

*REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.
(RECOPE, S.A.)*

- ✦ *Financial Statements translated to US dollars*
- ✦ *December 31, 2010*
- ✦ *Final Report*

INDEX

	<u><i>Page</i></u>
<i>Opinion of Independent Auditors</i>	3-5
<i>Financial Statements</i>	
<i>Statement of Financial Position</i>	6
<i>Statement of Comprehensive Income</i>	7
<i>Cash Flow Statement</i>	8
<i>Statement of Changes in Stockholders' Equity</i>	9
<i>Notes to Financial Statements</i>	10-44
<i>Supplementary Financial Information</i>	45
<i>Sale of Oil Derivatives - Attachment A</i>	46
<i>Cost of Products Sold - Attachment B</i>	47
<i>Operating Costs - Attachment C</i>	48-49

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Refinadora Costarricense de Petróleo, S.A. (RECOPE)

We have audited the accompanying financial statements of ***Refinadora Costarricense de Petróleo, S.A. (RECOPE)***, which comprise the statements of financial position as of December 31, 2010 and 2009, and the statements of comprehensive income, changes in equity, and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of ***Refinadora Costarricense de Petróleo, S.A. (RECOPE)*** is responsible for the preparation and fair presentation of the financial statements in conformity with the basis described in note 1 and in the aspects provided by the International Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards in Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Refinadora Costarricense de Petróleo, S.A. (RECOPE)* as of December 31, 2010 and 2009, and the results of its operations, changes in stockholders' equity, and its cash flows for the year then ended, in conformity with the aspects provided with the International Financial Reporting Standards.

Matters That Do Not Affect the Opinion

Minutes corresponding to Board of Directors' Meeting No. 4505-58, held on December 01, 2010, mentions the problems existing regarding the capacity of the Moín dock and the storage capacity of the refinery, which causes losses for dead freight and delays, becoming two of the priority projects for the current management.

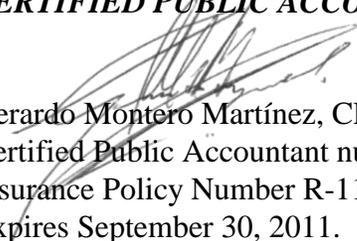
In relation to this matter, in communication UPCI-082-2011 dated March 17, 2011, Project Management establishes that the maintenance dredging of the current oil terminal of Moín is fully concluded. Moreover, the project of new oil port terminal in the Atlantic is being promoted. Board of Directors' minutes No. 4515-68 of January 10, 2011 indicates that the bid was published on December 27, 2010 (La Gaceta 251 – Public Bid No. 2010LN-000004-02. Estimated sum US\$92.378.605). This project consists of the construction of a mooring arm-type dock through which it will be possible to safely unload the products required by the country, such as crude oil, gasoline, diesel and jet A-1. It will be an extension of the current oil dock; therefore, it will be necessary to dredge at least 1.5 million cubic meters of material, expand the north breakwater in 200 meters, build four docking arms, four mooring arms (two in the sea and two in land), a loading platform, besides all the systems necessary to make it safe and operatively efficient, such as aids to navigation, piping for the transfer of hydrocarbons, firefighting, automation, control, buildings, car access, and others. The direct benefits for RECOPE for using this new dock are mostly based on the operational safety, and in their capacity to receive ships of larger draught, which entails fewer delay fines and lower freight costs when products are transferred to larger ships. The estimated construction term is 25 months. Bid offers must be submitted on May 9, 2011.

For the 2008 fiscal period, RECOPE filed a negative income of ¢14,710,567 (thousands), as a result of applying the deductions approved by ARESEP, according to the RRG-6867-2007 resolution, published in La Gaceta N° 151 of August 8, 2007 and the RRG-9233-2008 resolution, published in La Gaceta N° 227 of November 24, 2008 and communication 088-RG-2009 from March 13, 2009 of the General Regulator, as provided in Law No. N° 7722. In communication GAF-376-2009, dated March 16, 2009, the administration reports to the Dirección General de Tributación (Tax Authorities) on the technical and regulatory documents that support the calculation, based on the General Regulator's Resolution No. RRG-8988-2008, published in La Gaceta N° 214 of November 5, 2008, which indicates that income tax should not be recognized within the cost structure of the services offered by RECOPE. In the meeting of the Board of Directors number 4336-292 of March 11, 2009, it is mentioned that, despite multiple procedures

conducted by management on this regard, as of this date it has not been possible to obtain a position of agreement between ARESEP and the Ministry of Financing, in relation to the income tax payment by RECOPE. Management filed an inquiry on this regard before the Attorney Generals' Office, through official communication P-226-2009 of March 13, 2009, and as of the date of this report, no answer has been received. In addition and before filing this inquiry before the Attorney Generals' Office, the company had filed in November 11, 2008, an inquiry before the Costa Rican Tax Authorities, which – through communication DGT-779-2008—answered negatively to the company's criterion. This means that the substance of the inquiry will be finally analyzed throughout the defining and challenging proceeding, where the Administrative Tax Court will resolve as it corresponds by the of the administrative proceeding. RECOPE has not made partial income tax advances for the 2010 tax period since, according to the Company's opinion and the provisions set forth in Law 7722 and RR-8988-2008, the Company does not have a taxable profit (see note 26).

This report by Independent Public Accountants provides information to the Board of Directors of the *Refinadora Costarricense de Petróleo, S.A. (RECOPE)* and other internal and external users since it refers to a matter of public interest.

DESPACHO CARVAJAL & COLEGIADOS
CERTIFIED PUBLIC ACCOUNTANTS



Gerardo Montero Martínez, CPA
Certified Public Accountant number 1649
Insurance Policy Number R-1153
Expires September 30, 2011.

San José, Costa Rica, March 25, 2011.

“Exempt from Tax Stamps of Law Number 6663 of the Costa Rican Association of Certified Public Accountants, as stipulated in Article Number 8”.

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A. (RECOPE)
(San José, Costa Rica)

STATEMENT OF FINANCIAL POSITION

As of December 31, 2010
(In US dollars)

<i>ASSETS</i>	<u>Notes</u>	<u>2010</u>
<i>Current Assets</i>		
Cash on hand and due from banks	3	126.008.348
Notes and accounts payable – net	4	78.685.769
Inventories – net	5	270.317.311
Prepaid expenses	6	19.983.347
<i>Total Current Assets</i>		<u>494.994.775</u>
<i>Non-Current Assets</i>		
Property, Plant and Equipment – net	7 and 8	430.206.826
Other assets	9	10.803.805
<i>Total Non-current assets</i>		<u>441.010.631</u>
<i>Total Assets</i>		<u>936.005.406</u>
 <i>LIABILITY AND STOCKHOLDERS' EQUITY</i>		
<i>Current Liability</i>		
Current part of long term debt	12	8.929.522
Accounts payable	10	119.598.498
Deferred income	1-m	21.488.905
Accrued expenses	11	8.868.806
<i>Total Current Liability</i>		<u>158.885.731</u>
<i>Non-Current Liability</i>		
Long term debt	12	51.870.985
Reserve for severance indemnities	1-i	23.923.494
<i>Total Non-Current Liability</i>		<u>75.794.479</u>
<i>Total Liability</i>		<u>234.680.210</u>
<i>Stockholders' Equity</i>		
Capital stock	13	350.058
Legal reserve		3.981
Law 7722 reserves	16	120.155.628
Revaluation surplus		137.551.717
Donation surplus	14	28.297.289
Accrued earnings		1.007.966.624
Currency translation adjustment		(593.000.101)
<i>Total Stockholders' Equity</i>		<u>701.325.196</u>
<i>Total Liability and Stockholders' Equity</i>		<u>936.005.406</u>

