

INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

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, 2018 and 2017 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.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects the financial position of Refinadora Costarricense de Petróleo, S.A. as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As of December 31, 2018 and 2017, the Company has recorded an investment in a joint venture for US\$41,128,406 and US\$43,529,529, respectively. Since 2016, the Board of Directors of RECOPE has approved actions to terminate the Joint Venture Agreement between RECOPE and China National Petroleum Corporation International, Ltd. (CNPCI), but to date, no termination agreement has been reached, and there is an ongoing arbitration proceeding at a preliminary stage. As of December 31, 2018 and 2017, RECOPE has not conducted an impairment analysis of such investment to determine if it is necessary to recognize an impairment adjustment at the value recorded in the financial statements in accordance with the International Accounting Standard 36 “Impairment of Assets.” Consequently, we do not know if an impairment adjustment is required or if an additional disclosure must be made in the financial statements of RECOPE as of December 31, 2018 and 2017.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Matter	Audit Approach on Key Audit Matter
<p>Electronic Data Processing - The Company uses an electronic data processing system for its operations whose transaction volume and automation level are high. In terms of the risk inherent to the processes and operation of the IT applications, the segregation of duties, the transfer of data among different applications and automatic controls, the possibility of operating failures remains, which may result in data processing errors and, consequently, errors in the presentation of the financial statements; therefore, the assessment of the IT processing environment has been deemed a key audit matter.</p>	<p>We conducted tests on the design and implementation of general controls of computers, the proper allocation of users to the key applications within the scope of the audit, and the data transfer process among different applications, as well as automatic controls in the main applications that support the most relevant business processes for the financial statements.</p> <p>For the computer applications and databases with a direct impact on the scope of our audit, we conducted tests to identify the existence of proper controls to verify the integrity and accuracy of the financial reports and did not identify significant matters of exceptions in the tests performed.</p>
<p>Allowance for Employees' Legal Benefits - The financial statements of RECOPE include an allowance for employees' legal benefits for US\$34,388,937 and US\$41,120,194 as of December 31, 2018 and 2017, respectively. To determine the amount of the allowance for employees' legal benefits, Management hired independent external actuaries who use a series of professional judgements to evaluate the labor liabilities. Refer to Note 1n to the attached financial statements.</p>	<p>As part of the procedures performed to verify the reasonability of the balances recorded in the allowance for employees' legal benefits, we applied the following procedures:</p> <p>Management provided us with an actuarial study for 2018, and we conducted our independent analysis of the assumptions used and the conclusions reached by the independent expert.</p> <p>Deloitte's actuarial specialists became involved in order to satisfy ourselves on the reasonability of the assumptions, and other data included in the calculations performed by the external specialist.</p> <p>We recalculated databases in order to verify their reasonability. We mainly verified the information included in the databases about employees, their entry date, and salaries against the personnel's Human Resources forms.</p> <p>We verified that the data included in the adjustment to the allowance matched the accounting balances included in the Company's financial statements, if necessary.</p>



We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of RECOPE in accordance with the Code of Professional Ethics of the Association of Certified Public Accountant of Costa Rica and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

Management is responsible for the other information. Other information includes the explanatory notes of the financial indicators obtained before issuing the financial statements, and it is included in pages 74 to 77. Our opinion on the financial statements does not include the other information, and we do not express any form of conclusion or assurance on it.

In relation to the audit of financial statements, it is our responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. If, based on the work we have performed on the information we have obtained before issuing the report, we identify material inconsistencies on the other information, we must report them to you. We have nothing to report on this regard.

After reading the integrated report, if we conclude that a material inconsistency exists, we are required to communicate the matter to the Audit Committee, and analyze if a reportable condition exists in terms of the International Standards on Auditing. We have nothing to report on this regard.

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.

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

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

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our qualified opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RECOPE's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on RECOPE's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause RECOPE to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or

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regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Rafael A. Castro Monge - C.P.A. No.1795
Insurance Policy No.0116 FIG 7
Expires: September 30, 2019
Revenue law stamp for ¢1.000, Law No.6663
La Ribera de Belén, Heredia, Costa Rica

March 21, 2019



REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

(Expressed in United States Dollars)

	Notes	2018	2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1c, 2	US\$ 111,667,206	US\$ 177,515,815
Accounts receivable	1d, 3	10,911,115	10,615,964
Advances to contractors		5,509,004	3,364,770
Inventories	1e, 1f, 1x, 4	240,739,523	328,668,537
Prepaid expenses	5	<u>1,408,359</u>	<u>1,028,285</u>
Total current assets		370,235,207	521,193,371
LONG TERM ACCOUNTS			
RECEIVABLE	1d, 3	2,510,498	3,284,032
PROPERTY, PLANT, VEHICLES AND EQUIPMENT - Net	1g, 1h, 1i, 1j, 6	1,079,263,604	1,170,701,458
INVESTMENT IN JOINT VENTURE	1k, 7	41,128,406	43,529,529
INVESTMENT IN FINANCIAL ASSETS	8	33,675,329	
OTHER ASSETS	9	<u>29,157,091</u>	<u>33,427,048</u>
TOTAL		<u>US\$1,555,970,135</u>	<u>US\$1,772,135,438</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current portion of the long term debt	12	US\$ 5,865,312	US\$ 8,051,926
Accounts payable	1p,10	154,623,363	305,495,320
Deferred income	1m	11,609,030	10,485,606
Income tax liabilities	1l,		9,367,721
Accumulated expenses and other liabilities	1q, 1r, 11	<u>8,533,983</u>	<u>9,139,320</u>
Total current liabilities		180,631,688	342,539,893
LONG TERM DEBT	12	13,989,847	18,849,932
LONG TERM BONDS PAYABLE	13	183,122,707	186,321,849
DEFERRED INCOME TAX	1l, 14	103,926,668	113,242,493
ALLOWANCE FOR EMPLOYEES' LEGAL BENEFITS	1n, 1o	<u>34,388,937</u>	<u>41,120,194</u>
Total liabilities		<u>516,059,847</u>	<u>702,074,361</u>

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REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

(Expressed in United States Dollars)

	Notes	2018	2017
STOCKHOLDERS' EQUITY:			
Capital stock	16	US\$ 370,515,185	US\$ 370,515,185
Legal reserve	1s	6,722,053	4,660,669
Surplus from revaluation	1u	640,252,349	655,825,758
Surplus from donation	1v, 17	34,808,316	34,808,316
Retained earnings		413,331,614	358,591,906
Foreign currency translation adjustment	1b	<u>(425,719,229)</u>	<u>(354,340,757)</u>
Total stockholders' equity		<u>1,039,910,288</u>	<u>1,070,061,077</u>
TOTAL		<u>US\$1,555,970,135</u>	<u>US\$1,772,135,438</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, 2018 AND 2017

(Expressed in United States Dollars)

	Notes	2018	2017
SALES	1w	US\$ 2,816,462,910	US\$ 2,449,081,403
COST OF SALES	1x, 1y	<u>(2,540,707,596)</u>	<u>(2,176,270,843)</u>
GROSS PROFIT		275,755,314	272,810,560
OPERATING EXPENSES	1z, 19	<u>(189,743,983)</u>	<u>(191,741,538)</u>
OPERATING PROFIT		86,011,331	81,069,022
OTHER INCOME (EXPENSES):			
Sale of services		36,522	38,174
Financial expenses		(10,326,414)	(9,958,536)
Financial income		6,979,632	3,205,186
Contributions to CCSS - Law 9583	1p	(11,892,296)	
Contributions to the National Emergency Commission	1p	(2,378,459)	
Fines and interest for assessment notice		(35,948)	
Exchange rate		(16,068,291)	(4,453,504)
Other expenses - net		<u>(13,211,116)</u>	<u>(9,800,678)</u>
PROFIT BEFORE INCOME TAX		39,114,961	60,099,664
DEFERRED INCOME TAX	1l, 14	2,112,722	1,597,552
INCOME TAX EXPENSE	14		<u>(9,392,085)</u>
NET PROFIT		41,227,683	52,305,131
OTHER COMPREHENSIVE PROFIT INCOME:			
Foreign currency translation adjustment	1b	<u>(71,378,472)</u>	<u>(25,587,195)</u>
COMPREHENSIVE PROFIT OF THE YEAR		<u>US\$ 30,150,789</u>	<u>US\$ 26,717,936</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, 2018 AND 2017

(Expressed in United States Dollars)

	Capital Stock	Legal Reserve	Surplus from Revaluation	Surplus from Donation	Retained Earnings	Foreign Currency Translation Adjustment	Total
BALANCES, DECEMBER 31, 2016	US\$370,515,185	US\$1,616,301	US\$671,891,770	US\$34,808,316	US\$293,265,130	US\$(328,753,562)	US\$1,043,343,140
Comprehensive profit of the year					52,305,132		52,305,132
Transfer from surplus to retained earnings			(16,066,012)		16,066,012		
Revaluation surplus		3,044,368			(3,044,368)	(25,587,195)	(25,587,195)
BALANCES, DECEMBER 31, 2017	370,515,185	4,660,669	655,825,758	34,808,316	358,591,906	(354,340,757)	1,070,061,077
Comprehensive profit of the year					41,227,683	(71,378,472)	(30,150,789)
Transfer from surplus to retained earnings			(15,573,409)		15,573,409		
Legal reserve		2,061,384			(2,061,384)		
BALANCES, DECEMBER 31, 2018	<u>US\$370,515,185</u>	<u>US\$6,722,053</u>	<u>US\$640,252,349</u>	<u>US\$34,808,316</u>	<u>US\$413,331,614</u>	<u>US\$(425,719,229)</u>	<u>US\$1,039,910,288</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, 2018 AND 2017

(Expressed in United States Dollars)

