptions that a participant market would use when pricing the asset or liability. Where possible, the Company uses the active markets and observable market prices for identical assets and liabilities.

When identical assets and liabilities are not traded in active markets, the Company uses observable market data for similar assets and liabilities. However, certain assets and liabilities are not actively traded in observable markets and the Company must use alternative valuation techniques to determine the fair value measurement. The frequency of transactions, the differential size between supply and demand and the size of the investment are factors considered in determining the liquidity of markets and the relevance of observed prices in these markets.

When reference prices are available in an active market, securities available for sale are classified within level 1 of the fair value hierarchy. If the market value prices are not available or are available in markets that are not active, fair value is estimated based on the quoted prices of other similar instruments, or if these prices are not available, internal valuation techniques will be used models, primarily discounted cash flows. These securities are classified within level 2 or 3 of the fair value hierarchy.

Fair value of financial assets and liabilities of the Company that are not measured at fair value (but fair value disclosures are required)

Except as detailed in the table below, Management believes that the carrying amounts of financial assets and liabilities recognized at amortized cost in the financial statements, approximates their fair value.

	2017		2016		2015	
	Carrying amount	Fair value measurement Level 2	Carrying amount	Fair value measurement Level 2	Carrying amount	Fair value measurement Level 2
December 31st						
Bonds payable	1,171,400,136	1,302,108,290	1,206,529,016	1,280,439,000	646,374,964	674,700,000

The fair value of financial liabilities included in Level 2 shown above has been determined with adjusted prices of similar financial instruments in non-active markets.

23 Cash flow disclosure

23.1 Non-monetary transactions

During the year, the Company made the following investment activities and non-cash financing which are not reflected in the statement of cash flows:

	2017	2016	2015
Increase in construcción in progress through accumulation of unpaid bills in accounts payable others and accrued expenses	23,413,617	14,513,517	115,609,263
Dividends declared and credited to accounts receivable shareholders	11,281,930	16,117,047	16,117,047
Decrease in fixed assets for sale of land, with debit to accounts receivable to related companies	-	-	20,209,534

23.2 Changes in liabilities for financing activities

The reconciliation of the liabilities arising from the financing activities is as follows:

			Changes other than cash			
Reconciliation of liabilities arising from financing activities of 2017	**Beginning balance**	**Cash flows**	**Amortization costs**	**Foreign currency movement**	**Changes in fair value**	**Ending balance**
Bonds payable	1,206,529,016	(16,000,000)	970,120	-	-	1,191,499,136
Total liabilities from financing activities	**1,206,529,016**	**(16,000,000)**	**970,120**	**-**	**-**	**1,191,499,136**

24 New airports

According to Executive Decree No. 654 of the Ministry of Economy and Finance dated June 5, 2012, it was resolved to transfer the management and operation free of charge of the assets and liabilities of Enrique Malek airport (David), Scarlet Raquel Martinez Airport (Rio Hato) and Enrique A. Jimenez Airport (Colon) to Tocumen International Airport.

Under this Decree, it was also resolved that:

- Aeropuerto Internacional de Tocumen, S.A. will be responsible for managing the airports mentioned above, as well as its assets and liabilities, including assets that are intended for its operation and development.

- The Ministry of Economy and Finance and the Comptroller General of the Republic were instructed to make the inventory and valuation of all goods for the operation and development of the airports to be transferred.

- Aeropuerto International de Tocumen, S.A. will start operating all three airports, once the Civil Aviation Authority signs with the Comptroller General of the Republic the Minutes of the final acceptance of the work done in each of the terminals. As of that date, a period of ninety (90) calendar days is established to make changes and adjustments in each of them, as well as the relevant regulations. If the transition period is considered as completed before the deadline, they will become effective when the administrator so establishes it through the corresponding resolution.

According to Resolutions of the Board of Directors of the Civil Aviation Authority number 026 of September 19, 2013; number 027 of November 27, 2013, and number 002-2014, of February 24, 2014, the following is approved: (a) the transfer of assets and liabilities owned by the Civil Aviation Authority at the Enrique Malek, Scarlett Martinez and Enriquez A. Jimenez Airports; (b) to authorize the Director General of the Civil Aviation Authority to transfer the assets and liabilities of the airports mentioned above as property and free of charge to Aeropuerto Internacional de Tocumen, S.A. owned by the Civil Aviation Authority; (c) The rights and obligations under the contracts, resolutions of concessions and leasing agreements held with private or public entities in accordance with the provisions of the law and; (d) The labor obligation required to compensate workers of the Civil Aviation Authority which qualify for Option 1 of Article 26 of Law No. 23 of 2003 on the assumption provided in said standard. (E) The Director General of the Civil Aviation Authority is authorized to sign the Public Deed by which the real property owned by the Civil Aviation Authority and all documents required to ensure full implementation of the resolutions are transferred.

On October 21 and December 4, 2013 and March 12, 2014, the Minutes were signed of the "Transfer by Management of the Assets and Liabilities" of the Enrique Malek (David), Scarlet Raquel Martinez (Rio Hato) and Enrique A. Jimenez (Colon) airports, respectively, dates on which the Company began operating the aforementioned airports.

As stipulated in the single text of Article 19 of Law No. 23 of 2003, the transfer of the lands that constitute the equity of airports and airfields, as well as buildings involved in their operation and those acquired in the future for further expansion, must be approved by the Cabinet having as reference the corresponding information of inventories and appraisals conducted by the Ministry of Economy and Finance and the Comptroller General's Office to identify the actual amount of property subject to transfer as the basis for approval.

In accordance with a Board of Directors' meeting dated November 12, 2015, the process to invalidate or rescind Executive Decree No. 654 of the Ministry of Economy and Finance was approved in order to request a new contract which clarified that the requirement to the Company is to manage and operate the New Airports without transferring the assets and liabilities.