The accompanying notes are an integral part of the financial statements

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A. (RECOPE)
(San José, Costa Rica)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010
(In US dollars)

	<i>Notes</i>	<i>2010</i>
Sales <i>(See Attachment A)</i>	24	2.492.322.649
<i>Less:</i> Costs of Sales <i>(See Attachment B)</i>	15	<u>(2.241.133.665)</u>
Gross Profit		<u>251.188.984</u>
Operating Expenses <i>(See Attachment C)</i>		<u>(135.632.637)</u>
Operating Profit		115.556.347
Other Expenses:		
Financial expenses		(6.909.020)
Transfers to institutions		(8.877.870)
Other		(1.882.525)
Other Income:		
Financial products		11.790.061
Selling services		373.442
Other		<u>10.105.193</u>
Earnings for the period before law reserves		120.155.628
Law 7722 reserves	16	<u>(120.155.628)</u>
Earnings for the period after law reserves		<u>---</u>
Other comprehensive income:		
Gains for revaluation of assets		<u>3.028.646</u>
Total comprehensive income		<u><u>3.028.646</u></u>

The accompanying notes are an integral part of the financial statements

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A. (RECOPE)
(San José, Costa Rica)

STATEMENT OF CASH FLOWS

For year ended December 31, 2010
(In US dollars)

	2010
<i>Operating Activities</i>	
Earnings for the period	120.155.628
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>	
Depreciation and amortization	24.022.277
Allowance for obsolete inventories	(71.411)
Reserve for severance indemnities	211.653
Allowance for doubtful accounts	(820.294)
Interest paid	3.446.785
<i>Subtotal</i>	146.944.638
<i>Changes in operating assets and liabilities:</i>	
Notes and accounts receivable	(72.443.326)
Inventories	(4.178.226)
Prepaid expenses	14.773.556
Accounts payable	48.235.562
Deferred income	(5.930.131)
Accrued expenses	245.990
<i>Net cash provided in operating activities</i>	127.648.063
<i>Investment activities</i>	
Additions to property, plant and equipment	(55.227.057)
Short term investments	14.649.010
Other assets	(2.344.772)
<i>Net cash used in investing activities</i>	(42.922.819)
<i>Financing Activities</i>	
Repayment of long-term debt	(8.994.598)
Long-term accounts payable	(1.606)
Interest paid	(3.446.785)
<i>Net cash used by financing activities</i>	(12.442.989)
Net increase in cash and cash equivalents	72.282.255
Adjustment from reassessment	(29.142.134)
Cash and cash equivalents at beginning of year	82.868.227
<i>Cash and cash equivalents, end of year</i> (See Note 3)	126.008.348

The accompanying notes are an integral part of the financial statements

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A. (RECOPE)
(San José, Costa Rica)

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2010
(In US dollars)

	<i>Common Stock</i>	<i>Legal Reserve</i>	<i>Law 7722 Reserve</i>	<i>Revaluation Surplus</i>	<i>Donation Surplus</i>	<i>Currency Translation Adjustment</i>	<i>Accrued Earnings</i>	<i>Total</i>
<i>Balance as of December 31, 2009</i>	350.058	3.981	46.868.664	212.929.421	28.297.289	(684.964.166)	896.945.778	500.431.025
Total comprehensive income	---	---	---	3.028.646	---	---	---	3.028.646
Realization to accrued earnings	---	---	---	(130.430.004)	---	---	130.430.004	---
Revaluation surplus to Deferred income tax adjustment	---	---	---	51.385.810	---	---	---	51.385.810
Deferred income tax adjustment	---	---	---	---	---	---	(21.023.978)	(21.023.978)
Reversion of 7722 Law Reserve	---	---	(46.868.664)	---	---	---	1.614.820	(45.253.844)
Law 7722 Reserve	---	---	120.155.628	---	---	---	---	120.155.628
Other adjustments to prior years	---	---	---	637.844	---	---	---	637.844
Adjustment from reassessment	---	---	---	---	---	91.964.065	---	91.964.065
<i>Balance as of December 31, 2010</i>	350.058	3.981	120.155.628	137.551.717	28.297.289	(593.000.101)	1.007.966.624	701.325.196

The accompanying notes are an integral part of the financial statements

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A. (RECOPE)
(San José, Costa Rica)

NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2010
(In US dollars)

Note 1- Nature of Operations and Accounting Policies

Nature of Operations:

The *Refinadora Costarricense de Petróleo, S.A. (RECOPE)* was incorporated in accordance with the laws of the Republic of Costa Rica by means of a notarially recorded instrument. As stipulated in Law Number 5508 of April 19 1974, all of RECOPE's stock was transferred to the Government of Costa Rica, and the President's Cabinet holds Stockholders' meetings and is the highest authority. RECOPE regulations stipulate that it is 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, the Budget Authority and the Ministry for National Planning and Economic Policy (MIDEPLAN).

Law 7356 of September 06, 1993 states that RECOPE holds the monopoly for the administration, refining and wholesale distribution of crude oil, derivative fuels, asphalt and naphtha. As of May 18, 1994 the Hydrocarbon Law established that the State holds the monopoly for sources and deposits of oil and any other hydrocarbons within the national territory. The Ministry of the Environment and Energy was given the responsibility for transactions and procedures leading to closing on and correct performance of contracts that the Executive Power may sign for the exploitation of hydrocarbons.

In accordance with Law Number 6588 of August 13, 1981, sales prices for *Refinadora Costarricense de Petróleo, S.A. (RECOPE)* products must be approved by the National Electricity Service. As of September 1996, Law Number 7593 stipulates that sales prices must be approved by the Regulating Authority for Utility Services (ARESEP).

To effect changes in fuel sales prices the company uses an normal price study and an extraordinary procedure using an adjustment formula, which was approved by executive decree 19870 – MINAE (as amended by Resolution RRG - 129 - 97.)

In accordance with its Bylaws and Law Number 6588 of August 13, 1981, the following are the primary objectives of RECOPE:

- ✓ Import crude oil and derivatives, refine and wholesale distribution of fuel, asphalt and naphtha.
- ✓ Wholesale sales and transportation of petroleum and derivatives.
- ✓ Maintenance and development of such installations as may be necessary to fulfill its objectives.
- ✓ Carry out, as appropriate, 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.
- ✓ Construct inter-oceanic pipelines.

RECOPE, in certain aspects, is also regulated by the Office of the Comptroller General of the Republic, Budget Authority, and the Ministry for National Planning and Economic Policy.