	Notes	2018	2017
OPERATING ACTIVITIES			
Net profit of the year		US\$ 41,227,683	US\$ 52,305,131
Income tax	14		(9,392,085)
Deferred tax	14	(2,112,722)	(1,597,552)
Effect from participation in joint venture	7	(432,916)	(345,121)
Interest expense		9,227,616	9,958,536
Depreciation and amortization	6, 8	51,757,230	50,933,370
Unrealized exchange rate differences		9,119,575	3,964,396
Changes in operating assets and liabilities:			
Accounts receivable		(2,675,484)	2,962,530
Advances to contractors		(2,487,733)	5,273,560
Inventories		73,532,532	(125,873,980)
Prepaid expenses		(470,352)	307,811
Accounts payable		(138,286,033)	205,273,872
Deferred income		1,898,518	(2,599,780)
Accumulated expenses and other liabilities		6,120,274	5,120,664
Employees' legal benefits		<u>(4,298,002)</u>	<u>(6,251,756)</u>
Cash provided by the operating activities		42,120,186	190,039,596
Tax paid		(7,006,440)	
Interest paid		<u>(15,363,917)</u>	<u>(15,436,759)</u>
Net cash provided by the operating activities		<u>19,749,829</u>	<u>174,602,837</u>
INVESTMENT ACTIVITIES			
New investments of financial assets		(35,473,855)	
Additions of fixed assets	6	(35,807,605)	(54,077,343)
Disposals of fixed assets	6	306,087	559,887
Other assets		<u>(653,909)</u>	<u>2,227,344</u>
Net cash used in the investment activities		<u>(71,629,282)</u>	<u>(51,290,112)</u>
FINANCING ACTIVITIES			
New loans		788,292	4,432,499
Debt amortization		<u>(6,193,838)</u>	<u>(21,182,373)</u>
Net cash used in the financing activities		<u>(5,405,546)</u>	<u>(16,749,874)</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (Expressed in United States Dollars)

	2018	2017
NET VARIATION IN CASH AND CASH EQUIVALENTS	US\$ (57,284,999)	US\$ 106,562,851
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	177,515,815	72,916,279
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>(8,563,610)</u>	<u>(1,963,315)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>US\$ 111,667,206</u>	<u>US\$ 177,515,815</u>

(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, 2018 AND 2017 (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 and Atico, S.A. were transferred and assigned to the government of Costa Rica for the price of one US dollar (US\$1.00). The central offices are located in Barrio Tournón, in San José de Costa Rica.

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 (except for property, plant, vehicles and equipment, which are shown at their revaluated values). 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 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, 2018 and 2017, the exchange rate of the colón regarding the US dollar for companies of the non-banking public sector was ¢609,87 and ¢570,49 for selling transactions, respectively, and ¢609,27 and ¢569,91 for purchasing transactions, respectively.

As of the date of issue of the financial statements, exchange rate was ¢603,16.

- 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 and Cash Equivalents** - Cash and cash equivalents include balance of cash on hand and due from banks, deposits at sight, and short-term (high liquidity) 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, 2018 and 2017, the allowance for doubtful accounts is mainly composed by a balance of US\$549,167 and US\$587,094, respectively, of long-term receivable from Concessions National Board and other receivables.
- e. **Inventories** - Inventories are valued at the lower of cost or net realizable value. The net realizable 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

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, and when imported as finished product, in account 1111060094 Prepaid Expenses- 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 41354-H) published in official newspaper La Gaceta, Supplement 191 of October 31, 2018, effective from November 1, 2018 to January 31, 2019, provided for an adjustment of (0.43%).

This tax is broken down as follows:

Fuel	Tax by Liter (€)
91 Plus gasoline	243,75
Premium gasoline	255,25
Diesel	144,00
Asphalt	49,50
Asphalt emulsion	37,25
Bunker (Fuel Oil)	23,50
G.L.P	49,50
Jet Fuel A1	146,25
Av Gas	243,75
Kerosene	69,50
Heavy diesel (gasoil)	47,50
Heavy naphtha	35,25
Light naphtha	35,25

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.
 - Fuel purchased by international missions, embassies, the Red Cross, and the Fire Department.
- 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 lands, the Moín port complex, the facilities, buildings, and heavy equipment and machinery kept for using in the production or supply of goods and services, or for administrative purposes, are shown in the statement of financial position at their revalued amounts, calculating the fair value as of the date of revaluation, less the subsequent depreciation or accumulated impairment losses. Revaluations will take

place at least every five years, in such way that the carrying amount does not materially differ from the one calculated by using fair values as of this date at the end of the reporting period. The last appraisal was prepared by a qualified expert in 2015. The appraisal was overall determined by using the Depreciated Replacement Cost Method, in accordance with the Going Concern criterion. The application of this criterion presupposes the existence of a permanent economic activity to which assets are incorporated, and it assumes: (1) that an abrupt interruption that neutralizes the going concern criterion will not take place, and (2) that the assets applied to the economic activity in normal conditions will generate sufficient income to absorb the amortization of such assets and other operating costs of the business.

In case of the lands, the basic criterion used was the market value, which considers that the value of a good is the one a buyer and a seller are willing to pay and receive for, respectively, in an arm's length transaction. The application of this criterion takes into consideration the existence of an active market for the asset that is intended to be appraised and of a significant number of potential buyers and sellers. This value, in all cases, is determined by a market research of the asset object of the appraisal within the appropriate environment, whether at a municipal, national, or international environment.

In the case of heavy equipment and machinery, the analysis was focused on the market research of machinery used with characteristics similar to those that are object of the valuation.

Any increase in the revaluation of such assets are recognized in other comprehensive income, and it accrues in equity, except if it reverses a decrease in its revaluation that has been previously recognized in profits or loss, in which case, the increase is credited to profits or loss to the extent the previous decrease is charged. A decrease in the carrying amount of the revaluation of such asset is registered in profits or loss to the extent that the balance, if any, kept in the property revaluation reserve regarding a previous revaluation of such asset, is exceeded.

Properties used during the course of the construction for purposes related to management, production, and supply, denominated "ongoing fixed assets", are registered at cost less any recognized impairment loss. Cost includes professional fees, and in case of those qualified assets, costs for capitalized loans, according to RECOPE's accounting policy. Such properties are classified in the corresponding categories of properties, plant, and equipment at the moment of their capitalization, and when they are ready for their intended use. The depreciation of these assets, as in the case of the other property assets, starts when the assets are ready for use.

The depreciation of revalued buildings is charged to profits or loss. In case of sale or subsequent disposal of revalued properties, surplus of revaluation attributable to the property revaluation reserve is directly transferred to retained earnings.

The lands are not subject to depreciation.

Furniture and equipment, as well as and vehicles, are stated at cost less accumulated depreciation and any recognized impairment loss.

An item of property, plant, and equipment will be written off at the time of disposal, or when no future economic benefits are expected to arise from the continued use of the asset. The profit or loss that arises from disposal or deregistration of an asset that belongs to properties, plant, and equipment is calculated as the difference between profit from sales and the carrying amount of the asset, and it is recognized in profit or loss.

- 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** - Depreciation on the revaluated amounts and the historical cost is charged to the results of the period. The depreciation of fixed, historical and revaluated assets is calculated using the straight-line method, taking technical useful life as a basis, as determined by expert appraisers for the accounts of property, plant and machinery. Whereas for the accounts of vehicles, furniture, and equipment, the useful life stated in the Regulations to the Income Tax Law is used. For the calculation of depreciation, the basis will be 100% of the cost, in accordance with an administrative decision related to the Integrated Management System.

The depreciation expense registration has been separated into assets registered at historical cost and expense of the revaluated assets.

- j. **Borrowing Cost** - RECOPE capitalizes the interest on fixed assets in progress in accordance with IAS 23, which states that "borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset."

- 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.

The Company's Board of Directors, in ordinary meeting #4933-139 agreed upon terminating the Joint Venture Agreement entered into between RECOPE and CNPCI, and dissolving and liquidating SORESCO, S.A.

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. **Collective Bargaining Agreement** - The Company entered into a Collective Bargaining Agreement with its employees for 2016-2019. Some of its most significant rights include: 8% contribution of the monthly payroll by the employer to the Employees' Savings and Loan Fund and a partial recognition of 45% of administrative expenses to the Employees' Savings and Loan Fund in accordance with Article 137, subparagraph f, and which is in force until 2021. Furthermore, 20 years of severance pay are recognized with a ceiling for all employees of the Company.
- o. **Employees' Legal Benefits** - Pursuant to Resolution No.11506-2013 of the Constitutional Court on August 30, 2013, published in judicial bulletin No.195 of October 1, 2013 and the opinion of the Company's Legal Department contained in official communication DJU-1604-2013 and in article No.142, subparagraph d) of the Collective Bargaining Agreement in force, severance pay cannot exceed twenty (20) months.

In accordance with transitional provision XXVII of Law No.9635 published in Supplement No.202 to La Gaceta No.225 of December 4, 2018 and the opinion of the Legal Department of RECOPE, according to official communication P-DJ-0019-2019, the following recommendations are made: to protect public funds, severance pay must be an amount of no more than 12 years according to a restrictive interpretation of the aforementioned transitional provision. An inserted caption will indicate that the remaining difference with the ceiling amount of 20 months established in Article 142 of the Collective Bargaining Agreement will be paid as soon as the Regulations to Law No.9635 are enacted and there is a final interpretation of such regulations in the event that such recognition is made.

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.

- p. ***Contribution to the Costa Rican Social Security Fund Law No.9583 and Contribution to the National Emergency Commission Law No.8488*** - In accordance with Law No.9583, an amendment was made to Article 78 of Law No.7983 Funds for the Strengthening of the Disability, Old Age and Death Regime to establish a contribution of fifteen percent (15%) of the net profit of governmental public entities, whether or not in a competition regime, calculated in accordance with the annual Audited Financial Statements, as published in Supplement No.169 to La Gaceta No.176 of September 25, 2018.

According to decree No.41282-MP, Regulations to Article 46 of the National Emergency and Risk Prevention Law No.8488, all public entities will pay a fee of three percent (3%) in accordance with Supplement No.170 to La Gaceta No.176 of September 25, 2018. To enforce such provision, the triggering event will be the generation of budget surplus throughout the fiscal year, or the profits, as applicable, generated during the respective fiscal year, and RECOPE establishes the net profit of the audited financial statements as the criteria for the calculation of this obligation.

Both payments must be made from January 1 to March 31 every year.

