

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Refinadora Costarricense de Petróleo, S.A.

We have audited the accompanying financial statements expressed in U.S. dollars of Refinadora Costarricense de Petróleo, S.A. (“RECOPE” or the Company), which comprise the statements of financial position as of December 31, 2014 and 2013 and the corresponding statements of profit or loss and other comprehensive income, changes in stockholders’ equity, and cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the International Standards on Auditing and the regulations regarding the external audits of the entities supervised by the General Superintendence of Securities and the National Supervisory Board of the Financial System. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for the Qualified Opinion

1. As of December 31, 2014 and 2013, the refinery's assets for a sum of US\$19.6 million, for both years, are not being used at their entire capacity, and there are indications that their recoverable amount could be less than the book value. RECOPE's management does not have the impairment analysis of the previously indicated assets required by the International Accounting Standard No.36. Therefore, we could not apply the necessary audit procedures to audit the recoverable value of these assets, and consequently, the impairment amount, if any is required, that could have been recognized in the financial statements as of December 31, 2014 and 2013 has not been determined.
2. As indicated in Note 1 to the accompanying financial statements, RECOPE determines the depreciation of property, plant, vehicles, and equipment based on the rates determined by the Regulations to the Income Tax Law. Also, starting on December 31, 2008, it has the policy of not determining the residual value of its assets (previously, 10% was applied to the totality of the assets). RECOPE's management does not have available any technical study performed by a competent expert to determine whether the depreciation rates and the residual values are appropriate in accordance with the specific characteristics of each of the assets or groups of assets, and we were not able to satisfy ourselves on their fairness through other audit procedures.
3. As indicated in Note 7 to the accompanying financial statements, as of December 31, 2014 and 2013, the Company keeps an investment in SORESCO, S.A., for a sum of US\$45,017,129 and US\$48,337,626, respectively. In addition, as of December 31, 2013, the Company made advances to joint ventures for a sum of US\$1,328,166 and US\$2,199,881, respectively. Such investment corresponds to the expansion and renovation project of Moín's refinery. The Company does not have audited financial statements of this joint venture; consequently, the amount of the adjustment that could be required has not been determined. In addition, as indicated in Note 21.3, RECOPE, S.A.'s management is conducting the studies necessary to continue with the project's development; therefore, no other impairment has been estimated, if any is required, on such investment in its financial statements.
4. The financial statements as of December 31, 2014 and 2013 include an accrual for employees' severance benefits for US\$22,954,868 and US\$15,240,190, respectively. According to the International Accounting Standard No.19, the calculation of liability for the benefit plans defined by death, retirement, permanent disability or voluntary resignation that RECOPE has for its employees requires the use of actuarial techniques to determine the sum of the benefits that the employees have earned in return for the services provided in the current and previous periods. Regarding the above and based on the results of the actuarial study, the total adjustment amount that should be registered to the allowance for employees' legal benefit amounts to the sum of US\$33.8 million; however, according to official communication JD-471-2014 of December 4, 2014 and according to the agreement of the Board of Directors of RECOPE at Ordinary Session No.4836-42 of December 1st,

2014, the partial adjustment of the total effect was approved. Therefore, for 2014, the Board of Directors authorized the adjustment of US\$7.8 million, and for the remaining amount of US\$26 million, a monthly registration for 2015 was approved. Based on the above, the financial statements of RECOPE as of December 31, 2014 present an undervaluation in retained profits, liabilities from employees' legal benefits, and personnel expenses, as well as an overvaluation in the results of 2014, for the sum of US\$26 million.

In addition, we could not apply the necessary audit procedures to clarify the amounts resulting from the actuarial study, and consequently, we are not aware if there is any additional adjustment that should be included in the Company's financial statement as of December 31, 2014 and 2013.

5. As of December 31, 2011, RECOPE used the specific price index methodology to determine the fair value of its property, plant, vehicles and equipment. The International Accounting Standard No.16 indicates that fair value will usually be determined based on market value obtained from an appraisal made by an expert. As of December 31, 2014 and 2013, RECOPE did not revalue its property, plant, vehicles, and equipment, nor does it count with an appraisal prepared by a qualified expert. Therefore, the recorded value of property, plant, vehicles, and equipment, deferred income tax, surplus from revaluation, the results of the period, and the retained earnings as of December 31, 2014 and 2013 are not in accordance with the current accounting standards. Management has not determined the effect that would have the use of a methodology, in accordance with the accounting standard referred to above.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in paragraphs 1 to 3 of the Basis for Qualified Opinion and except for the matters mentioned in paragraphs 4 and 5 of the Basis for Qualified Opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Refinadora Costarricense de Petróleo, S.A. as of December 31, 2014 and 2013, its financial performance, and its cash flows for the years then ended, in accordance with the International Financial Reporting Standards.

Other Matters

Without qualifying our opinion, as of December 31, 2013, RECOPE's total liabilities are equivalent to 7.7 times the capital stock, plus equity reserves and surplus from revaluation and donation, when according to the requirements of the General Superintendence of Securities for the issue of bonds, these should not be greater than 4 times. In view of the previous matter, the Company's management authorized in 2014 the capitalization of retained earnings for ¢200.100.000.000 to increase the equity of Refinadora Costarricense de Petróleo to ¢200.103.000.000 (Note 16); thus, as of December 31, 2014, the total liabilities of RECOPE are equivalent to 1.1 times the capital stock, plus equity reserves and surplus from revaluation and donation, complying with the requirements of the General Superintendence of Securities for the issue of bonds.

These financial statements have been translated into English for the convenience of the readers.



Rafael A. Castro Monge - C.P.A. No.1795
Insurance Policy No.0116 FIG 7
Expires: September 30, 2015
Revenue law stamp for ¢1.000, Law No.6663

February 25, 2015



REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

(Expressed in United States Dollars)

	Notes	2014	2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1c, 2	US\$ 157,394,954	US\$ 142,088,509
Accounts receivable	1d, 3	3,475,682	2,827,841
Inventories	1e, 1v, 4	235,684,080	352,196,570
Prepaid expenses	5	<u>39,557,625</u>	<u>48,168,212</u>
Total current assets		436,112,341	545,281,132
LONG TERM ACCOUNTS RECEIVABLE	1d, 3	5,048,253	4,158,076
ADVANCES TO JOINT VENTURE	15		1,328,166
PROPERTY, PLANT, VEHICLES AND EQUIPMENT - Net	1g, 1h, li 1j, 6	624,464,054	620,954,042
INVESTMENT IN JOINT VENTURE	1k, 7	45,017,129	48,337,626
OTHER ASSETS	8	<u>14,215,348</u>	<u>13,367,001</u>
TOTAL		<u>US\$1,124,857,125</u>	<u>US\$1,233,426,043</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	11	US\$ 88,980,647	US\$ 61,520,918
Current portion of the long term debt	12	6,285,714	6,285,714
Accounts payable	9	141,883,527	268,739,330
Deferred income	1m	28,261,731	45,085,734
Accumulated expenses and other liabilities	10	8,967,843	10,660,576
Current portion of the income tax	1l, 14	<u>4,904,683</u>	<u>9,073,180</u>
Total current liabilities		279,284,145	401,365,452
LONG TERM DEBT	12	25,285,714	31,571,429
LONG TERM BONDS PAYABLE	13	140,710,509	100,836,675
DEFERRED INCOME TAX	1l, 14	9,942,768	15,955,200
INCOME TAX	1l, 14		5,292,688
ALLOWANCE FOR EMPLOYEES' LEGAL BENEFITS	1n	<u>22,954,868</u>	<u>15,240,190</u>
Total liabilities		<u>478,178,004</u>	<u>570,261,634</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

(Expressed in United States Dollars)

	Notes	2014	2013
STOCKHOLDERS' EQUITY:			
Capital stock	16	US\$ 370,515,185	US\$ 350,058
Legal reserve	1q	1,616,301	3,981
Surplus from revaluation	1s, 6, 8	292,278,110	297,411,154
Surplus from donation	1t, 17	34,808,316	34,808,316
Retained earnings		244,002,625	578,400,631
Foreign currency translation adjustment	1b	<u>(296,541,416)</u>	<u>(247,809,731)</u>
Total stockholders' equity		<u>646,679,121</u>	<u>663,164,409</u>
TOTAL		<u>US\$1,124,857,125</u>	<u>US\$1,233,426,043</u>

(Concluded)

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in United States Dollars)

	Notes	2014	2013
SALES	1u	US\$ 3,173,307,399	US\$ 3,232,363,172
COST OF SALES	1v	<u>(2,908,992,988)</u>	<u>(2,979,430,780)</u>
GROSS PROFIT		264,314,411	252,932,392
OPERATING EXPENSES	1x, 19	<u>(196,573,007)</u>	<u>(200,986,317)</u>
OPERATING PROFIT		67,741,404	51,946,075
OTHER INCOME (EXPENSES):			
Sale of services		330,146	316,024
Financial expenses		(11,736,501)	(5,197,727)
Financial income		1,705,403	2,710,533
Penalties and interest for assessment notices	14	(5,367,089)	(17,919,416)
Other expenses - net		<u>(15,434,023)</u>	<u>(9,674,310)</u>
PROFIT BEFORE INCOME TAX		37,239,340	22,181,179
DEFERRED INCOME TAX	1l, 14	4,857,545	802,763
ASSESSMENT NOTICE	1l, 14	<u>(9,850,488)</u>	<u>(36,370,896)</u>
NET PROFIT (LOSS)		32,246,397	(13,386,954)
OTHER COMPREHENSIVE (LOSS) INCOME:			
Foreign currency translation adjustment	1b	(48,731,685)	9,438,264
Effect from assets' revaluation	1s	<u> </u>	<u>891,055</u>
COMPREHENSIVE LOSS OF THE YEAR		<u>US\$ (16,485,288)</u>	<u>US\$ (3,057,635)</u>

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

(Expressed in United States Dollars)

	Notes	Capital Stock	Investment Reserve	Legal Reserve	Surplus from Revaluation	Surplus from Donation	Retained Earnings	Foreign Currency Translation Adjustment	Total
BALANCES, DECEMBER 31, 2012		US\$ 350,058	US\$ 44,816,631	US\$ 3,981	US\$303,137,038	US\$34,808,316	US\$ 540,354,015	US\$(257,247,995)	US\$666,222,044
Comprehensive income of the year	8				891,055		(13,386,954)	9,438,264	(3,057,635)
Reversal of investment reserve	18		(44,816,631)				44,816,631		
Realization to retained earnings	1s				(6,616,939)		6,616,939		
BALANCES, DECEMBER 31, 2013		350,058		3,981	297,411,154	34,808,316	578,400,631	(247,809,731)	663,164,409
Comprehensive income (loss) of the year							32,246,397	(48,731,685)	(16,485,288)
Capital increase	16	370,165,127					(370,165,127)		
Increase of legal reserve	1q			1,612,320			(1,612,320)		
Realization to retained earnings					(5,133,044)		5,133,044		
BALANCES, DECEMBER 31, 2014		<u>US\$370,515,185</u>	<u>US\$</u>	<u>US\$1,616,301</u>	<u>US\$292,278,110</u>	<u>US\$34,808,316</u>	<u>US\$ 244,002,625</u>	<u>US\$(296,541,416)</u>	<u>US\$646,679,121</u>

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Expressed in United States Dollars)

	Notes	2014	2013
OPERATING ACTIVITIES			
Net profit (loss) of the year		US\$ 32,246,397	US\$ (13,386,954)
Loss in the sale of assets	6	313,011	640,038
Assessment notice	14	9,850,488	36,370,896
Deferred tax	14	(4,857,545)	(802,763)
Interest expense		11,736,501	5,197,727
Effect from participation in joint venture	7	(223,084)	1,233,761
Depreciation and amortization	6, 8	35,229,146	42,443,071
Unrealized exchange rate differences		10,020,574	(583,595)
Changes in operating assets and liabilities:			
Accounts receivable		(2,054,359)	(1,605,586)
Inventories		90,879,627	(101,197,339)
Prepaid expenses		5,089,860	12,078,140
Accounts payable		(107,481,755)	78,221,160
Deferred income		(13,560,055)	24,276,783
Accumulated expenses and other liabilities		(2,174,587)	4,088,396
Employees' legal benefits		8,858,898	(6,018,180)
Cash provided by the operating activities		73,873,117	80,955,555
Tax paid		(18,284,187)	(21,974,959)
Interest paid		(10,475,906)	(4,384,066)
Net cash provided by the operating activities		<u>45,113,024</u>	<u>54,596,530</u>
INVESTMENT ACTIVITIES			
Additions of fixed assets	6	(91,406,469)	(69,360,600)
Disposals of fixed assets	6	(691,792)	32,152
Advances to joint venture		(1,628,320)	902,420
Other assets		1,233,328	(1,510,658)
Acquisition of investments in joint venture	7		(18,750,000)
Net cash used in the investment activities		<u>(92,493,253)</u>	<u>(88,686,686)</u>
FINANCING ACTIVITIES			
New loans		129,297,820	112,075,134
Debt amortization		(63,361,656)	(5,065,262)
Net cash used in the financing activities		<u>65,936,164</u>	<u>107,009,872</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in United States Dollars)

	2014	2013
NET VARIATION IN CASH AND CASH EQUIVALENTS	US\$ 18,555,936	US\$ 72,919,716
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	142,088,509	68,430,901
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>(3,249,491)</u>	<u>737,892</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>US\$157,394,954</u>	<u>US\$142,088,509</u>

TRANSACTIONS THAT DO NOT AFFECT THE USE OF CASH:

As is indicated in Note 16, according to Certification No.CERT-346-14, issued on May 2, 2014, by the Secretary of the Board, the capitalization of retained earnings for ¢200.100.000.000 (US\$370,165,127) is authorized to increase capital of Refinadora Costarricense de Petróleo to ¢200.103.000.000 (US\$370,515,185).