Principal Accounting Policies:

The principal accounting policies utilized by the *Refinadora Costarricense de Petróleo, S.A. (RECOPE)*, can be summarized as follows:

- a. ***Currency*** – Accounting records of the Company are in colones (¢), the legal tender of the Republic of Costa Rica. The financial statements to and for the year ending December 31, 2010 have been re-estimated from Costa Rican colones to United States dollars in order to comply with the requirements of a foreign banking institution.
- b. ***Translation to US dollars*** – The Company’s functional currency is the Costa Rican colón. Accordingly, the financial statements were translated to US dollars using the following basis: assets and liabilities, whether monetary or otherwise, were converted at the closing rate for the year; stockholders’ equity was converted at the historical exchange rate; and the resulting difference is included under an equity account called currency translation adjustment; income and expenses are converted using the average exchange rate for the period. This translation should not be interpreted as an indication that amounts in colones can be converted to US dollars at the exchange rates used in the reassessment.
- c. ***Estimate of Unrecoverable Accounts*** – The estimate of unrecoverable accounts is made based on a study of accounts and notes that present an aging older than 360 days old.
- d. ***Inventory*** – The raw materials inventory (petroleum and other raw materials), as well as materials and supplies are evaluated at the average weighted cost. Raw materials and materials in transit at the invoice price, and incidentals plus adjustments for exchange rate differences on liability for purchase orders outstanding at month end. Petroleum is evaluated at the CIF import price plus required expenses to place it in the refinery storage tanks. Imported finished product is evaluated at the CIF import price plus the single fuel tax established by the Law for Tax Efficiency and Simplification Number 8114, published in the La Gaceta no. 131, Paragraph 53, of July 09, 2001, which took effect on August 01, 2001, plus other expenses required to place it in storage tanks at the refinery and other plants.
- e. ***Estimate of Obsolete and Slow Moving Materials and Supplies*** – The estimate of obsolete and slow moving materials and supplies has been determined based on the stock turnover analysis, as well as increases or decreases recorded in the corresponding accounts.

- f. **Property, Plant and Equipment** – Property, Plant and Equipment were originally recorded at cost. Work in progress is recorded under temporary accounts within fixed assets and is transferred to the definitive accounts when report of completion is received. Disbursements for repairs, maintenance and minor renovations are charged to earnings during the year they occur.

In 2010, the revaluation of historical and revaluated balances was recorded as of December 31, 2009, in order to update them to 2010 prices as follows:

<i>Asset</i>	<i>Index Used</i>
National investment in plants	Price Index for Industrial Producers of the Central Bank of Costa Rica and Construction Cost Index
Foreign investment in plants	External Indexes of Chemical Engineering magazine.
Land	Consumer Price Index of Central Bank of Costa Rica.
Buildings	Construction Price Index of the Central Bank of Costa Rica.
Machinery, vehicles and furniture	Consumer Price Index.

These indexes are combined with the exchange rate variation of the Costa Rican colon with regard to U.S. dollar.

The revaluations of lands, machinery, vehicles and equipment are based on the Resolutions N° 20/2000 and 26/2001 of the General Tax Administration.

The indexes applied in 2010 are the following:

<i>Description</i>	<i>Revaluation Factor</i>
Land	5,10%
Moin Port Complex	-4,57%
Refinery Facilities	-2,63%
Distribution Facilities	-0,69%
Pipeline Facilities	1,83%
Buildings	4,61%
Machinery and Equipment	5,10%
Furniture	5,10%
Vehicles	5,10%

Property, Plant and Equipment accounts and accumulated depreciation for each asset are affected by reevaluation, and the resulting difference is recorded under adjustment surplus for the cost of Property, Plant and Equipment. Surplus from revaluation is directly transferred to the retained earnings account as assets are used by the company, in which case the sum is equal to the difference between the depreciation calculated in accordance with the asset's revaluated value and the one calculated according to its original cost.

- g. Port Complex** – Work corresponding to this investment is recorded in accordance with the terms of Resolution 5, article 6 of the Minutes of Meeting number 89 of the President’s Cabinet held on April 2, 1988.

Commencing 2009, acquired or capitalized fixed assets are depreciated in 100% of the registered cost.

This resolution expressly acknowledges that work corresponding to that investment have clear title of possession and control 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 12 of meeting number 2240-191 held on April 22, 1988.

- h. Depreciation** – Depreciation of historical and reevaluated fixed assets is calculated using the straight-line method, based on 90% of the cost recorded, with the exception of the Moín Port Complex, in accordance with the depreciation table of the Internal Revenue Service published in the Income Tax Law and Regulations

Assets at historical costs are calculated by depreciating them for each unit, reevaluated assets are also depreciated for each fixed asset reevaluated using the depreciation rate applied to historical fixed assets.

In order to appraise the Moín Port Complex, the different operational areas were divided by function, and as a result, different annual depreciation rates are applied to each area: Petroleum Dock, RO-RO Dock and Banana Dock from 3% to 10%. Marine work from 2% to 10%. General Land Work from 3% to 5%.

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

Depreciation costs charged during 1991 to 2008 were expressed in terms of the prices for those years by an average increase in the price index recorded for those years, with the exception of charges derived from investments and additions to fixed assets recorded during those years since they are recorded at current year prices.

In 2009, by virtue of using the SAP’s fixed assets module and based on official communications CON-179-2008, CON-240-2008, DFI-231-2008 and DFI-229-2008, the Company decided to modify the salvage value of fixed assets to ¢1.00 for managerial expediency, taking into account the provisions on this matter set forth in Law 7092 “Income Tax Law” in subparagraph f) of Article 8 and in the IAS 16 “Property, Plant and Equipment”, revision 2009, in its paragraph 4 and subsequent ones.

i. Provisions:

Reserve for severance indemnities

RECOPE records severance indemnities, as stipulated in Article 142 of the Union Contract signed between the company and its employees regarding severance payments when a worker is dismissed for any reason stipulated in the Union Contract for an indefinite time. In such cases, RECOPE must pay the severance benefit in accordance with the following regulations:

- a- After continuous employment of no less than three months or more than six, an amount equal to ten days salary.
- b- After continuous employment for more than six months but less than one year, an amount equal to twenty-day salary.
- c- After continuous employment for more than one year, an amount equal to one month's salary for each year worked or fraction thereof for no less than six months.
- d- In no case can this benefit be greater than 24 months.
- e- A worker who has committed any of the crimes specified in Article 50 of the Union Contract (theft, robbery or aggression, fraud or undue withholding, irregular appropriation and embezzlement) will not be eligible for this benefit.

Provision for Educational Salary

According to resolution AP-32-97 from the Budgetary Authority, agreement number 4677, in Ordinary Meeting number 12-97, held on July 02, 1996, it was established, in order to pay this benefit, that it would be based on a percentage to be monthly accrued on the total salary. Commencing on January 01, 1998, the provisions set out in resolution AP-17-98, from the Budgetary Authority, enters into force, which, through agreement number 4878, agreed to increase the school salary percentage in 1.58% more to the existing 6.75%, in order to have a monthly provision of 8.19%.

j. Contribution to the Savings, Loan, Housing, Pension, Recreation and Guarantee Fund:

The Fund was created by the company and the Union through the Union Contract of 1978. Contributions for the creation of this Fund were established that, in accordance with Article 137, paragraph c) of the current Union Contract, include contribution by the employer equal to ten percent of monthly payroll and a contribution of five percent of monthly payroll by employees. Article 137, paragraph g) of the 97-98 Union Contract (Resolution DTR-679-96 of November 28, 1996) requires RECOPE to cover 75% of expenses for Administrative, Accounting and Legal personnel paid by the Fund for the following accounts:

- ✓ Base Salary, Annual Raise, Exclusivity of Services, Fixed Substitution, Surcharges and Fixed Extra charges.
- ✓ Annual Bonus (Thirteenth month).
- ✓ Illness subsidy (Sick Leave).
- ✓ Vacation Pay - as compensation for vacation days worked.
- ✓ Vacation Paid Off – at termination of work contract.