- q. ***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 2018, 8.23% of the monthly payroll was provisioned, according to D.E. No.39202-MTSS-H published in the official newspaper La Gaceta No.170 of September 1, 2015.
- r. ***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.
- s. ***Legal Reserve*** - The commercial legislation of Costa Rica (Law No.3284 “Code of Commerce of Costa Rica.” article No.143) establishes that every corporation must reserve 5% from its net profit up to reaching 20% of its capital stock.

- t. **Investment Reserve** - It corresponds to the reserves authorized by ARESEP with the aim to sustain the investment programs in compliance with Law 7722 and Law 7593 of ARESEP.
- u. **Surplus from Revaluation** - This account records the surplus from asset revaluation that RECOPE has made through the years and represents the net increase of value of the assets as a result of the revaluation, less the annual transfers of surplus from revaluation against retained earnings, which amount corresponds to the difference between the depreciation of the revalued asset and the depreciation that had been practiced on the original cost of the asset, net of any corresponding deferred tax.
- v. **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.
- w. **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 RJD-230-2015. Digital Supplement No.89 to La Gaceta No.211 of October 30, 2015*
- *RIE-012-2017 "Adjustment of the Operating Margin of Refinadora Costarricense de Petróleo S.A. (RECOPE)." Digital Supplement N°57 to La Gaceta N°52 of March 14, 2017*

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 Price	ARESEP RESOLUTIONS (¢/LT, WITHOUT TAX)				
	RIE-0101	RIE-095	RIE-092	RIE-080	RIE-066
Premium gasoline	323,51	381,15	368,11	368,76	364,48
91 Plus gasoline	323,87	371,94	362,71	362,68	354,70
Diesel 0.005% S (Automotive 500)	384,71	396,90	384,86	363,81	353,89
Diesel 0.50% S (Thermal)	396,90	396,90	384,86	363,81	353,89
Kerosene	405,71	415,34	394,07	375,08	374,97
Bunker	308,91	308,91	277,38	269,65	285,41
Bunker low Sulphur	351,65	351,65	319,52	305,77	318,11
IFO 380	319,54	319,54	308,64	318,89	297,60
Asphalts AC 20/30 and PG 70	310,08	310,08	316,82	311,85	310,00
Heavy diesel (gasoil)	361,12	361,12	334,90	319,11	322,10
Asphalt emulsion	202,08	202,08	202,94	199,44	199,98
G.L.P.	199,84	199,84	197,79	179,91	177,56
Av-Gas	717,93	717,93	670,09	670,96	677,28
Jet A-1	446,02	446,02	432,91	414,01	407,99
Heavy naphtha	385,22	385,22	362,53	347,64	349,70

RIE-0101-2018. Supplement No.202 of November 26, 2018. Includes K margin differentiated by type of product.

RIE-095-2018. Supplement No.192 of November 2, 2018. Includes K margin differentiated by type of product.

RIE-092-2018. Supplement No.178 of October 3, 2018. Includes K margin differentiated by type of product.

RIE-080-2018. Supplement No.153 of August 3, 2018. Includes K margin differentiated by type of product.

RIE-066-2018. Supplement No.139 of July 31, 2018. Includes K margin differentiated by type of product.

- x. **Cost of Sales** - The cost of sale represents an issue of inventories intended 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.
- y. **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:

- Regular gasoline (Gas Ron 91 + colorants and additives).
- Premium gasoline (M Gas Ron 95 + colorants and additives + 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.

- z. **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.
- aa. **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.
- bb. **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.
- cc. **Financial Instruments** - Financial assets and financial liabilities are recognized in the RECOPE's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.
- dd. **Financial Assets** - All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets - Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

- (i) *Amortized Cost and Effective Interest Method* - The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference

between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item (note 10), (ii) Debt instruments classified as at FVTOCI. The corporate bonds held by the Company are classified as at FVTOCI. Fair value is determined in the manner described in note 62(a)(i). The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss.

Impairment of Financial Assets - The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

- (ii) *Significant Increase in Credit Risk* - In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default.
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(iii) *Definition of Default* - The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

- (iv) *Credit-Impaired Financial Assets* - A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
- significant financial difficulty of the issuer or the borrower;
 - a breach of contract, such as a default or past due event (see (ii) above);
 - the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
 - it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
 - the disappearance of an active market for that financial asset because of financial difficulties
- (v) *Write-off Policy* - The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.
- (vi) *Measurement and Recognition of Expected Credit Losses* - The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of Financial Assets - The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

- ee. ***Financial Liabilities*** - All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

Financial liabilities Measured Subsequently at Amortized Cost - Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments

(including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign Exchange Gains and Losses - For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship, For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Derecognition of Financial Liabilities - The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

ff. ***Adoption of New and Revised International Financial Reporting Standards (IFRS) -***

New and Amended IFRS Standards that are Effective for the Current Year -

Impact of Initial Application of IFRS 9 - Financial Instruments - In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities.
- Impairment of financial assets, and
- General hedge accounting. Details of these new requirements as well as their impact on the Company's financial statements are described below.

The company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

- *Classification and Measurement of Financial Assets* - The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. Comparative amounts in relation to instruments that continue to be recognized as at January 1, 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- The Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

The Company reviewed and assessed their financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

- *Impairment of Financial Assets* - In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Company to recognize a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortized cost or at FVTOCI;
- Lease receivables;

- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Company has elected assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of IFRS 9 (i.e. January 1, 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at January 1, 2017.

The result of the assessment is as follows:

Items Existing as at 01/01/18 that are Subject to the Impairment Provisions of IFRS 9	Credit risk Attributes at 01/01/17 and 01/01/1	Cumulative Additional Loss Allowance Recognized on 01/01/17	Cumulative Additional Loss Allowance Recognized on 01/01/18
Accounts receivable	The Company applies the simplified approach and recognizes the lifetime expected credit losses for these assets		
Contractual assets: Cash on hand and due from banks	All bank balances have an estimated low credit risk on each reporting date since they are held at accredited banking institutions.		
Cash equivalents	All bank balances have an estimated low credit risk on each reporting date since they are held at accredited banking institutions.		

Regarding the investments in financial assets, the Company has not found impairment evidence due to the following:

- They are investments in securities of the Ministry of Finance at a lower risk because they are classified as sovereign risk. It is important to point out that in accordance with Executive Order No.40281-H, Chapter III of Financial Investments, RECOPE can only make investments in the Central Government of the Republic of Costa Rica.
- The objective of RECOPE is to allocate the investments to the repayment of bond debts; therefore, such investments are on the same payment maturity dates of such obligations and with the same currencies as the obligations, leaving no room for their use as a speculation instrument and eliminating the foreign exchange difference risk.
- Interest rates on these investments are the market rates offered by the Ministry of Finance through the National Treasury, and they are above the interest rate on bond issues, which means that the return on these investments would be higher than the interest expense to be paid by the Company for bond debts.
- After passing Law No.9635 Public Finances Strengthening and other laws that contribute to the reduction of the current tax deficit, the Government of Costa Rica is expecting a higher revenue collection, so it would have a higher liquidity to deal with debts with investors, including RECOPE.

The Company annually schedules new investments in financial assets considering the variations in the rates of governmental securities and the evolution of the exchange rate. Prior to this, the Company prepares a budget of funds in accordance with the applicable budgetary regulations and submits the corresponding required reports to the control and regulatory bodies.

Regarding the return on investments and the interest capitalization, we considered the monetary structure of the obligations of the debt bonds held by the Company and the Sovereign Curve given by Bolsa Nacional de Valores, both in dollars and colones.

The subsequent amendments to IFRS 7 have also led to more extensive disclosures of the Company's exposure to the credit risk in the financial statements (see the notes for further details).

- *Classification and Measurement of Financial Liabilities* - A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be 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, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has not had an impact on the classification and measurement of the Company's financial liabilities.

- *General Hedge Accounting* - The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the company has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

When the option contracts are used to hedge the forecast transactions, the Company designates only the intrinsic value of the options as the hedging instrument. Under IAS 39 the changes in the fair value of time value of option (i.e. non-designated component) were recognized immediately in profit or loss. Under IFRS 9, the changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized in other comprehensive income and accumulated in the cost of hedging reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non-financial item. IFRS 9 requires that the accounting for non-designated time value of option should be applied retrospectively. This only applies to hedging relationships that existed at January 1, 2017 or were designated thereafter.

The foregoing changes do not affect the Company because it does not have hedging instruments.

- *Disclosures in Relation to the Initial Application of IFRS 9* - There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The application of IFRS 9 has not had an impact on the Company's cash flows.

Impact of Application of IFRS 15 - Revenue from Contracts with Customers - In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018, IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. January 1, 2018.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Company has adopted the terminology used in IFRS 15 to describe such balances. The term deferred income is used in respect of the balances and deposits made by customers in favor of RECOPE, which will be applied once the product sales are made.

The Company's accounting policies for its revenue streams are disclosed in detail in Note 1. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of RECOPE.

Impact of the Application of Other Amendments to the IFRS Standards and Interpretations - In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions.

The Company has adopted the amendments to IFRS 2 for the first time in the current year. The amendments clarify the following: 1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. 2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature, 3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: (i) the original liability is derecognized; (ii) the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and (iii) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

IAS 40 (Amendments) - Transfers of Investment Property - The Company has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

Annual Improvements to IFRS Standards 2014 - 2016 Cycle Amendments to IAS 28 Investments in Associates and Joint Ventures - The Company has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014-2016 Cycle for the first time in the current year. The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration - IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity

initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and Revised IFRS Standards in issue but not yet Effective - At the date of authorization of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- I. IFRS 16 - *Leases*
- II. IFRS 17 - *Amendments to Insurance Contracts*
- III. IFRS 9 - *Prepayment Features with Negative Compensation*
- IV. Amendments to IAS 28 - *Long-term Interests in Associates and Joint Ventures*
- V. *Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 - Business Combinations. IFRS 11 - Joint Arrangements. IAS 12 - Income Taxes and IAS 23 - Borrowing Costs*
- VI. Amendments to IAS 19 - *Employee Benefits Plan Amendment. Curtailment or Settlement.*
- VII. IFRS 10 - *Consolidated Financial Statements* and IAS 28 (Amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- VIII. IFRIC 23 - *Uncertainty over Income Tax Treatments*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below

I. IFRS 16 - Leases

General Impact of Application of IFRS 16 - Leases - IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Company will be January 1, 2019.

