

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, 2017 and 2016 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 matters 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, 2017 and 2016, 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

1. As of December 31, 2017 and 2016, the Company has an Investment in Joint Venture for the sum of ¢24.807.914.000 and ¢24.611.536.000, respectively, corresponding to the 50% of the capital stock of SORESCO, S.A. As described in Note 7 to the financial statements, in April 2016, the Board of Directors of RECOPE approved initiating the procedures to terminate the Joint Venture Agreement entered into between RECOPE and China National Petroleum Corporation International, Ltd. (CNPCI), without a termination agreement being reached with its joint venture partner as of this date. As of December 31, 2017 and 2016, RECOPE has not conducted an impairment analysis that allows determining if any impairment adjustment should be recognized to the amount registered on the financial statements, as required by the International Accounting Standard 36 “Impairment.” Consequently, we are unaware if an impairment adjustment record is needed or if there should be an additional disclosure in the financial statements of RECOPE as of 2017 and 2016 in connection with the investment in SORESCO, S.A.
2. The statement of profit or loss and other comprehensive income for the period ended December 31, 2016 includes losses for ¢8.081 million which result from works in progress started in previous periods that could not be identified in the fixed asset analysis conducted by the Company’s Management during 2015. This adjustment was included in the 2016 financial statements, when financial statements from previous periods should have been

restructured. On this regard, International Accounting Standard (IAS) No.8 “Accounting Policies, Changes in Accounting Estimates and Errors” establishes that the correction of errors from previous periods should be recognized by restructuring the financial statements, with the presentation of a third statement of financial position, as established by IAS No.1, “Presentation of Financial Statements”. Therefore, the net loss of the period ended December 31, 2016, and the initial retained earnings of the statement of financial position as of December 31, 2016 are overvalued in ¢8.081 million.

3. As of December 31, 2017 and 2016, the financial statements of RECOPE include an allowance for severance pay amounting to ¢23.459 million and ¢27.015 million, respectively, which is estimated based on an actuarial study. As of December 31, 2016, the notes to the financial statements of RECOPE do not include the disclosures required by IAS 19 “Employee Benefits” regarding to the actuarial assumptions used to register the employees’ benefits of such audited periods.

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 69 to 72. 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.

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>Fixed Assets - As of December 31, 2017, the fixed assets represent 67% of the total assets of the Company. These assets consist mainly of property, plant, and equipment, fixed assets in progress, and non-operating fixed assets (refer to Notes 1f, 1g, 6, and 7). In accordance with the International Financial Reporting Standards, Management reviews its asset capitalization policies and the depreciation methods according to the usage rate and conditions of the assets. Moreover, Management conducts annual impairment tests to evaluate the recoverability of the carrying amount of the assets.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Evaluation of the capitalization policies and the assignment of useful lives of the assets acquired during the period. • We conducted an evaluation of the changes in the fair values of the fixed assets with regard to the last appraisal by independent external experts which did not show any significant changes.
<p>For the real property, Management engaged well recognized external independent professional experts. The fair values are based on market values. Management uses a series of judgments to determine the useful lives and the residual values and evaluate impairment evidence, if any.</p>	<p>We conducted the physical verification of the most significant assets to determine if they are operational, in good condition, and without any impairment evidence.</p> <p>We obtained a detail of the assets owned by the refinery and requested information on their future use and foreseen sale plans.</p>

(Continues)

Key Matter	Audit Approach on Key Audit Matter
<p>To evaluate the impairment of non-operating assets related to the refinery process, Management uses a series of judgments and engages independent external experts. Currently, these assets are classified as non-operating fixed assets because they are not being used because the construction project of a new refinery where they may be used has been suspended.</p> <p>Moreover, for the current fixed assets, Management reviews its capitalization policies, verifies the existence of assets, and checks its use in the operating activities of RECOPE.</p>	<p>We obtained a detail of an appraisal conducted by independent experts hired by RECOPE, which included the assets related to the refining process, and we verified if those assets were recorded at their fair value.</p> <p>We requested RECOPE’s policy regarding the frequency of appraisals.</p> <p>Management provided us with evidence that according to the National Energy Plan, the feasibility of a new refinery should be determined, or otherwise, the feasibility of revamping the current refinery should be analyzed. The assets related to the refining process may be considered for a future plant.</p> <p>We inquired with Management about the maintenance of those assets, and whether they are still subject to a regular maintenance program.</p> <p>We obtained a detail of the assets in progress and selected the main works included.</p> <p>We asked Management for a technical detail of the assets in progress that will support their recording as such.</p> <p>We physically verified some assets in progress to confirm the completion degree of the assets, or if the works were completed and were being used in the operations of RECOPE. In the event they were in use, their transfer to the corresponding operating assets was verified.</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 2017, and we conducted our independent analysis of the assumptions used and the conclusions reached by the independent expert.</p>
<p><i>Allowance for Employees’ Legal Benefits</i> - The financial statements of RECOPE include an allowance for employees’ legal benefits for ¢23.458.660.000 and ¢27.015.972.000 as of December 31, 2017 and 2016, 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 1m to the attached financial statements.</p>	

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Key Matter	Audit Approach on Key Audit Matter
	<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>

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 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, 2018
Revenue law stamp for ¢1.000, Law No.6663
La Ribera de Belén, Heredia, Costa Rica



March 7, 2018

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

(Expressed in United States Dollars)

	Notes	2017	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1c, 2	US\$ 177,515,815	US\$ 72,916,279
Accounts receivable	1d, 3	10,615,964	12,387,628
Advances to contractors		3,364,770	8,847,819
Inventories	1e, 1f, 1w, 4	328,668,537	208,116,720
Prepaid expenses	5	<u>1,028,285</u>	<u>1,369,319</u>
Total current assets		521,193,371	303,637,765
LONG TERM ACCOUNTS RECEIVABLE	1d, 3	3,284,032	4,895,699
PROPERTY, PLANT, VEHICLES AND EQUIPMENT - Net	1g, 1h, 1i, 1j, 6	1,170,701,458	1,200,723,375
INVESTMENT IN JOINT VENTURE	1k, 7	43,529,529	44,274,910
OTHER ASSETS	8	<u>33,427,048</u>	<u>33,431,276</u>
TOTAL		<u>US\$1,772,135,438</u>	<u>US\$1,586,963,025</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	11		US\$ 17,541,192
Current portion of the long term debt	12	US\$ 8,051,926	6,285,714
Accounts payable	9	314,863,041	122,506,477
Deferred income	1m	10,485,606	13,408,876
Accumulated expenses and other liabilities	10	<u>9,139,320</u>	<u>9,735,723</u>
Total current liabilities		342,539,893	169,477,982
LONG TERM DEBT	12	18,849,932	20,337,780
LONG TERM BONDS PAYABLE	13	186,321,849	187,517,183
DEFERRED INCOME TAX	1l, 14	113,242,493	117,735,484
ALLOWANCE FOR EMPLOYEES' LEGAL BENEFITS	1n	<u>41,120,194</u>	<u>48,551,456</u>
Total liabilities		<u>702,074,361</u>	<u>543,619,885</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

(Expressed in United States Dollars)

	Notes	2017	2016
STOCKHOLDERS' EQUITY:			
Capital stock	16	US\$ 370,515,185	US\$ 370,515,185
Legal reserve	1q	4,660,669	1,616,301
Surplus from revaluation	1s	655,825,758	671,891,770
Surplus from donation	1t, 17	34,808,316	34,808,316
Retained earnings		358,591,906	293,265,130
Foreign currency translation adjustment	1b	<u>(354,340,757)</u>	<u>(328,753,562)</u>
Total stockholders' equity		<u>1,070,061,077</u>	<u>1,043,343,140</u>
TOTAL		<u>US\$1,772,135,438</u>	<u>US\$1,586,963,025</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, 2017 AND 2016

(Expressed in United States Dollars)

	Notes	2017	2016
SALES	1u	US\$ 2,449,081,403	US\$ 2,157,175,841
COST OF SALES	1v	<u>(2,176,270,843)</u>	<u>(1,954,482,531)</u>
GROSS PROFIT		272,810,560	202,693,310
OPERATING EXPENSES	1x, 19	<u>(191,741,538)</u>	<u>(191,711,871)</u>
OPERATING PROFIT (LOSS)		81,069,022	10,981,439
OTHER INCOME (EXPENSES):			
Sale of services		38,174	102,841
Financial expenses		(9,958,536)	(4,333,869)
Financial income		3,205,186	1,048,332
Other expenses - net		<u>(14,254,182)</u>	<u>(28,696,305)</u>
PROFIT (LOSS) BEFORE INCOME TAX		60,099,664	(20,897,562)
DEFERRED INCOME TAX	1l, 14	1,597,552	5,027,924
INCOME TAX EXPENSE		<u>(9,392,085)</u>	<u> </u>
NET PROFIT (LOSS)		52,305,131	(15,869,638)
OTHER COMPREHENSIVE PROFIT (LOSS) INCOME:			
Foreign currency translation adjustment	1b	<u>(25,587,195)</u>	<u>(36,369,324)</u>
COMPREHENSIVE PROFIT (LOSS) OF THE YEAR		<u>US\$ 26,717,936</u>	<u>US\$ (52,238,962)</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, 2017 AND 2016 (Expressed in United States Dollars)

	Notes	Capital Stock	Legal Reserve	Surplus from Revaluation	Surplus from Donation	Retained Earnings	Foreign Currency Translation Adjustment	Total
BALANCES, DECEMBER 31, 2015		US\$370,515,185	US\$1,616,301	US\$688,204,375	US\$34,808,316	US\$292,326,747	US\$(292,384,238)	US\$1,095,086,686
Comprehensive income (loss) of the year						(15,869,638)	(36,369,324)	(52,238,962)
Transfer from surplus to retained earnings	1s			(16,808,021)		16,808,021		
Revaluation surplus	1s			495,416				495,416
BALANCES, DECEMBER 31, 2016		370,515,185	1,616,301	671,891,770	34,808,316	293,265,130	(328,753,562)	1,043,343,140
Comprehensive income 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)	(25,587,196)	(25,587,196)
BALANCES, DECEMBER 31, 2017		<u>US\$370,515,185</u>	<u>US\$4,660,669</u>	<u>US\$655,825,758</u>	<u>US\$34,808,316</u>	<u>US\$358,591,906</u>	<u>US\$(354,340,757)</u>	<u>US\$1,070,061,077</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, 2017 AND 2016