In addition it must cover 100% of expenses by Fund stipulated in Article 143, for group life insurance premiums paid to INS (Instituto Nacional de Seguros) to cover outstanding balances on loans upon death of an employee.

With regard to expenses derived from the current Union Contract, the Office of the Comptroller General of the Republic retained approval for all concepts proposed by RECOPE for 2002, “without prejudice as to what on this particular topic the Constitutional Court may resolve”.

For the year 2010 the Comptroller General of the Republic approved a budget cash appropriations for the 10% contribution to the Employee Savings Fund, in accordance with Article 137, paragraphs c) and g) and Article 143 of the Union Contract.

Income Tax RECOPE is subject to income tax payment, in conformity with laws 7092 ‘Income Tax Law’ and 7722 ‘Subjection of Government Agencies to Income Tax Payment’. In accordance with Law 7722, Article 1, published in La Gaceta no. 10 of January 15, 1998, the amount used for development of investments for construction work in progress authorized by the Regulating Authority for Public Services can be included in the current price rates. Also, in conformity with Law 7722, the resolution RRG-8988-2008 and communication 088-RG-2009, RECOPE is empowered to deduct gross income the sum corresponding to the reserve of the investment. This equity reserve is created by the factor K rate that the Regulatory Authority authorizes in the resolution on adjustments of local prices of fuel, in order to support the programs of: a) debt servicing, b) investments in development projects, and c) security inventory. (See notes 16, 25 and 26).

- k. *Impairment in Value of Assets*** – Carrying value of non current assets is periodically reviewed, in order to determine if there is any indication of impairment, and in such case, the recoverable amount of such asset is estimated. The loss for impairment is recognized when carrying value of the asset exceeds its recoverable amount or its value in use; such effect is recognized in the statement of results for the assets recorded at cost. The recoverable amount of the assets is equivalent to the highest amount obtained after comparing the net sales price with value in use. The net sales price is equivalent to the value obtained in an arm’s length transaction, less the costs necessary to complete its sale. The value in use corresponds to the current value of future cash flows and disbursements resulting from the use of an asset and its final disposition.
- l. *Prepaid expenses*** – RECOPE’s prepaid expenses are amortized monthly until renewed or depleted.
- m. *Cost of Sales*** – The sales costs for products sold are determined based on the refining process for light crude oil and heavy crude oil according to the level of consumption of raw materials used by the refinery, plus the added value of direct labor costs and indirect costs related to the refining process plus the Single Government Tax.

The amount for internal consumption of fuel for the RECOPE fleet of vehicles and donations to municipalities, as well as the value of sub products generated from the refining of asphalt is deducted. Added to the total cost are variations in exchange rate differential, plus interest for the credit line used to purchase raw material.

In addition, the value of imported (purchased) finished product is included, as well as adjustments to the final inventory for finished product.

- n. Deferred Income* – Deferred income refers to advances by clients originating from hydrocarbon sales negotiations and sales coupons at the service stations.
- o. Financial Instruments* – All financial assets and liabilities are initially recognized at cost. After the initial record, the short-term financial assets are recorded at cost, since they consist mainly of cash, letters of credit, and accounts receivable of a current nature. Short term financial liabilities basically consist of accounts payable to local and foreign suppliers, and accounts payable to the Costa Rican Government for the concept of the single tax on fuel, which are valued at the originally registered amount less the payments made. Management has concluded that the registered value of notes payable on the long term approximates their fair value because they are acquired at market rates, usually fluctuating ones, in function of the changes in the Libor or Prime rates. The company has not entered into any agreement involving derivative instruments.
- p. Creation of Fund* – Through official communication P-1243-2009 of November 17, 2009, the Executive Presidency authorized the creation of a development fund, in order to finance investment projects that are strategic for the company. As of December 31, 2010, the financial statements show that the fund has a balance of ¢10.498,97 million in account N° 1103-000002 at Banco Nacional de Costa Rica.

Note 2 – Financial Risk Management

Financial Risk Factors

During the normal course of operations, the company is exposed to a variety of financial risks, which it tries to minimize by applying risk management policies and procedures. These policies cover market risk, liquidity risk, exchange rate risk, and the interest rate risk.

Market Risk

Market risk is related to the variations in international prices of oil and oil derivatives. Variations in international prices, as a result of the increase in the hydrocarbons worldwide demand, have an effect on RECOPE's financial position. Therefore, the company should request price adjustments to the regulatory entity each time it is methodologically determined that variations in oil prices and its derivatives have originated the need to revise the prices.

The approval of price adjustments does not necessarily adjust to the company's request as to amount and time; therefore, variations in the purchases of raw materials and finished product keep a market risk inherent to the product and to the need of readjusting prices.

Liquidity Risk

Liquidity risk is the risk of not being able to meet all the obligations within the terms agreed. The company keeps financial assets to cover its operations. In addition, it requests, on a methodological basis, readjustments in fuel prices, in order to reduce the risk of important differences between the cost of fuel and its selling prices. The sales to third parties are made in cash equivalents, which reduces collection risk. There are also credit lines open for purchasing fuel to mitigate liquidity risk.

Exchange Rate Risk

The Costa Rican colón experiences constant devaluations in relation to the US dollar, according to the monetary and exchange rate policies of the Central Bank of Costa Rica. As of December 31, 2010, non banking public sector exchange rate for the purchase and sale of US dollars was ¢511.98 for purchasing transactions and ¢512.50 for selling transactions.

RECOPE has monetary assets and liabilities denominated in US dollars; thus, any fluctuation in the value of the Costa Rican colón in relation to the dollars affects the Company's results, its financial position, and its cash flows. The following chart summarizes the net exposure to risk exchange (assets and liabilities denominated in US dollars) as of December 31, 2010:

<i>(In thousands of US\$)</i>	<u>2010</u>
<i>Assets</i>	
Cash	18.001
Letters of credit for services	15.110
<i>Liabilities</i>	
Accounts and notes payable	<u>134.072</u>
<i>Net exposure</i>	<u>(100.961)</u>

Extraordinary price adjustment include the colón devaluation compared to the US dollar, which mitigates the exchange rate risk.

Interest Rate Risk

RECOPE keeps important liabilities mainly represented by bank loans, which are subject to variation in interest rates. The company expects that the interest rates it pays do not increase significantly in the short-term. In the case of the loan acquired with the Instituto de Crédito Oficial del Reino de España, it is important to mention that it is a fixed rate loan, which mitigates this risk.