As of December 31, 2014 and 2013, RECOPE applied accounts receivable against the allowance for doubtful accounts for the sum of US\$14,160 and US\$87,248, respectively (Note 3), which did not generate a cash disbursement for the Company.

As of December 31, 2013, an appraisal was registered on service stations, which originated an increase in these assets and a surplus from revaluation for the sum of US\$884,072.

In January 2013, a debt with the Central American Bank for Economic Integration (CABEI) for US\$30,000,000 was paid off by acquiring a loan with Scotiabank. This did not generate neither receipt nor disbursement of cash for the Company since the transaction was simply a refinancing of liabilities.

(Concluded)

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in United States Dollars)

1. NATURE OF THE BUSINESS, PRESENTATION BASES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Refinadora Costarricense de Petróleo, S.A. (RECOPE) was incorporated in accordance with the laws of the Republic of Costa Rica by means of a notarial instrument. As stipulated in Law Number 5508 of April 19, 1974; all the shares of Allied Chemical y Atico, S.A. were transferred and assigned to the government of Costa Rica for the price of one US dollar (US\$1.00).

As a result of this transfer agreement, the government of Costa Rica received 19,300 shares of RECOPE's capital stock. In this way, the President's Cabinet holds Stockholders' meetings as the highest authority at RECOPE. Upon decree No.7927-H from December 15, 1977, RECOPE, S.A. is regulated as a state-owned company structured as a mercantile corporation, but under the oversight and monitoring of the Office of the Comptroller General of the Republic.

In accordance with Law Number 6588 of August 13, 1981, its main objectives are the following:

- Refining and processing of oil, gas, and other hydrocarbons, as well as their derivatives.
- Manufacturing of petrochemical products and that of the directly or indirectly related products.
- Commercializing and transporting oil and its derivatives by bulk.
- Maintaining and developing the necessary facilities.
- Executing, as appropriate and subject to prior authorization by the Office of the Comptroller General of the Republic, development plans for the energy sector in accordance with the Plan for National Development.

Among other matters, the above law prohibits RECOPE, without prior legal authorization, from doing the following:

- Grant loans.
- Make donations.
- Award subsidies or grants.
- Build inter-oceanic pipelines.

Law No.7356 published in the official newspaper La Gaceta of September 6, 1993 states that RECOPE is declared a monopoly in behalf of the State to import, refine and distribute crude oil, derivative fuels, asphalt and naphtha. Article No.2 of the law establishes that the State grants the monopoly's administration to RECOPE, provided that its capital stock entirely belongs to the State. Likewise, the State shall not be able to assign, dispose, or give in guarantee any representative share of RECOPE.

RECOPE, S.A. is an entity regulated by the General Superintendence of Securities (SUGEVAL), the National Stock Exchange (Bolsa Nacional de Valores de Costa Rica, S.A.), and the Securities Market Regulatory Law, and it was authorized through resolution SGV-R-2702 of August 27, 2012, in order to issue debt securities to be marketed in the brokerage market of Costa Rica.

Statement of Compliance - The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

Presentation Basis - The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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. 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 would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purpose 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 net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into 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 prices (unadjusted) in active markets for identical assets or 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 asset or liability.

Significant Accounting Policies - The significant accounting policies used in the preparation of the financial statements are summarized as follows:

- a. ***Currency and Transactions in Foreign Currency*** - Management has determined that the Costa Rican colon is RECOPE's functional currency. The transactions denominated in US dollars are registered at the exchange rates in force as of the date of the transaction; RECOPE's assets are registered at the purchasing exchange rate and liabilities at the selling exchange rate. Exchange rate differences originated from the liquidation of assets and obligations denominated in such currency, as well as the adjustment of balances as of closing date, are registered as part of RECOPE's results. As of December 31, 2013 and 2012, the exchange rate of the colón regarding the US dollar for companies of the non-banking public sector was ¢542,22 and ¢502,47 for selling transactions, respectively, and ¢541,68 and ¢501,97, for purchasing transactions, respectively.

As of the date of issue of the financial statements, exchange rate was ¢535,65.

- b. ***Currency Translation into U.S. Dollars*** - The Company's functional currency is the Costa Rican colón (¢). Accordingly, the local currency financial statements were translated into United States Dollars using the following basis: assets and liabilities were translated at the closing exchange rate, stockholder's equity was measured using the historical exchange rates prevailing when each transaction took place. Income and expense items were translated at the weighted average rate for the period. The effect of translation is charged to stockholder's equity in a separate item denominated Foreign Currency Translation Adjustment.
- c. ***Cash Equivalents*** - RECOPE considers as cash equivalents all its held-to-maturity investments, with an original maturity equal to or less than three months.
- d. ***Allowance for Doubtful Accounts*** - The allowance for doubtful accounts is registered crediting the operation results, and it is determined based on an evaluation of the recoverability of the accounts receivable portfolio, taking into account the existing delinquency, guarantees received, and management's criterion on the debtors' payment capacity. RECOPE does not include accounts receivable from clients because its sales are on cash. As of December 31, 2014 and 2013, the allowance for doubtful accounts is mainly composed by a balance of US\$744,731 and US\$818,926, respectively, receivable from Concessions National Board and other receivables.
- e. ***Inventories*** - Inventories are valued at the lower of cost or net realization value. The net realization value is the estimated selling price of a product in the normal course of operation, less the estimated necessary costs to perform the sale and a reasonable percentage of profit.

Finished product and works in progress are registered at the average manufacturing cost.

The raw materials, materials, supplies, and spare parts are registered at the average cost, and merchandise in transit is registered at cost according to the suppliers' invoice.

The raw materials inventory (petroleum and other raw materials), as well as materials and supplies are valued at the average weighted cost.

The following are recognized as direct shipping costs (CIF and other costs):

- Value of the invoice.
- Cost of maritime freight.
- Insurance cost.
- Payment of single fuel tax, according to Law No.8114.
- Payment of port services: JAPDEVA and independent inspectors.

The indirect shipping costs are registered as operating expenses, as established in the International Accounting Standard (IAS) 2, such as:

- Expenses from the Port Administration,
- Expenses from the Fuel Trading Administration,
- Depreciation of the Moín Oil Dock,
- Payment of delays.

Raw materials and materials in transit at cost according to invoice price, plus incidentals.

Petroleum is valued at the CIF import price plus required expenses to put it in the refinery storage tanks, plus 1% tax according to Law No.6946.

Imported finished product is valued at the CIF import price plus the single fuel tax established by the Law for Tax Efficiency and Simplification Number 8114, published in the La Gaceta No.131, Paragraph 53, of July 9, 2001, which became effective on August 1st, 2001; that is to say, other expenses required to place it in storage tanks at the refinery and other plants. D.A.I. to the import of crude oil is eliminated through Executive Order No.29750-COMEX published in the official newspaper La Gaceta No.170 of September 5, 2001.

Allowance for Obsolete Inventory - The amount is calculated based on the materials declared obsolete by the user in coordination with the warehouse department and according to a projection from the warehouse department regarding the lines declared obsolete in respect of the total of lines existing in the inventory.

- f. **Single Fuel Tax** - Upon enactment and enforcement of the Tax Simplification and Efficiency Law (Law No.8114), a single tax is instituted on fuel type - both domestically produced and imported fuel.

The taxable event - as set forth in Article No.1 of this Law - takes place on two occasions:

- Upon import of finished goods prior to customs clearance.
- For local production, manufacturing, cracking or refining, RECOPE shall settle and pay this tax within the first 15 calendar days of each month.

RECOPE is the single taxpayer and records this tax in its financial statements, as the taxable event takes place as part of Account 2102020401 Accounts Payable - Single Tax.

The tax on fuel type is updated on a quarterly basis, subject to changes in the Consumer Price Index determined by the National Statistics and Censuses Institute (INEC). Under no circumstances shall the quarterly adjustment be above 3%.

The existing decree (Decree 37999-H) published in official newspaper La Gaceta, Issue 210 as of October 31, 2014, effective from November 1st, 2014 to January 31st, 2015, provided for an adjustment of 1.11%. The tax broken down by product is as follows:

Fuel	Tax by Liter (¢)
91 Plus gasoline	235,50
Premium gasoline	246,75
Diesel	139,50
Asphalt	47,25
Asphalt emulsion	35,50
Bunker (gasoil)	23,00
G.L.P	47,25
Jet Fuel A1	141,00
Av Gas	235,50
Kerosene	67,75
Heavy diesel (gasoil)	45,75
Heavy naphta	33,75
Light naphta	33,75

The following are exonerated from this tax payment (Article No.1 of Law No.8114):

- Fuel designated to supply commercial airlines and merchant ships or commercial passenger shipping lines, all providing international services.
- Fuels used by the National Fishing Fleet, for non-sports fishing, in accordance with Law No.7384.

- Product allocated for export.
 - Products sold to companies that enjoy the export free zone regime benefits.
 - Products sold to companies using the tax exemption benefit, under the specific legislation, in order to cover road construction service agreements.
- g. ***Property, Plant, Vehicles and Equipment*** - These assets are originally recorded at cost of acquisition and construction, as it corresponds, afterwards, any revaluation, less the accumulated depreciation or impairment of those assets is charged to such cost, so that they represent their fair value.

The constructions and facilities in progress are temporarily registered, and then they are transferred to the definite account fixed assets account at the moment of receiving the completion reports and when their capitalization has taken place. The disbursements for ordinary repairs and maintenance are charged to the expenses of the cost center that originates them.

Until December 2011, RECOPE made revaluation of the fixed assets in operation for specific price indexes using the following methodology:

- Industrial Producer Price Index for Moín Port Complex and Facilities, in local investment and construction index for local investment buildings.
- External indexes of the Chemical Engineering magazine by McGraw Hill Publication to:
 - Revaluate plants, facilities of refinery and oil pipeline, Plant Cost Index.
 - Moín Port Complex, Construction Cost Index.

These indexes are combined with the exchange rate variation of the colón in respect of the U.S. dollar. The indexes applied in 2011 are the following:

Description	Revaluation Factor
Properties	4.73%
Moín Port Complex	3.87%
Refinery facilities	7.13%
Distribution facilities	7.39%
Oil pipeline installations	7.95%
Buildings	3.87%
Machinery and equipment	4.73%
Furniture	4.73%
Vehicles	4.73%

- h. ***Investment at Moín Port Complex*** - The works corresponding to this investment are registered in the books of RECOPE, according to the provisions set forth in Agreement No.5, Article No.6 of the Ordinary Session No.89 of the President's

Cabinet held on April 2, 1988. This resolution expressly acknowledges that works corresponding to that investment have clear title of ownership and domain in the name of RECOPE.

The resolution of the President's Cabinet was presented to the Board of Directors of RECOPE, and Management was notified, in accordance with Article No.12 of meeting number 2240-191 held on April 22, 1988.

- i. **Depreciation** - The depreciation on the revaluated amounts and historical cost is charged to the results of the period. The depreciation of fixed assets, both historical and revaluated, is calculated using the straight-line method, taking as a basis the useful life indicated in the Regulations to the Income Tax Law. For calculating depreciation of those assets acquired before 2008, 90% of the registered cost is used as a basis, and for those acquired after 2008, they are depreciated taking as a basis 100% of the cost. The change was an administrative decision, after the new accounting system begins its operation.

In order to appraise the Moín Port Complex, the different operational areas were divided by function, and as a result, different annual depreciation rates are applied to each area: petroleum dock, roll-on-roll-off dock and banana dock from 3% to 10%; maritime works from 2% to 10 %, and general ground works from 3% to 5%.

Depreciation costs are distributed among the cost centers to which the assets provide services. Depreciation costs for the Refining Management are classified as costs for processing petroleum, except for Depreciation of the Moín Port Complex, which is allocated to the cost of imported product.

Currently, registration of depreciation expenses has been separated, on one hand what corresponds to the assets registered at historical cost value, and on the other hand the revaluated asset expense.

- j. **Works in Progress** - This item registers the construction works in progress, which when concluded are reclassified and become part of the property, plant, vehicles, and equipment. A construction agreement is a specifically negotiated contract to manufacture an asset or group of assets that are intimately related among themselves or are independent in terms of design, technology, and function, or else, in regards to their final use or destination. The records that affect this account are made as established by the IAS 11, "Construction Contracts".
- k. **Investment in Joint Ventures** - According to IFRS 11, a joint arrangement is a contractual agreement in virtue of which two or more participants start an economic activity that is subject to joint control through a separate vehicle. Joint control is the contractually agreed sharing of control of an arrangement, which only exists when the decisions on relevant activities require unanimous consent of the parties sharing control.

The contractual agreement gives the parties of a joint arrangement the right to the agreement's net assets (that is to say, it is the vehicle, not the parties, who has the rights and obligation regarding liabilities related to the arrangement).

No party has individual control on the arrangement.

For RECOPE, there is no absolute control of the business interest; both companies have 50% of the participation; an agreement by the parties is needed for relevant decision making. Thus, the investment is recognized in the account denominated SORESCO, S.A., which RECOPE has registered under the equity method.

1. ***Income Tax*** - It is determined according to the provisions established by the Income Tax Law No.7092 and Law No.7722 “Law on the Obligation of Government Institutions to Income Tax Payment.” Should any tax result from this calculation, it is charged to the results and credited to a liability account. Deferred income tax is registered using the liability method and is applied to those temporary differences between the carrying value of the assets and liabilities and the values used for tax purposes. A deferred tax liability represents a taxable temporary difference, and a deferred tax asset represents a deductible temporary difference. The asset or liability is not recognized if the temporary difference is originated from goodwill or from the initial registration of an asset or liability (different from a business combination) that does not affect the tax or accounting profit.

The deferred tax asset originates from the deductible temporary differences associated with accounting provisions and estimates. The deferred tax liability is recognized by tax differences associated with the revaluation of fixed assets. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. The registered value of the deferred tax asset is reviewed as of the date of each balance sheet and adjusted if it is estimated that it is not likely to obtain enough taxable income or other sources of income that allow to fully or partially recover the asset.