(Expressed in United States Dollars)

	Notes	2017	2016
OPERATING ACTIVITIES			
Net profit (loss) of the year		US\$ 52,305,132	US\$(15,869,638)
Deferred tax	14	(1,597,552)	(5,027,924)
Effect from participation in joint venture	7	(345,121)	(284,283)
Interest expense		9,958,536	4,333,869
Depreciation and amortization	6, 8	50,933,370	50,436,676
Unrealized exchange rate differences		3,964,395	5,630,072
Transfer - works in progress			14,786,816
Changes in operating assets and liabilities:			
Accounts receivable		2,962,530	(4,540,381)
Advances to contractors		5,273,560	10,715,899
Inventories		(125,873,980)	(15,560,815)
Prepaid expenses		307,811	978,410
Accounts payable		195,881,787	25,617,059
Deferred income		(2,599,780)	(3,972,574)
Accumulated expenses and other liabilities		5,120,664	10,539,627
Employees' legal benefits		<u>(6,251,756)</u>	<u>1,293,561</u>
Cash provided by the operating activities		190,039,596	79,076,374
Tax paid			
Interest paid		<u>(15,436,759)</u>	<u>(15,317,562)</u>
Net cash provided by the operating activities		<u>174,602,837</u>	<u>63,758,812</u>
INVESTMENT ACTIVITIES			
Additions of fixed assets	6	(54,077,343)	(66,770,447)
Disposals of fixed assets	6	559,887	631,668
Other assets		<u>2,227,344</u>	<u>(589,189)</u>
Net cash used in the investment activities		<u>(51,290,112)</u>	<u>(66,727,968)</u>
FINANCING ACTIVITIES			
New loans		4,432,499	30,444,404
Debt amortization		<u>(21,182,373)</u>	<u>(20,412,457)</u>
Net cash (used in) provided by the financing activities		<u>(16,749,874)</u>	<u>10,031,947</u>

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REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Expressed in United States Dollars)

	2017	2016
NET VARIATION IN CASH AND CASH EQUIVALENTS	US\$ 106,562,851	US\$ 7,062,791
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	72,916,279	68,357,057
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>(1,963,315)</u>	<u>(2,503,569)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>US\$ 177,515,815</u>	<u>US\$ 72,916,279</u>

TRANSACTIONS THAT DO NOT AFFECT THE USE OF CASH:

1. As of December 31, 2016, an appraisal was made on a parcel of land registered as non-operating asset, which originated an increase of the parcel and a surplus from revaluation for the sum of US\$487,121. Such appraisal was made to donate the parcel to the municipality of Limón. These movements did not result in a cash disbursement for the Company.
2. As of December 31, we reclassified a total of US\$35,083,393 corresponding to assets that belong to the refining process, which include the accumulated depreciation of US\$16,668,342 (Note 6 and Note 8) - Such movements did not result in a cash disbursement for the Company.

(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, 2017 AND 2016 (Expressed in United States Dollars)

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

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

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

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

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

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

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

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

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

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

Presentation Basis - The financial statements have been prepared on the historical cost basis (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 share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and, measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

- **Level 1** - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** - Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** - Inputs are unobservable inputs for asset or liability.

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

- a. **Currency and Transactions in Foreign Currency** - Management has determined that the Costa Rican colon is RECOPE's functional currency. The transactions denominated in US dollars are registered at the exchange rates in force as of the date of the transaction; RECOPE's assets are registered at the purchasing exchange rate and liabilities at the selling exchange rate. Exchange rate differences originated from the liquidation of assets and obligations denominated in such currency, as well as the adjustment of balances as of closing date, are registered as part of RECOPE's results. As of December 31, 2017 and 2016, the exchange rate of the colón regarding the US dollar for companies of the non-banking public sector was ¢570,49 and ¢556,44 for selling transactions, respectively, and ¢569,91 and ¢555,84 for purchasing transactions, respectively.

As of the date of issue of the financial statements, exchange rate was ¢572,88.

- 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, 2017 and 2016, the allowance for doubtful accounts is mainly composed by a balance of US\$587,094 and US\$670,888, respectively, of long term receivable from Concessions National Board and other receivables.
- e. **Inventories** - Inventories are valued at the lower of cost or net realization value. The net realization value is the estimated selling price of a product in the normal course of operation, less the estimated necessary costs to perform the sale and a reasonable percentage of profit.

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

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

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

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

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

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 39976-H) published in official newspaper La Gaceta, Supplement 235 of October 10, 2016, effective from November 1, 2016 to January 31, 2017, provided for an adjustment of (0,49%).

This tax is broken down as follows:

Fuel	Tax by Liter (€)
91 Plus gasoline	238,50
Premium gasoline	249,75
Diesel	141,00
Asphalt	48,50
Asphalt emulsion	36,25
Bunker (gasoil)	23,00
G,L,P	48,50
Jet Fuel A1	143,00
Av Gas	238,50
Kerosene	68,00
Heavy diesel (gasoil)	46,50
Heavy naphta	34,25
Light naphta	34,25

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.
- 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 lease 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 is 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.

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 (both by indexes and appraisal) 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 (by indexes and technical appraisals).

- j. ***Works in Process*** - This item registers the works in process, which once completed, they are reclassified and become a part of property, plant, vehicles, and equipment. Loan costs directly attributed to the acquisition, construction, or production of ongoing fixed assets, which are assets that require a substantial period of time for their use, are added to the cost of these assets until they are ready for use. The records that affect this account are made according to IAS 11 "Construction Agreements."

- 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. **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.

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.

- o. **School Supplies Bonus and Vacation** - It is calculated in accordance with the decrees issued by the Ministry of Labor every time there is a salary increase, and it is paid in January according to existing regulations. For 2016, 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.

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

- p. **Christmas Bonus** - RECOPE makes a monthly provision corresponding to payment of Christmas bonus to its employees in December, as established in the Code of Labor, Such provision corresponds to 8.33% per month.
- q. **Legal Reserve** - The commercial legislation of Costa Rica (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. Based on the registration of a capital increase in December 2014, as of this period, there will be a corresponding annual calculation and registration up to reaching the amount established in the current regulations.
- r. **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.
- s. **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.
- t. **Surplus from Donation** - It records donations received from Allied Chemical Corp, Petro Canada, and the Agency for International Development (AID) to perform the explorations of charcoal, as well as those from the Costa Rican Electricity Institute (ICE) to build the Castella-Garita oil pipeline and a debt remission from the Dutch government.
- u. **Revenue Recognition** - The sales of hydrocarbons are in cash, by which revenues are recognized when RECOPE has transferred to the buyer all significant risks and benefits related to the ownership of the sold fuels. RECOPE does not keep for itself any association with the common management of the goods sold. The amount of revenue can be reliably measured. It is probable that RECOPE receives the economic benefits associated with the sale, and the transaction costs can be reliably measured.

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

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

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

These mechanisms are described in the following regulations:

- *Law No.6588 August 13, 1981*
- *Law No.7593 of the Regulatory Authority for Public Services*
- *Resolution RJD-230-2015, Digital Supplement No.89 to La Gaceta No.211 of October 30, 2015*

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/ Plant Price	Resolutions of ARESEP (¢/LT. Without tax)				
	RIE-131	RIE-119	RIE-109	RIE-105	RIE-095
Premium gasoline	298,05	322,20	299,22	326,91	296,89
Plus 91 gasoline	298,46	310,48	285,92	308,76	282,20
Diesel 0,005% S (Automotive 500)	316,88	329,00	316,10	310,56	295,77
Diesel 0,50% S (Thermal)	310,58	311,89	266,23	263,90	251,84
Kerosene	325,48	318,41	307,63	331,46	292,03
Bunker	223,93	228,79	201,43	198,69	195,41
Low Sulphur bunker	265,60	269,17	245,98	242,65	233,80
IFO 380	228,05	208,10	211,59	201,69	183,71
Asphalts AC20/30 and PG 70	206,13	193,64	192,10	194,96	184,49
Heavy diesel (Gasoil)	283,74	283,14	261,37	258,13	249,93
Asphalt emulsion	132,29	129,52	126,09	127,47	121,31
G.L.P.	173,43	172,40	169,04	149,19	138,56

(Continues)

National Products/ Plant Price	Resolutions of ARESEP (¢/LT. Without tax)				
	RIE-131	RIE-119	RIE-109	RIE-105	RIE-095
Av-Gas	634,75	646,38	633,74	653,12	644,23
Jet A-1	351,00	366,58	355,82	372,88	241,49
Heavy Naphta	272,12	275,29	253,65	270,66	238,62

RIE-131-2017, Supplement No.309 of December 21, 2017. It includes K margin differentiated by type of product.

RIE-119-2017, Supplement No.282, November 24, 2017. It includes K margin differentiated by type of product.

RIE-109-2017, Supplement No.261, October 31, 2017. It includes K margin differentiated by type of product.

RIE-105-2017, Supplement No.232, September 27, 2017. It includes K margin differentiated by type of product.

RIE-095-2017, Supplement No.210, August 30, 2017. It includes K margin differentiated by type of product.

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

- x. **Expense Recognition** - Expenses are recognized on the accrual basis, as goods or services acquired are received or as accounting amortizations and reserves are registered, such as depreciation, asset impairment and provisions for losses.
- y. **Asset Impairment** - As of yearend, RECOPE evaluates the registered value of its assets to determine if there is any indication that such assets have suffered any impairment loss. When there exists such indication, the recoverable amount of the assets is estimated, in order to determine the amount of the loss, if any.
- z. **Use of Estimates** - The financial statements are prepared according to the International Financial Reporting Standards, and consequently, they include amounts that are based on management's best estimate and judgment. The actual results could differ from such estimates. Estimates made by management include the useful life of property, plant, vehicles, and equipment, as well as the determination of provisions.