Note 3- Cash on Hand and Due from Banks

The breakdown for cash on hand and due from banks as of December 31, 2010 is shown below:

	<u>2010</u>
Petty Cash	300.695
Bank Accounts	<u>125.707.653</u>
<i>Total</i>	<u>126.008.348</u>

Note 4- Notes and Accounts Receivable

The breakdown for notes and accounts payable as of December 31, 2010 is as follows:

	<u>2010</u>
<i>Clients</i>	
Government of Costa Rica and Public Institutions	6.702.414
Trade	516.104
	<u>7.218.518</u>
<i>Other</i>	
Officers and employees	187.699
Advances from suppliers	5.946.824
Income Tax	63.963.635
Savings Fund (Collective Bargaining Agreement)	792.423
Other	619.386
<i>Subtotal</i>	<u>78.728.485</u>
Allowance for doubtful accounts	(42.716)
<i>Total, net</i>	<u>78.685.769</u>

Note 5- Inventories

Inventories as of December 31, 2010 is shown below:

	<u>2010</u>
Finished product (1)	194.873.757
Raw materials (2)	35.620.440
Materials and supplies (3)	7.094.123
Estimate of obsolete and slow moving materials and supplies	(1.928.863)
Orders in transit (4)	34.657.854
<i>Total, net</i>	<u>270.317.311</u>

(1) Evaluated at CIF import cost plus the Single Fuel Tax.

(2) and (3) are evaluated at the average weighted cost.

(4) Orders in transit are broken down as follows:

	<u>2010</u>
Materials and equipment	34.657.854
<i>Total</i>	<u>34.657.854</u>

With the approval of law 8114, published in La Gaceta no. 131, paragraph no 53, of July 09, 2001, article 7 (August 01, 2001), the single fuel tax was created, and the following taxes were eliminated:

- ✓ Selective Excise Tax.
- ✓ Sales Tax.
- ✓ 1% Import tax.
- ✓ 1% of Law 6946.

Likewise, Article 8 of Law 8114 repealed the special 15% contribution for road maintenance in favor of CONAVI to be charged on the plant price.

Article 17 of Law 8114, paragraph b) also repeals Article 7 of the Law on Incentives for Tourism Development Number 6990.

Executive Decree Number 29750 – COMEX published in La Gaceta Number 170 of September 5, 2001 eliminated the right to import taxes (D.A.I.) on crude oil imports.

Executive Decree Number 36266-H published in La Gaceta Number 207 of November 24, 2010, reassesses the amount of the single tax so that it will take effect until January 31, 2011. That tax is as follows:

<u><i>Type of Fuel</i></u>	<u><i>Tax per Liter in ¢</i></u>
Premium Gasoline	202,50
Regular Gasoline	193,25
Diesel	114,25
Asphalt	39,00
Asphalt emulsion	28,75
Fuel Oil	19,25
LPG	39,00
Jet Fuel A1	115,75
Av. Gas	193,25
Kerosene	56,00
Heavy Diesel (gasoil)	37,50
Naphtha	27,25

The tax generating event occurs on two occasions:

- ✓ When the final product is imported, prior to unloading at customs.
- ✓ For national production, manufacturing, distillation or refining, RECOPE must settle and pay the tax during the first fifteen calendar days of each month.

RECOPE must pay this tax for national production and for imports.

This tax is updated quarterly, by type of fuel, in accordance with variations in the Consumer Price Index, as determined by the National Institute for Statistics and Census (INEC). The quarterly adjustment shall in no case be greater than 3%.

Tax Exemption:

- ✓ 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 7384.
- ✓ Product designated for export.
- ✓ Fuel to supply diplomatic missions and international organizations accredited in the country, in conformity with the Vienna Convention on Diplomatic Relations, Law No. 3394 from September 24, 1964, and the agreements or covenants duly approved by the Legislative Assembly which establish so.
- ✓ Fuel used by the Costa Rican Red Cross.
- ✓ 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 for attending road construction service agreements.

Refined products, obtained from the process of preparing light crude oil and heavy crude oil plus the added value of labor and indirect costs are evaluated as follows:

Atmospheric Distillation Unit

Variable and fixed costs and expenses are applied to the production of LPG, naphtha, kerosene, diesel, gasoil and bunker, by means of the Relative Sales Price method (P.R.V.) using international FOB prices.

Vacuum Distillation Unit

Variable and fixed costs and expenses are applied to the production of asphalt - the end product for this unit. Gasoil and diesel byproducts obtained are evaluated at the cost at the atmospheric distillation unit and credited to the cost of asphalt.

Naphtha Hydrosulfurization Unit and Catalytic Reforming Unit

Variable and fixed costs and expenses are applied to the reformed naphtha production end product. The LPG sub product is evaluated at the cost at the atmospheric distillation unit and credited to the cost of the reformed naphtha.

Distillation Unit – Jet Fuel

Variable and fixed costs and expenses are applied to the production of jet fuel. LPG and light naphtha sub products obtained are evaluated at the cost at the atmospheric distillation unit and credited to the cost of jet fuel.

Thermal Cracking Unit

Variable and fixed costs and expenses are applied to the production of naphtha based on the FOB relative sales price of the main products. The LPG and bunker byproducts obtained are evaluated at the cost at the atmospheric distillation unit and credited to the cost of diesel and naphtha.

Gascon – Merox Unit

This is a treatment unit (not production) and therefore the variable and fixed costs and expenses are distributed by volume among the products transferred to that unit; these are LPG and light naphtha.

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:

- ✓ IFO 180 (mix of fuel oil + gasoil and diesel).
- ✓ IFO 380 (mix of fuel oil + gasoil and diesel).
- ✓ Regular gasoline (Gasoil + colorants and additives).
- ✓ Premium gasoline (MOGAS + MTBE).

The costs of refined products are later averaged with costs for the initial inventory in prior years.

Note 6- Prepaid Expenses

Prepaid expenses as of December 31, 2010 are detailed as follows:

	<u>2010</u>
Letters of credit for services	15.109.514
Income tax withholdings	4.225.966
Insurances	647.867
<i>Total</i>	<u>19.983.347</u>

Note 7- Investment in Moín Port Complex

The works corresponding for this investment are recorded in RECOPE's books, in accordance with provisions contained in Agreement N° 5, Article N° 6, of Ordinary Session N° 89 of the President's Cabinet, held on April 02, 1988. This agreement expressly acknowledges that the works corresponding to this investment have a clear title of possession and control in the name of RECOPE. This agreement by the President's Cabinet was acknowledged by RECOPE Board of Directors and communicated to the administration, in accordance to Article 12 of Ordinary Session N°2240-191, held on April 22, 1988.