Deferred income tax assets and liabilities are measured at the rate of tax which is expected to be applied during the period in which the asset will be realized or the liability paid. Deferred income tax assets and liabilities are shown net since they relate to the same fiscal entity and the right exists, and RECOPE expects to pay its tax liabilities and assets in a net way.

- m. ***Deferred Income*** - It corresponds to deposits made by the clients in behalf of RECOPE, which will be applied once the product is sold.
- n. ***Employees’ Legal Benefits*** - According to the labor legislation in force in Costa Rica, an indemnification should be paid to employees dismissed without a just cause, retired or permanently disabled employees, and the family of deceased employees, for an amount equal to a month of salary for each year of continuous service for up to a limit of eight months.

RECOPE registers a monthly provision charging operating expense for each cost center from which salaries are disbursed, calculated as 5.33% of same. In addition, 3% of monthly salaries are transferred to different pension funds selected for employees, and they will be deducted from the final termination payment made to employees.

According to Resolution of the Constitution Chamber No.2013011506, published in Judicial Bulletin No.195 of October 1, 2013, severance cannot exceed twenty-four months.

According to the official communication JD-471-2014 of December 4, 2014 and according to the agreement made by the Company's Board of Directors, which can be found in Article 6 of the Ordinary Session number 4836-42, held on Monday, December 1st, 2014, it was approved to register the accounting adjustment to the allowance for employees' legal benefits, and this is pointed out in the actuarial study made by CICAP and is also pointed out by the external auditors. The amount of the total adjustment that should be registered to the allowance for employees' legal benefits amounts to US\$33,816 thousands; however, the adjusted amount in 2014 was US\$7,803 thousands, since the balance to be adjusted will be adjusted on a monthly basis, from January 1st to December 31, 2015.

- o. ***School Supplies Bonus and Vacation*** - It is calculated in accordance with the decrees issued by the Ministry of Labor every time there is a salary increase, and it is paid in January according to existing regulations. For 2011, 8.19% of the monthly payroll was provisioned, according to D.E. No.36420-MTSS.

The provision for vacation is registered according to the analysis made by the Section of Compensations and Incentives of RECOPE's Human Resources Department.

- p. ***Christmas Bonus*** - RECOPE makes a monthly provision corresponding to payment of Christmas bonus to its employees in December, as established in the Code of Labor, Such provision corresponds to 8.33% per month.
- q. ***Legal Reserve*** - The commercial legislation of Costa Rica establishes that every corporation must reserve 5% from its net profit up to reaching 20% of its capital stock.
- r. ***Investment Reserve*** - It corresponds to the reserves authorized by the Regulatory Authority with the aim to sustain the investments programs. In compliance with Law No.7593 of the Regulatory Authority and the provisions set forth in the resolution RRG-8988-2008, during the 2010 and based on agreement of the Board of Directors, Article No.6 subsection 3) of the ordinary session 4470-23 of August 4, 2010, it was decided that RECOPE shall apply the profits or surplus of the period to the reserves as an investment.
- s. ***Surplus from Revaluation*** - This account records the surplus from asset revaluation that RECOPE has made through the years and represents the resulting difference of the value of the asset revaluation compared to the revaluation value of the accumulated depreciation; in other words, it is the net increase of the value of the assets that result from the annual revaluation, less the annual transfers corresponding to expense from depreciation for revaluation, net of the deferred income tax that is registered against the retained earnings.

- t. **Surplus from Donation** - It records donations received from Allied Chemical Corp, Petro Canada, and the Agency for International Development (AID) to perform the explorations of charcoal, as well as those from the Costa Rican Electricity Institute (ICE) to build the Castella-Garita oil pipeline and a debt remission from the Dutch government.
- u. **Revenue Recognition** - The sales of hydrocarbons are in cash, by which revenues are recognized when RECOPE has transferred to the buyer all significant risks and benefits related to the ownership of the sold fuels. RECOPE does not keep for itself any association with the common management of the goods sold. The amount of revenue can be reliably measured. It is probable that RECOPE receives the economic benefits associated with the sale, and the transaction costs can be reliably measured.

This account records revenue from sales of hydrocarbons, which prices are defined by the Regulatory Authority. The following describes the procedure to establish the prices of fuels:

Price Adjustment - To modify the selling price of domestic fuels, RECOPE has two mechanisms:

- Normal price study.
- Extraordinary procedure using an adjustment formula.

These mechanisms are described in the following regulations:

- Law No.6588 August 13, 1981.
- Law No.7593 of the Regulatory Authority for Public Services.
- Resolution RRG-9233-2008, La Gaceta No.227 of November 24, 2008.

The normal price study must be applied at least once a year, as well as when RECOPE may consider it necessary, this mechanism seeks to maintain prices to cover costs and expenses required for ordinary company activities.

The extraordinary adjustment formula is a mechanism to adjust sales prices that seeks to recover in the short term the funds necessary to cover the increased costs related to the import of crude oil and petroleum by products. This adjustment does not affect the operating costs and expenses of the Company.

The resolutions of extraordinary and ordinary adjustments to the institutional prices are made according to the model established by the Regulatory Authority, published in the official newspaper La Gaceta. The extraordinary adjustments through which the prices of all products are adjusted every second Friday of each month are resolved and applied one month afterwards; the last resolutions applied are the following, in colones per liter, without taxes:

National Products / Institution's Price	ARESEP RESOLUTIONS (¢/LT. WITHOUT TAX)				
	094-RIE	083-RIE	078-RIE	064-RIE	058-RIE
Premium gasoline	386,548	454,951	454,951	477,190	478,843
91 Plus gasoline	363,994	428,701	428,701	455,369	467,874
Diesel 0.005% S (Automotive 500)	412,114	440,660	440,660	464,410	474,960
Diesel 0.50% S (Thermal)	382,858	423,481	423,481	441,133	455,951
Kerosene	406,718	437,490	437,490	471,006	474,105
Bunker	270,581	324,716	324,716	348,085	350,187
IFO 380	316,724	359,958	359,958	362,963	372,989
Asphalts AC20/30 and PG 70	325,310	363,146	363,146	373,613	379,165
Heavy diesel (gasoil)	333,517	379,808	379,808	400,231	409,348
Asphalt emulsion	203,556	229,279	229,279	237,522	240,733
G.L.P.	158,042	183,692	183,692	184,501	179,008
Av-Gas	824,343	812,689	812,689	804,908	803,579
Jet A-1	408,499	439,561	439,561	473,188	476,541
Light naphta	331,345	364,460	364,460	400,231	428,243
Heavy naphta	335,196	370,533	370,533	405,960	432,065

RIE-094-2014, Gaceta 234 of December 4, 2014. It includes a margin K= 20,313%, all products.

RIE-083-2014, Gaceta 215 of November 67, 2014. It includes a margin K= 17,676% , all products.

RIE-078-2014, Supplement 61 to la Gaceta 208 of October 29, 2014. It includes a margin K =17,676%, all products.

RIE-064-2014, Supplement 51 to La Gaceta 189 of October 2, 2014. It includes a margin K = 16,589%, all products.

RIE-058-2014, Gaceta 180 of September 19, 2014, It includes a margin K = 16,277%, all products.

Rate Model to Establish the Fuel Price - Through resolution RRG-9233-2008, published in the official newspaper La Gaceta No.227 of November 24, 2008, the Regulatory Authority published the new rate model to define the price of fuels derived from hydrocarbons at distribution plants and to the end consumer. This model is in effect since November 25, 2008. The model establishes the method and ways to determine the institutional prices and the end user of the products dispatched by RECOPE.

- *Ordinary Price Definition* - For establishing the price of the fuel, the provisions set forth in Law No.7593 and its regulations should be followed; the following formula will be applied:

$$NPPCi = (Pr_{ji} * TCR) * [1 + K_j] \pm Di \pm Si$$

Where -

j = 1, 2, 3 n, It indicates the number of extraordinary price adjustments, made from the date the ordinary price study rate enters into force.

i = 1, 2, 3 h, It represents the types of fuels that are sold in the national territory.

h = It represents the total number of fuels that are sold in the national territory.

NPPCi: It is the new sales price at RECOPE's distribution plant, in colones per liter, of i fuel, without the single tax, and which will directly affect the price of i fuel or the end user.

PR_{ji}: It is the simple average FOB price of reference in US dollars, per barrel, converted into colones per liter (a barrel is equal to 158,987 liters), Its calculation is made based on the international prices of 15 calendar days previous to the cutoff date of making the study, and where the daily price is the simple average of the higher and lower prices reported by the source of reference - Platt's Oilgram Price Report of the Gulf Cost by Standard & Poors of the United States, while other markets of reference for the region are found. Also, if the price of this market has been influenced by anomalous factors, it is possible to modify the source with other markets of the region. This price will be periodically adjusted according to what is stated in the model to set the extraordinary price of fuels. It is not necessary to do any type of extra charge to this price.

- *Extraordinary Price Definition* - For establishing fuel price through the application of the extraordinary procedure, the following formula will be used:

$$NPPC_i = (PR_i * TCR] * (1 + K_j) \pm D_i \pm S_i$$

NPPC_i, PR_i, TCR, K_j, D_i, S_i defined in point a) of the ordinary price definition.

NPPC_i = (Pri * TCRp] * (1 + K_j), Pri can be automatically adjusted between one above or one below the standard deviation, in dollars per barrel by type of fuel.

Where -

TCRp: It is the average selling exchange rate in the banking sector as of the selling date of the fuel (colones CRC / dollars USD), calculated according to the Central Bank report of what happened on the previous day. If the rate is set in dollars, the same exchange rate definition must be applied (TCRp).

- *Transfer of the Price Adjustment to the End User* - Once the price at the distribution plant has been adjusted; the adjustment should be transferred to the consumer prices for the end user incorporating the sole tax of each fuel into the price. The formulas to transfer the adjustment to the end user are the following ones:

$$1- \quad PPC_i = NPPC_i + T_i$$

$$2- \quad PC_i DF = PPC_i + MgT_i + MgD_i$$

Where -

i: Fuels that RECOPE dispatches in the distribution plant, within the national territory.

PPC_i: Distribution institutional price, in colones per liter, by fuel type, with the sole tax included.

NPPC_i: New sale price in RECOPE's distribution plant, in colones per liter, of the fuel i, without the sole tax, which at the same time will directly affect the fuel price of i, for the end user.

T_i: Sole tax in colones per liter, by type of fuel and reviewable every three months, according to what is indicated by the Ministry of Financing, pursuant to Law 8114, Law of Simplification and Tax Efficiency.

PC_iDF: Fuel price of i, for the fuel distribution retailer, in colones per volume unit.

MgT_i: Distributor margin, in colones per liter and by fuel type. The freight charge will be determined based on the corresponding pricing methodology.

MgD_i: Distributor margin, in colones per liter, fuel type; it will be determined based on the corresponding pricing methodology.

- *Fuel Sales to the National Fishing Fleet* - This refers to products such as gasoline and diesel sold to clients under Law No.7384 "Law on the Creation of INCOPECA," with a differential price. Through Resolution RIE-097-2013 of November 29, 2013, ARESEP made a significant change in the procedure to establish the rates of fuels used by the National Fishing

Therefore, through Resolution RIE-094-2014, of the official newspaper La Gaceta No.234 of December 4, 2014, ARESEP has decided to set an institutional price for products used by the National Fishing Fleet as follows, in colones per liter:

REGULAR GASOLINE	<u>¢285.558</u>
DIESEL 0.05% S	<u>¢342.026</u>

- v. **Cost of Sales** - The cost of sales accounts for the issue of inventory for sale. The cost of inventory includes overall hydrocarbon production or purchase costs sold by RECOPE. Such sale results in regular income to RECOPE. Assessing inventory costs requires the moving average cost method, for it keeps costs as updated as possible, given inventory turnover and volatility of international hydrocarbon prices.
- w. **Mixing Unit** - This unit combines products to produce marine fuel and commercial gasoline among others. The costs obtained from the units above corresponding to new product are averaged products prepared from this mixing process include:
- IF 180 (mix of fuel oil and gasoil).
 - IF 380 (mix of fuel oil and gasoil).

- Regular gasoline (Gasoil + colorants and additives).
- Premium gasoline (MOGAS + MTBE).

The costs of the mixed products are averaged after with the initial inventory costs that correspond to the previous period. The usual losses in the products are part of the cost of sales. It is important to indicate that as of this date the refinery is not operation because is undergoing a review and disassembling process for the revamp that will take place soon.

- x. **Expense Recognition** - Expenses are recognized on the accrual basis, as goods or services acquired are received or as accounting amortizations and reserves are registered, such as depreciation, asset impairment and provisions for losses.
- y. **Asset Impairment** - As of yearend, RECOPE evaluates the registered value of its assets to determine if there is any indication that such assets have suffered any impairment loss. When there exists such indication, the recoverable amount of the assets is estimated, in order to determine the amount of the loss, if any.
- z. **Use of Estimates** - The financial statements are prepared according to the International Financial Reporting Standards, and consequently, they include amounts that are based on management's best estimate and judgment. The actual results could differ from such estimates. Estimates made by management include the useful life of property, plant, vehicles, and equipment, as well as the determination of provisions.
- aa. **Financial Instruments** - All financial assets and liabilities are initially recorded at fair value. After the initial registration, the financial assets are registered at such value because they consist mainly of cash and cash equivalents, held-to-maturity investments, accounts receivable, and notes receivable. Financial liabilities consist basically of accounts payable and debt, which are valued at the originally registered amount less the payments made or at amortized cost, as applicable. As of December 31, 2014 and 2013. RECOPE has not entered into any agreement whatsoever that involves derivative financial instruments, such as futures, option, and financial swaps.
- bb. **Adoption of New and Revised International Financial Reporting Standards (IFRS)** -
 - **New and Revised IFRS That Affect the Amounts and/or Disclosures in the Financial Statements** - During the current year, the Company has applied a series of new and revised IFRS, which are mandatory and effective for periods that started on January 1, 2013 or afterwards:
 - *Amendments to IFRS 7 Disclosures- Transfers of Financial Assets and Liabilities* - The Company has applied the amendments to IFRS 7 Disclosures - Transfer of Financial Assets and Liabilities for the first time during the current year. The amendments to IFRS 7 require the entities to

disclose more information about the rights of offset and the related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. Since the Company does not keep any offsetting agreement, the application of these amendments has not had a material impact in the disclosures and amounts recognized in the financial statements.