- aa. **Financial Instruments** - All financial assets and liabilities are initially recorded at fair value. After the initial registration, the financial assets are registered at such value because they consist mainly of cash and cash equivalents, held-to-maturity investments, accounts receivable, and notes receivable. Financial liabilities consist basically of accounts payable and debt, which are valued at the originally registered amount less the payments made or at amortized cost, as applicable. As of December 31, 2016 and 2015. RECOPE has not entered into any agreement whatsoever that involves derivative financial instruments, such as futures, option, and financial swaps.
- bb. **Adoption of New and Revised International Financial Reporting Standards (IFRS)** -

Amendments to IFRS and the New Interpretations that are Mandatorily in Effect This Year - In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

- **IFRS 14 - Regulatory Deferral Accounts** - IFRS 14 specifies the reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The standard is applicable only to first-time adopters of IFRS that have recognized their regulatory deferral account balances according to previous generally accounting principles, with limited changes, and it requires a separate presentation of regulatory deferral accounts in the statement of financial position and the statement of profit or loss and other comprehensive income. It also requires disclosures to identify the nature of, and the risks associated with, the rate regulation, which have resulted in the recognition of regulatory deferral account balances.
- **Amendments to IAS 1 - Disclosure Initiative** - The amendments to IAS 1 give some answer to the comments regarding the difficulties that will emerge on the application of the concept of materiality in practice.

The application of these amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Company.

- **Amendments to IFRS 11 - Accounting for Acquisitions of Interests in joint Operations** - The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for joint operation.

The application of these amendments has had no impact on the Company's financial statements.

- *Amendments to IAS 16 and IAS 38 - Clarification on Acceptable Methods of Depreciation and Amortization* - The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:
 - When the intangible asset is expressed as a measure of revenue; or
 - When it can be demonstrated that revenue and consumption of the economic benefits of the Intangible asset are highly correlated.

Amendments are retrospectively applied in the annual periods that begin on January 1, 2016. The entity currently uses the straight-line method for depreciation and amortization of property, plant, and equipment, and intangible assets, respectively. The Company's management considers that it is the most appropriate element to show consumption of the economic benefits inherent in the respective assets. Therefore, the Company's management does not estimate that the application of these amendments to IAS 16 and IAS 38 have important effects on the Company's financial statements.

- *Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants* - The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment. In accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments has had no impact on the Company's financial statements as the Company is not engaged in agricultural activities.

- *Amendments to IFRS 10 and IAS 28 - 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.

Amendments must be prospectively applied to the transactions that occur in annual periods starting on or after January 1, 2016.

The application of these amendments to IFRS 10 and IAS 28 may not have had an impact on the Company's financial statements.

- *Amendments to IAS 27 - Separate Financial Statements* - The amendments reinstate the equity method (as described in IAS 28, Investments in Associates and Joint Ventures) as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendment continues to allow an entity to account for such investments in separate financial statements, at cost or in accordance with IFRS 9, Financial Instruments (or IAS 39, Financial Instruments: Recognition and Measurement, for entities that have not yet adopted IFRS 9). The elected option to account for must be applied for each category of investments. Finally, amendments will be applied retroactively, in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
- *Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities* - Applying the Consolidation Exception - The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing the consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.
- The application of these amendments to IFRS 10, IFRS 12, and IAS 28 did not have a material impact on the Company's financial statements since it is not an investment entity and does not have any controlling entity, subsidiary, associate, or joint venture that qualifies as investment entity.
- *Annual Improvements to IFRSs 2012-2014 Cycle* - The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 5 introduce specific guidance in IFRS 5 as to when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance as to when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Company's financial statements.

New and Revised IFRSs in Issue but not yet Effective - The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Standard or Interpretation	Effective as of
IFRS 9 - <i>Financial Instruments</i>	Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
IFRS 15 - <i>Revenue from Contracts with Customers (and the related Clarifications)</i>	Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
IFRS 16 - <i>Leases</i>	Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
Amendments to IAS 12 - <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
Amendments to IAS 7 - <i>Cash Flows Statements</i>	Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
Amendments to IFRS 2 - <i>Classification and Measurement of Share-based Payment Transactions</i>	Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

- *IFRS 9 - Financial Instruments* - IFRS 9 - Issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and In November 2013 to include the new requirements for general hedge

accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount Outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- 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 an entity 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. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, 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 overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Company’s management anticipates that the application of IFRS 9 may have a significant impact on the reported amounts regarding the Company’s financial assets and liabilities. However, it is not feasible to provide a fair estimate of such effect until a detailed review has been completed.

- *IFRS 15 - Revenue from Contracts with Customers* - IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Step 2 - Identify the performance obligations in the contract;

Step 3 - Determine the transaction price;

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

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

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Likewise, IFRS 15 includes guidelines to overcome specific situations. Moreover, the number of required disclosures is increased.

The Company's management estimates that the application of IFRS 15 in the future could have a significant effect on the reported amounts and disclosures made on the Company's financial statements. However, it is not practicable to provide a fair estimate of such effect until the entity has made a detailed review.

- *IFRS 16 - Leases* - Leases IFRS 16 was issued in January 2016 and supersedes IAS 17 "Leases" as well as the related interpretations. This new standard provides a model for the identification of most lease arrangements in the statement of financial position for lessees under one single accounting model for all models, eliminating the distinction between operating and finance leases. However, accounting for lessors remains with the distinction between both lease classifications. IFRS 16 is effective for the periods starting on January 1, 2019, with earlier application permitted for entities that have also adopted IFRS 15, Revenue from Contracts with Customers.

Under IFRS 16, lessees will recognize the right-of-use asset and the related lease liability. The "right of use" is treated as any other non-financial assets, with the corresponding depreciation, while liability bears interest. This usually results on a front-loaded expense profile (contrary to operating leases under IAS 17, where lease expenses are recognized on a straight-line basis) because straight-line depreciation leads to an overall front-loading of the expense throughout time.

Also, financial liability will be measured at present value of the minimum payments payable during the term of the lease, discounted at the interest rate implicit in the lease, provided it can be determined. If such rate cannot be determined, the lessee should use an incremental borrowing rate.

Nevertheless, a lessee can elect to account for lease payments as expense on the straight-line basis within the term of the lease, for contracts ending in 12 months or less, which do not contain purchase options (this election is made by class of asset), and for those contracts where underlying assets show a value that, when new, is not considered significant, for example, minor office equipment or personal computers (this election could be made on an individual basis for each lease agreement).

IFRS 16 provides different transition option, including full retrospective application or the cumulative catch-up approach, where amounts are not restated.

The entity is in the process of determining the potential impacts that will derive in the financial statements for the adoption of this standard, although due to the nature of its operation, a significant impact would not be expected.

- *Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses (to Clarify the Recognition of Deferred Tax Assets for Unrealized Losses Related to Debt Instruments Measured at Fair Value)* - IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities must apply the amendments for annual periods starting on January 1, 2017. Earlier application is accepted.

The Company-s management does not expect significant impact as a result of these amendments.

- *Amendments to IAS 7 - Disclosure Initiative* - Amendments to IAS 7, within the disclosure initiative (Amendments to IAS 7) are established with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities,

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Entities have to apply the amendments for annual periods starting on January 1, 2017. Earlier application is allowed.

The Company’s management expects some impact as a result of these amendments.

- *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions* - Share-based Payment clarify the classification and measurement of share-based payment transactions. The amendments contain clarifications and measurements addressed to the accounting for cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. These amendments are applicable for annual periods starting on January 1, 2018. Earlier application is allowed. Amendments are to be applied prospectively.

The Company’s managements expects some impact as a result of these amendments.

2. CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash on hand and due from banks	US\$ 89,782,664	US\$54,926,785
Cash equivalents:		
Certificate of deposit, in colones, with maturity on January 17, 2017 and annual yield of 1.84% per annum (January 15, 2016 and annual yield of 3.21% per annum)	<u>87,733,151</u>	<u>17,989,494</u>
Total	<u>US\$177,515,815</u>	<u>US\$72,916,279</u>

3. ACCOUNTS RECEIVABLE

A detail of accounts receivable is the following:

	Note	2017	2016
Short term:			
Prepaid taxes		US\$ 3,046,253	US\$ 3,526,668
Clients		690,469	707,896
Employees		126,281	106,120
Government	15	5,501,130	5,612,526
Autonomous institutions	15	1,251,190	2,034,725
Others		<u>641</u>	<u>399,693</u>
Subtotal		<u>10,615,964</u>	<u>12,387,628</u>
Long term:			
Related parties	15	3,852,728	5,438,261
Others		<u>18,398</u>	<u>128,277</u>
Subtotal		3,871,126	5,566,538
Allowance for doubtful accounts		<u>(587,094)</u>	<u>(670,839)</u>
Subtotal		<u>3,284,032</u>	<u>4,895,699</u>
Total		<u>US\$13,899,996</u>	<u>US\$17,283,327</u>

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

	2017	2016
Initial balance	US\$670,838	US\$695,510
Decrease	(67,230)	(1,387)
Foreign currency translation adjustment	<u>(16,514)</u>	<u>(23,284)</u>
Final balance	<u>US\$587,094</u>	<u>US\$670,839</u>

4. INVENTORIES

The inventory account is broken down as follows:

	2017	2016
Raw materials	US\$ 4,955,690	US\$ 3,881,755
Finished product	270,995,520	147,104,268
Semi-finished product	8,362,570	8,330,753
Inventory in transit	38,234,945	42,545,955
Material inventory	<u>6,322,172</u>	<u>6,535,787</u>
Subtotal	328,870,897	208,398,518
Allowance for obsolete inventory	<u>(202,360)</u>	<u>(281,798)</u>
Total	<u>US\$328,668,537</u>	<u>US\$208,116,720</u>

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

	2017	2016
Initial balance	US\$281,798	US\$356,908
Decreases	(72,501)	(11,950)
Foreign currency translation adjustment	<u>(6,937)</u>	<u>(63,160)</u>
Final balance	<u>US\$202,360</u>	<u>US\$281,798</u>

5. PREPAID EXPENSES

Prepaid expenses are detailed as follows:

	2017	2016
Insurance	US\$ 921,481	US\$ 795,508
Others	<u>106,804</u>	<u>573,811</u>
Total	<u>US\$1,028,285</u>	<u>US\$1,369,319</u>

6. PROPERTY, PLANT, VEHICLES AND EQUIPMENT

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 due to Technical Appraisal	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	(3,820,636)	(37,402)	397,449			93,128	(3,367,461)
Total accumulated depreciation of revaluated assets	(34,639,133)	(21,845,298)	3,025,190			901,281	(52,557,960)
Total depreciation	(171,639,173)	(50,984,432)	8,341,274	144,610		4,335,004	(209,802,717)
Total	US\$1,200,723,375	US\$ 3,147,125	US\$ (560,449)	US\$ 801,190	US\$(2,249,286)	US\$(29,558,118)	US\$1,170,701,458

As of December 31, 2016, the assets that were included at the facilities, and which belong to the refinement process, were transferred to idle assets since they are not being used (Note 8).