Note 8- Property, Plant and Equipment

Property, Plant and Equipment to December 31, 2010 are as follows:

	<u>2010</u>
<i>Land</i>	
Cost	11.761.045
Revaluated	18.473.542
<i>Buildings</i>	
Cost	12.477.442
Revaluated	34.481.802
<i>Refining and distribution facilities</i>	
Cost	223.177.358
Revaluated	179.358.559
<i>Moín Port Complex</i>	
Cost	4.907.069
Revaluated	102.595.672
<i>Machinery and equipment</i>	
Cost	14.620.339
Revaluated	8.717.630
<i>Vehicles and transportation equipment</i>	
Cost	6.441.896
Revaluated	3.614.813
<i>Furniture and equipment</i>	
Cost	18.302.080
Revaluated	7.888.459
Construction in progress	127.656.649
<i>Accumulated depreciation</i>	
Cost	(88.995.258)
<i>Accumulated depreciation</i>	
Revaluated	<u>(255.272.271)</u>
<i>Property, Plant and Equipment, net</i>	<u>430.206.826</u>

Note 9 - Other Assets

Other assets to December 31, 2010 are as follows:

	<u>2010</u>
Filling Stations (cost)	18.569
Filling Stations (revaluation)	5.254.883
Deposits for performance guarantees	1.174.253
Notes payable long term	171.509
Accounts receivable long term	673.521
Software licenses, net	978.280
Permanent investment (Club Unión)	195
Joint Venture RECOPE-CNPCI. (See Note 20)	2.532.595
Total	<u>10.803.805</u>

Note 10- Accounts Payable

Breakdown of accounts payable to December 31, 2010 is as follows:

	<u>2010</u>
Foreign Suppliers	73.185.922
Government of Costa Rica (1)	43.285.959
Local Suppliers	4.358.435
Other	(1.231.818)
Total	<u>119.598.498</u>

(1) As of December 31, 2010, accounts payable to the Government of Costa Rica included the single tax on fuel for an amount equal to US\$41.781.735.

Note 11- Accrued Expenses

Accrued expenses as of December 31, 2010 are as follows:

	<u>2010</u>
Interest payable to banking institutions	715.485
Yearly bonus	210.908
Educational salary	3.799.116
Social Benefits	3.993.469
Other	149.828
Total	<u>8.868.806</u>

Note 12- Long-Term Debt

Long-term debt as of December 31, 2010 is as follows:

	<u>2010</u>
<i>Instituto de Crédito Oficial del Reino de España (ICO)</i> , interest rate of 2%. Original amount: 1.560 million pesetas. It expires in 2013, grace period of 7 years – Date of first disbursement: July 27, 1993.	2.788.568
<i>Central American Bank for Economic Integration (BCIE)</i> , interest rate: the lower between (1) the interest rate of the ordinary funds of BCIE, which will be quarterly determined, (2) an interest rate for the equivalent to 350 basic points above the international rate known as ‘Prime Rate’. Original amount: US\$60.000.000; expires in 2017, grace period 2 years – Date of first disbursement: September 30, 2005.	42.000.000
<i>Corporación Andina de Fomento (CAF)</i> , interest rate: Libor rate for loans at 6 months, plus 200 basic points. Original amount: US\$20.000.000; expires in 2018, grace period of 2 years. Date of first disbursement: December 31, 2006.	16.000.000
<i>Less:</i> Current portion of the long-term debt	<u>(8.929.522)</u>
<i>Total of long-term bank debt</i>	51.859.046
Accounts payable, long-term	11.939
<i>Total of long-term debt</i>	<u>51.870.985</u>

Note 13- Capital Stock

As of December 31, 2010 capital stock for the Company was comprised of 30.000 common and nominative stock at ¢100 each.

Note 14- Donation Surplus

As of December 31, 2010 the donation surplus is as follows:

	<u>2010</u>
Surplus donated by Allied Chemical Corp	16.776.309
Donation by PetroCanada	9.912.864
Donation by A.I.D. (Coal Explor.)	1.129.446
Debt condoned by Dutch Government	326.840
Castella oil pipeline	151.830
<i>Total</i>	<u>28.297.289</u>

Note 15- Costs of Sales

Attachment B shows the composition of sales costs for the year ending December 31, 2010.

Inventory Adjustment for Cost of Sold Product

Inventory adjustment for sold product for the year ending December 31, 2010 equals US\$21.094.583. (Attachment B).

Note 16- Law 7722 Reserves (Income Tax)

In Law N° 7722 “Subjection of Government Agencies to Income Tax Payment”, published in La Gaceta N° 10 of January 15, 1998, it is established, in article 2, that RECOPE and other public entities will not be able to create reserves or make disbursements that are income tax deductible, not authorized in the Law of the Regulatory Authority of Public Services, N° 7593, from August 09, 1996 or the respective organic laws.

According to Law 7593 and according to the provisions set forth in Resolution RRG-8988-2008, the company plans to create and register in the 2009 period, the reserves authorized by the Regulatory Authority Utilities in the sales prices, in order to support the programs of: a) debt servicing, b) investments in development projects, and c) safety inventory. These items could be deductible for purposes of determining income tax, according to the provisions set forth in Law 7722.

Regarding what is mentioned in the previous paragraph, in item I of the resolution of the General Regulator No. RRG-8988-2008, published in La Gaceta N° 214 of November 05 2008, it is established that income tax should not be recognized within the cost structure of the utilities offered by RECOPE.

Note 17- Deferred Income Tax

The IAS 12 “Income Tax” establishes that revaluations that do not affect the tax profit are not subject to adjustments to the base rate; therefore, the difference resulting from the revalued asset and the tax basis is a temporary difference that results in a deferred tax. This situation is applicable to the Surplus from Revaluation, which does not have a tax base, becoming a taxable basis for deferred tax liability calculation, However, in conformity with the criterion issued indicating that RECOPE is tax exempted because it does not have taxable income, this record is reversed in the 2010 period.

Note 18- Expenses Authorized by Law

For the year ending December 31, 2010, RECOPE has budgeted transfers listed below, based on laws of the Republic:

	<u>2010</u>
Fuel Regulation Fee	2.918.830
Civil Aviation Fee	989.565
Law 8488 National Commission for the Prevention of Risks and Coverage of Emergencies	<u>947.668</u>
Total	<u>4.856.063</u>

Note 19- ARESEP TAX – Transfers to the Public Sector

ARESEP CANON

Payments that the company must make for this concept come from liabilities under withholding of transactions:

- a. Fuel regulation fee; the sum of ¢1.540 million was paid.
- b. Also, other collection fees have been established for RECOPE's clients, such as:
 - Distributors with fixed point of sale (gas station owners) and without one (peddlers) for ¢ 636-46 million.
 - LPG distributors and ¢ 331,61 million.
 - Carriers for ¢9,4 million.

These fees were approved by the Office of the Comptroller General, through official communication No. 7810 of July 24, 2009, and in accordance with the provisions set forth in article No. 82 of Law 7593, amended by Law 8660, published in La Gaceta N° 156 of August 2008. These fees were submitted to RECOPE's General Management through communication 513-GG-2009 of ARESEP, dated December 15, 2009. They were published in La Gaceta N° 175 of September 8, 2009.

Transfers to the Public Sector

Based on Law 8488 in 2010 the amount of ¢500.000 million was budgeted for the National Emergency Commission.

Inter-Institutional Agreements

This refers to international organizations that provide technical training for RECOPE personnel, among these are payments to the Latin American Energy Organization (OLADE), Latin American Reciprocal Assistance (ARPEL), Latin American Plan for Energy Operations (PLACE), World Energy Council (WEC) and Clean Caribbean Cooperation.

Law 6975 of December 03, 1984; Article 15, authorizes decentralized institutions and State companies to make payments to international organizations, subject to authorization by the Ministry of Finance. Payments for 2008 are (in thousands of Costa Rican colones):

OLADE - PLACE	¢	8.495
CLEAN CARIBBEN COOPERATIVE	¢	13.871
ARPEL	¢	18.186

Note 20- Project for the Expansion and Modernization of the Refinery

The first stage of this project was financed through Law 7336 published in La Gaceta Number 89 of May 11, 1993, that approves a loan with the Government of Spain by means of the Instituto de Crédito Oficial (ICO) for 1.560 million pesetas payable twice a year, on March 1st and September 1st with ordinary interest at an annual rate of 2% and a 0.25% fee for funds not used, plus a seven year grace period as of February 1994.