- *IFRS 13 - Fair Value Measurement* - The Company has applied the IFRS 13 for the first time during the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 addresses the fair value requirements of IFRS 13 applicable to both financial instruments and non-financial instruments for which other IFRS require or permit fair value measurements and disclosures regarding fair value measurements except for Share - based Payment transactions that are within the scope for IFRS 2 Share - Based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that are similar to fair value, but are not fair value (e.g. net realizable value for the purposes of measuring inventories for value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 included extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013 or in subsequent periods. In addition, specific transitional provisions were given to entities such that they need not apply the disclosures requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2013 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the financial statements.

- *Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income (As part of the Annual Improvement Cycle to IFRS 2009 - 2011 Issued in May 2012)* - Annual improvements to IFRS 2009 - 2011 have performed a number of amendments to IFRS. The amendments that are relevant for the Company are the amendments to IAS 1 regarding when the statement of financial position as at the beginning of the preceding

period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applied an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

- *IAS 19 Employee Benefits (Revised in 2011)* - During the current year, the Company has applied IAS 19 Employee Benefits (revised in 2011) and the subsequent relative amendments for the first time. IAS 19 (revised in 2011) changes the accounting for defined benefit plans and termination benefit plans. The most significant change relate to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the “corridor approach” permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a “net interest” amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.
- **New and Revised IFRS, Issued but Not in Force** - The Company has not applied yet the following new and revised IFRS, which have been issued but are not yet in force. This is due to the date in which they become effective:

Standard or Interpretation	Ref.	Effective for the Periods Starting After:
IFRS 9 - <i>Financial Instruments</i> (Revised 2010)	I	January 1 st , 2018
Amendments to IAS 32 - <i>Asset and Liability Offsetting</i>	II	January 1 st , 2014
NIIIF 15 - <i>Revenues from Contracts with Customers</i>	III	January 1 st , 2017
Amendments to IFRS 11 - <i>Acquisition of an Interest in Joint Operations</i>	IV	January 1 st , 2016
Amendments to IAS 16 and IAS 38 - <i>Clarification of Acceptable Methods and Depreciation and Amortization</i>	V	January 1 st , 2016

(Continues)

Standard or Interpretation	Ref.	Effective for the Periods Starting After:
Amendments to IAS 16 and IAS 41 - <i>Agriculture: Bearer Plants</i>	VI	January 1 st , 2016
Amendments to IAS 19 - <i>Defined Benefit Plan: Employee Contributions</i>	VII	January 1 st , 2014
Annual Improvements to IFRS - 2010-2012 Cycle	VIII	July 1 st , 2014
Annual Improvements to IFRS - 2011-2013 Cycle	IX	July 1 st , 2014

I. IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. The key requirements of IFRS 9 are described as follows:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments 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 principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

II. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off and simultaneous realization and settlement.”

- III. In May 2014, IFRS 15 was issued, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5 step approach to revenue recognition:

Step 1 - Identify the contract(s) with a customer.

Step 2 - Identify the performance obligations in the contract.

Step 3 - Determine the transaction price.

Step 4 - Allocate the transaction price to the performance obligations in the contract.

Step 5 - Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

- IV. The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.
- V. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is

not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- When the intangible asset is expressed as a measure of revenue; or
- When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Company uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The Company's management believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets.

- VI. The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. The Company's management do not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the Company financial statements.
- VII. The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans. Based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

The directors of the Company do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Company financial statement.

- VIII. The *Annual Improvements to IFRSs 2010 - 2012 Cycle* include a number of amendments to various IFRSs, which are summarized below:
- The amendments to IFRS 2 (i) change the definitions of vesting condition and market condition; and (ii) add definitions for 'performance condition and service condition which were

previously included within the definition of vesting condition. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1st, 2014.

- The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit or loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after July 1st, 2014.
- The amendments to IFRS 8 (i) require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics; and (ii) clarify that a reconciliation of the total of the reportable segments assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
- The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.
- The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation / amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
- The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the

3. ACCOUNTS RECEIVABLE

A detail of accounts receivable is the following:

	Note	2014	2013
Short term:			
Clients		US\$ 11,029	US\$ 71,117
Employees		171,847	201,325
Government	15	1,818,588	1,426,675
Autonomous institutions		474,723	1,085,457
Others		<u>999,495</u>	<u>43,267</u>
Subtotal		<u>3,475,682</u>	<u>2,827,841</u>
Long term:			
Related parties	15	5,442,119	4,522,757
Others		<u>345,440</u>	<u>454,245</u>
Subtotal		5,787,559	4,977,002
Allowance for doubtful accounts		<u>(744,731)</u>	<u>(818,926)</u>
Subtotal		<u>5,042,828</u>	<u>4,158,076</u>
Total		<u>US\$8,518,510</u>	<u>US\$6,985,917</u>

The movement of the allowance for doubtful accounts is presented as follows:

	2014	2013
Initial balance	US\$818,926	US\$894,132
Decrease	(14,160)	(87,248)
Foreign currency translation adjustment	<u>(60,035)</u>	<u>12,042</u>
Final balance	<u>US\$744,731</u>	<u>US\$818,926</u>

4. INVENTORIES

The inventory account is broken down as follows:

	2014	2013
Raw materials	US\$ 12,368,966	US\$ 12,307,013
Finished product	194,545,794	205,431,982
Semi-finished product	3,612,163	5,665,125
Inventory in transit	18,991,993	123,010,214
Material inventory	<u>6,575,676</u>	<u>7,624,306</u>
Subtotal	236,094,592	354,038,640
Allowance for obsolete inventory	<u>(410,512)</u>	<u>(1,842,070)</u>
Total	<u>US\$235,684,080</u>	<u>US\$352,196,570</u>

The movement of the allowance for obsolete inventory is the following:

	2014	2013
Initial balance	US\$ 1,842,070	US\$1,918,224
Decreases	(1,296,517)	(101,987)
Foreign currency translation adjustment	<u>(135,041)</u>	<u>25,833</u>
Final balance	<u>US\$ 410,512</u>	<u>US\$1,842,070</u>

5. PREPAID EXPENSES

Prepaid expenses are detailed as follows:

	2014	2013
Contractor's cash in advance	US\$30,095,564	US\$32,982,411
Income tax withholdings to clients	7,954,056	8,812,022
Letters of credit for services		2,013,334
Insurance	648,088	1,287,992
Others	<u>859,917</u>	<u>3,072,453</u>
Total	<u>US\$39,557,625</u>	<u>US\$48,168,212</u>

6. PROPERTY, PLANT, VEHICLES AND EQUIPMENT

The detail of property, plant, vehicles and equipment as of December 31, 2014 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Transferred	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 11,995,578		US\$ (1,554)		US\$ (66,497)	US\$ (879,385)	US\$ 11,048,142
Moín Port complex	20,707,715		(115,046)		(348,596)	(1,518,062)	18,726,011
Facilities	314,899,913	US\$ 543,984	(205,140)	US\$ 17,712,980	(196,481)	(23,084,986)	309,670,270
Building	32,191,101			4,007,168	196,481	(2,359,896)	34,034,854
Heavy machinery and equipment	41,897,857	673,807	(38,756)	57,593,400	348,596	(3,071,488)	97,403,416
Furniture and equipment	36,975,192	2,748,989	(455,104)	9,989,579		(2,710,613)	46,548,043
Vehicles	10,785,734	1,237,543	(152,997)	201,007		(790,690)	11,280,597
Works in progress	<u>220,144,476</u>	<u>86,202,146</u>		<u>(89,504,134)</u>		<u>(16,138,564)</u>	<u>200,703,924</u>
Total at cost	<u>689,597,566</u>	<u>91,406,469</u>	<u>(968,597)</u>		<u>(66,497)</u>	<u>(50,553,684)</u>	<u>729,415,257</u>
Revaluated fixed assets:							
Properties	20,300,545		(190,164)		(3,418,663)	(1,488,212)	15,203,506
Moín Port complex	108,074,343					(7,922,819)	100,151,524
Facilities	201,971,614		(428,583)			(14,806,329)	186,736,702
Building	34,804,558					(2,551,486)	32,253,072
Plant machinery and equipment	8,655,273		(30,773)			(634,509)	7,989,991
Furniture and equipment	7,334,787		(169,451)			(537,705)	6,627,631
Vehicles	<u>3,245,253</u>		<u>(170,109)</u>			<u>(237,906)</u>	<u>2,837,238</u>
Revaluated total	<u>384,386,373</u>		<u>(989,080)</u>		<u>(3,418,663)</u>	<u>(28,178,966)</u>	<u>351,799,664</u>
Subtotal fixed assets	<u>1,073,983,939</u>	<u>91,406,469</u>	<u>(1,957,677)</u>		<u>(3,485,160)</u>	<u>(78,732,650)</u>	<u>1,081,214,921</u>
Depreciation at cost:							
Moín Port complex	(5,389,295)	(547,488)				395,084	(5,541,699)
Facilities	(113,697,741)	(19,983,243)	176,584	(2,922)	(10,346)	8,335,063	(125,182,605)
Building	(3,605,853)	(686,058)		(544)	10,346	264,341	(4,017,768)
Plant machinery and equipment	(13,336,490)	(4,555,793)	26,340	(483,761)	13,590	977,684	(17,358,430)
Furniture and equipment	(15,246,049)	(3,845,591)	331,569	(313,546)	(13,590)	1,117,672	(17,969,535)
Vehicles	(5,100,395)	(1,065,207)	135,277	(18,110)		373,906	(5,674,529)
Works in progress	<u>(699,074)</u>	<u>(509,751)</u>	<u>187,364</u>	<u>818,883</u>		<u>51,247</u>	<u>(151,331)</u>
Total accumulated depreciation of assets at cost	<u>(157,074,897)</u>	<u>(31,193,131)</u>	<u>857,134</u>			<u>11,514,997</u>	<u>(175,895,897)</u>
Revaluated depreciation:							
Moín Port complex	(90,484,991)	(2,662,091)				6,633,361	(86,513,721)
Facilities	(173,275,523)	(3,516,475)	374,294			12,702,650	(163,715,054)
Building	(15,235,363)	(654,619)				1,116,889	(14,773,093)
Plant machinery and equipment	(7,755,124)	(155,423)	27,380			568,521	(7,314,646)
Furniture and equipment	(6,396,751)	(204,945)	159,323			468,939	(5,973,434)
Vehicles	<u>(2,807,248)</u>	<u>(124,335)</u>	<u>160,765</u>			<u>205,796</u>	<u>(2,565,022)</u>
Total accumulated depreciation of revaluated assets	<u>(295,955,000)</u>	<u>(7,317,888)</u>	<u>721,762</u>			<u>21,696,156</u>	<u>(280,854,970)</u>
Total depreciation	<u>(453,029,897)</u>	<u>(38,511,019)</u>	<u>1,578,896</u>			<u>33,211,153</u>	<u>(456,750,867)</u>
Total	<u>US\$ 620,954,042</u>	<u>US\$ 52,895,450</u>	<u>US\$ (378,781)</u>	<u>US\$</u>	<u>US\$(3,485,160)</u>	<u>US\$(45,521,497)</u>	<u>US\$ 624,464,054</u>

The detail of property, plant, vehicles and equipment as of December 31, 2013 is the following:

Description	Initial Balance	Additions	Capitalizations	Disposals	Transferred	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 11,836,180					US\$ 159,398	US\$ 11,995,578
Moín Port complex	20,432,551					275,164	20,707,715
Facilities	280,314,939		US\$22,282,958	US\$ (757,052)	US\$ 9,284,084	3,774,984	314,899,913
Building	25,758,268		6,085,947			346,886	32,191,101
Heavy machinery and equipment	38,772,270	US\$ 2,965,507	9,562,759	(640,739)	(9,284,084)	522,144	41,897,857
Furniture and equipment	27,934,483	5,028,871	4,570,467	(934,821)		376,192	36,975,192
Vehicles	9,666,920	1,123,629	144,112	(279,111)		130,184	10,785,734
Works in progress	199,856,669	60,242,593	(42,646,243)			2,691,457	220,144,476
Total at cost	614,572,280	69,360,600		(2,611,723)		8,276,409	689,597,566
Revaluated fixed assets:							
Properties	20,030,792					269,753	20,300,545
Moín Port complex	106,638,251					1,436,092	108,074,343
Facilities	201,878,911			(2,625,988)		2,718,691	201,971,614
Building	34,342,076					462,482	34,804,558
Plant machinery and equipment	9,341,774			(812,306)		125,805	8,655,273
Furniture and equipment	7,848,799			(619,711)		105,699	7,334,787
Vehicles	3,575,229			(378,123)		48,147	3,245,253
Revaluated total	383,655,832			(4,436,128)		5,166,669	384,386,373
Subtotal fixed assets	998,228,112	69,360,600		(7,047,851)		13,443,078	1,073,983,939
Depreciation at cost:							
Moín port complex	(4,733,347)	(592,204)				(63,744)	(5,389,295)
Facilities	(90,172,824)	(20,063,128)	(2,880,606)	633,169		(1,214,352)	(113,697,741)
Building	(2,923,955)	(642,522)				(39,376)	(3,605,853)
Plant machinery and equipment	(12,549,376)	(4,060,222)	2,867,244	574,866		(169,002)	(13,336,490)
Furniture and equipment	(13,073,099)	(2,818,639)	(13,673)	835,417		(176,055)	(15,246,049)
Vehicles	(4,269,304)	(966,800)	(53,799)	247,002		(57,494)	(5,100,395)
Works in progress	(137,276)	(627,110)				65,312	(699,074)
Total accumulated depreciation of assets at cost	(127,859,181)	(29,770,625)	(80,834)	2,290,454		(1,654,711)	(157,074,897)
Revaluated depreciation:							
Moín Port complex	(86,448,115)	(2,872,684)				(1,164,192)	(90,484,991)
Facilities	(168,349,298)	(5,139,122)		2,480,046		(2,267,149)	(173,275,523)
Building	(14,335,898)	(706,404)				(193,061)	(15,235,363)
Plant machinery and equipment	(8,090,512)	(241,310)		685,653		(108,955)	(7,755,124)
Furniture and equipment	(6,575,708)	(307,851)	13,673	561,690		(88,555)	(6,396,751)
Vehicles	(2,944,580)	(180,833)		357,818		(39,653)	(2,807,248)
Total accumulated depreciation of revaluated assets	(286,744,111)	(9,448,204)	13,673	4,085,207		(3,861,565)	(295,955,000)
Total depreciation	(414,603,292)	(39,218,829)	(67,161)	6,375,661		(5,516,276)	(453,029,897)
Total	US\$ 583,624,820	US\$ 30,141,771	US\$ (67,161)	US\$ (672,190)	US\$	US\$ 7,926,802	US\$ 620,954,042

7. INVESTMENTS IN JOINT VENTURE

Investment in joint venture corresponds to a participation of 50% that RECOPE has in the stockholders' equity of Soresco, S.A. (Note 21.3).