The detail of property, plant, vehicles and equipment as of December 31, 2016 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Adjustments and Reclassifications due to Technical Appraisal	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 11,123,404					US\$ (372,394)	US\$ 10,751,010
Moín Port complex	18,444,889		US\$ (13,557)	US\$ 654,403		(628,915)	18,456,820
Facilities	349,902,866		(37,975)	60,258,277	US\$(26,646,409)	(12,311,895)	371,164,863
Building	59,056,110		(20)	6,076,036		(2,085,274)	63,046,852
Heavy machinery and equipment	31,201,971	US\$ 3,205,910	(8,750)	5,203,707		(1,194,148)	38,408,690
Furniture and equipment	56,157,121	3,304,366	(238,906)	5,670,905		(2,035,580)	62,857,906
Vehicles	15,582,701	2,919,050	(1,998)			(573,615)	17,926,138
Works in progress	<u>279,734,606</u>	<u>57,341,121</u>	<u>(215,149)</u>	<u>(77,863,328)</u>	<u>(16,038,833)</u>	<u>(8,710,383)</u>	<u>234,248,034</u>
Total at cost	<u>821,203,668</u>	<u>66,770,447</u>	<u>(516,356)</u>		<u>(42,685,243)</u>	<u>(27,912,203)</u>	<u>816,860,313</u>
Revaluated fixed assets:							
Properties	156,530,813					(5,240,409)	151,290,405
Moín Port complex	24,869,777					(832,602)	24,037,176
Facilities	308,200,587				(8,436,983)	(10,167,880)	289,595,723
Building	59,274,044		(7,888)			(1,984,263)	57,281,894
Plant machinery and equipment	23,265,758		(328,147)			(773,060)	22,164,551
Furniture and equipment	7,490,906		(64,958)			(249,628)	7,176,320
Vehicles	<u>4,093,964</u>		<u>(751)</u>			<u>(137,046)</u>	<u>3,956,167</u>
Revaluated total	<u>583,725,849</u>		<u>(401,744)</u>		<u>(8,436,983)</u>	<u>(19,384,887)</u>	<u>555,502,236</u>
Subtotal fixed assets	<u>1,404,929,517</u>	<u>66,770,447</u>	<u>(918,100)</u>		<u>(51,122,226)</u>	<u>(47,297,089)</u>	<u>1,372,362,549</u>
Depreciation at cost:							
Moín Port complex	(2,910,185)	(508,019)	1,963			106,437	(3,309,804)
Facilities	(77,629,208)	(13,641,803)	4,283		15,394,282	2,567,631	(73,304,815)
Building	(9,069,401)	(1,959,874)	12			338,519	(10,690,744)
Plant machinery and equipment	(7,819,613)	(1,653,104)	1,436			291,192	(9,180,089)
Furniture and equipment	(24,972,960)	(5,203,255)	197,466			925,170	(29,053,579)
Vehicles	(9,450,530)	(1,412,468)	786			341,520	(10,520,691)
Works in progress	<u>(264,485)</u>	<u>(697,099)</u>				<u>21,264</u>	<u>(940,319)</u>
Total accumulated depreciation of assets at cost	<u>(132,116,382)</u>	<u>(25,075,622)</u>	<u>205,947</u>		<u>15,394,282</u>	<u>4,591,734</u>	<u>(137,000,040)</u>
Revaluated depreciation:							
Moín Port complex	(83,860)	(990,266)				20,436	(1,053,690)
Facilities	(1,524,631)	(18,003,565)			1,274,060	348,865	(17,905,271)
Building	(276,896)	(3,269,605)	257			67,472	(3,478,773)
Plant machinery and equipment	(136,716)	(1,554,812)	17,745			31,940	(1,641,843)
Furniture and equipment	(6,891,842)	(140,953)	61,735			232,138	(6,738,920)
Vehicles	<u>(3,876,929)</u>	<u>(75,580)</u>	<u>749</u>			<u>131,126</u>	<u>(3,820,636)</u>
Total accumulated depreciation of revaluated assets	<u>(12,790,874)</u>	<u>(24,034,780)</u>	<u>80,486</u>		<u>1,274,060</u>	<u>831,977</u>	<u>(34,639,133)</u>
Total depreciation	<u>(144,907,256)</u>	<u>(49,110,402)</u>	<u>286,433</u>		<u>16,668,342</u>	<u>5,423,712</u>	<u>(171,639,173)</u>
Total	<u>US\$1,260,022,261</u>	<u>US\$ 17,660,044</u>	<u>US\$(631,668)</u>	<u>US\$</u>	<u>US\$(34,453,884)</u>	<u>US\$(41,873,378)</u>	<u>US\$1,200,723,375</u>

During 2015, RECOPE conducted a technical appraisal that was performed by an independent qualified expert, which resulted in adjustments for US\$68,135,431 due to changes in the estimated useful lives that were registered in the retained earnings, and net increases of US\$577,106,403 in property, plant, and equipment, of US\$398,397,645 in surplus from revaluation, and of US\$110,708,073 in deferred income tax.

As of December 31, 2016, the financial statements include fixed assets at cost for the original sum of US\$14,554,310, which are totally depreciated.

7. INVESTMENTS IN JOINT VENTURE

Investment in joint venture corresponds to a participation of 50% that RECOPE has in the stockholders' equity of Soresco, S.A. (Note 21.4).

The movement of year in the investment is the following:

	Note	2017	2016
Initial balance		US\$44,274,910	US\$45,514,378
Effect from participation		344,576	284,283
Foreign currency translation adjustment		<u>(1,089,957)</u>	<u>(1,523,751)</u>
Final balance	15	<u>US\$43,529,529</u>	<u>US\$44,274,910</u>

A detail of assets, liabilities, and results of Soresco, S.A. as of December 31, 2017 and 2016 is the following:

	2017 (Not Audited)	2016 (Not Audited)
Assets:		
Currents	US\$ 36,098,235	US\$ 36,572,024
Non currents	<u>65,480,141</u>	<u>63,882,289</u>
Total assets	<u>US\$101,578,376</u>	<u>US\$100,454,313</u>
Liabilities:		
Currents	<u>US\$ 4,041,565</u>	<u>US\$ 3,609,652</u>
Total liabilities	<u>US\$ 4,041,565</u>	<u>US\$ 3,609,652</u>
Stockholders' equity:		
Capital stock	US\$ 10,000	US\$ 10,000
Additional paid-in capital	100,000,000	100,000,000
Accumulated losses	<u>(2,473,188)</u>	<u>(3,165,339)</u>
Total stockholders' equity	<u>US\$ 97,536,812</u>	<u>US\$ 96,844,661</u>
Expenses:		
Operating expenses	US\$ 93,817	US\$ (576,012)
Net financial income	<u>(785,968)</u>	<u> </u>
(Loss) profit	<u>US\$ (692,151)</u>	<u>US\$ (576,012)</u>

As of December 31, 2017 and 2016, the additional paid-in capital by RECOPE is US\$50,000,000 for both years.

8. OTHER ASSETS

Other assets are broken down as follows:

	2017	2016
Software licenses	US\$ 16,428,202	US\$ 16,062,558
Service stations	6,317,059	6,476,497
Security deposits	2,003,049	2,534,859
Idle assets	21,912,496	20,936,354
Others	<u>1,052,056</u>	<u>1,268,921</u>
Subtotal	47,712,862	47,279,189
Accumulated amortization of software	<u>(14,285,814)</u>	<u>(13,847,913)</u>
Total	<u>US\$ 33,427,048</u>	<u>US\$ 33,431,276</u>

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

Idle assets correspond to properties that RECOPE is not using and had been transferred from property, plant, and equipment (Note 6). As of December 31, 2016, a total amount of US\$35,083,393 was reclassified, corresponding to assets that belong to the refining process, and which include an accumulated depreciation of US\$16,668,342.

The movement of idle assets is as follow:

	2017	2016
Initial balance	US\$20,936,354	US\$ 2,603,090
Increases	3,855,242	333,190
Reclassification		34,458,830
Accumulated depreciation	(2,363,690)	(16,371,608)
Foreign currency translation adjustment	<u>(515,409)</u>	<u>(87,148)</u>
Final balance	<u>US\$21,912,497</u>	<u>US\$ 20,936,354</u>

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

	2017	2016
Initial balance	US\$13,847,913	US\$12,955,365
Increases	778,808	1,326,274
Foreign currency translation adjustment	<u>(340,907)</u>	<u>(433,726)</u>
Final balance	<u>US\$14,285,814</u>	<u>US\$13,847,913</u>

	Notes	2017	2016
Corporación Andina de Fomento, in dollars, annual interest rate of 5.5% on 2016 and 2.85% on 2015 (Libor rate at six months plus 2%) maturity in 2018, guarantee of the government of Costa Rica	21.1	US\$ 2,000,360	US\$ 4,000,000
BNP Paribas, in dollars, interest rate of, Libor rate at six months plus 2.75%. Maturity on 2025, guarantee of the government of Costa Rica	21.3	<u>14,187,212</u>	<u>7,623,494</u>
Subtotal		26,901,858	26,623,494
Less: Current portion of the long-term debt		<u>(8,051,926)</u>	<u>(6,285,714)</u>
Total		<u>US\$18,849,932</u>	<u>US\$20,337,780</u>

Scheduled maturities of long term debt as of December 31, 2017 and 2016 are the following:

Year	2017	2016
2016		
2017	US\$ 8,051,926	US\$ 6,285,714
2018	5,925,643	6,075,264
2019	5,925,643	6,075,264
2020	5,925,643	6,075,264
2021 and on	<u>1,073,005</u>	<u>2,111,988</u>
Total	<u>US\$26,901,860</u>	<u>US\$26,623,494</u>

LONG-TERM BONDS PAYABLE

Long-term bonds payable as of December 31, 2017 and 2016 are described below:

	2017	2016
Series A1 bonds payable	US\$ 50,000,000	US\$ 50,000,000
Premium in placement	497,670	535,666
Series A2 bonds payable	50,000,000	50,000,000
Premium in placement	96,470	99,474
Series A4 bonds payable	40,000,000	40,000,000
Discount in placement	(63,075)	(64,950)
Series A5 bonds payable	35,057,582	35,942,779
Premium in placement	796,805	816,924
Series A6 bonds payable	9,933,566	10,184,386
Premium in placement	<u>2,831</u>	<u>2,904</u>
Total	<u>US\$186,321,849</u>	<u>US\$187,517,183</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	\$50,000,000	(1)	12/05/2012	12/05/2022	10 years	\$1,000	\$1,000	Fixed	5.98%	(2)	5.299%
Standardized Bonds	CRRECOB0020	Series A2 (3)	\$50,000,000	(1)	04/03/2013	04/03/2028	15 years	\$1,000	\$1,000	Fixed	6.36%	(2)	5.83%
Standardized Bonds	CRRECOB0046	Series A4 (3)	\$40,000,000	(1)	07/02/2014	07/02/2029	15 years	\$1,000	\$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(slv) FITCH El Salvador, AAA Pacific Credit Rating El Salvador.
- (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 US\$4,020,000,000 and made on August 25, 2015, complementing the first placement for ¢12.000.000.000 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.