The Company has chosen the full retrospective application of IFRS 16 in accordance with IFRS 16:C5 (a). Consequently, the Company will restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

- *Impact of the New Definition of a Lease* - The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

RECOPE will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

- *Impact on Lessee Accounting*

Operating Leases - IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company will:

- Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Company's financial statements.

Finance leases - The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities. Based on an analysis of the Company's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Company's financial statements.

- *Impact on Lessor Accounting* - Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

As required by IFRS 9, an allowance for expected credit losses will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease asset receivables recognized. This change in accounting will change the timing of recognition of the related revenue (recognized in finance income).

- II. **IFRS 17 - Insurance Contracts** - The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors of the Company do not anticipate that the application of the Standard in the future will have an impact on the Company's financial statements.

- III. **Amendments to IFRS 9 - Prepayment Features with Negative Compensation** - The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

- IV. **Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures** - The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements

- V. **Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 - Business Combinations. IFRS 11 - Joint Arrangements. IAS 12 - Income Taxes and IAS 23 - Borrowing Costs** - The Annual Improvements include amendments to four Standards:

- *IAS 12 - Income Taxes* - The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- *IAS 23 - Borrowing Costs* - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
- *IFRS 3 - Business Combinations* - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.
- *IFRS 11 - Joint Arrangements* - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

- VI. **Amendments to IAS 19 - Employee Benefits Plan Amendment, Curtailment or Settlement** -The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements

- VII. **IFRS 10 - Consolidated Financial Statements and IAS 28 - (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** - The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

VIII. IFRIC 23 - Uncertainty over Income Tax Treatments - IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. The Company can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company anticipate that the application of the amendments in the future will have an impact on the Company's financial statements

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 is broken down as follows:

	2018	2017
Cash on hand and due from banks	US\$ 87,047,578	US\$ 89,782,664
Cash equivalents:		
Certificate of deposit, in colones, with maturity on January 15, 2019 and annual yield of 6.10% per annum (January 15, 2018 and annual yield of 6% per annum)	<u>24,619,628</u>	<u>87,733,151</u>
Total	<u>US\$111,667,206</u>	<u>US\$177,515,815</u>

3. ACCOUNTS RECEIVABLE

A detail of accounts receivable is the following:

	Note	2018	2017
Short term:			
Prepaid taxes		US\$ 6,391,976	US\$ 3,046,253
Clients		932	690,469
Employees		77,341	126,281
Government	15	3,437,396	5,501,130
Autonomous institutions	15	1,003,470	1,251,190
Others			641
Subtotal		<u>10,911,115</u>	<u>10,615,964</u>
Long term:			
Related parties	15	3,048,014	3,852,728
Others		<u>11,651</u>	<u>18,398</u>
Subtotal		3,059,665	3,871,126
Allowance for doubtful accounts		<u>(549,167)</u>	<u>(587,094)</u>
Subtotal		<u>2,510,498</u>	<u>3,284,032</u>
Total		<u>US\$13,421,615</u>	<u>US\$13,899,996</u>

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

	2018	2017
Initial balance	US\$587,094	US\$670,838
Decrease		(67,230)
Foreign currency translation adjustment	<u>(37,927)</u>	<u>(16,514)</u>
Final balance	<u>US\$549,167</u>	<u>US\$587,094</u>

4. INVENTORIES

The inventory account is broken down as follows:

	2018	2017
Raw materials	US\$ 4,174,040	US\$ 4,955,690
Finished product	177,613,742	270,995,520
Semi-finished product	5,377,137	8,362,570
Inventory in transit	47,774,263	38,234,945
Material inventory	<u>5,907,627</u>	<u>6,322,172</u>
Subtotal	240,846,809	328,870,897
Allowance for obsolete inventory	<u>(107,286)</u>	<u>(202,360)</u>
Total	<u>US\$240,739,523</u>	<u>US\$328,668,537</u>

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

	2018	2017
Initial balance	US\$202,360	US\$281,798
Decreases	(86,380)	(72,501)
Foreign currency translation adjustment	<u>(8,694)</u>	<u>(6,937)</u>
Final balance	<u>US\$107,286</u>	<u>US\$202,360</u>

Inventory costs recognized as an expense include US\$2,530,268,310 and US\$2,170,713,365 as of December 31, 2018 and 2017, respectively.

The value of inventories recognized at cost include US\$10,439,286 and US\$5,557,478, in 2018 and 2017, respectively, related to adjustments of inventories at their net realizable value.

5. PREPAID EXPENSES

Prepaid expenses are detailed as follows:

	2018	2017
Insurance	US\$ 869,997	US\$ 921,481
Others	<u>538,362</u>	<u>106,804</u>
Total	<u>US\$1,408,359</u>	<u>US\$1,028,285</u>

6. PROPERTY, PLANT, VEHICLES AND EQUIPMENT

The detail of property, plant, vehicles and equipment as of December 31, 2018 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Adjustments and Reclassifications	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 10,976,664					US\$ (709,114)	US\$ 10,267,550
Moín Port complex	60,611,156			US\$ 642,518		(3,948,171)	57,305,503
Facilities	386,427,861	US\$ 2,496	US\$ (4,308)	25,736,157	US\$ 168,463	(26,277,246)	386,053,423
Building	62,024,592			1,866,724		(4,101,549)	59,789,767
Heavy machinery and equipment	40,930,723	2,236,207	(12,393)	1,651,825	12,873	(2,841,351)	41,977,884
Furniture and equipment	59,670,542	3,063,397	(640,183)	855,608	321,068	(4,037,347)	59,233,085
Vehicles	21,222,692	1,691,757	(4,062)			(1,456,591)	21,453,796
Works in progress	199,856,673	28,813,748	(48,396)	(30,752,832)	(6,879,014)	(12,461,590)	178,528,589
Total at cost	841,720,903	35,807,605	(709,342)		(6,376,610)	(55,832,959)	814,609,597
Revaluated fixed assets:							
Properties	147,565,950					(9,533,042)	138,032,908
Moín Port complex	23,445,431				272	(1,514,634)	21,931,069
Facilities	282,546,623		(11,069)			(18,252,488)	264,283,066
Building	55,752,120					(3,601,693)	52,150,427
Plant machinery and equipment	21,622,034		(75,589)			(1,392,992)	20,153,453
Furniture and equipment	4,388,771		(216,867)			(272,527)	3,899,377
Vehicles	3,462,343		(5,444)			(223,397)	3,233,502
Revaluated total	538,783,272		(308,969)		272	(34,790,773)	503,683,802
Subtotal fixed assets	1,380,504,175	35,807,605	(1,018,311)		(6,376,338)	(90,623,732)	1,318,293,399
Depreciation at cost:							
Moín Port complex	(3,988,275)	(1,013,439)				309,031	(4,692,683)
Facilities	(85,556,763)	(14,386,715)	3,940	(153,438)	(168,735)	6,272,670	(93,989,041)
Building	(12,072,859)	(2,358,092)				899,484	(13,531,467)
Plant machinery and equipment	(10,868,616)	(2,164,189)	3,428	(438,622)	(12,873)	834,575	(12,646,297)
Furniture and equipment	(29,440,010)	(5,344,215)	412,897	316,827	(321,068)	2,152,115	(32,223,454)
Vehicles	(11,486,574)	(2,208,254)	3,656			853,827	(12,837,345)
Works in progress	(3,831,661)	(263,571)		275,233	3,604,991	64,169	(150,839)
Total accumulated depreciation of assets at cost	(157,244,758)	(27,738,475)	423,921		3,102,315	11,385,871	(170,071,126)
Revaluated depreciation:							
Moín Port complex	(1,975,507)	(923,586)				174,449	(2,724,644)
Facilities	(33,570,144)	(15,742,133)	2,476			2,966,695	(46,343,106)
Building	(6,507,731)	(2,977,636)				571,379	(8,913,988)
Plant machinery and equipment	(3,079,475)	(1,433,924)	74,389			267,867	(4,171,143)
Furniture and equipment	(4,057,642)	(47,369)	206,473			254,064	(3,644,474)
Vehicles	(3,367,460)	(16,972)	4,967			218,151	(3,161,314)
Total accumulated depreciation of revaluated assets	(52,557,959)	(21,141,620)	288,305			4,452,605	(68,958,669)
Total depreciation	(209,802,717)	(48,880,095)	712,226		3,102,315	15,838,476	(239,029,795)
Total	US\$1,170,701,458	US\$(13,072,490)	US\$ (306,085)	US\$	US\$(3,274,023)	US\$(74,785,256)	US\$1,079,263,604