The movement of year in the investment is the following:

	Note	2014	2013
Initial balance		US\$48,337,626	US\$30,447,583
Increases			18,750,000
Effect from participation from previous years		(3,543,581)	(968,874)
Effects from participation			(264,887)
Foreign currency translation adjustment		<u>223,084</u>	<u>373,804</u>
Final balance	15	<u>US\$45,017,129</u>	<u>US\$48,337,626</u>

Through agreement of Board of Directors No.4707-260, contributions for the sum of US\$18,750,000 (€9.393.750.000) were approved in April 2013.

A detail of assets, liabilities, and results of Soresco, S.A. as of December 31, 2014 and 2013 in US dollars is the following:

	2014 (Non Audited)	2013 (Non Audited)
Assets:		
Current	US\$ 40,686,126	US\$ 48,110,118
Non current	<u>57,948,476</u>	<u>49,562,265</u>
Total assets	<u>US\$ 98,634,602</u>	<u>US\$ 97,672,383</u>
Liabilities:		
Current	<u>US\$ 2,616,553</u>	<u>US\$ 2,066,467</u>
Total liabilities	<u>US\$ 2,616,553</u>	<u>US\$ 2,066,467</u>
Stockholders' equity:		
Capital stock	US\$ 10,000	US\$ 10,000
Additional paid-in capital	100,000,000	100,000,000
Accumulated losses	<u>(3,991,951)</u>	<u>(4,404,084)</u>
Total stockholders' equity	<u>US\$ 96,018,049</u>	<u>US\$ 95,605,916</u>
Expenses:		
Operating expenses	US\$ (131,513)	
Net financial income	<u>543,645</u>	<u>US\$ 680,042</u>
Profit	<u>US\$ 412,132</u>	<u>US\$ 680,042</u>

As of December 31, 2014 and 2013, the additional paid in capital by RECOPE is US\$50,000,000 for both years.

8. OTHER ASSETS

Other assets are broken down as follows:

	2014	2013
Software licenses	US\$13,739,669	US\$13,020,159
Service stations - cost	16,836	18,938
Service stations - revaluation	6,629,441	7,448,713
Security deposits	2,223,161	2,156,332
Idle assets	3,485,160	
Others	<u>183</u>	<u>200</u>
Subtotal	26,094,450	22,644,342
Accumulated amortization of software	<u>(11,879,102)</u>	<u>(9,277,341)</u>
Total	<u>US\$14,215,348</u>	<u>US\$13,367,001</u>

Increases from revaluation of service stations are credited to the surplus from revaluation in equity account. The last appraisal of the service stations took place on September, 2013, and it was made by an independent expert from the Costa Rican Tax Authority (Dirección General de Tributación Directa).

Service stations are idle since there are lawsuits that are pending resolution, filed by former users of the stations.

Idle assets correspond to real property that RECOPE is not using and were transferred from property, plant, and equipment (Note 6).

The movement of the accumulated amortization of software is the following:

	2014	2013
Initial balance	US\$ 9,277,341	US\$6,053,099
Increases	3,281,873	3,142,726
Foreign currency translation adjustment	<u>(680,112)</u>	<u>81,516</u>
Final balance	<u>US\$11,879,102</u>	<u>US\$9,277,341</u>

9. ACCOUNTS PAYABLE

Accounts payable are broken down as follows:

	Note	2014	2013
Supplier of oils and byproducts		US\$ 93,374,410	US\$198,352,955
Law No.8114 Single Tax	15	42,794,006	63,281,060
Trade		1,870,524	3,428,646
Others		<u>3,844,587</u>	<u>3,676,669</u>
Total		<u>US\$141,883,527</u>	<u>US\$268,739,330</u>

10. ACCUMULATED EXPENSES AND OTHER LIABILITIES

The accumulated expenses and other liabilities account is broken down as follows:

	2014	2013
Provision for school supplies bonus	US\$4,606,311	US\$ 4,679,421
Provision for Christmas bonus	333,450	396,915
Provision for vacations	1,284,781	3,980,099
Accumulated interest	<u>2,743,301</u>	<u>1,604,141</u>
Total	<u>US\$8,967,843</u>	<u>US\$10,660,576</u>

11. NOTES PAYABLE

A detail of short-term notes payable is presented as follows:

	2014	2013
Banco Latinoamericano de Comercio Exterior, S.A., in dollars, interest rate of 1.11% (Libor rate at three months plus 1.05%) Maturity in January 12, 2015, secured through promissory note	<u>US\$88,980,647</u>	<u>US\$61,520,918</u>
Total	<u>US\$88,980,647</u>	<u>US\$61,520,918</u>

12. LONG TERM DEBT

A detail of the long term debt is presented as follows:

	Notes	2014	2013
Banco Scotiabank, S.A., in dollars, annual interest rate of 4.6%, maturity in 2020, guarantee of the Government of Costa Rica	21.2	US\$23,571,428	US\$27,857,143
Corporación Andina de Fomento, in dollars, annual interest rate of 5.63% on 2014 and 5.48% on 2013 (Libor rate at six months plus 2%) maturity in 2018, guarantee of the government of Costa Rica	21.1	<u>8,000,000</u>	<u>10,000,000</u>
Subtotal		31,571,428	37,857,143
Less: Current portion of the long-term debt		<u>(6,285,714)</u>	<u>(6,285,714)</u>
Total		<u>US\$25,285,714</u>	<u>US\$31,571,429</u>

Scheduled maturities of long term debt as of December 31, 2014 and 2013 are the following:

Year	2014	2013
2014		US\$ 6,285,714
2015	US\$ 6,285,714	6,285,714
2016	6,285,714	6,285,714
2017	6,285,714	6,285,714
2018	6,285,714	6,285,714
2019 and on	<u>6,428,572</u>	<u>6,428,573</u>
Total	<u>US\$31,571,428</u>	<u>US\$37,857,143</u>

13. LONG-TERM BONDS PAYABLE

Long-term bonds payable as of December 31, 2014 and 2013 are described below:

	2014	2013
Series A1 bonds payable	US\$ 50,000,000	US\$ 50,000,000
Premium in placement	676,305	722,539
Series A2 bonds payable	50,000,000	50,000,000
Premium in placement	110,596	114,136
Series A4 bonds payable	40,000,000	
Discount in placement	<u>(76,392)</u>	<u> </u>
Total	<u>US\$140,710,509</u>	<u>US\$100,836,675</u>

On August 27, 2012, the public bid and registration with the National Registry of Securities and Intermediaries of a bond issue program for a total of US\$200 million to finance a strategic investment program was authorized under resolution SGV-R-2702 by the General Superintendence of Securities.

On December 5, 2012, RECOPE auctioned the A1 Series, and Series A bonds were issued (at a 10-year term and 5.299% return for a total of US\$49.8 million, which was executed on said date.

For Series A1 bonds, the weighted average price was 101.575%. The premium in the borrowing of the bonds payable of the public debt was US\$787,876, which was amortized for the maturity term of the securities.

This issue is part of the “A” program of RECOPE’s standardized bonds issues and is represented by means of large bond issues (“macrotítulos”). The program for the issuance of issued bonds has the following conditions:

- Issue Date: December 5, 2012.
- Nominal value of the series: US\$1,000 (one thousand dollars).
- Redemption price for each series: 100% of its nominal value.

- Series A1 maturity date: December 5, 2022 (10-year term).
- Series A1 Code ISIN: CRRECOPB0012.
- Net interest rate for the series: Gross interest rate less 8% Income Tax.
- Calculation factor for each series: 30/360.
- Periodicity for each series: Semester Coupon.
- Early redemption option for each series: Series A1 does not have this option.
- Series Risk Rating: AAA (cri) Fitch Ratings, AAA (slv) Fitch Ratings, AAA (slv) Pacific Credit Rating (stable perspective).

On April 3, 2013, RECOPE auctioned the A2 Series, and Series A bonds were issued (at a 15-year term and 5.83% return for a total of US\$50 million, which was executed on said date.

For Series A2 bonds, the weighted average price was 100.20%. The premium in the borrowing of the bonds payable of the public debt was US\$722,539, which was amortized for the maturity term of the securities.

This issue is part of the “A” program of RECOPE’s standardized bonds issues and is represented by means of large bond issues (“macrotítulos”). The program for the issuance of issued bonds has the following conditions:

- Issue Date: April 3, 2013.
- Nominal value of the series: US\$1,000 (one thousand dollars).
- Redemption price for each series: 100% of its nominal value.
- Series A2 maturity date: April 3, 2028 (15-year term).
- Series A2 Code ISIN: CRRECOPB0020.
- Net interest rate for the series: Gross interest rate less 8% Income Tax.
- Calculation factor for each series: 30/360.
- Periodicity for each series: Semester Coupon.
- Early redemption option for each series: Series A2 does not have this option.

- Series Risk Rating: AAA (cri) Fitch Ratings, AAA (slv) Fitch Ratings, AAA (slv) Pacific Credit Rating (stable perspective).

On July 2, 2014, RECOPE auctioned the A4 Series, and Series A bonds were issued (at a 15-year term and 6.50% return for a total of US\$40 million, which was executed on said date.

For Series A4 bonds, the weighted average price was 99.81%. The discount in the borrowing of the bonds payable of the public debt was US\$76,391, which was amortized for the maturity term of the securities.

This issue is part of the “A” program of RECOPE’s standardized bonds issues and is represented by means of large bond issues (“macro títulos”). The program for the issuance of issued bonds has the following conditions:

- Issue Date: July 2, 2014.
- Nominal value of the series: US\$1,000 (one thousand dollars).
- Redemption price for each series: 100% of its nominal value.
- Series A4 maturity date: July 2, 2029 (15-year term).
- Series A4 Code ISIN: CRRECO PB0046.
- Net interest rate for the series: Gross interest rate less 8% Income Tax.
- Calculation factor for each series: 30/360.
- Periodicity for each series: Semester Coupon.
- Early redemption option for each series: Series A4 does not have this option.
- Series Risk Rating: AAA (cri) Fitch Ratings, AAA (slv) Fitch Ratings, AAA (slv) Pacific Credit Rating (stable perspective).

AAA Risk Rating (cri) makes reference to issues or obligations with expectations of a non-compliance risk that is lower than the other issues or obligations in the country. These ratings were granted by FITCH COSTA RICA, S.A.

14. INCOME TAX

Based on the ruling of the Administrative Tax Court No.TFA-504-2011, the provisions established in Law No.7092 “Income Tax Law”, published in the official newspaper La Gaceta No.96 of May 19, 1988 and Law No.7722 “Obligation of Government Agencies to Pay Income Tax”, published in the official newspaper La Gaceta No.10 of March 15, 1998,

regarding the obligation of RECOPE to pay income tax, were ratified at the administrative channels. For those matters not included in this law (7722), the application of the tax will be governed by the Income Tax Law No.7092. Regarding the income tax returns of the last two fiscal years (2012-2011), they were timely filed in accordance with the current regulations.

Income Tax Calculation - Income tax is calculated on the net profit, less non-taxable income plus non-deductible expenses, less the investment reserve at the end of the fiscal year to get the net income (taxable income or taxable surplus) to which 30% is applied and corresponding to the current rate. It is filed and paid in March of the following year.

Additionally and based on the provisions contained in the ruling of the Tax Administrative Court No.TFA-504-2011, which was ratified by the Contentious-Administrative and Civil Treasury Court through ruling No.125-2012-VI of July 27, 2012, it stated that for the purposes of the deduction by RECOPE of the Investment Reserve as set forth in Article No.2 of Law No.7722, this reserve must meet the following requirements:

- To be authorized by ARESEP,
- To be created from an accounting point of view, registered, controlled, and adjusted (showing its actual level of use - implementation), and
- To be useful, necessary, and relevant to the service provision and the generation of taxable income.

Tax Review for Fiscal Years 2012 and 2011 - On February 14, 2014, the Audit Sub directorate of the National Large Taxpayer Directorate sent the Communication to Conduct Tax Review No.1-10-005-14-065-011-03, in order to review income tax returns corresponding to fiscal years 2011 and 2012.