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 FITCH COSTA RICA, S.A.

Risk rating AAA (slv) with a stable perspective 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 March 24, 2015, RECOPE placed bonds for US\$35,9 million in an auction made at the National Stock Exchange. The result of the auction is a security at 10 years and a net yield of 10.99% per annum. This issue is part of a plan to place bonds for a total amount of US\$200 million.

On June 14, 2016, RECOPE placed bonds for US\$10,1 million in an auction made at the National Stock Exchange. The result of the auction is a security at 10 years and a net yield of 9.15% per annum. This issue is part of a plan to place bonds for a total amount of US\$200 million.

13. 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 (2014-2015), they were timely filed in accordance with the current regulations.

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

In addition to and based on the ruling of the Administrative Tax Court No.TFA-504-2011, which was ratified by the Contentious-Administrative Court and the Civil Treasury Court, Ruling No.125-2012-VI of July 27, 2012 indicates that for the purposes of RECOPE being able to deduct the Investment Reserves established in article No.2 of Law 7722, these must comply with a series of requirements (Note 18).

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

	2017	2016
Gain (Loss) before income tax	US\$ 52,305,131	US\$(15,869,638)
Plus: Nondeductible expenses	3,458,569	26,440,322
Less: Other non-deductible	(44,351,529)	(41,016,383)
Less: Translation adjustment	(102,465)	(282,546)
Less: Nontaxable income	<u>(1,917,621)</u>	<u>(4,672,061)</u>
Taxable gain (loss)	<u>US\$ 9,392,085</u>	<u>US\$(35,400,306)</u>

(Continues)

	2017	2016
Current income tax (30% on taxable gain)	<u>US\$ 9,392,085</u>	<u>US\$</u>
Deferred tax	<u>US\$ 1,597,552</u>	<u>US\$ 5,027,924</u>
Income tax of the period	<u>US\$ 1,597,552</u>	<u>US\$ 5,027,924</u>

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

	2017	2016
Balance at the beginning	US\$14,565,437	US\$14,675,629
Translation adjustment	(1,870,661)	381,158
Severance benefit accrual	<u>(358,716)</u>	<u>(491,350)</u>
Balance at the end	<u>US\$12,336,060</u>	<u>US\$14,565,437</u>

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

	2017	2016
Balance at the beginning:	US\$(132,300,921)	US\$(141,268,661)
Effect from technical appraisal recognized in other comprehensive income		
Effect from differences in depreciation rates and recognized in the equity		
Exchange rate differences in depreciation rates and recognized in results	(3,411,735)	(2,610,723)
Yearly effect from technical appraisal recognized in profit and loss	6,875,804	7,167,972
Translation adjustment	<u>3,258,300</u>	<u>4,410,491</u>
Deferred income tax liability of the year	<u>US\$(125,578,552)</u>	<u>US\$(132,300,921)</u>
Deferred income tax of the year - net	<u>US\$(113,242,493)</u>	<u>US\$(117,735,484)</u>

14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related parties are broken down as follows:

	Notes	2017	2016
Investment in joint venture:			
Soresco, S.A.	7	<u>US\$43,529,529</u>	<u>US\$44,274,910</u>
Account receivable:			
Ministry of Financing	3	US\$ 5,501,130	US\$ 5,612,526
JAPDEVA	3	<u>1,251,190</u>	<u>2,034,725</u>
		<u>US\$ 6,752,320</u>	<u>US\$ 7,647,251</u>

(Continues)

	Notes	2017	2016
Account receivable - long term:			
JAPDEVA		US\$ 3,318,453	US\$ 4,890,501
National Concession Board		<u>534,275</u>	<u>547,759</u>
Total	3	<u>US\$ 3,852,728</u>	<u>US\$ 5,438,260</u>
Accounts payable:			
Ministry of Financing	9	<u>US\$81,621,471</u>	<u>US\$38,405,301</u>
Total		<u>US\$81,621,471</u>	<u>US\$38,405,301</u>

The account receivable from JAPDEVA corresponds to a payment for using a tow truck, which generates an interest equal to the basic borrowing rate set by the Central Bank of Costa Rica (6.5% on 2016). 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:

	2017	2016
Sales:		
Costa Rican Institute of Electricity	US\$1,953,771	US\$14,146,373
To the Ministries of the Government of Costa Rica	<u>909,008</u>	<u>2,291,615</u>
Total	<u>US\$2,862,779</u>	<u>US\$16,437,988</u>
Cost of sales:		
Costa Rican Institute of Electricity	US\$1,736,134	US\$12,817,147
To the Ministries of the government of Costa Rica	<u>807,750</u>	<u>2,076,289</u>
Total	<u>US\$2,543,884</u>	<u>US\$14,893,436</u>
Expenses:		
Seating fees to the Board of Directors	US\$ 19,703	US\$ 21,751
Salaries to directors and managers	<u>1,268,461</u>	<u>1,270,919</u>
Total	<u>US\$1,288,164</u>	<u>US\$ 1,292,670</u>

15. 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.

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

16. SURPLUS FROM DONATION

As of December 31, 2016 and 2015 surplus from donation is broken down as follows:

	2017	2016
Surplus donated by Allied Chemical Corp.	US\$ 3,223,159	US\$ 3,223,159
PetroCanada donation	25,544,828	25,544,836
AID donation (carbon exploration)	370,098	370,105
Debit remission - Government of The Netherlands	4,550,828	4,550,821
Castella pipe duct	<u>1,119,403</u>	<u>1,119,395</u>
Total	<u>US\$34,808,316</u>	<u>US\$34,808,316</u>

17. 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:

	2017	2016
Initial balance	US\$ 50,795,842	
Increases		US\$ 29,753,433
Decreases	<u>(37,258,910)</u>	<u>(29,753,433)</u>
Final balance	<u>US\$ 13,536,932</u>	<u>US\$</u>

18. OPERATING EXPENSES

Expenses by nature are detailed as follows:

	2017	2016
Personal services	US\$ 81,102,764	US\$ 83,767,563
Non personal services	39,612,727	38,773,150
Materials and supplies	11,028,298	11,079,302

(Continues)

	2017	2016
Depreciations and amortizations	US\$ 50,933,370	US\$ 50,436,771
Applied expenses	(969,723)	(963,895)
Ordinary transfers	<u>10,034,102</u>	<u>8,618,980</u>
Total	<u>US\$191,741,538</u>	<u>US\$191,711,871</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.

19. FINANCIAL INSTRUMENTS

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

19.1 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.

19.2 FINANCIAL INSTRUMENTS - CATEGORIES

Financial instruments are categorized as follows:

	2017	2016
Financial assets:		
Cash	US\$ 89,782,664	US\$ 54,926,785
At amortized cost:		
Cash equivalents - held to maturity	87,733,151	17,989,494
Accounts receivable	10,840,103	13,673,477
Other assets	<u>2,003,049</u>	<u>2,534,859</u>
Total assets	<u>US\$190,358,967</u>	<u>US\$ 89,124,615</u>
Financial liabilities:		
At amortized cost	<u>US\$527,999,975</u>	<u>US\$353,974,622</u>
Total liabilities	<u>US\$527,999,975</u>	<u>US\$353,974,622</u>

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

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

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

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

	2017	2016
Assets:		
Cash and cash equivalents	US\$ 56,314,878	US\$ 15,780,805
Accounts receivable	<u>5,234,799</u>	<u>8,847,819</u>
Total assets	<u>61,549,677</u>	<u>24,628,623</u>
Liabilities:		
Accounts payable	(242,771,918)	(72,424,192)
Debt	<u>(167,432,923)</u>	<u>(184,734,877)</u>
Total liabilities	<u>(410,204,841)</u>	<u>(257,159,068)</u>
Net exposure	<u>US\$(348,655,164)</u>	<u>US\$(232,530,445)</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\$(348,655,164)</u>
Closing exchange rate	<u>¢ 570,49</u>
Exchange rate variation of 2%	<u>11,41</u>
Loss / Profits	<u>¢ (3.978.085.691)</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, 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		11,494,494	US\$3,425,723	US\$4,143,988	4,758	19,068,963
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		US\$292,214,994	22,561,274		314,776,268
Total		<u>US\$292,214,994</u>	<u>US\$30,613,200</u>	<u>US\$205,171,781</u>	<u>US\$527,999,975</u>

Expected recovery of financial assets as of December 31, 2016 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\$66,655,250			US\$4,850,603	US\$71,505,853
Non-interest rate bearing instruments		8,712,707	US\$5,127,201	US\$3,733,758	45,096	17,618,762
Total		<u>US\$75,367,957</u>	<u>US\$5,127,201</u>	<u>US\$3,733,758</u>	<u>US\$4,895,699</u>	<u>US\$89,124,615</u>

Scheduled payments of financial liabilities as of December 31, 2016 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\$ 17,424,239	US\$ 6,285,713	US\$207,854,963	US\$231,564,915
Non-interest rate bearing obligations		110,756,605	11,653,102		122,409,707
Total		<u>US\$128,180,844</u>	<u>US\$17,938,816</u>	<u>US\$207,854,963</u>	<u>US\$353,974,622</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 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, 2017. 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\$26,901,859</u>	<u>US\$(269,019)</u>	<u>US\$(538,037)</u>
Decrease	<u>US\$26,901,859</u>	<u>US\$ 269,019</u>	<u>US\$ 538,037</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.