The detail of property, plant, vehicles and equipment as of December 31, 2017 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Adjustments and Reclassifications	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 10,751,010			US\$ 491,589		US\$ (265,935)	US\$ 10,976,664
Moín Port complex	18,456,820			42,718,877		(564,541)	60,611,156
Facilities	371,164,863		US\$ (245,766)	24,790,628	US\$ (81,465)	(9,200,399)	386,427,861
Building	63,046,852			531,192		(1,553,452)	62,024,592
Heavy machinery and equipment	38,408,690	US\$ 2,210,983		1,184,093	81,465	(954,508)	40,930,723
Furniture and equipment	62,857,906	2,607,251	(5,292,202)	1,040,778		(1,543,191)	59,670,542
Vehicles	17,926,138	4,021,715	(312,232)	38,040		(450,969)	21,222,692
Works in progress	234,248,034	45,291,608		(71,740,997)	(2,249,286)	(5,692,686)	199,856,673
Total at cost	816,860,313	54,131,557	(5,850,200)	(945,800)	(2,249,286)	(20,225,681)	841,720,903
Revaluated fixed assets:							
Properties	151,290,405					(3,724,455)	147,565,950
Moín Port complex	24,037,176					(591,745)	23,445,431
Facilities	289,595,723		80,352			(7,129,452)	282,546,623
Building	57,281,894		(119,922)			(1,409,852)	55,752,120
Plant machinery and equipment	22,164,551		3,136			(545,653)	21,622,034
Furniture and equipment	7,176,320		(2,617,634)			(169,915)	4,388,771
Vehicles	3,956,167		(397,455)			(96,369)	3,462,343
Revaluated total	555,502,236		(3,051,523)			(13,667,441)	538,783,272
Subtotal fixed assets	1,372,362,549	54,131,557	(8,901,723)	(945,800)	(2,249,286)	(33,893,122)	1,380,504,175
Depreciation at cost:							
Moín Port complex	(3,309,804)	(761,916)				83,445	(3,988,275)
Facilities	(73,304,815)	(13,557,840)	226,486	(761,552)		1,840,958	(85,556,763)
Building	(10,690,744)	(2,062,171)		412,618		267,438	(12,072,859)
Plant machinery and equipment	(9,180,089)	(1,918,762)		(710)		230,945	(10,868,616)
Furniture and equipment	(29,053,579)	(5,830,047)	4,808,589	(83,060)		718,087	(29,440,010)
Vehicles	(10,520,691)	(1,498,913)	281,009	(10,144)		262,165	(11,486,574)
Works in progress	(940,319)	(3,509,485)		587,458		30,685	(3,831,661)
Total accumulated depreciation of assets at cost	(137,000,040)	(29,139,134)	5,316,084	144,610		3,433,723	(157,244,758)
Revaluated depreciation:							
Moín Port complex	(1,053,690)	(950,207)				28,390	(1,975,507)
Facilities	(17,905,271)	(16,155,533)	8,225			482,435	(33,570,144)
Building	(3,478,773)	(3,133,061)	10,410			93,693	(6,507,731)
Plant machinery and equipment	(1,641,843)	(1,481,601)	(272)			44,241	(3,079,475)
Furniture and equipment	(6,738,920)	(87,494)	2,609,378			159,394	(4,057,642)
Vehicles	(3,820,635)	(37,402)	397,449			93,128	(3,367,460)
Total accumulated depreciation of revaluated assets	(34,639,132)	(21,845,298)	3,025,190			901,281	(52,557,959)
Total depreciation	(171,639,173)	(50,984,432)	8,341,274	144,610		4,335,004	(209,802,717)
Total	US\$1,200,723,376	US\$ 3,147,125	US\$ (560,449)	US\$ 801,190	US\$(2,249,286)	US\$(29,558,118)	US\$1,170,701,458

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 20.3)

The movement of year in the investment is the following:

	Note	2018	2017
Initial balance		US\$43,529,529	US\$44,274,910
Effect from participation		432,916	344,576
Foreign currency translation adjustment		<u>(2,834,039)</u>	<u>(1,089,957)</u>
Final balance	15	<u>US\$41,128,406</u>	<u>US\$43,529,529</u>

A detail of assets, liabilities, and results of Soresco, S.A. as of December 31, 2018 and 2017 is the following:

	2018 (Not Audited)	2017 (Not Audited)
Assets:		
Currents	US\$ 36,055,230	US\$ 36,098,235
Non currents	<u>66,608,944</u>	<u>65,480,141</u>
Total assets	<u>US\$102,664,174</u>	<u>US\$101,578,376</u>
Liabilities:		
Currents	<u>US\$ 4,268,064</u>	<u>US\$ 4,041,565</u>
Total liabilities	<u>US\$ 4,268,064</u>	<u>US\$ 4,041,565</u>
Stockholders' equity:		
Capital stock	US\$ 10,000	US\$ 10,000
Additional paid-in capital	100,000,000	100,000,000
Accumulated losses	<u>(1,613,890)</u>	<u>(2,473,188)</u>
Total stockholders' equity	<u>US\$ 98,396,110</u>	<u>US\$ 97,536,812</u>
Expenses:		
Operating expenses	US\$ (91,528)	US\$ 93,817
Net financial income	<u>950,826</u>	<u>(785,968)</u>
Profit(Loss)	<u>US\$ 859,298</u>	<u>US\$ (692,151)</u>

As of December 31, 2018 and 2017, the additional paid-in capital by RECOPE is US\$50,000,000.

8. INVESTMENTS IN FINANCIAL ASSETS

A detail of investments in financial assets is as follows:

10. ACCOUNTS PAYABLE

Accounts payable are broken down as follows:

	2018	2017
Supplier of oils and byproducts	US\$103,423,034	US\$220,524,184
Law No,8114 Single Tax	31,795,378	71,690,809
Costa Rican Social Security Fund		
Law 7983	7,083,807	
Trade	2,671,246	3,766,647
Others	<u>9,649,898</u>	<u>18,881,401</u>
Total	<u>US\$154,623,363</u>	<u>US\$314,863,041</u>

11. ACCUMULATED EXPENSES AND OTHER LIABILITIES

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

	2018	2017
Provision for school supplies bonus	US\$4,120,625	US\$4,560,096
Provision for Christmas bonus	319,968	360,859
Provision for vacations	230,626	303,389
Accumulated interest	<u>3,862,764</u>	<u>3,914,976</u>
Total	<u>US\$8,533,983</u>	<u>US\$9,139,320</u>

12. LONG TERM DEBT

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

	Note	2018	2017
Scotiabank & Trust (Cayman) Ltd., in dollars, annual interest rate of Libor rate at six months plus 3.8%, maturity on 2020, guaranteed through promissory note	20.1	US\$ 6,428,571	US\$10,714,286
Corporación Andina de Fomento, in dollars, annual interest rate of Libor rate at six months plus 2% maturity in 2018, guarantee of the government of Costa Rica			2,000,360
BNP Paribas, in dollars, interest rate of, Libor rate at six months plus 2.75%, maturity on 2025, guaranteed through insurance	20.2	<u>13,426,588</u>	<u>14,187,212</u>
Subtotal		19,855,159	26,901,858
Less: Current portion of the long-term debt		<u>(5,865,312)</u>	<u>(8,051,926)</u>
Total		<u>US\$13,989,847</u>	<u>US\$18,849,932</u>

Scheduled maturities of long term debt as of December 31 are the following:

Year	2018	2017
2018		US\$ 8,051,926
2019	US\$ 5,865,312	5,925,643
2020	3,665,468	5,925,643
2021	3,665,468	5,925,643
2022	3,665,468	1,073,005
2023 and on	<u>2,993,443</u>	<u> </u>
Total	<u>US\$19,855,159</u>	<u>US\$26,901,860</u>

13. LONG-TERM BONDS PAYABLE

Long-term bonds payable as of December 31 are described below:

	2018	2017
Series A1 bonds payable	US\$ 50,000,000	US\$ 50,000,000
Premium in placement	376,981	497,670
Series A2 bonds payable	50,000,000	50,000,000
Premium in placement	86,875	96,470
Series A4 bonds payable	40,000,000	40,000,000
Discount in placement	(57,044)	(63,075)
Series A5 bonds payable	35,057,582	35,057,582
Premium in placement	627,786	796,805
Series A6 bonds payable	9,933,566	9,933,566
Premium in placement	<u>2,091</u>	<u>2,831</u>
Total	<u>US\$183,122,707</u>	<u>US\$186,321,849</u>

RECOPE, S.A. is an entity regulated by the General Superintendence of Securities (SUGEVAL), the Bolsa Nacional de Valores de Costa Rica, S.A. (Costa Rica's National Stock Exchange) and the Securities Market Regulation Law, and it was authorized through Resolution SGV-R-2702 of August 27, 2012, *public offer and registration in the National Registry of Securities and Intermediaries* to issue standardized debt bonds for US\$200 million dollars to be traded in the stock market of Costa Rica for the financing of a program of strategic investments. It is also authorized in the secondary market by the Financial System Superintendence of El Salvador per Certification No. SAVC-025917. The following is a detail of the characteristics of bonds payable:

Instrument	ISIN Code	Series in Placement	Amount Auctioned	Risk Rating	Issue Date	Expiration Date	Term of Issue	Face Value	Value Traded	Type of Rate	Gross Interest Rate	Net Interest Rate	Weighted Yield
Standardized Bonds	CRRECOB0012	Series A1	US\$ 50,000,000	(1)	12/05/2012	12/05/2022	10 years	US\$1,000	US\$1,000	Fixed	5.98%	(2)	5.299%
Standardized Bonds	CRRECOB0020	Series A2 (3)	US\$ 50,000,000	(1)	04/03/2013	04/03/2028	15 years	US\$1,000	US\$1,000	Fixed	6.36%	(2)	5.83%
Standardized Bonds	CRRECOB0046	Series A4 (3)	US\$ 40,000,000	(1)	07/02/2014	07/02/2029	15 years	US\$1,000	US\$1,000	Fixed	7.07%	(2)	6.50%
Standardized Bonds	CRRECOB0053	Series A5 (3-4-5)	€20,000,000.000	(1)	03/24/2015	03/24/2025	10 years	€1,000,00	€1,000,00	Fixed	11.96%	(2)	10.99%
Standardized Bonds	CRRECOB0061	Series A6 (6)	€ 5,667,000.000	(1)	06/16/2016	06/16/2026	10 years	€1,000,00	€1,000,00	Fixed	9.946%	(2)	9.150%

Notes:

- (1) AAA (cri) FITCH Costa Rica, AAA Pacific Credit Rating
- (2) Net interest rate: Gross rate less income tax (DGT-951-2012),
- (3) According to the Regulations on the Public Offer of Securities and Official Communication DCP-211-2013, RECOPE allocated the totality of Series A2.
- (4) It corresponds to the second placement of the issue of Series A5, amounting to ¢4.020.000.000 (US\$ 6,591,569) and made on August 25, 2015, complementing the first placement for ¢12.000.000.000 (US\$19,676,324) made on March 24, 2015.
- (5) It corresponds to the third placement of the issue of Series A5, amounting to ¢3.928.000.000 made on November 23, 2015, complementing the first and second placements for ¢16.020.000.000 made on March 24, 2015 and August 25, 2015.
- (6) It corresponds to the first placement of the issue of Series A6, amounting to ¢5.667.000.000 made on June 16, 2016.

Risk rating AAA (cri) refers to securities issuances or debt obligations with the lowest likelihood of default risk in comparison with all other issues or obligations of the country. This rating was awarded by FITCH COSTA RICA, S.A. on October 19, 2018.