On April 24, 2014, the competent office held a hearing to inform about the results of the Tax Review. The assessments made are based on the rejection of the deduction of the investment reserve, and the assessment notice determined an additional tax amount for a total of US\$9,850,480, without including interest, in income tax return for 2011.

Using the powers granted by the current tax regulations and in order to request the Tax Administration to reconsider their decision, official communication GAF-0617-2014 was submitted, which contains the allegations to be analyzed by the competent office.

RECOPE accepted the terms of the tax assessment, as established in Minutes on Regularization Proposal No.1-10-005-028-371-03 of June 17, 2014, and it paid the principal amount, for the sum of US\$9,850,480.

In addition, the sum of US\$5,367,089 was paid on penalties and interest.

As to the results of 2012, the Tax Administration did not make any tax assessment for this period.

Tax Review for Fiscal Years 2009 and 2010 - On May 25, 2012, the Audit Sub directorate of the National Large Taxpayer Directorate sent the Communication to Conduct Tax Review No.1972000125794, aimed to verify the Income Tax returns of fiscal years 2009 and 2010.

On May 14, 2013, the competent office held a hearing to inform about the results of the Tax Review. The assessments made are based on the rejection of the deduction of the investment reserve and the assessment notice determined an additional tax amount for a total of US\$36,370,896 plus interest; according to the payment date this determination is as follows:

2009 Period	US\$ 7,233,975
2010 Period	<u>29,136,921</u>
Total	<u>US\$36,370,896</u>

RECOPE accepted the terms of the assessments made and rectified the additional tax amounts in accordance with instructions by RECOPE's Board of Directors as set forth in the agreement contained in Article No.4 of Ordinary Session No.4707-260 of April 24, 2013, as reported to the Finance and Administration Management through Official Letter JD-150-2013 of May 8, 2013, which was ratified by an agreement set forth in Article No.5 of Ordinary Session No.4711-264 of May 15, 2013, reported to this Management area through official letter JD-175-2013 of May 21, 2013.

To pay the assessed tax, a request to approve tax partial installment payments was filed with the Tax Administration in accordance with provisions contained in Article No.38 of the Code of Tax Standards and Procedures and Guideline DGT-R-006-2011, which was approved in document No.SRCST-FR-02-2013, which considers the initial payment of 50% of the amount of the assessed tax, plus interest of ¢6.871.496.034 (US\$13,675,435) as of the payment date (last day of July 2013). 50% of the remaining tax will be paid within a maximum term of twenty-four (24) months in equal installments of US\$751,789, plus the corresponding interest, as of August 2013 and until July 2015 (including both).

A detail of the payments made by RECOPE in 2013 to the main balance of the income tax payable as assessed by the Tax Administration is as follows:

Initial balance of tax payable:	
Less payments made:	US\$ 36,085,888
July 2013	(17,961,085)
August 2013	(751,789)
September 2013	(751,789)
October 2013	(751,789)
November 2013	(751,789)
December 2013	<u>(751,789)</u>
Tax payable balance as of December 31, 2013	<u>US\$ 14,365,858</u>

The scheduled due dates and amounts for the income tax payable in the long run as of December 31 are detailed below:

Year	2014	2013
2014		US\$ 9,073,180
2015	<u>US\$4,904,683</u>	<u>5,292,678</u>
Total	<u>US\$4,904,683</u>	<u>US\$14,365,858</u>

A detail of the interest paid to the Tax Administration in 2013 is as follows:

	Amount
July 2013	US\$13,597,499
August 2013	8,465
September 2013	17,211
October 2013	25,232
November 2013	32,734
December 2013	<u>38,167</u>
Total paid	<u>US\$13,719,308</u>

As of December 31, 2014 and 2013, the interest paid was included by RECOPE in the account of Penalties and Interest from the assessment notice.

Moreover, the Sanctioning Resolution Proposal as set forth in Article No.81 of the Code of Tax Standards and Procedures No.1-10-12-024-511-3, was notified for a total amount of US\$9,021,532, a sanction resulting from the tax assessments that were not paid to the Tax Authorities. The itemization is as follows.

2009 Period	US\$1,794,382
2010 Period	<u>7,227,150</u>
Total	<u>US\$9,021,532</u>

RECOPE accepted the sanction and paid by applying 55% reduction granted by the provisions contained in Article No.88 of the Code of Tax Standards and Procedures; therefore, the expense to be recorded by RECOPE is US\$4,200,108, which was paid through an offsetting of balances requested in accordance with the provisions contained in Article No.46 of the Code of Tax Standards and Procedures. As of December 31, 2013, this amount was included by RECOPE in the account of Penalties and Interest from the assessment notice.

Income Tax Calculation - Income Tax was calculated on pre-tax net income, applying the rate in force, deducting non-taxable income, and adding non-deductible expenses:

	2014	2013
Profit before income tax	US\$ 37,239,340	US\$ 22,181,179
Plus: Nondeductible expenses	21,678,184	37,204,732
Less: Other non-deductible	(64,076,616)	(82,750,203)
Less: Nontaxable income	<u>(856,612)</u>	<u>(327,760)</u>
Taxable (loss) gain	<u>US\$ (6,015,704)</u>	<u>US\$(23,692,052)</u>
Current income tax (30% on taxable gain)		
Assessment notice	US\$ (9,850,488)	US\$(36,370,896)
Deferred tax	<u>4,857,545</u>	<u>802,763</u>
Income tax of the period	<u>US\$ (4,992,943)</u>	<u>US\$(35,568,133)</u>

Deferred Income Tax Asset - The movement of the deferred income tax asset are detailed below:

	2014	2013
Balance at the beginning	US\$ 4,572,057	US\$ 6,288,950
Translation adjustment	4,963,984	90,468
Severance benefit accrual	<u>(2,649,575)</u>	<u>(1,807,361)</u>
Balance at the end	<u>US\$ 6,886,466</u>	<u>US\$ 4,572,057</u>

Deferred Income Tax Liability - The movement of the deferred income tax liability are detailed below:

	2014	2013
Balance at the beginning:	US\$(20,527,257)	US\$(23,046,913)
Translation adjustment	5,741,724	(310,063)
Asset revaluation		
Deferred income tax on revaluated depreciation	<u>(2,043,701)</u>	<u>2,829,719</u>
Deferred income tax liability of the year	<u>US\$(16,829,234)</u>	<u>US\$(20,527,257)</u>
Deferred income tax of the year - net	<u>US\$ (9,942,768)</u>	<u>US\$(15,955,200)</u>

15. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related parties are broken down as follows:

	Notes	2014	2013
Investment in joint venture:			
Soresco, S.A.	7	<u>US\$45,017,129</u>	<u>US\$48,337,626</u>
Account receivable:			
Ministry of Financing	3	<u>US\$ 1,818,588</u>	<u>US\$ 1,426,675</u>

(Continues)

	Notes	2014	2013
Account receivable - long term:			
JAPDEVA		US\$ 4,880,560	US\$ 3,917,198
National Concession Board		<u>561,559</u>	<u>605,559</u>
Total	3	<u>US\$ 5,442,119</u>	<u>US\$ 4,522,757</u>
Advances:			
Soresco, S.A.		<u>US\$</u>	<u>US\$ 1,328,166</u>
Accounts payable:			
Ministry of Financing	9	<u>US\$42,794,006</u>	<u>US\$63,281,060</u>
Total		<u>US\$42,794,006</u>	<u>US\$63,281,060</u>

The account receivable from JAPDEVA corresponds to a payment for using a tow truck, which generates an interest equal to the basic borrowing rate set by the Central Bank of Costa Rica (6.5% in 2014).

For the other accounts receivable, there is no expiration date or guarantee of their balance, and they do not earn interest.

The transactions with related parties are the following:

	2014	2013
Sales:		
Costa Rican Institute of Electricity	US\$244,453,657	US\$247,791,363
To the Ministries of the Government of Costa Rica	<u>6,058,889</u>	<u>6,372,533</u>
Total	<u>US\$250,512,546</u>	<u>US\$254,163,896</u>
Cost of sales:		
Costa Rican Institute of Electricity	US\$224,092,369	US\$228,401,691
To the Ministries of the government of Costa Rica	<u>5,554,226</u>	<u>5,873,882</u>
Total	<u>US\$229,646,595</u>	<u>US\$234,275,573</u>
Expenses:		
Seating fees to the Board of Directors	US\$ 28,446	US\$ 22,486
Salaries to directors and managers	<u>1,218,956</u>	<u>1,517,417</u>
Total	<u>US\$ 1,247,402</u>	<u>US\$ 1,539,903</u>

16. CAPITAL STOCK

As of December 31, 2014, RECOPE's capital stock amounts to US\$370,515,185 (¢200.103.000.000), represented by 30,000 common and nominative shares of ¢6.670.100 (US\$12,301.46) each.

According to what has been indicated in Certification No.CERT-346-14, issued on May 2, 2014 by the Secretary of the Board, the capitalization of retained earnings for ¢200.100.000.000 (US\$370,165,127) is authorized, in order to increase the capital of Refinadora Costarricense de Petróleo to ¢200.103.000.000 (US\$370,515,185).

17. SURPLUS FROM DONATION

As of December 31, 2014 and 2013 surplus from donation is broken down as follows:

Surplus donated by Allied Chemical Corp.	US\$16,776,309
PetroCanada donation	16,423,891
AID donation (carbon exploration)	326,840
Debit remission - Government of The Netherlands	1,129,446
Castella pipe duct	<u>151,830</u>
Total	<u>US\$34,808,316</u>

18. INVESTMENT RESERVE

Ruling No.125-2012-VI of the Contentious-Administrative and Civil Treasury Court defined the tax situation for RECOPE's Income Tax, thus ratifying the decision issued by the Administrative Treasury Court through Ruling No.TFA-504-2011-P and resolution No.DT10R-004-11 of the Tax Administration. These rulings ratified the binding requirements to be met by the investment reserve to be considered as deductible items for the calculation of the income tax as follows:

- To be authorized by ARESEP
- To be created from an accounting point of view, registered, controlled, and adjusted (showing its actual level of use - implementation), and
- To be useful, necessary, and relevant to the service provision and the generation of taxable income.

The movement of the investment reserve is as follows:

	2014	2013
Initial balance		US\$ 44,816,631
Increases	US\$ 176,530,161	214,864,026
Decreases	<u>(176,530,161)</u>	<u>(259,680,657)</u>
Final balance	<u>US\$</u>	<u>US\$</u>

19. OPERATING EXPENSES

Expenses by nature are detailed as follows:

	2014	2013
Personal services	US\$ 83,124,020	US\$ 90,565,456
Non personal services	43,785,441	45,776,203
Materials and supplies	15,783,282	16,705,079
Depreciations and amortizations	41,878,710	42,411,505
Applied expenses	(1,323,700)	(717,186)
Ordinary transfers	<u>13,325,254</u>	<u>6,245,260</u>
Total	<u>US\$196,573,007</u>	<u>US\$200,986,317</u>

20. FINANCIAL INSTRUMENTS

A summary of the principal disclosures regarding RECOPE's financial instruments is the following:

20.1 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies and adopted methods, including the criteria for recognition, basis for measurement, and basis on which income and expenses for each type of financial asset and liability is recognized are indicated in Note 1 to the financial statements.

20.2 FINANCIAL INSTRUMENTS - CATEGORIES

Financial instruments are categorized as follows:

	2014	2013
Financial assets:		
Cash	US\$157,394,954	US\$124,159,151
At amortized cost:		
Cash equivalents - held to maturity		17,929,358
Accounts receivable	<u>8,523,935</u>	<u>6,985,917</u>
Total assets	<u>US\$165,918,889</u>	<u>US\$149,074,426</u>
Financial liabilities:		
At amortized cost	<u>US\$403,146,111</u>	<u>US\$468,954,066</u>
Total liabilities	<u>US\$403,146,111</u>	<u>US\$468,954,066</u>

A summary of the main risks associated with these financial instruments and Company risk management policies are described below:

- a. **Credit Risk** - Financial instruments that potentially subject RECOPE to credit risk mainly consist of cash, cash equivalents, and accounts receivable. Cash and cash equivalents are maintained at a strong financial institutions. These are payable on demand with minimum recovery risk.

In general, accumulation of credit risk in connection with receivables is limited, for most of RECOPE sales are in cash, as provided in Law No.6588 “RECOPE Incorporation Act” Only the Central Government is granted a sixty-day term. The remaining accounts receivable are assessed on a qualitative experience-based scale. Having balances receivable from related parties carries no risk, for no default problems have been detected over time.

- b. **Exchange Rate Risk** - RECOPE makes transactions in US dollars. This currency shows regular fluctuations against the Costa Rican colón in accordance with monetary and exchange policies by the Central Bank of Costa Rica. Accordingly, any fluctuation of the US dollar against the Costa Rican colón affects results, financial position, and cash flows. The Company is constantly monitoring net exposure in US dollars. This risk is reduced through the pricing formula, showing monthly currency variation in sales price adjustment. Assets and liabilities in foreign currency are described as follows:

	2014	2013
Assets:		
Cash and cash equivalents	US\$ 64,959,849	US\$ 27,729,659
Accounts receivable	<u>31,635,726</u>	<u>34,276,435</u>
Total assets	<u>96,595,575</u>	<u>62,006,094</u>
Liabilities:		
Accounts payable	(104,321,559)	(198,550,530)
Debt	<u>(257,129,653)</u>	<u>(200,414,165)</u>
Total liabilities	<u>(361,451,212)</u>	<u>(398,964,695)</u>
Net exposure	<u>US\$(264,855,637)</u>	<u>US\$(336,958,601)</u>

Exchange Rate Sensitivity Analysis - The following description shows sensitivity to decrease or increase in foreign exchange rate. The sensitivity rate used by Management is 5%, accounting for the best estimate of exchange rate variation.