19.3 LEVERAGE RISK MANAGEMENT

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

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

	2017	2016
Notes payable and bank debt	US\$ 213,223,707	US\$ 231,681,869
Cash and cash equivalents	<u>(177,515,815)</u>	<u>(72,916,279)</u>
Net debt	<u>US\$ 35,707,892</u>	<u>US\$ 158,765,590</u>
Stockholders' equity	<u>US\$1,070,061,077</u>	<u>US\$1,043,343,140</u>
Leverage index	<u>3.34%</u>	<u>15.25%</u>

19.4 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

- a. ***Cash, Cash Equivalents*** - Book value of these assets is approximate to their fair value due to their current nature.
- b. ***Accounts Receivable, Accounts and Notes Receivable on the Long Term, and Accounts Payable*** - Book value of these financial assets and liabilities at less than one year is approximate to their fair value due to their short term nature.
- c. ***Notes Payable and Long Term Debt*** - Rates of the loan are agreed at market value, and they are adjustable so that they can remain always at fair value; therefore, their market value is approximate to their reasonable value.

20. AGREEMENTS

20.1 LOAN AGREEMENT WITH CORPORACION ANDINA DE FOMENTO (CAF)

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

Amount - US\$20 million.

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

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

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

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

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

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

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

Obligations - Clause 6-01:

- a. Apply resources received only for the purpose of the loan.
- b. Maintain in force all the permissions or records that State authorities shall grant or do to achieve the legality or the execution of the Loan Agreement.
- c. Inform CAF at the earliest time about any amendments to the information in Clause 4.01 (Customer Statements), about ongoing trials, litigation, claims or any other relevant situation that may adversely affect the ability to comply with the Loan Agreement.
- d. Keep an insurance program for main, existing, or future assets in accordance with the replacement value. Every year, CAF shall be provided the supporting documentation of the insurance programs' validity issued by the insurance companies.
- e. Keep updated the contract with a suitable auditing company.
- f. Verify that disbursed resources are aimed to activities that additionally to Clause 2.01 (Purpose of the Loan) are in harmony with the environment, social actions, and comply with any applicable ecological, environmental protection and social action laws.

- g. At CAF's request, provide any information that may be requested by the institutions that may eventually provide total or partial resources to finance the Loan.
- h. Keep updated books and records related to the use of the loan in accordance with the International Accounting Standards.
- i. Authorize CAF officials to review any books, records, and documents in relation to the Loan.
- j. Provide CAF related documentation and reports as follows:
 - A) A copy of the non-audited financial statements within thirty (30) days following each calendar quarter.
 - B) A copy of audited finance statements within one hundred-eighty (180) days following the yearly closing while the obligations arising under the Loan Agreement remain.
 - C) Any other reports that CAF shall consider appropriate regarding loan use.
 - At CAF's request, information about the topics discussed by the Board of Director and any other administrative bodies including any reports and memos that CAF shall consider directly or indirectly related to the Loan; exceptionally, CAF may request that the reports described in subparagraph (A) shall include the opinion of external auditors. The financial statements should have the following information: balance sheet, profit and loss statement, retained earnings statements, cash flow and notes expressed both in "colones" and US Dollars adjusted for exchange rate devaluation or exchange effect, RECOPE shall notify the auditors to provide directly to CAF all the information that it reasonably requires in relation to the Loan, Any costs arising from the preparation of the aforementioned documents and reports mentioned shall be covered by RECOPE.
- k. Maintain a tangible net worth value not less than US\$150 million.
- l. Maintain an EBITDA relationship to debt service not less than 2 to 1.
- m. Maintain a liquidity ratio to the previous closure not less than 1.2 to 1.0.
- n. The Finance and Administration Manager shall provide a certification stating that there is not or has not been any breach of the terms and conditions of Clause 7.01 and that RECOPE is in compliance with the obligations set forth in Clause 6.01, paragraphs (k), (l), and (m).
- o. On a no objection basis by CAF, RECOPE shall only incur new debts if it meets the financial obligations set forth in Clause 6.01, paragraphs (k), (l), (m), (n).

Clause 6.02 - Restricted Actions - RECOPE shall send CAF a written notification in order to exercise its right to the following actions: Take or authorize liens or encumbrances or any other charges on assets or property except for those stated in Annex F of the Agreement.

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

20.2 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.

20.3 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 -

- Commitment Fee** - 1.10% per year on undrawn balance, starting on the date the loan agreement is signed and payable biannually.
- Structure Fee** - 1.0% flat on the loan full amount, payable at once upon signing the loan agreement.
- Agency Fee** - 0.645% flat on the loan full amount, payable to the Agent at once upon signing the loan agreement.
- 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 the Group (RECOPE) prepared pursuant to IFRS.
- “Current Liabilities” means the total amount shown as current liabilities in the balance sheet of the Group 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 Group, 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 the Group 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 the group) by the group 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 the Group.
- “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 Group 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 the Group’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.

20.4 JOINT VENTURE AGREEMENT - RECOPE - CNPCI

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

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

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

a. ***The Project*** - The parties hereby agree to join efforts and resources for the development of the Project whose main objectives are:

- To expand the refinery and its support and auxiliary services up to a capacity of 60,000 barrels of crude processing a day.
- To produce fuels as specify in the Study, to offer significant improvements in product quality in compliance with international standards, to minimize the environmental impact of the process.
- To improve the Refinery's competitiveness and profitability.
- The Parties shall develop the project only if the financial results of the Study show an internal rate of return (IRR) of the project of at least 16%.

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

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

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

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

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

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

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

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

Through Official Letter DFOE-DI-1409 of the Office of the Comptroller General of the Republic, of June 20, 2013; the comptroller body ordered RECOPE to refrain from using the feasibility study conducted by HQCEC and any other study based on the results of the latter because HQCC is a related party of CNPCI (with a 50% interest in Soresco) and the holding company CNPC, and ordered RECOPE to take any relevant corrective actions because it questioned the independence of the feasibility study of the Moín Refinery Expansion and Modernization Project because it lacks the necessary relevance for the decision making process of the parties related to the Project, thus failing to comply with clause 5.02 subparagraph c) of the Joint-Venture Agreement. Moreover, the Board of Directors, through Official Letter JD-245-2013, ratified during ordinary session No.4720-273, Article No.7.3, the statements made by the Office of the Comptroller General of the Republic and ordered the compliance with the provisions set forth by the comptroller body; therefore, the studies needed to continue with the development of the project are being conducted.

As of December 31, 2016, the balance of the investment of the RECOPE-CNPCI joint venture is €24.611 million equal to US\$49.5 million. The balance differs from the capital contributions on the basis of the equity method to show the results of SORESCO in the respective account, and it amounts to US\$50,005,000.

Official communication JD-0092-2016 of April 19, 2016, informed about the agreement reached by the Company's Board of Directors, which is set forth in Article #4, of Ordinary Meeting #4933-139, held on Monday, April 18, 2016:

"(...) 1. Instruct the Chairman of the Board of Directors to complete the procedures to terminate the Joint Venture Agreement entered into between RECOPE and CNPCI, and dissolve and liquidate SORESCO, S.A.

2. Commission the Chairman of the Board to communicate with the Council of the Government of Costa Rica, organized as the Stockholders' Meeting of RECOPE S.A., to request its ratification.

3. Upon ratifying the agreements of the Stockholders' Meeting of RECOPE, authorize the Chairman of the Board so that, pursuant to Article 159 of the Code of Commerce, to convene an Extraordinary Stockholders' Meeting of SORESCO, S.A., to formally communicate to CNPCI the decision made by this collegial body to terminate the Joint Venture Agreement and dissolve and liquidate SORESCO S.A., and discuss with CNPCI about the instrumentalization of such a decision under the terms defined in the Joint Venture Agreement."

Regarding paragraph 2 above, official communication JD-0131-2016 of May 25, 2016, communicated the agreement reached by the Board of Directors of the Company as set forth in Article #6.1 of Ordinary Meeting #4938-144 of May 16, 2016:

"1. Acknowledge the receipt of Certification No.155-16 of the Secretariat of the Council of Government, which notifies the agreement of the Minutes of Ordinary Meeting Ninety-Six of the Council of Government, held on the third of May of two thousand sixteen, through which the Council of Government during the Extraordinary Stockholders' Meeting of Refinadora Costarricense de Petróleo, Sociedad Anónima (RECOPE S. A.), hears the agreements contained in Article No.4 of Ordinary Meeting No.4933-139 of April 18, 2016 and No.05 of Ordinary Session No.4934-140 of April 20, 2016, of this Board of Directors because it endorses the initiative of this Board of Directors and authorizes the implementation of the aforementioned agreements, thus instructing and authorizing the Presidency to take the actions aimed at terminating the Joint Venture Agreement entered into between RECOPE, S.A. and CNPCI, and dissolving and liquidating SORESCO, S.A." (...)

21. EMPLOYEES' LEGAL BENEFITS

As of December 31, 2017, 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 September 30, 2017 and projected as of December 31, 2017.

The timeline for such a calculation was from October 1, 2016 to September 30, 2017, and projected as of December 31, 2017; therefore, the accrued amount was calculated as of September 30, 2016.

The target population of the study includes all active employees, with a cutoff as of the date of the actuarial study of the liabilities (September 30, 2017), with a total number of 1,764 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: 4.50%

Salary increase rate: 2.50%

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.

22. CONTINGENT LIABILITIES

Labor - Until February 2001, severance pay was equal to one month's salary per each year worked; as of March 2011, it is equal to an average of 30 days per each year worked. This compensation is limited to a maximum pay of 20 years, effective upon death or retirement. Severance pay is operational even when an employee resigns voluntarily or if there is just cause for dismissal pursuant to Article 142 of the Collective Bargaining Agreement of RECOPE.