Risk rating AAA (slv) refers to securities issues or debt obligations with the highest credit quality, in which risk factors are virtually nonexistent. This rating was awarded by Pacific Credit Rating, S.A. on November 9, 2018.

As of December 2018 and 2017, there have not been any more bond placements.

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 (2017-2018), they were timely filed in accordance with the current regulations.

Through resolution TFA No.428-P-2018, on July 24, 2018, the Administrative Tax Court notified RECOPE about the resolution adopted, partially admitting the appeal filed by RECOPE. Consequently, it stated its position regarding the total deduction of the Income Tax Investment Reserve in accordance with the amount approved by ARESEP.

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.

	2018	2017
Profit before income tax	US\$ 39,114,961	US\$ 60,099,664
Plus: Nondeductible expenses	39,303,868	17,587,899
Less: Other non-deductible	(73,943,776)	(44,466,888)
Less: Translation adjustment		3,896
Less: Nontaxable income	<u>(7,633,206)</u>	<u>(1,917,621)</u>
Taxable gain	<u>US\$</u>	<u>US\$ 31,306,950</u>
Current income tax (30% on taxable gain)	<u>US\$</u>	<u>US\$ 9,392,085</u>
Deferred tax	<u>US\$ 2,112,722</u>	<u>US\$ 1,597,552</u>

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

	2018	2017
Balance at the beginning	US\$12,336,060	US\$14,565,437
Translation adjustment	(729,978)	(1,870,661)
Severance benefit accrual	<u>(1,289,401)</u>	<u>(358,716)</u>
Balance at the end	<u>US\$10,316,681</u>	<u>US\$12,336,060</u>

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

	2018	2017
Balance at the beginning:	US\$(125,578,552)	US\$(132,300,921)
Effect from technical appraisal recognized in other comprehensive income	6,680,499	
Exchange rate differences in depreciation rates and recognized in results	(3,288,382)	(3,411,735)
Yearly effect from technical appraisal recognized in profit and loss		6,875,804
Translation adjustment	<u>7,943,086</u>	<u>3,258,300</u>
Deferred income tax liability of the year	<u>US\$(114,243,349)</u>	<u>US\$(125,578,552)</u>
Deferred income tax of the year - net	<u>US\$(103,926,668)</u>	<u>US\$(113,242,493)</u>

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

	2018	2017
Balance at the beginning:	US\$ 9,367,721	
Current income tax		US\$9,392,085
Application of credit balances	(2,233,491)	

(Continues)

	2018	2017
Tax paid	US\$(7,007,167)	
Translation adjustment	<u>(127,063)</u>	<u>US\$ (24,364)</u>
Income tax liability of the year	<u>US\$ _____</u>	<u>US\$9,367,721</u>

Transfer Pricing - The resolution denominated Transfer Pricing Informative Return N° DGT-R-44-2016, published in Digital Supplement N° 182 of September 13, 2016, states in Article 1 that taxpayers required to file an annual income tax return as stipulated in Article 2 of this resolution must file an annual transfer pricing informative return with the Tax Authorities in accordance with the sample return and instructions given therein and in accordance with the following statement: “Taxpayers classified as “national large taxpayers” or “large territorial companies” that perform national or cross-border operations with related parties.”

Regarding the foregoing, RECOPE’s Management has not filed any annual transfer pricing informative return because it considers that it would not apply, so it will submit an explanation about the filing of such return to the corresponding authorities, based on the following:

- a. According to the Agreement of the Board of Directors No. 4933-139 of April 18, 2016, the Company is undertaking the dissolution of the related party denominated “SOESCO,” in which it has an interest of 50% of the capital stock, and with which it has not had on the aforementioned date any business relationship through the purchase or sale of goods and services.
- b. RECOPE’s Stockholders’ Meeting is the Governing Board and the Company is part of the conglomerate denominated Government Sector, and the selling prices for all customers are established by the Public Services Regulatory Authority (ARESEP) based on a pricing methodology to determine equal prices for all direct customers, including selling prices for related parties of the public sector and ministries.
- c. In case of Service Stations, the prices of RECOPE vary because the marketing margin for each service station is different depending on the distance to the Plant to which it was assigned; however, the final consumer price is the same across the national territory in accordance with Refinadora Costarricense de Petróleo (RECOPE) Regulatory Law No.6588.

15. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related parties are broken down as follows:

	Note	2018	2017
Investment in joint venture:			
Soresco, S.A.	7	<u>US\$41,128,406</u>	<u>US\$43,529,529</u>
Investment in financial assets:			
Ministry of Financing,	7	<u>US\$33,675,329</u>	<u>US\$ _____</u>

(Continues)

	Notes	2018	2017
Account receivable:			
Ministry of Financing	3	US\$ 3,437,396	US\$ 5,501,130
JAPDEVA	3	<u>1,003,470</u>	<u>1,251,190</u>
		<u>US\$ 4,440,866</u>	<u>US\$ 6,752,320</u>
Account receivable - long term:			
JAPDEVA		US\$ 1,904,411	US\$ 3,318,453
National Concession Board		498,913	534,275
Others		<u>644,690</u>	<u> </u>
Total	3	<u>US\$ 3,048,014</u>	<u>US\$ 3,852,728</u>
Accounts payable:			
Ministry of Financing	9	US\$33,235,321	US\$81,499,679
Caja Costarricense de Seguro Social	9	7,083,807	
Government	9	<u>1,417,763</u>	<u>121,792</u>
Total		<u>US\$41,736,891</u>	<u>US\$81,621,471</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 of 6.15% (6.10% on 2017). This agreement expires on June 1, 2019.

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:

	2018	2017
Sales:		
Costa Rican Institute of Electricity	US\$5,880,305	US\$1,953,771
To the Ministries of the Government of Costa Rica	<u>418,496</u>	<u>909,008</u>
Total	<u>US\$6,298,801</u>	<u>US\$2,862,779</u>
Cost of sales:		
Costa Rican Institute of Electricity	US\$5,304,574	US\$1,736,134
To the Ministries of the government of Costa Rica	<u>377,521</u>	<u>807,750</u>
Total	<u>US\$5,682,095</u>	<u>US\$2,543,884</u>
Expenses:		
Caja Costarricense de Seguro Social	US\$7,469,487	
Seating fees to the Board of Directors	25,154	US\$ 19,703
Salaries to directors and managers	<u>1,258,288</u>	<u>1,268,461</u>
Total	<u>US\$8,752,929</u>	<u>US\$1,288,164</u>

16. CAPITAL STOCK

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.

17. SURPLUS FROM DONATION

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

	2018	2017
Surplus donated by Allied Chemical Corp,	US\$ 3,223,159	US\$ 3,223,159
PetroCanada donation	25,544,828	25,544,828
AID donation (carbon exploration)	370,098	370,098
Debit remission - Government of The Netherlands	4,550,828	4,550,828
Castella pipe duct	<u>1,119,403</u>	<u>1,119,403</u>
Total	<u>US\$34,808,316</u>	<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:

- a. To be authorized by ARESEP.
- b. To be created from an accounting point of view, registered, controlled, and adjusted (showing its actual level of use - implementation), and
- c. 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:

	2018	2017
Initial balance		
Increases	US\$ 55,387,213	US\$ 50,927,962
Decreases	<u>(55,387,213)</u>	<u>(50,927,962)</u>
Final balance	<u>US\$</u>	<u>US\$</u>

19. OPERATING EXPENSES

Expenses by nature are detailed as follows:

	2018	2017
Personal services	US\$ 79,087,205	US\$ 81,102,764
Non personal services	39,655,658	39,612,727
Materials and supplies	12,781,985	11,028,298

(Continues)

	2018	2017
Depreciations and amortizations	US\$ 51,757,230	US\$ 50,933,370
Applied expenses	(954,328)	(969,723)
Ordinary transfers	<u>7,416,233</u>	<u>10,034,102</u>
Total	<u>US\$189,743,983</u>	<u>US\$191,741,538</u>

Ordinary transfers include, among other, benefit, allowance and severance pay expenses,

Applied expenses correspond to internal uses which are reclassified to the sales cost,

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:

	2018	2017
Financial assets:		
Cash	US\$ 87,047,578	US\$ 89,782,664
At amortized cost:		
Cash equivalents - held to maturity	24,619,628	87,733,151
Accounts receivable	7,029,637	10,840,103
Other assets	2,012,839	2,003,049
Investments on financial assets	<u>33,675,329</u>	<u> </u>
Total assets	<u>US\$154,385,010</u>	<u>US\$190,358,967</u>
Financial liabilities:		
At amortized cost:		
Accounts payable	US\$154,623,363	US\$305,495,220
Long Term Debt	19,855,159	26,901,858
Long Term Bonds Payable	<u>183,122,707</u>	<u>186,321,849</u>
Total liabilities	<u>US\$357,601,229</u>	<u>US\$518,718,927</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, accounts receivable and investments in financial assets. Cash and cash equivalents are maintained at a strong financial institutions. These are payable on demand with minimum recovery risk. The Investment in Financial Assets is held in securities of the Ministry of Finance and the recovery risk is deemed minimal.

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:

	2018	2017
Assets:		
Cash and cash equivalents	US\$ 44,684,842	US\$ 56,314,878
Investments in financial assets	23,593,728	
Accounts receivable	<u>5,812,242</u>	<u>5,234,799</u>
Total assets	<u>74,090,812</u>	<u>61,549,677</u>
Liabilities:		
Accounts payable	(125,887,110)	(242,771,918)
Debt	<u>(160,261,972)</u>	<u>(167,432,923)</u>
Total liabilities	<u>(286,149,082)</u>	<u>(410,204,841)</u>
Net exposure	<u>US\$(212,058,270)</u>	<u>US\$(348,655,164)</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 2%, accounting for the best estimate of exchange rate variation.