As at December 31, 2017, neither the transfer nor the process to invalidate or rescind the Executive Decree had been approved. As the transfer was not approved as at December 31, 2017 Management considers, that the Company did not control the assets of the airports and therefore, have not been recognized in the financial statements.

25 Concession - Panama Pacific Airport

Through Concession Agreement No. 005-13, countersigned by the Comptroller General of the Republic in August 2013, the concession is awarded for the operation, exploitation, administration, maintenance and development of the facilities and the Panama Pacific airport facilities and movable property pertaining to the provision of aeronautical and non-aeronautical services covered by the concession. The duration of the concession shall be twenty (20) years, renewable for twenty (20) additional years, at the discretion of the parties. The extension is subject to the modifications agreed by the parties in accordance with the economic conditions of the country and the realities prevailing at the time. Based on this contract and according to the minutes of starting the execution of the contract dated October 1, 2013, the Company began operations from the airport.

Details of the main terms of the agreement are detailed below:

- The concession fee is set for the first five years and shall be for B/.1,500,000 for the first three (3) years, B/.2,000,000 for the fourth (4) year plus 20% of gross income above B/.10,000,000 and B/.2,500,000 for the fifth (5) year plus 20% of gross income above B/.12,500,000. Under the five-year review of the airport business evolution, the new concession fees may be established at the discretion of the parties.

  The concession contract requires that during the years 2013-2017, the licensee shall make an initial investment program aimed at solving the operating problems and restrictions of the airport and improve the capacity allowing air operations to start more easily. These investments shall reach a value of B/.9,300,000 and shall be implemented in accordance with the schedule of the works. Given that the contract was endorsed on April 11, 2014 and that the budget did not contain the 2014 investments, for B/.1,300,000, the Company requested the counterparty that the investment would begin as of 2015. As at December 31, 2017 no significant investments have been made.

In addition, the operator is required to file future five-year investment plans for the review and approval of the agency every six months before the expiration of each five-year period, which must contain the studies and designs needed to advance the works proposed in those plans, as well as implementation schedules with their new specific task execution dates and financial projections to support their viability.

- The assets of the concession and the assets assigned to the concession should be returned without cost and in good conditions; otherwise the agency can apply actions and/or guarantees aimed at repairing deteriorated assets to the licensee's accounts. On the effective termination date, the agency or its designee will resume possession of the concession assets and assets subject to the concession, which shall be delivered, free of any liens or liabilities, operating under optimal conditions for its use and assume the operation, commercial exploitation and maintenance thereof.

- The concessionaire shall require the approval of the Civil Aviation Authority to establish rates and fees for aeronautical services of the airport that are provided to aircrafts on the ground, including but not limited to embarking and disembarking services of passengers and cargo, counter service to check in passengers and luggage and airline offices. The licensee may establish rates of non-aeronautical commercial services and minimum rentals for the use of premises of the Panama Pacific International Airport in accordance with its procedures and regulations.

- The contract may be terminated by administrative resolution for breach of the concessionaire based on the grounds mentioned in Article 113 of Law No. 27 of June 2006 that regulates public contracting. In the event of default by the concessionaire, the agency has the right to demand compliance of the contract or to resolve it administratively and terminate it and may enforce the fulfillment of the contract bonds (bonds for B/.900,000) and investment bond (bonds for B/.450,000, which represent 5% of the amount invested during the first five years) which would have been consigned, unless such default was due to force majeure.

According to Management's assessment, this concession contract is eligible to be recognized under IFRIC 12 "Service Concession Arrangements" on which these investments shall be recognized as an intangible asset since their recovery will be through service revenues to be received from customers.

26 Commitments and contingencies

26.1 Commitments

Acquisition of fixed assets

As at December 31, 2017, Management has approved the construction or acquisition of property, plant and equipment in the amount of B/.182.9 million approximately.

26.2 Contingency

Under applicable tax legislation, improvements on new facilities will be exempt from property tax for a period of ten (10) or twenty (20) years (according to current regulations applicable in each case) as of the date of the occupation permit or registration date of improvements, whichever occurs first (as appropriate) in accordance with Article 81 of Law No. 6 of 2005, as amended. This exemption is done automatically once the improvements are registered in the Public Registry indicating the building and occupancy permit data in the deed of improvements, according to the provisions of article 764 of paragraph 1 of the Tax Code.

At December 31, 2017, the Company has made no registration in the Public Registry of the improvements recognized in books from 2006 until 2014. At the date of approval of these financial statements, the Company is in the process of obtaining base information for the registration and exemptions from taxes, related surcharges and interest that Management estimates could amount to B/.22,564,791. No provision has been recognized since Management expects to obtain the exemption once the improvements are registered.

27 New Debt

- As of December 31, 2017, it was approved by the Board of Director authorized to Management to obtain the approval from the Consejo Nacional de Gabinete to get into a new credit line facility in the amount B/.125,000,000. The new credit facility will be used for Capex and will be repaid with flows funds products of an expected transactions in the capital markets in 2018.

- As at December 31, 2017, a structuring agent was hired to evaluate a proposed offering by the Company, at its discretion, of either, or a combination of, new local and/or international bonds (the “Securities”) in an aggregate principal amount of approximately US$225million, to cover the financing needs of the expansion programs of the Company and the remaining amount to carry out management operations of existing debt.

28 Subsequent events

The Company has evaluated subsequent events as at December 31, 2017 to assess the need for potential recognition or disclosure in the accompanying financial statements. Such events were assessed until March 28, 2018, the date these financial statements were available to be issued. Based on this evaluation, it was determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

29 Approval of the financial statements

The financial statements have been authorized by Management for their issuance on March 28, 2018.

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