Municipal Permit Tax - The municipal tax returns of the last five fiscal years are made 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 2017, is as follows:

Summary of Judicial Proceedings in Force as of December 31, 2017				
Contingent Passive - Lawsuits filed by RECOPE, S.A.				
Proceeding	Amount	Relevant Matters	Amount	Claimed Amount
Ordinary Contentious				US\$46,543,489
		D.H.L. Aviation	US\$ 2,388,011	
		Consorcio Arco, S.A.	3,003,093	
		Dragados Hidráulicos, S.A.	10,946,389	
		Saret de C.R.	2,016,924	
		Compañía Agropecuaria de Limón, S.A.	5,498,675	
		Alonso Chaves Fernández	3,700,753	
		Instituto Costarricense de Electricidad	9,838,238	
		Instituto Costarricense de Electricidad	1,762,169	
Labor				1,026,524
Interdict				3,506
Collections				340,134
Transit				28,664
Total			<u>US\$39,154,252</u>	<u>US\$47,942,317</u>

Summary of Judicial Proceedings in Force as of December 31, 2016				
Contingent Passive - Lawsuits filed by RECOPE, S.A.				
Proceeding	Amount	Relevant Matters	Amount	Claimed Amount
Ordinary Contentious				US\$46,919,175
		Yunta del Trapiche, S.A.	US\$ 1,617,425	
		D.H.L. Aviation	2,448,308	
		Consorcio Arco, S.A.	2,981,505	
		Dragados Hidráulicos, S.A.	10,946,389	
		Saret de C.R.	2,016,924	
		Compañía Agropecuaria de Limón, S.A.	5,498,675	
		Instituto Costarricense de Electricidad	10,086,652	
		Alonso Chaves Fernández	3,794,196	
Labor				1,052,443
Interdict				3,594
Collections				348,722
Transit				29,388
Total			<u>US\$39,390,074</u>	<u>US\$48,353,322</u>

The amounts of the cases in dollars are updated at the purchase exchange rate for the non-banking public sector as of December 31, 2017, which corresponds to ¢568,44 per each US dollar.

According to the previous information, RECOPE faces a total of 118 lawsuits of which a total of 67 cases are of inestimable amount. Additionally, RECOPE as plaintiff, has filed a total of 100 lawsuits of which 16 are of inestimable amount.

In regard to the potential contingency deriving from the Costa Rican Social Security System (CCSS collection relative to the contribution established in Article 78 of the Worker Protection Act (Law 7983), per the percentages established in Executive Order No.37127-MTSS, published in Official Notice 71 to the official journal La Gaceta No.103 of May 29, 2012, the Company is awaiting for the resolution of the conflicts, which are being studied at judicial and constitutional courts, tending to the definition of the “suitable base for the calculation” of the above mentioned contribution, as indicated in official letter DJU-1573-2014, which is an extremely uncertain situation. In addition to that, through DJU-0960-2015, RECOPE’s Legal Department has indicated that this kind of contributions or taxes is not approved by ARESEP., therefore, they are not recovered through public prices or rates; thus, using the term “tax profit” seems to reflect reality better.

Tax Review for Fiscal Years 2013 and 2014 - On February 18, 2016, the Audit Sub-Directorate of the National Large Taxpayers Directorate sent the Communication to Conduct Tax Review No.1-10-063-16-002-111-03, in order to review income tax returns corresponding to fiscal years 2013 and 2014. The start date of the tax review by the Tax Administration was February 25, 2016.

On August 26, 2016, the Tax Administration of Large Taxpayers of the Tax Administration notified a “Regularization Proposal” through document No.1-10-063-16-029-341-03, which informed the Company about the assessments made in the income tax as a result of the tax review. The total amount assessed was ¢9.827.754.440 (nine thousand eight hundred twenty-seven million seven hundred fifty-four thousand four hundred forty colones), plus the corresponding interest that might be generated until the effective payment date in accordance with article No.40 of the Code of Tax Standards and Procedures.

According to Resolution of the Constitutional Court No.12496-16 at 16 hours and 15 minutes of August 31, 2016, article No.144 of the Code of Tax Standards and Procedures was declared unconstitutional, and it was amended by Law 9069 of September 10, 2012, published in Supplement 143 of La Gaceta 188 of September 28, 2012; therefore, the “validity” of the provisions contained under article No.144 was decided prior to the aforementioned amendment.

Based on the foregoing, on October 13, 2016, the Tax Administration notified Assessment Notice No.1-10-063-16-027-41-03, which will be appealed within a term of (30) business days in accordance with the current regulations that expire on November 25, 2016.

Management is preparing the arguments needed to defend the assessment notice and does not consider that as of December 31, 2016, a provision must be recognized.

Contingencies - As of December 31, 2017, there is an open international arbitration proceeding regarding the joint venture Soresco. As of this date and as of the date of the external auditors’ report, the proceeding is in its initial stages, and there is no certainty of an adverse result for the Company.

23. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements were approved by RECOPE's management on February 19, 2018.

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

FINANCIAL RATIOS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(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.

	2017	2016
Current assets	US\$ 521,193,370	US\$ 303,637,765
Cash and cash equivalents	(177,515,815)	(72,916,279)
Current liabilities (does not include current portion)	<u>(334,487,968)</u>	<u>(163,192,268)</u>
Financial working capital	<u>US\$ 9,189,587</u>	<u>US\$ 67,529,218</u>

This ratio shows that throughout year 2017, the financial work capital decreased in comparison to year 2016 since RECOPE required more financing from petroleum suppliers and financial entities for the purchase of inventories than in year 2016.

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:

	2017	2016
Current assets	US\$521,193,370	US\$303,637,765
Current liabilities	<u>342,539,894</u>	<u>169,477,982</u>
Current assets/ Current liabilities	<u>152%</u>	<u>179.16%</u>

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

3. TOTAL ASSET TURNOVERS

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

	2017	2016
Sales	US\$2,449,081,403	US\$2,118,769,348
Assets	<u>1,772,135,438</u>	<u>1,586,963,025</u>
Sales/assets	<u>1.38</u>	<u>1.34</u>

In 2017, for every dollar invested in assets, RECOPE generated US\$1.38 times in sales, which represents an increase in the indicator obtained in 2016. 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:

	2017	2016
Sales	US\$2,449,081,403	US\$2,157,175,841
Property, plant, vehicles and equipment - net	<u>1,170,701,458</u>	<u>1,200,723,375</u>
Sales/ property, plant, vehicles and equipment - net	<u>2.09</u>	<u>1.80</u>

The result of the turnover in 2017 indicates that for every dollar invested in fixed assets, RECOPE generated 2.09 times in sales, which represents an increase compared to the situation that occurred in 2016.

5. DEBT RATIO

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

	2017	2016
Liabilities	US\$ 702,074,361	US\$ 543,619,885
Assets	<u>1,772,135,438</u>	<u>1,586,963,025</u>
Liabilities / assets	<u>39.62%</u>	<u>34.26%</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 2017, 60.4% of the assets is owned by equity investors (the State) while the percentage for 2016 was of 65.7%.

6. DEBT RATIO (COST)

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

	2017	2016
Long term debt	US\$ 213,223,707	US\$ 214,140,677
Assets	<u>1,772,135,438</u>	<u>1,586,963,025</u>
Long term debt/assets	<u>12.03%</u>	<u>13.49%</u>

In 2017, the long-term debt funded 12.03% of the total asset, and the remaining 87.9% was provided by RECOPE, which shows a 1.46 percentage point decrease 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.

	2017	2016
Net (loss) profit	US\$ 52,305,131	US\$ (15,869,638)
Sales	<u>2,449,081,403</u>	<u>2,157,175,841</u>
Net (loss) profit/ sales	<u>2.14%</u>	<u>(0.74%)</u>

In 2017, this indicator has not deteriorated respect of 2016 due to the increase in the net sale.

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.

	2017	2016
Net (loss) profit	US\$ 52,305,131	US\$ (15,869,638)
Assets	<u>1,772,135,438</u>	<u>1,586,963,025</u>
Net (loss) profit / assets	<u>2.95%</u>	<u>(0.10%)</u>

In 2017, this indicator has not deteriorated respect of 2016 due to the increase in the net sale.

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.

	2017	2016
Net (loss) profit	US\$ 52,305,131	US\$ (15,869,638)
Stockholders' equity	<u>1,070,061,077</u>	<u>1,043,343,140</u>
Net (loss) profit /equity	<u>4.89%</u>	<u>(1.52%)</u>

In 2017, there has been an increase in this ratio when compared to 2016.

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.

	2017	2016
Operating expenses	US\$ (191,741,538)	US\$ (191,711,871)
Sales	<u>2,449,081,403</u>	<u>2,157,175,841</u>
Net (loss) profit/ sales	<u>7.83%</u>	<u>8.89%</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.

	2017	2016
Operating profit	US\$ 81,069,022	US\$10,981,439
Depreciations and amortizations	<u>50,933,370</u>	<u>50,436,771</u>
Total EBITDA	<u>US\$132,002,392</u>	<u>US\$61,418,210</u>
Financial expenses	<u>US\$ 9,958,536</u>	<u>US\$ 4,333,869</u>
EBITDA/financial expenses	<u>13.26</u>	<u>14.17</u>

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

* * * * *

ENGAGEMENT QUALITY ASSURANCE REVIEW

Nombre del cliente Refinería Costarricense de Petróleo Recope

Código del Cliente _____ Código de Compromiso 51014769

¿Se trata de una entidad de interés público? SI No

El riesgo del compromiso es: Normal
 Mayor que el normal
 Mucho mayor que el normal

Tipo de informe del auditor:

Emisión de original

Reemisión del original

Descripción del informe, incluyendo fecha y periodo cubierto por el mismo. Informe de los auditores independientes sobre los estados financieros en dólares al 31 de diciembre de 2017 y 2016, relativo a los estados financieros de *Refinería Costarricense de Petróleo (Recope)* por el periodo del 01 de enero de 2017 al 31 de diciembre de 2017.