Sensitivity to Increase / Decrease in Exchange Rate -

Net exposure	<u>US\$(264,855,637)</u>
Closing exchange rate	<u>542,22</u>
Exchange rate variation of 4%	<u>27,11</u>
Loss / Profits	<u>¢ (7.180.236.319)</u>

- c. **Liquidity Risk** - Liquidity risk is the risk if RECOPE fails to meet all its obligations in the agreed terms. RECOPE maintains liquid financial assets for transactions. In addition, a methodological request for adjustment of fuel prices is made to reduce the risk of significant differences between fuel price and sales price. Sales to third parties are in cash, as provided in Law No.6588, reducing default risk. Credit lines are also available for fuel purchase in order to reduce liquidity.

RECOPE is managing liquidity risk by maintaining proper cash reserves. Additionally, RECOPE is constantly monitoring cash flows and maturity matching analysis, allowing for timely issue of short and medium-term bonds.

Expected recovery of financial assets as of December 31, 2014 is as follows:

Financial Assets	Interest Rate	Less than 1 Month	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing instruments	0.12% to 6.5%	US\$157,394,954			US\$4,702,814	US\$162,097,768
Non-interest rate bearing instruments		<u>787,292</u>	<u>US\$2,293,310</u>	<u>US\$395,080</u>	<u>345,439</u>	<u>3,821,121</u>
Total		<u>US\$158,182,246</u>	<u>US\$2,293,310</u>	<u>US\$395,080</u>	<u>US\$5,048,253</u>	<u>US\$165,918,889</u>

Scheduled payments of financial liabilities as of December 31, 2014 are as follows:

Financial Liabilities	Weighted Average Interest Rate	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing obligations		US\$ 88,980,647	US\$ 6,285,714	US\$165,996,224	US\$261,262,585
Non-interest rate bearing obligations		<u>136,168,415</u>	<u>5,715,111</u>		<u>141,883,526</u>
Total		<u>US\$225,149,062</u>	<u>US\$12,000,825</u>	<u>US\$165,996,224</u>	<u>US\$403,146,111</u>

Expected recovery of financial assets as of December 31, 2013 is as follows:

Financial Assets	Interest Rate	Less than 1 Month	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing instruments	0.12% to 6.5%	US\$138,732,344			US\$3,917,198	US\$142,649,542
Non-interest rate bearing instruments		<u>3,356,165</u>	<u>US\$2,817,179</u>	<u>US\$10,661</u>	<u>240,879</u>	<u>6,424,884</u>
Total		<u>US\$142,088,509</u>	<u>US\$2,817,179</u>	<u>US\$10,661</u>	<u>US\$4,158,077</u>	<u>US\$149,074,426</u>

Scheduled payments of financial liabilities as of December 31, 2013 are as follows:

Financial Liabilities	Weighted Average Interest Rate	Less than 1 Month	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing obligations	3.71%		US\$ 61,520,918	US\$ 6,285,714	US\$132,408,104	US\$200,214,736
Non-interest rate bearing obligations			<u>263,763,535</u>	<u>4,975,795</u>		<u>268,739,330</u>
Total		<u>US\$</u>	<u>US\$325,284,453</u>	<u>US\$11,261,509</u>	<u>US\$132,408,104</u>	<u>US\$468,954,066</u>

- d. **Interest Rate Risk** - RECOPE maintains significant liabilities mainly consisting of bank loans subject to interest rate variation, RECOPE hopes that its interest rates are not significantly increased in the short term. In case of the loan with *Instituto de Crédito Oficial del Reino de España* (Official Credit Institute of Spain) and *the long-term bonds payable*, it is important to mention that this is a fixed rate loan, thus reducing this risk. In regards to the remaining existing loans, RECOPE is currently reviewing interest rates and renegotiating financial conditions.

RECOPE issues bank bonds bearing interest at variable rates. Accordingly, it is subject to interest rate fluctuation. This risk is considered normal within RECOPE financing structure, for loans are arranged at market rates. Given net borrowing as of December 31, 2014. Management has developed a sensitivity analysis on potential interest rate variations. The table below shows annual profits (losses) that may result from interest rate variation of 1 and 2 percentage points, respectively:

	Variable Interest Rate Borrowing	1%	2%
Increase	<u>US\$96,980,647</u>	<u>US\$(969,806)</u>	<u>US\$(1,939,612)</u>
Decrease	<u>US\$96,980,647</u>	<u>US\$ 969,806</u>	<u>US\$ 1,939,612</u>

- e. **Capital Management Policy** - Capital Management Policy is contained in different regulations of RECOPE, including, inter alia, Law No.6588 “RECOPE Incorporation Act,” Law No.8131 “Law of Financial Administration and Public Budgets,” and Law No.7593 “Law of the Public Services Regulating Authority”. Law No.7010 “Public Indebtedness Law”, Law No.5525 “National Planning Law”, among others and the respective regulations.
- f. **Market Risk** - Market risk refers to international price variations of crude oil and petroleum by-products, International price variations from increased world demand for hydrocarbons always have an impact on the financial situation of RECOPE.

To reduce this risk, RECOPE has used a monthly sales price formula, demanding price adjustment to the Regulatory Authority while covering import price and exchange rate variations every time it is methodologically determined (on a monthly basis) that international price variations of crude oil and by-products have given rise to the need for price review. Historically, price adjustments have not necessarily been adjusted to the requests of RECOPE in terms of amounts and time. Therefore, variations in purchase of raw material and finished goods maintain the market risk inherent in the product and the need for price adjustment.

Based on a domestic sales price formula, RECOPE hedges price and exchange rate risk. It also reduces the market supply risk with different hydrocarbon suppliers and agreements therewith for different finished goods and crude oils.

Market Risk Sensitivity Analysis - In connection with the sensitivity analysis to assess the impact on RECOPE projected financial statements, different hydrocarbon “cocktail” price scenarios as well as product demand and purchase projection scenarios are used, thus, RECOPE conducts this type of analysis of its finances on an ongoing basis, using cash flow projections, income statements, and statements of financial position, taking into consideration, among others, price markets of hydrocarbon futures, local sale prices, which are monthly adjusted according to the behavior of fuel prices in the international market.

For the sales projections and demand analysis, multi-variable and co-integrated econometric models, least squares, and surveys are used among important clients with the consumption expectations of some clients, among others.

For the imports projections, which is one of the items with the greater impact in determining the cost of sales, daily consultation in specialized sources of information of present and future hydrocarbon international prices is made. Regarding the production schedule of the refinery, and the determination of profitability, a program denominated PETROPLAN is used when it is in operation.

Market sensitivity is mainly conducted for the previous factors because they are the ones with the greater impact in RECOPE’s financial projections, in addition to the use of historical analysis and the future needs of the different premises of RECOPE.

Taking into consideration the above, under the assumption of a variation of 1% in the international prices of hydrocarbons, changes could occur in the national sales prices for US\$19,000,000 for a year. These variations in the price of hydrocarbons in the international market, as well as in the exchange rate, are considered in the price adjustment formula that is monthly applied using the definition of prices made by ARESEP.

20.3 LEVERAGE RISK MANAGEMENT

In the normal course of operations, RECOPE is exposed to a variety of financial risks, which it tries to minimize through the application of risk management policies and procedures. These policies cover market risk, liquidity risk, exchange rate risk, and interest rate risk. In addition, RECOPE manages its capital structure in order to maximize the return for its stockholders by optimizing debt balance and stockholders’ equity.

The capital structure used consists of the net debt (debt less cash and cash equivalents) and stockholders' equity, including capital stock, reserves, and retained earnings. RECOPE's leverage index is the following:

	2014	2013
Notes payable and bank debt	US\$ 142,649,542	US\$ 200,214,736
Cash and cash equivalents	<u>(157,394,954)</u>	<u>(142,088,509)</u>
Net debt	<u>US\$ 14,745,412</u>	<u>US\$ 58,126,227</u>
Stockholders' equity	<u>US\$ 646,679,121</u>	<u>US\$ 663,164,409</u>
Leverage index	<u>2.28%</u>	<u>8.76%</u>

20.4 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

Estimates of market fair value are made at a specific time, and they are based on relevant market information and information related to the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at a certain time a financial instrument.

The fair value of financial instruments negotiated in active markets is determined based on market price quotes as of the date of the financial statements.

The fair value of financial instruments not negotiated in active markets is determined based on valuation techniques and assumptions based on the market conditions as of the date of the financial statements.

These estimates are subjective by nature; they involve uncertainty and great judgment; therefore, they cannot be accurately determined. Any change in the assumptions or criteria can affect these estimates.

The accounts receivable and payable are non derivative assets and liabilities with fixed or determined payments, and they are not quoted in an active market. It is assumed that their book value, less the allowance for impairment, if any, is approximate to their fair value.

The market value of financial assets and liabilities on the short term is approximate to their respective book value, mainly due to their maturity.

The methods and assumptions used by RECOPE to establish fair market value of the financial instruments are detailed as follows:

- a. ***Cash, Cash Equivalents*** - Book value of these assets is approximate to their fair value due to their current nature.
- b. ***Accounts Receivable, Accounts and Notes Receivable on the Long Term, and Accounts Payable*** - Book value of these financial assets and liabilities at less than one year is approximate to their fair value due to their short term nature.

- c. *Notes Payable and Long Term Debt* - Rates of the loan are agreed at market value, and they are adjustable so that they can remain always at fair value; therefore, their market value is approximate to their reasonable value.

21. AGREEMENTS

21.1 LOAN AGREEMENT WITH CORPORACION ANDINA DE FOMENTO (CAF)

On November 30, 2006, a loan agreement renegotiation was signed with *Corporacion Andina de Fomento* for the development of the Limon-Garita Poliduct Project under the following conditions:

Amount - US\$20 million.

Expenditures - 20 biannual installments from the date of execution of the Loan Agreement.

Term and Mortgage - 12 years including a two-year grace period, 20 biannual fees, after the grace period with maturity in November 2018.

Interest Rate - Variable rate + LIBOR rate for 6-month loans.

Interest in Arrears - 2% on overdue and outstanding capital+ interest rate.

Commitment Fee - 0.75% on undrawn balance upon maturity each semester.

Tax Payment and Surcharges - Payment of fees and commissions shall be free of deductions for taxes, rates, liens or encumbrances, rights, and surcharges effective as of November 30, 2006 or as set forth in the future.

Other Finance Costs - If RECOPE abstains from receiving funds whose expenditure it has previously requested either partially or totally, it shall pay the consequential damages arising from such action.

Obligations - Clause 6-01:

- a. Apply resources received only for the purpose of the loan.
- b. Maintain in force all the permissions or records that State authorities shall grant or do to achieve the legality or the execution of the Loan Agreement.
- c. Inform CAF at the earliest time about any amendments to the information in Clause 4.01 (Customer Statements), about ongoing trials, litigation, claims or any other relevant situation that may adversely affect the ability to comply with the Loan Agreement.

- d. Keep an insurance program for main, existing, or future assets in accordance with the replacement value. Every year, CAF shall be provided the supporting documentation of the insurance programs' validity issued by the insurance companies.
- e. Keep updated the contract with a suitable auditing company.
- f. Verify that disbursed resources are aimed to activities that additionally to Clause 2.01 (Purpose of the Loan) are in harmony with the environment, social actions, and comply with any applicable ecological, environmental protection and social action laws.
- g. At CAF's request, provide any information that may be requested by the institutions that may eventually provide total or partial resources to finance the Loan.
- h. Keep updated books and records related to the use of the loan in accordance with the International Accounting Standards.
- i. Authorize CAF officials to review any books, records, and documents in relation to the Loan.
- j. Provide CAF related documentation and reports as follows:
 - A copy of the non-audited financial statements within thirty (30) days following each calendar quarter.
 - A copy of audited finance statements within one hundred-eighty (180) days following the yearly closing while the obligations arising under the Loan Agreement remain.
 - Any other reports that CAF shall consider appropriate regarding loan use.
 - At CAF's request, information about the topics discussed by the Board of Director and any other administrative bodies including any reports and memos that CAF shall consider directly or indirectly related to the Loan; exceptionally, CAF may request that the reports described in subparagraph (A) shall include the opinion of external auditors. The financial statements should have the following information: balance sheet, profit and loss statement, retained earnings statements, cash flow and notes expressed both in "colones" and US Dollars adjusted for exchange rate devaluation or exchange effect, RECOPE shall notify the auditors to provide directly to CAF all the information that it reasonably requires in relation to the Loan, Any costs arising from the preparation of the aforementioned documents and reports mentioned shall be covered by RECOPE.

- k. Maintain a tangible net worth value not less than US\$150 million.
- l. Maintain an EBITDA relationship to debt service not less than 2 to 1.
- m. Maintain a liquidity ratio to the previous closure not less than 1.2 to 1.0.
- n. The Finance and Administration Manager shall provide a certification stating that there is not or has not been any breach of the terms and conditions of Clause 7.01 and that RECOPE is in compliance with the obligations set forth in Clause 6.01, paragraphs (k), (l), and (m).
- o. On a no objection basis by CAF, RECOPE shall only incur new debts if it meets the financial obligations set forth in Clause 6.01, paragraphs (k), (l), (m), (n).

Clause 6.02 - Restricted Actions - RECOPE shall send CAF a written notification in order to exercise its right to the following actions:

Take or authorize liens or encumbrances or any other charges on assets or property except for those stated in Annex F of the Agreement.

- p. Split or merge or sell, assign, or lease any assets whose value exceeds 15% of the total value of assets.
- q. Enter into agreements that bind it to share its revenues or profits with any third party.
- r. Undertake business activities or acquire assets outside its line of business or hire operating or finance lease operations.
- s. Build or buy subsidiaries or invest in other businesses' capital.
- t. Undertake additional total indebtedness for a project other than the granted by CABEL.
- u. Grant best guarantees or higher privileges other than those granted to CAF to any other present or future creditor.