To date, the first stage of the Refinery modernization project has been completed. The investment for the second stage was originally estimated in US \$125.45 million, an amount that was funded through loan No. 1774 between RECOPE and the Central American Bank for Economic Integration (CABEI). In the minutes of ordinary session of the Board of Directors No. 4248-204, held on April 2, 2008, the board agreed on the recommendation included in correspondence IEEF-001-2008, underwritten by the head of the Economic and Financial Studies Department and based on the reasons contained therein, to use section 12.04 of the loan agreement and inform CABEI that RECOPE was waiving the loan.

In order to perform a modernization of the refinery, in the minutes of ordinary session of the Board of Directors No. 4217-173 on December 10, 2007, the first report was issued about meetings held with the Chinese governmental company, China National Petroleum Corporation (CNPC), to operationalize the Cooperation Agreement between CNPC and RECOPE, signed on October 24, 2007 in Peking, China.

In minutes of ordinary meeting number 116 of the Cabinet Meeting, held on October 22, 2008, the authorization request was approved for RECOPE to negotiate and enter into a joint venture agreement, in order to establish a joint venture with China National Petroleum Corporation International Ltd., a subsidiary of CNPC, for the expansion and modernization project on Moín's refinery, request that can be seen in article 9 of the ordinary meeting of RECOPE's Board of Director number 4300-256, dated October 15, 2008.

The agreement between both companies was entered on November 17, 2008, during the visit made by the president of the People's Republic of China to Costa Rica. The plan consisted of creating a joint company with a total investment of US\$1,000 million in new works and the modernization of the current structure technology, in order to produce on a daily basis 50% more than the oil byproducts number currently consumed in the local market, which ranges above the 40,000 daily barrels. In case the modernization of the refinery does not take place, processes will be more expensive every day, up to reaching point in which no positive operation margins will be reached.

According to a Joint Venture Agreement entered into between RECOPE and Internacional CNPC Ltda. (CNPCI), endorsed by the General Controllershship of the Republic through official communication No. 09718 (DJ-0937) of September 2, 2009, which is established in Section 4.01 that the authorized and registered capital of this joint venture will be for the sum of US\$10,000,000, payable in equal parts by the stockholders. RECOPE will be responsible for making a payment of US\$5,000,000. Likewise, Section 4.03 states that the stockholders will make a First Capital Contribution of US\$100 million; 5% must be paid during the period of creation and preparation of the Feasibility Study, and RECOPE will have to disburse US\$2.5 million.

On December 14, 2009, RECOPE and CNPCI signed the bylaws of the new entity, which was named SORESCO S.A., (Sociedad Refinadora Sino-Costa Rica). On December 15, 2009 the registration process for this entity was initiated before the National Property Registry, upon filing articles of incorporation, which was assigned references T: 2009 and A: 00332873. The budgetary authorizations required to make the aforementioned payments were provided as well. Therefore, the application of the authorized resources seems advisable, so that SORESCO can start operations, and in this way, implement the activities necessary for the development of the Refinery Expansion and Modernization Project.

Board of Directors' minutes No. 4456-9, dated June 16, 2010, indicates that during the meetings held in Beijing in the second week of June, the Board of Directors of SORESCO, S.A. was established. Also, the development plan was established, according to which the refinery modernization project would be concluded in 2013.

On August 23, 2010, the first capital contributed is registered, for a total of US\$ 2.205 million, crediting the account 1303 01001 "Securities – Joint Venture RECOPE-CNPCI", through document N° 100017211, of August 23, 2010. (See Note 9).

As of the date of this report, RECOPE hired a US company to provide them with a second criterion on the refinery modernization project with the Chinese stockholders.

Honeywell, specialized firm in oil industry, will have to analyze the feasibility study conducted by China Huanqiu Contracting & Engineering Corp. The consultancy has a cost of US\$100,000, and the report should be ready in thirty days.

According to the first results of the feasibility study, the plan is feasible because it complies with the minimum 16% profitability, as required by the Corporación Petrolera Nacional de China, partner of RECOPE for this investment. This was the conclusion reached by the firm KBC Consultants, hired at the same time by Huanqiu Contracting & Engineering, after analyzing the world oil market and the consumption in Costa Rica.

Note 21- Relevant Facts

Moín Port Complex:

On March 22, 1997, RECOPE Management was informed that investment in this project had satisfactory proprietary and control title issued in the name of RECOPE, as ratified by the President's Cabinet at Meeting No. 89 on April 2, 1988.

Notwithstanding the foregoing, at Meeting Number 200 of the Cabinet of the President of the Republic, held on April 13, 1998, a resolution was passed to transfer the property or property rights of certain properties on which the Moín Port Complex is located to the Ministry of Public Works and Transportation (MOPT) at a value to be determined by the Internal Revenue Service, so that MOPT can carry out the modernization of that port zone. It was further agreed that RECOPE will only deliver possession of the land once the agreement between the company and MOPT is signed, which will regulate the terms and conditions for said delivery and the rights of possession transferred until the total value is paid off.

This agreement was not fulfilled from the legal point of view.; for RECOPE, it would have meant a violation to article 6 of law 6588, since the assignment of ownership would become a loan of real estate to MOPT that has not been authorized by a previous law.

For this reason, the scheme had to be varied by the Government of Costa Rica, deciding for a transfer in behalf of the State for the same purposes. This transfer, which was made through a law, of such property and property rights of RECOPE, JAPDEVA, and ICT required by the development of the Modernization Project, aspects on which as of this date all these entities are working under MOPT's coordination, since in some cases, it is necessary to make segregations. In the official communication DJU-766-08, the Legal Department indicated that the bill is expected to be ready for September 2007, and this bill will indicate all property and property rights to be transferred. The bill will be passed when the necessary properties for the development of the port complex project are selected.

Note 22- Contracts for Important Constructions

As of December 31, 2010, RECOPE has contracts for development of constructions with various suppliers awarded by public bidding rounds as follows:

<i>PUBLIC BIDDING</i>			<i>TOTAL</i>	
<i>N°</i>	<i>DESCRIPTION</i>	<i>SUPPLIER</i>	<i>AMOUNT</i>	<i>CURRENCY</i>
2003-9-0303	CONSTRUCTION OF THE III STAGE OF THE LIMON - LA GARITA POLYDUCT	TECHINT S.A. DE C.V.	US\$ 79.500.229	US \$
2004-9-0114	SUPERVISION OF CONSTRUCTION OF III STAGE LIMON-LA GARITA POLYDUCT	CONSORCIO ARCO	US\$ 7.404.902	US \$
2005LN-9000206-02	DREDGING SERVICE CONTRACTING FOR MOIN PORT COMPLEX	DRAGADOS HIDRAULICOS S.A.	US\$ 6.052.013	US \$
2005LN-900211-02	HIRING OF SERVICES ON CONSULTING, LABOR, MATERIALS AND EQUIPMENTS FOR THE DESIGN, CONSTRUCTION AND INTERCONNECTION AND STARTING-UP OF THE NEW PLANT OF OPERATIONS OF RECOPE AT THE INTERNATIONAL AIRPORT JUAN SANTAMARÍA, INCLUDING THE UNDERTAKING OF COMPLEMENTARY WORKS IN THE PLANT AT LA GARITA, UNDER IPC HIRING MODALITY	CONSORCIO EDICA LTDA-HMMNY	21.783.232.01	US \$