Norma de Auditoría aplicada:

IAS	<input checked="" type="checkbox"/>	US	<input type="checkbox"/>	UK	<input type="checkbox"/>	Local	<input type="checkbox"/>	Otra:	
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Norma contable utilizada como referencia para efectuar la auditoría o revisión:

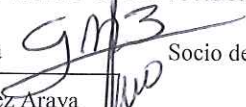
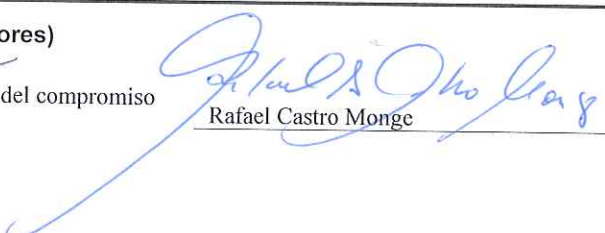
IFRS	<input checked="" type="checkbox"/>	US	<input type="checkbox"/>	UK	<input type="checkbox"/>	Local	<input type="checkbox"/>	Otra:	
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Fecha de informe 7 de marzo de 2018

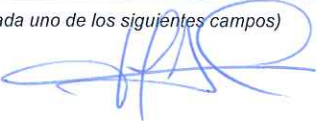



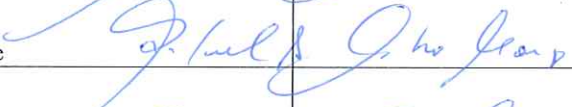
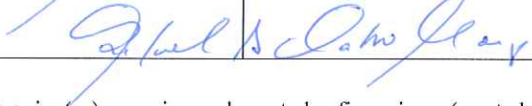
Fecha de emisión 22 de marzo de 2018

1. Distribución de Copias del Informe			
A quién	Domicilio	Forma de Entrega	Número de Copias
Melvin Hernández, Gerente Financiero	Oficinas del cliente	Mensajero	20 (originales, 1 copias)
		PDF	1
Otros (incluir lista)			
Para esta oficina			
Archivo de Informes			1
Total			23

2. Revisión de los Papeles de Trabajo (nombres y firmas de los revisores)

Gerente del compromiso Geiner Méndez Barahona  Socio del compromiso Rafael Castro Monge 

Revisor Especial Luis Guillermo Rodríguez Araya 

3. Informe (Nombre y Firma de las personas en cada uno de los siguientes campos)		Firma	Fecha
Borrador por	<u>Geiner Méndez</u>		5 de marzo de 2018
Referencias cruzadas por	<u>Geiner Méndez</u>		5 de marzo de 2018
Primera revisión por:	Gerente <u>Geiner Méndez</u>		6 de marzo de 2018
	Socio <u>Rafael Castro Monge</u>		6 de marzo de 2018
Informe final revisado por	<u>Rafael Castro Monge</u>		7 de marzo de 2018
Informe firmado por	<u>Rafael Castro Monge</u>		7 de marzo de 2018

Nombre(s) y puesto(s) del (de los) representante(s) del cliente con quien(es) se revisaron los estados financieros (o estados contables) y sus notas, y el informe de los auditores independientes relacionado, fecha de revisión y por quién: Se revisó con Melvin Hernández, Gerente Financiero el 5 de marzo de 2018.

4. Información a ser remitida al revisor independiente

	SI	N/A	Comentarios
Además del borrador de informe de auditoría, revisión limitada, u otro sobre estados financieros u otros documentos, ¿se ha puesto a consideración del revisor independiente la siguiente información?	_____	_____	_____
• Estados Financieros	_____	X	_____
• Memorandum de planificación de la auditoría	_____	X	_____
• Memorandum resumen de auditoría	_____	X	_____
• Confirmación de que se ha completado el Cuestionario de Control Final de la auditoría sin respuestas negativas	_____	X	_____
• Resumen de errores	_____	X	_____
• Resumen de errores de revelaciones en los estados contables	_____	X	_____
• Resumen de ajustes registrados	_____	X	_____
• Documentación de consultas efectuadas tanto a nivel local como a nivel de la red de consultas de LATCO	_____	X	_____
• Si el riesgo del compromiso es mayor al normal o mucho mayor al normal, papeles de trabajo donde se realizaron los procedimientos sobre saldos de cuentas para los cuales se identificaron riesgos específicos.	_____	X	_____

5. Puntos a ser completados por el revisor independiente

	Si	N/A
• Si los estados financieros corresponden a un cliente público, ¿tiene el socio revisor experiencia significativa en dichos compromisos?	_____	X
• ¿Discutió los asuntos importantes de auditoría, contabilidad y/o temas de reporte con el socio del compromiso?	_____	X
• ¿Discutió sobre las transacciones y saldos de cuentas riesgosas?	_____	X
• ¿Discutió los juicios formulados por el equipo de trabajo respecto a asuntos que aumentaron el riesgo de errores materiales en los estados contables con el socio del compromiso?	_____	X
• ¿Leyó la documentación sobre la resolución de los temas significativos referentes a aspectos contables, de auditoría o del informe, incluyendo documentación de las eventuales consultas hechas a personal de la firma o personas externas a nuestra organización?	_____	X
• Si existiera incertidumbre sobre la habilidad de la empresa para continuar como empresa en marcha, ¿ha evaluado las conclusiones a las que llegó el equipo en este tema?	_____	X

6. Revisión independiente

En relación con la revisión independiente de los informes descritos arriba, he leído los estados financieros (u otra información financiera) y nuestro informe y realizado una revisión objetiva de los temas contables, de auditoría y/o de reporte que consideré necesario en las circunstancias.

Mi revisión fue hecha de acuerdo a lo establecido en la norma 3610 del Deloitte Policy Manual y la correspondiente política de LATCO y ha incluido discusiones con el socio del compromiso; revisé los documentos descritos en el punto 4 y cualquier otro papel de trabajo que haya considerado necesario. Todos los temas significativos que surgieron de mi revisión han sido resueltos satisfactoriamente.

En función de los hechos y circunstancias relevantes sobre los que tengo conocimiento, no existen observaciones que me hagan creer que :

- Los estados contables auditados no están de acuerdo con los principios de contabilidad generalmente aceptados u otras bases contables utilizadas y que, si así no lo fuera, el informe no ha sido modificado apropiadamente para revelar dicha situación
- Que la auditoría no fue realizada de acuerdo con el conjunto de normas de auditoría a las que se hace referencia en el informe

Firma del revisor independiente Luis Guillermo Rodríguez Araya

Fecha 7 de marzo de 2018

7. Aprobación Final por el Socio/Director del Servicio al Cliente

	Sí	No	N/A
• ¿Tomó en cuenta los requisitos de "Consideraciones sobre la Retención de Clientes" y preliminarmente concluyó que debemos continuar proporcionándole servicios a este cliente?	X	_____	_____
• Para auditorías de riesgo mucho mayor que el normal, ¿el Socio Especial de Revisión coincidió en la tentativa conclusión de seguir prestando los servicios a este cliente?	_____	_____	X

He revisado este formulario y estoy satisfecho de que se han completado todas las revisiones necesarias y de que no hay asuntos pendientes de evidencia, hechos posteriores u otros asuntos que deban considerarse antes de la emisión de este informe de los auditores independientes.

Firma del Socio del Servicio al Cliente

Rafael Castro Monge

Fecha 7 de marzo de 2018

CUESTIONARIO DE CONTROL FINAL DE LA AUDITORÍA

Este cuestionario deberá ser completado e inicialado por el encargado, el gerente, el socio a cargo del compromiso y el revisor del nivel de calidad del compromiso (EQAR) de cada trabajo, antes de firmar el respectivo informe.

La responsabilidad de su correcto llenado y análisis final es del gerente. Deberá imprimirse una copia de este cuestionario, la cual deberá acompañar el “blue form” o el “green form”, según el caso, al momento de solicitar la firma del informe.





Nombre del cliente: Refinería Costarricense de Petróleo

Fecha del informe: 07/ 03/ 2018

PUNTOS A CONTROLAR	SI	NO	N/A	VISTO POR	ACLARACIONES
1. ¿Se ha verificado el cumplimiento de todos los puntos de los programas de trabajo?	X			JCA- GMB	
2. ¿Se han completado debidamente los siguientes memos?					
<ul style="list-style-type: none"> Planeamiento estratégico de la auditoría 	X			JCA – GMB	Corresponde a una certificación sobre procedimientos previamente acordados.
<ul style="list-style-type: none"> Planificación de la auditoría 	X			JCA – GMB	Idem que el anterior.
<ul style="list-style-type: none"> Conclusiones de la revisión del Departamento de Impuestos 			X	JCA – GMB	
<ul style="list-style-type: none"> Conclusiones de la revisión de ERS-CA 			X	JCA – GMB	
<ul style="list-style-type: none"> Conclusiones de la auditoría 	X			JCA – GMB	
3. ¿Se han recibido todas las cartas de los abogados informados en la carta de manifestaciones de la Gerencia?			X	JCA - GMB	No se condieró necesario.

PUNTOS A CONTROLAR	SI	NO	N/A	VISTO POR	ACLARACIONES
4. ¿Nos hemos asegurado razonablemente de la inexistencia de hechos u operaciones producidas entre la fecha de cierre y la fecha del informe que afecten significativamente los estados contables o que deban mencionarse en notas?			X	JCA - GMB	Únicamente se realizaron los procedimientos acordados.
5. En caso de haber tomado conocimiento de hechos ocurridos después de la fecha del informe y antes de la fecha de efectiva emisión de los estados contables, ¿hemos considerado si los estados contables necesitan ser modificados?			X	JCA - GMB	
6. ¿Se han respondido satisfactoriamente todas las notas de revisión de los papeles de trabajo y éstas fueron eliminadas del legajo?	X			JCA - GMB	
7. Además de los respectivos memos de conclusiones, ¿fueron archivados los papeles de trabajo de los especialistas (TAX; ERS-CA; etc.) en el legajo de auditoría?			X	JCA	No se utilizaron especialistas
8. ¿Hemos obtenido la carta de manifestaciones de la Gerencia debidamente firmada?	X			JCA	
9. ¿Se ha verificado que los saldos finales volcados en nuestros papeles de trabajo coinciden con los saldos finales del mayor general?			X	JCA	
10. ¿Se han referenciado los estados contables con los saldos finales volcados en nuestros papeles de trabajo?			X	JCA	

PUNTOS A CONTROLAR	SI	NO	N/A	VISTO POR	ACLARACIONES
11. ¿Se ha revisado la información complementaria o adicional? (en caso de que exista)	X			JCA - GMB	Fue revisada satisfactoriamente toda la información adicional
12. ¿Están transcritas las operaciones en el Libro Diario hasta la fecha de los estados contables?			X	JCA	
13. ¿Se transcribieron los estados contables en el Libro Inventarios y Balances rubricado?			X	JCA	
14. ¿Se transcribió el inventario en el Libro Inventarios y Balances rubricado?			X	JCA	
15. ¿Se transcribió el plan de cuentas y el sistema de códigos de identificación actualizado al Libro Inventarios y Balances? (sólo para entidades bajo IGJ)			X	JCA	
16. ¿Se han cumplimentado y documentado los procedimientos aplicados requeridos por las normas de prevención del lavado de dinero?			X	JCA	

	Nombre	Firma	Fecha
Senior	José Campos Aguilar	 JCA	07/03/18
Gerente	Geiner Méndez Barahona	 GMB	07/03/18
Socio/Director	Rafael Castro Monge	 LGR	07/03/18
EQAR	Luis Guillermo Rodríguez Araya	 LGRA	07/03/18