Sensitivity to Increase / Decrease in Exchange Rate -

Net exposure	<u>US\$(212,058,270)</u>
Closing exchange rate	<u>¢ 609,87</u>
Exchange rate variation of 2%	<u>12,20</u>
Loss / profits	<u>¢ (2.587.110.894)</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, 2018 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% - 13.32%	US\$104,018,426			US\$36,185,666	US\$140,204,092
Non-interest rate bearing instruments		<u>7,648,779</u>	<u>US\$2,321,948</u>	<u>US\$4,210,191</u>		<u>14,180,918</u>
Total		<u>US\$111,667,205</u>	<u>US\$2,321,948</u>	<u>US\$4,210,191</u>	<u>US\$36,185,666</u>	<u>US\$154,385,010</u>

Scheduled payments of financial liabilities as of December 31, 2018 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	6.55%		US\$ 5,865,312	US\$197,112,554	US\$202,977,866
Non-interest rate bearing obligations		<u>US\$135,218,412</u>	<u>19,404,950</u>		<u>154,623,362</u>
Total		<u>US\$135,218,412</u>	<u>US\$25,270,262</u>	<u>US\$197,112,554</u>	<u>US\$357,601,229</u>

Expected recovery of financial assets as of December 31, 2017 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% - 6.5%	US\$166,007,681			US\$5,282,323	US\$171,290,004
Non-interest rate bearing instruments		<u>11,494,494</u>	<u>US\$3,425,723</u>	<u>US\$4,143,988</u>	<u>4,758</u>	<u>19,068,963</u>
Total		<u>US\$177,502,175</u>	<u>US\$3,425,723</u>	<u>US\$4,143,988</u>	<u>US\$5,287,081</u>	<u>US\$190,358,967</u>

Scheduled payments of financial liabilities as of December 31, 2017 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	5.87%		US\$ 8,051,926	US\$205,171,781	US\$213,223,707
Non-interest rate bearing obligations		<u>US\$282,933,946</u>	<u>22,561,274</u>		<u>305,495,220</u>
Total		<u>US\$282,933,946</u>	<u>US\$30,613,200</u>	<u>US\$205,171,781</u>	<u>US\$518,718,927</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 investments in financial assets and 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, 2018. 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\$19,855,159</u>	<u>US\$(198,551)</u>	<u>US\$(397,102)</u>
Decrease	<u>US\$19,855,159</u>	<u>US\$ 198,551</u>	<u>US\$ 397,102</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.

19.1 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:

	2018	2017
Notes payable and bank debt	US\$ 202,977,866	US\$ 213,223,707
Investments in financial assets	33,675,329	
Cash and cash equivalents	<u>(111,667,206)</u>	<u>(177,515,815)</u>
Net debt	<u>US\$ 125,985,989</u>	<u>US\$ 35,707,892</u>
Stockholders' equity	<u>US\$1,039,019,288</u>	<u>US\$1,070,061,077</u>
Leverage index	<u>0.12</u>	<u>0.03</u>

19.2 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. **Investments in Financial Assets** - The rates of investments are agreed at market rates and are adjustable to keep them at fair value; therefore, their carrying amount approximates their fair value.

- d. **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 AGREEMENTS WITH SCOTIABANK & TRUST (CAYMAN), LTD.

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.
- k. Non-compliance with Clause 10.1:
 - Failure to pay the principal and interest at maturity.
 - 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.
 - Use of loan funds for non-approved purposes.
 - 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.
 - The failure to pay any applicable fees, rates, or taxes.

20.1 LOAN AGREEMENTS WITH BNP PARIBAS FORTIS SOCIÉTÉ GÉNÉRALE

On September 22, 2015, RECOPE and BN PARIBAS FORTIS SOCIETE GENERALE enter into a loan agreement for the amount of US\$19,000,000 (nineteen million dollars), legal tender of the United States of America, to build four spherical tanks for the storage of LPG (YT-7712, YT-7713, YT-7714, YT-7715) in the refinery of Moín, in regard to public tender No.2011LN-00009-02.

Term and Amortization - 10 years including a two-year grace period, 20 biannual payments, after the grace period with maturity in September 2027.

Interest Rate - Payable biannually when due, calculated on the basis of 360 days (at six-month Libor rate + 2.75%)

Method of Interest Payment - The last day of each interest period, the borrower must pay the interest accrued on the loan to which the borrower relates for that period of interest.

Interest in Arrears - 2% on applicable interest rate (IR+2.0%).

Fees and Commissions -

- a. **Commitment Fee** - 1.10% per year on undrawn balance, starting on the date the loan agreement is signed and payable biannually.
- b. **Structure Fee** - 1.0% flat on the loan full amount, payable at once upon signing the loan agreement.
- c. **Agency Fee** - 0.645% flat on the loan full amount, payable to the Agent at once upon signing the loan agreement.
- d. **CESCE Fee** - 5.9% flat, CESCE will cover Banks for 99% of political and commercial risks on the loan principal plus accrued interest.

Advanced Payments and Voluntary Settlement - Subject to the prior written consent of CESCE, the Borrower may pay in advance any Loan on a Date of Interest Payment after the last day of the Availability Period, either in full or in part (subject to a minimum of five million dollars (US\$5,000,000)), provided that the borrower submits prior notice to the Agent with at least thirty (30) Business Days in advance.

Any amount previously paid may not be reimbursed and will be applied to Installment Fees in reverse chronological order.

Subject to the prior written consent of CESCE, the Borrower may-submitting prior notice to the Agent with at least thirty (30) Business Days in advance, settle the total or any part of the loan (being five million dollars (US\$5,000,000) the minimum amount.

Special Obligations -

- a. **Financial Definitions** -
 - In this Clause 18 (Financial Covenants): “Certificate of Compliance” means a certificate mainly along the lines of the format provided in Exhibit 7 (Format of the Certificate of Compliance) or according to any other format agreed upon between the Borrower and the Agent.

- “Current Assets” means the total amount shown as current assets in the balance sheet of RECOPE prepared pursuant to IFRS.
- “Current Liabilities” means the total amount shown as current liabilities in the balance sheet of RECOPE prepared pursuant to IFRS.
- “Current Ratio” (or Liquidity Ratio) means, in regard to any Relevant Period, the coefficient of Current Assets for that Relevant Period relative to the Current Liabilities for that same period.
- “EBITDA” (abbreviation of “Earnings before Interest, Taxes, Depreciation and Amortization,” that is, profits before Interest, Taxes, Depreciation and Amortization). It means, relative to the Company, for any period, the addition (determined without duplication) of: (a) the Operating Income for that period plus (b) depreciation and amortization to the extent that they are deducted to determine the Operating Income for said period.
- “Financial Charges” means the total amount of accrued interest, commissions, discounts, prepayment fees, hedge fees or charges and other financial payments relative to financial indebtedness, which must be paid by RECOPE in cash or capitalized within the twelve months following the date of calculation:
 - Excluding initial fees or costs that are included as part of the effective adjustments to the interest rate;
 - Including the interest elements (but not the principal) of payments with regard to financial leases; and
 - Including any commissions, professional fees, discounts, and other financial payments which must be paid (deducting all amounts that must be paid to RECOPE) by RECOPE in accordance with any interest rate hedge agreement,
- “Financial Lease” means any lease agreement or installment sale agreement that, according to IFRS, would be treated as a financial or capital lease.
- “Net Debt Coverage Ratio” means, relative to any relevant period, the proportion of total net debt in the last day of that relevant period in EBITDA (abbreviation of “Earnings before Interest, Taxes, Depreciation and Amortization”, that is, profits before Interest, Taxes, Depreciation and Amortization) for that relevant period.
- “Operating Income” means, for any period, the operating income of RECOPE.

- “Relevant Period” means: (i) with respect to the Net Debt Coverage Ratio, each twelve-month period that ends on the last day of the fiscal year or around that date, and each twelve-month period ending the last day of each fiscal quarter or around that date; and

With respect to the Current Ratio, each twelve-month period that ends on the last day of the fiscal year or around that date, and each twelve-month period ending the last day of each fiscal quarter or around that date.

- “Total Net Debt” means, at any moment, the total amount of all the obligations of the Company in relation to Financial Indebtedness in that moment, but:
 - Including, in the case of Financial Leases only, their capitalized value; and
 - Deducting the total amount of RECOPE ’s Investments in Cash and in Cash Equivalents at that moment and in a way that no amount is included or excluded more than once.

The Borrower must ensure that:

The Net Debt Coverage Ratio for any Relevant Period is not higher than 3.00:1.00.

The Current Ratio for any Relevant Period is not less than 1.20:1.00.

Data of the Net Debt Coverage Ratio and the Current Ratio for previous accounting periods must be provided with respect to the most recently ended Relevant Period by reference to each one of the financial statements submitted per Section (a) (i) of Clause 17.1 (Financial Statements) and to each Certificate of Compliance submitted per Clause 17.2 (Certificate of Compliance).

b. Breach of Contract -

Failure to pay

Illegal origin

Corrupt practices

Unlawfulness

Rejection - The Borrower rejects a Transaction Document or shows its intention to reject a Transaction Document.

The Borrower is in breach of the agreement in any substantial manner.

The Borrower does obtain (as applicable) all Authorizations required per any term or condition of the Agreement entered into with the Contractor relative to the Borrower's registration and compliance, and the validity and enforceability of the transactions contained in the Agreement with the Contractor or such Authorizations are not or stop being in force.

20.2 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. was to implement the activities necessary for the development of the Refinery Expansion and Modernization Project.

The duration of the joint venture was 25 years. The authorized and registered capital of the joint venture was 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%.

- 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.
- b. ***Miscellaneous Provisions*** - The agreement was approved by the Comptroller General of the Republic on September 2nd, 2009, according to official communication No.091782009.

Through official communication 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 (which 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 communication

JD-245-2013, ratified, during ordinary meeting 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 stipulated by the comptroller body; therefore, to date, RECOPE has engaged the services of a Company that is conducting the necessary optimization studies to continue with the development of the project.

As of December 31, 2018, the balance of the investment of the joint venture RECOPE-CNPCI amounts to ₡25,058 million, equal to US\$41,1 million. The balance differs from the capital contribution because of the equity method used to show the profit or loss of SORESCO in the respective account. The capital contribution to SORESCO amounts to US\$50,005,000.

Official communication JD-0092-2016 of April 19, 2016, informed about the agreement reached by the Board of Directors of the Company, as recorded in Article No.4, of Ordinary Meeting #4933-139, held on Monday, April 18, 2016, stating that:

The President of the Board of Directors was instructed to take actions to terminate the Joint Venture Agreement entered into between RECOPE and CNPCI, and to dissolve and liquidate the corporation SORESCO, S.A.