21.2 LOAN AGREEMENTS WITH SCOTIABANK

On January 11, 2013, a loan agreement was entered into with Scotiabank for the refinancing of liabilities:

Amount - US\$30 million.

Disbursements - 14 bi-annual installments as of the execution date of the loan agreement.

Term and Amortization - 7 years, 14 bi-annual installments with a maturity date in January 2020.

Interest Rate - An interest rate of 4.6% for the first 3 years and thereafter, a six-month Libor Rate + 3.80%.

Interest in Arrears - An interest rate of 2 additional points will be recognized for the previously defined rate.

Commitment Fee - In accordance with provisions set forth in Section 3.6, RECOPE will pay to the Bank a commitment fee of 0.25% per year on the disbursed loan balances. A prepayment fee of 2% on the amounts prepaid by the debtor is set for the loan.

Positive obligations in accordance with Clause 8.1:

- a. Keep the assets in the same preservation and working conditions, except for ordinary impairment over time, so that businesses related to them can be always conducted.
- b. Comply with all the significant aspects related to any applicable laws, regulations, executive orders, resolutions, and taxes.
- c. Comply with the terms and conditions of any commitments, arrangements, and agreements to which it is a party or which affect its assets.
- d. Keep its corporate capacity in full force and effect to be able to operate.
- e. Notify the Bank in writing about any case of non-compliance or circumstances that, over time, can become a case of non-compliance.
- f. Notify the Bank about any litigation and court, administrative, or arbitration proceedings that might have an adverse impact on its business.
- g. File any and all tax returns and other taxes on a timely basis.
- h. Provide the Bank with the following information: annual audited financial statements and annual projected cash flows, which must be sent within one hundred twenty calendar days of the end of the fiscal year (December 31 according to the definition set forth in item 1.13), interim quarterly financial statements, which must be sent within thirty calendar days of the end of the fiscal year.
- i. Keep a debt/capitalization ratio not higher than 60%.
- j. Keep a coverage ratio for the debt service (EBITDA/ interest expenses + current portion of the long-run debt) not less than two times. EBITDA stands for Earnings before Interest, Taxes, Depreciation and Amortization, plus other non-cash expenses and the income tax.

Non-compliance with Clause 10.1:

- a. Failure to pay the principal and interest at maturity.
- b. In the event of non-compliance with the implementation of any other term, obligation, or condition contained in the loan agreement and this non-compliance is not corrected or removed within 30 calendar days of the occurrence date.
- c. Use of loan funds for non-approved purposes.
- d. In the event of a change that significantly and adversely affects the debtor's financial situation that prevents the compliance with the loan requirements in accordance with the terms agreed.
- e. The failure to pay any applicable fees, rates, or taxes.

21.3 JOINT VENTURE AGREEMENT - RECOPE - CNPCI

On December 14, 2009, RECOPE and CNPCI signed the bylaws of the new entity, which was named SORESCO, S.A., which was registered at National Property Registry. The objective of SORESCO, S.A. is implement the activities necessary for the development of the Refinery Expansion and Modernization Project.

The duration of the joint venture shall be 25 years. The authorized and registered capital of the joint venture shall be ten thousand dollars (US\$10,000) or its equivalent in colones divided into 10 shares with a nominal value of one hundred (US\$100) dollars or its equivalent in colones. The shares of the joint venture shall be distributed and issued by the parties in the following proportions: CNPCI 50 % and RECOPE 50%.

The Stockholders shall made a first contribution of capital of US\$100 million out of which 5% shall be paid during the creation and development of a Feasibility Study period and RECOPE shall disburse US\$2.5 million.

- a. ***The Project*** - The parties hereby agree to join efforts and resources for the development of the Project whose main objectives are:
 - To expand the refinery and its support and auxiliary services up to a capacity of 60,000 barrels of crude processing a day.
 - To produce fuels as specify in the Study, to offer significant improvements in product quality in compliance with international standards, to minimize the environmental impact of the process.
 - To improve the Refinery's competitiveness and profitability.

The Parties shall develop the project only if the financial results of the Study show an internal rate of return (IRR) of the project of at least 16 %.

- b. ***Lease Purchase Agreement*** - RECOPE undertakes to sign a Lease-Purchase Agreement with the joint venture for the use and enjoyment of the Project's assets.

From the start date of the lease term, RECOPE shall be responsible of operating, monitoring, insuring, and maintaining the Project's assets.

RECOPE shall notify the joint venture within at least three months before the end of the lease term, its decision to exercise its right to the purchase option.

Furthermore, RECOPE may exercise the purchase option in advance at any time prior to the expiration of the lease term by paying an amount equal to the salary, the balance of the Project's total outstanding value at that time.

- c. ***Administration of the Joint Venture*** - The joint venture shall have a Board of Directors of six (6) members; three (3) of them shall be appointed by RECOPE and the other three (3) by the CNPCI. The members appointed by either Party should have the right to make the required decisions for the operation of the joint venture. Board members shall be elected for a three (3) year term commencing at the Stockholders' Meeting or until removed at the Stockholders' Meeting, or their resignation or death.

The position of President will alternate every four years, first directed by a Director appointed by CNPCI and then by a Director appointed by RECOPE. The position of President and Vice-president shall alternate in reverse direction every four years.

The fiscal year of the joint venture shall be from January 1st to December 31.

- d. ***Miscellaneous Provisions*** - The Comptroller General of the Republic approved this agreement on September 2nd, 2009, according to Official Document No.091782009.

Through Official Letter DFOE-DI-1409 of the Office of the Comptroller General of the Republic, of June 20, 2013; the comptroller body ordered RECOPE to refrain from using the feasibility study conducted by HQCEC and any other study based on the results of the latter because HQCC is a related party of CNPCI (with a 50% interest in Soresco) and the holding company CNPC, and ordered RECOPE to take any relevant corrective actions because it questioned the independence of the feasibility study of the Moín Refinery Expansion and Modernization Project because it lacks the necessary relevance for the decision making process of the parties related to the Project, thus failing to comply with clause 5.02 subparagraph c) of the Joint-Venture Agreement. Moreover, the Board of Directors, through Official Letter JD-245-2013, ratified

during ordinary session No.4720-273, Article No.7.3, the statements made by the Office of the Comptroller General of the Republic and ordered the compliance with the provisions set forth by the comptroller body; therefore, the studies needed to continue with the development of the project are being conducted.

22. SUBSEQUENT EVENTS

Sugeval is informed through Relevant Event of January 28, 2015 that the Company's Management authorized in 2014 the capitalization of retained earnings for ¢200.100.000.000 (US\$370,165,127) to increase capital of Refinadora Costarricense de Petróleo to ¢200.103.000.000 (US\$370,515,185) as of December 31, 2014.

Currently, the Regulatory Authority for Public Services is analyzing the modification of the methodology to calculate price of fuel at the Refinadora Costarricense de Petróleo (Recope). The change in the methodology will have the objective to reduce the final amount the consumers pay for these products. Such change in the methodology will be subjected to public hearing scheduled for next March 10, 2015.

23. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements were approved by RECOPE's management on February 25, 2015.

* * * * *

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

FINANCIAL RATIOS

(Figures Expressed in Dollars of the United States of America)

1. FINANCIAL WORKING CAPITAL

The financial working capital is determined by the following way: current assets, less cash and cash equivalents. The current liabilities are deducted from this result, net of the current portion of the long-term debt.

	2014	2013
Current assets	US\$ 436,112,341	US\$ 545,281,132
Cash and cash equivalents	(157,394,954)	(142,088,509)
Current liabilities (does not include current portion)	<u>(272,998,431)</u>	<u>(395,079,738)</u>
Financial working capital	<u>US\$ 5,718,956</u>	<u>US\$ 8,112,885</u>

This index shows us that in 2014 the financial working capital was reduced, when compared to 2013, since RECOPE needed more financing with oil suppliers and the financial entities for the purchase of inventories than it did in 2013.

2. LIQUIDITY RATIO

The liquidity ratio shows that RECOPE's capacity to generate cash from its most liquid assets and cover its short-term obligations. It is measured dividing the total of current assets among the current liabilities:

	2014	2013
Current assets	US\$436,112,341	US\$545,281,132
Current liabilities	<u>279,284,145</u>	<u>401,365,452</u>
Current assets/ Current liabilities	<u>156.15%</u>	<u>135.86%</u>

This ratio reveals that RECOPE has less capacity to cover with its more liquid assets all short-term liabilities. The acid test ratio is not estimated, since in the case of RECOPE, the inventory has a very high turnover and does not distort the calculations; in addition, it gives content to the current asset.

3. TOTAL ASSET TURNOVERS

It indicates the relation of the assets total and income by showing the number of times that RECOPE uses them to generate that income.

	2014	2013
Sales	US\$3,173,307,399	US\$3,232,363,172
Assets	<u>1,124,857,125</u>	<u>1,233,426,043</u>
Sales/assets	<u>2.82</u>	<u>2.62</u>

In 2014, for every dollar invested in assets, RECOPE generated 2.82 times in sales, which represents an increase in the indicator obtained in 2013. The conversion from assets to sales was more efficient.

4. FIXED ASSETS TURNOVER

This financial index determines the level of efficiency reached by the investments in properties, plant and equipment, in its function of generating income:

	2014	2013
Sales	US\$3,173,307,399	US\$3,232,363,172
Property, plant, vehicles and equipment - net	<u>624,464,053</u>	<u>620,954,042</u>
Sales/ property, plant, vehicles and equipment - net	<u>5.08</u>	<u>5.21</u>

The result of the turnover in 2014 indicates that for every dollar invested in fixed assets, RECOPE generated 5.08 times in sales, which represents a slight decrease compared to the situation that occurred in 2013.

5. DEBT RATIO

It represents the proportion in which the existing assets have been financed by other persons, different from RECOPE:

	2014	2013
Liabilities	US\$ 478,178,004	US\$ 570,261,634
Assets	<u>1,124,857,125</u>	<u>1,233,426,043</u>
Liabilities / assets	<u>42.51%</u>	<u>46.23%</u>

There has been an improvement in the ratio due to the increase in assets, such as cash and property, plant, and equipment, as well as a decrease in accounts payable. According to the debt ratio, for 2014, 57.45% of the asset is owned by the equity investors (the State) while in 2013, this percentage was 53.72%.

6. DEBT RATIO (COST)

It indicates the proportion in which the existing resources have been financed by long-term loans.

	2014	2013
Long term debt	US\$ 172,281,937	US\$ 138,693,818
Assets	<u>1,124,857,125</u>	<u>1,233,426,043</u>
Long term debt/assets	<u>15.31%</u>	<u>11.24%</u>

In 2014, the long-term debt funded 15.33% of the total asset, and the remaining 84.68% was provided by RECOPE, which shows a 4.07 percentage point increase compared to the previous year.

7. PROFIT MARGIN ON SALES

This indicator shows the percentage obtained from the period's profit in relation to RECOPE's net sales.

	2014	2013
Net (loss) profit	US\$ 32,246,397	US\$ (13,386,954)
Sales	<u>3,173,307,399</u>	<u>3,232,363,172</u>
Net (loss) profit/ sales	<u>1.02%</u>	<u>(0.41)%</u>

This indicator shows an improvement regarding period 2013, since in this year (2013) RECOPE had net losses that resulted mainly from the assessment notice (see Note 14).

8. YIELD ON THE INVESTMENT

The yield on the investment measures the final profitability obtained on the total investment in RECOPE's assets. This index shows how satisfactory is the level of net income obtained in relation to the total investments in assets made by RECOPE.

	2014	2013
³ Net (loss) profit	US\$ 32,246,397	US\$ (13,386,954)
Assets	<u>1,124,857,125</u>	<u>1,233,426,043</u>
Net (loss) profit / assets	<u>2.87%</u>	<u>(1.09)%</u>

In 2014, there has been a significant improvement in this ratio when compared to 2013.

9. PROFIT MARGIN ON EQUITY

This indicator estimates the yield obtained by the equity investors (the State).

High profitability of the equity means that RECOPE generates a high level of net income in relation with the investment of the State.

	2014	2013
Net (loss) profit	US\$ 32,246,397	US\$ (13,386,954)
Stockholders' equity	<u>646,679,121</u>	<u>663,164,409</u>
Net (loss) profit /equity	<u>4.99%</u>	<u>(2.02)%</u>

In 2014, there has been an increase in this ratio when compared to 2013.

10. OPERATIONS / SALES EXPENSES

This ratio allows to measure the level of efficiency of a Company, which is related directly to the policies and measures imposed to control the growth of the operative expenses.

	2014	2013
Operating expenses	US\$ 196,573,007	US\$ 200,986,317
Sales	<u>3,173,307,399</u>	<u>3,232,363,172</u>
Net (loss) profit/ sales	<u>6.19%</u>	<u>6.22%</u>

This ratio has improved a little when compared to the previous period, and this is a consistent behavior since, in the most part, these expenses do not have a direct or immediate relationship with the sales activity; therefore, it is reasonable that they show a lower growth.

11. COVERAGE OF EXPENSES

The ratio between EBITDA and financial expenses is defined as coverage of financial expenses. For the effects of the calculation, it will be understood for EBITDA the sum of the operative income, the depreciation and the amortization of intangibles; and for financial expenses the sums paid for interests of the long-term debt.

	2014	2013
Operating profit	US\$ 67,741,404	US\$51,946,075
Depreciations and amortizations	<u>35,229,146</u>	<u>42,443,071</u>
Total EBITDA	<u>US\$102,970,550</u>	<u>US\$94,389,146</u>
Financial expenses	<u>US\$ 11,736,501</u>	<u>US\$ 5,197,727</u>
EBITDA/financial expenses	<u>8.77</u>	<u>18,16</u>

This ratio shows how RECOPE has considerably deteriorated in 2014 its capacity to cover financial expenses on the long-term debt, when compared to 2013.

* * * * *