22. EMPLOYEES' LEGAL BENEFITS

As of December 31, 2018, the Company commissioned an actuarial study to calculate the accrued benefits from the employees' legal benefits whose primary objective was to obtain the amount of the coverage of the Actuarial Liabilities, including actuarial profit and loss, conclusions about the actuarial situation of the benefit plan and the recommendations for adjustments to the allowance for employees' legal benefits with a cutoff as of June 30, 2018 and projected as of December 31, 2018.

The timeline for such a calculation was from July 1, 2017 to June 30, 2018, and projected as of December 31, 2018.

The target population of the study includes all active employees, with a cutoff as of the date of the actuarial study of the liabilities (June 30, 2018), with a total number of 1,698 employees.

The hypothesis used for the study refers to a pension at the age of 62 years for men and 60 years for women, based on an early retirement plan set forth in the Costa Rican laws.

Under such a base scenario, the effects of the following alternative interest rates or alternative salary increase rates are applied:

Interest rate: 10%

Salary increase rate: 2.50%

Long-term inflation rate - 2%

At the same time, the variability in the pool of employees resulting from the termination of employment is not deemed an actuarial variable; therefore, the actuarial approach is not applicable. Its specific circumstances can be estimated by weighting the calculation of previous fiscal years and the global macroeconomic situation or the situation of the Company.

The payments related to the provision for severance pay are considered in the Company's Budget submitted to the Office of the Comptroller General each year, and the amount includes an estimated number of all the employees who would be using such benefit that year, so when submitting the price request to ARESEP, they are considered so that they can be recognized in the price and be able to make such payments.

A comparative chart to show the sensitivity of the main variables used in the actuarial studies of 2018 and 2017 is shown as follows:

Sensitivity Analysis to Compare 2018 and 2017			
Account	%	2018	2017
Severance pay		US\$3,423,880,342	US\$4,094,067,344
Employees' death benefit		14,782	17,676
Family members' death benefit		<u>135,351</u>	<u>161,845</u>
Severance pay balance		<u>US\$3,424,030,475</u>	<u>US\$4,094,246,865</u>
Measurement unit			
Discount rate		10.00%	8.50%
Salary increase		2.50%	2.50%
Long-term inflation		2.00%	2.00%
Measurement unit			
		10.00%	8.50%
	2.00%	US\$ 68,480,610	US\$ 81,884,937
Variation of Salary	2.50%	85,600,762	102,356,172
Increase Rate	3.00%	102,720,914	122,827,406
Measurement unit			
		10.00%	8.50%
	1.50%	51,360,457	61,413,703
Variation of Long-Term	2.00%	68,480,609	81,884,937
Inflation	2.50%	85,600,762	102,356,172

A sensitivity analysis of the salary increase and the inflation rate variables in 2018 was conducted to show the impact of these two measurement units.

It is important to point out that if the severance pay were established at 12 years, the amount determined by the contracted actuaries would be at ¢12.597.281.657, equal to US\$20,655,683.

23. CONTINGENT LIABILITIES

Municipal Permit Tax - The municipal tax returns of the last five fiscal years are available to the municipalities where the Company operates. Management considers that the municipal tax returns, as they have been filed, will not be significantly adjusted as a result of a future review.

Litigations and Judicial Proceedings - The information about important judicial proceedings sent by the Legal Department through communication DJU-0101-2018, with a cutoff as of December 2018, is as follows:

Summary of Judicial Proceedings in Force as of December 31, 2018				
Contingent Passive - Lawsuits filed against RECOPE, S.A.				
Proceeding	Amount	Relevant Matters	Amount	Claimed Amount
Ordinary Contentious	28			US\$45,983,803
		Consorcio Arco, S.A.	US\$ 3,003,093	
		Compañía Agropecuaria de Limón, S.A.	5,498,675	
		Dragados Hidráulicos, S.A.	10,946,389	
		Alonso Chaves Fernández	3,297,838	
		ISIVEN, S.A.	3,825,791	
		ISIVEN	1,665,517	
		C.C.S.S.	3,108,113	
		I.C.E.	9,272,807	
Labor	3			252,575
Penal	<u>1</u>			<u>820</u>
Total	<u>32</u>		<u>US\$40,618,223</u>	<u>US\$46,237,198</u>

Summary of Judicial Proceedings in Force as of December 31, 2018				
Contingent Asset - Lawsuits filed by RECOPE, S.A.				
Proceeding	Amount	Relevant Matters	Amount	Claimed Amount
Ordinary Contentious	74			US\$14,303,720
		Euromat, y Equipos de Construc, S.A.	US\$1,801,761	
		Novum Energy Trading Corp., S.A.	9,364,257	
Transit	3			3,629
Labor	34			112,250
Penal	<u>1</u>			<u>13,828</u>
Total	112		<u>US\$11,166,018</u>	<u>US\$14,433,427</u>

The amounts of the cases in dollars are updated at the sell exchange rate for the non-banking public sector as of December 31, 2018, which corresponds to ¢609,87 per each US dollar.

Moreover, in April 2016, the Board of Directors of RECOPE approved actions to terminate the Joint Venture Agreement between RECOPE and China National Petroleum Corporation International, Ltd, (CNPCI). In June 2017, CPNC International Ltd, (“CNPCI”) began the ICC arbitration proceeding Case No.22980/PTA against RECOPE seeking to claim an

amount of over US\$50 million. In October 2017, RECOPE filed a counterclaim in an amount that will be later estimated using proper procedures. The arbitration was established on December 5, 2017, and the hearing to present evidence is scheduled to start on March 18, 2019.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements were approved by RECOPE's management on March 21, 2019.

* * * * *

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

FINANCIAL RATIOS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(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.

	2018	2017
Current assets	US\$ 370,235,207	US\$ 521,193,370
Cash and cash equivalents	(111,667,206)	(177,515,815)
Current liabilities (does not include current portion)	<u>(174,766,376)</u>	<u>(334,487,968)</u>
Financial working capital	<u>US\$ 83,801,625</u>	<u>US\$ 9,189,587</u>

This ratio shows that throughout year 2018, the financial work capital increased in comparison to year 2017 since RECOPE required less financing from petroleum suppliers and financial entities for the purchase of inventories than in year 2017.

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:

	2018	2017
Current assets	US\$370,235,207	US\$521,193,370
Current liabilities	<u>180,631,688</u>	<u>342,539,894</u>
Current assets/ Current liabilities	<u>205%</u>	<u>152%</u>

This ratio reveals that RECOPE has more 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.

	2018	2017
Sales	US\$2,816,462,910	US\$2,449,081,403
Assets	<u>1,555,970,135</u>	<u>1,772,135,438</u>
Sales/assets	<u>1,81</u>	<u>1,38</u>

In 2018, for every dollar invested in assets, RECOPE generated US\$1.81 times in sales, which represents an increase in the indicator obtained in 2017. 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:

	2018	2017
Sales	US\$2,816,462,910	US\$2,449,081,403
Property, plant, vehicles and equipment - net	<u>1,079,263,604</u>	<u>1,170,701,458</u>
Sales/ property, plant, vehicles and equipment - net	<u>2,61</u>	<u>2,09</u>

The result of the turnover in 2018 indicates that for every dollar invested in fixed assets, RECOPE generated 2.61 times in sales, which represents an increase compared to the situation that occurred in 2017.

5. DEBT RATIO

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

	2018	2017
Liabilities	US\$ 516,059,847	US\$ 702,074,361
Assets	<u>1,555,970,135</u>	<u>1,772,135,438</u>
Liabilities/assets	<u>33,16%</u>	<u>39,62%</u>

This ratio shows improvement by the increase of property, facilities, and equipment as well as the decrease of documents payable, Per the debt ratio, for 2018, 66.84% of the assets is owned by equity investors (the State) while the percentage for 2017 was of 60.38%

6. DEBT RATIO (COST)

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

	2018	2017
Long term debt	US\$ 202,977,866	US\$ 213,223,707
Assets	<u>1,555,970,135</u>	<u>1,772,135,438</u>
Long term debt/assets	<u>13.04%</u>	<u>12.03%</u>

In 2018, the long-term debt funded 13.04% of the total asset, and the remaining 86.96% was provided by RECOPE, which shows a 1.01 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.

	2018	2017
Net profit	US\$ 41,227,683	US\$ 52,305,131
Sales	<u>2,816,462,910</u>	<u>2,449,081,403</u>
Net (loss) profit/sales	<u>1.46%</u>	<u>2.14%</u>

In 2018, this indicator has not deteriorated respect of 2017 due to the decrease in the net profit.

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.

	2018	2017
Net profit	US\$ 41,227,683	US\$ 52,305,131
Assets	<u>1,555,970,135</u>	<u>1,772,135,438</u>
Net (loss) profit/assets	<u>2.65%</u>	<u>2.95%</u>

In 2018, this indicator has deteriorated respect of 2017 due to the decrease in the net profit.

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.

	2018	2017
Net profit	US\$ 41,227,683	US\$ 52,305,131
Stockholders' equity	<u>1,039,910,288</u>	<u>1,070,061,077</u>
Net (loss) profit/equity	<u>3.96%</u>	<u>4.89%</u>

In 2018, there has been a decrease in this ratio when compared to 2017.

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.

	2018	2017
Operating expenses	US\$ 189,743,983	US\$ (191,741,538)
Sales	<u>2,816,462,910</u>	<u>2,449,081,403</u>
Net (loss) profit/sales	<u>6.74%</u>	<u>7.83%</u>

This ratio has decrease 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.

	2018	2017
Operating profit	US\$ 86,011,331	US\$ 81,069,022
Depreciations and amortizations	<u>51,757,230</u>	<u>50,933,370</u>
Total EBITDA	<u>US\$137,768,561</u>	<u>US\$132,002,392</u>
Financial expenses	<u>US\$ 10,326,414</u>	<u>US\$ 9,958,536</u>
EBITDA/financial expenses	<u>13.34</u>	<u>13.26</u>

This ratio establishes that RECOPE has constant coverage of the financial expenses corresponding to the long-term debt, not showing any significant variations.

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