PUBLIC BIDDING N°	DESCRIPTION	SUPPLIER	TOTAL AMOUNT	CURRENCY
2006LN-900292-02	HIRING OF CIVIL, ELECTRICAL, MECHANICAL WORK, AND BUNKER TANKS	ISIVEN C.A.	706,205,592.30	COL
2007LN-700123-02	HIRING OF LABOR SERVICES, AS WELL AS OF MATERIALS AND EQUIPMENT FOR CIVIL, ELECTRICAL AND MECHANICAL WORK FOR REPLACEMENT AND RELOCATION OF THE PIPELINE LINES THAT INTERCONNECT THE REFINERY WITH THE PORT TERMINAL LOCATED AT MOIN DOCK.	CONSORCIO WESPAC	10.926.048.63	US\$
2007LN-700124-02	HIRING OF THE DETAILED ENGINEERING ACCORDING TO THE BASIC ENGINEERING PROVIDED BY RECOPE; ACQUISITION OF MATERIALS; CONSTRUCTION AND STARTING-UP (IPC MODALITY) FOR THE EXPANSION OF SHOPS AND WAREHOUSES OF THE REFINERY.	ESTRUCTURAS DE CONCRETO S.A.	4.034.160.000	COL
2007LN-900104-02	HIRING OF LABOR SERVICES, AS WELL AS OF MATERIALS AND EQUIPMENT FOR THE CONSTRUCTION AND INTERCONNECTION OF A TANK WITH A CAPACITY OF 32,000 M3 (200,000 BARRELS) FOR THE STORAGE OF LIGHT CRUDE OIL AT THE REFINERY IN MOIN-LIMÓN.	ISIVEN C.A.	5,833,836,881.75	COL
2007LN-900152-02	CONSTRUCTION AND INTERCONNECTION OF DIESEL TANK IN EL ALTO PLANT	CONSORCIO GRUPO SARET	3,498,400,090.00	COL
2007LN-903050-02	HIRING OF SERVICES FOR TANK CLEANING AND PAINTING	ALFARO ROA LUIS ALBERTO	266,499,999.50	COL
2008LN-9000163-02	HIRING OF LABOR SERVICES, AS WELL AS OF MATERIALS AND EQUIPMENT FOR THE CONSTRUCTION OF DIVIDERS OF OILY WATERS; AND PHYSICAL AND OPERATIONAL WORKS TO BE DEVELOPED AS INDEPENDENT LINES AT THE PLANTS AT EL ALTO AND LA GARITA.	PRODUCTOS IMPORTADOS MEJIA PIME S.A	1,303,236.46	US\$
2008LN-700156-02	HIRING OF LABOR SERVICES, AS WELL AS OF MATERIALS AND EQUIPMENT FOR THE CONSTRUCTION OF MAINTENANCE WORKSHOPS AT LA GARITA PLANT.	CONSTRUCTORA NAVARRO Y AVILES S.A.	1.116.398.547.96	COL
2008LN-900205-02	HIRING OF LABOR SERVICES, AS WELL AS OF MATERIALS AND EQUIPMENT FOR THE RENOVATION AND INTERCONNECTION OF A1 JET	CONSORCIO GRUPO SARET	11.155.015.74	US \$

PUBLIC BIDDING			TOTAL	
N°	DESCRIPTION	SUPPLIER	AMOUNT	CURRENCY
	TANKS AND CONSTRUCTION AND INTERCONNECTION OF GASOLINE TANKS AT LA GARITA PLANT.			
2006LN-900163-02	HIRING OF LABOR SERVICES, AS WELL AS OF MATERIALS AND EQUIPMENT FOR THE CONSTRUCTION OF DIVIDERS OF OILY WATERS; AND PHYSICAL AND OPERATIONAL WORKS TO BE DEVELOPED AS INDEPENDENT LINES AT THE PLANTS AT EL ALTO AND LA GARITA.	PRODUCTOS IMPORTADOS MEJIA PIME S.A	1,576,324.65	US \$
			US\$ 1.598.673,94 BROKEN DOWN AS FOLLOWS: US\$1.119.700,95 LOCAL COMPONENT / US\$ 478.972,99 IMPORTED COMPONENT	
2005LN-903009-02	CONTRACTING OF LABOR, MATERIALS, AND EQUIPMENT FOR MAINTENANCE OF TANKS NUMBERS 728 AND 731 OF THE REFINERY	PETROLOG VENEZUELA C.A.		US \$
			BARRANCA PLANT: US\$ 6.949.415,29 (BREAKDOWN: US \$1.706.239,38 IMPORTED COMPONENT / US\$ 5.243.175,91 NATIONAL COMPONENT) / REFINERY PLANT: US\$ 6.471.989,14 (BREAKDOWN: US\$ 5.119.503,02 NATIONAL COMPONENT / US\$ 1.352.486,12 IMPORTED COMPONENT)	
2006LN-900168-02	CONSTRUCTION AND INTERCONNECTION OF TANKS LIMON AND BARRANCA HIRING OF CIVIL, ELECTRICAL AND MECHANICAL WORKS. CRUDE TANKS	CONSORCIO GRUPO SARET		US\$
			US\$ 9.788.218,77 BROKEN DOWN AS FOLLOWS: US\$ 7.768.776,41 LOCAL COMPONENT / US\$ 2.019.442,36 IMPORTED COMPONENT	
2006LN-900190-02	CONSTRUCTION OF TANKS AND LOADING STATIONS SALES FACILITY, REFINERY	CONSORCIO GRUPO SARET		
			US\$ 4.808.060,66 ITEMIZED AS FOLLOWS US\$3.843.578,47 LOCAL COMPONENT / US\$ 964.482,19 IMPORTED	
2006LN-900192-02	HIRING OF CIVIL, ELECTRICAL AND MECHANICAL WORKS. CRUDE TANKS	CONSORCIO GRUPO SARET		US\$

PUBLIC BIDDING			TOTAL	
N°	DESCRIPTION	SUPPLIER	AMOUNT	CURRENCY
			COMPONENT	

2010LN-000002-02	DESIGN, ACQUISITION AND CONSTRUCTION OF LPS STORAGE SPHERE	FELGUERA I.H.I. S.A.	12,069,672,00	US\$
------------------	--	----------------------	---------------	------

Note 23- Price Adjustments

New Pricing Model to Establish Fuel Prices

By means of the resolution RRG-9233-2008, published in La Gaceta N° 227 of August 24, 2008, the Regulatory Authority of Public Services published the new pricing model to define the prices of fuels derived from hydrocarbons in distribution plants and for the end user. The effective day of this model is November 25, 2008.

The new model establishes the way and period to take into account to determine the plant prices and the end user prices of the products that RECOPE sells:

a) Ordinary Price Definition:

For establishing the price of the fuel, it should be follow what is stated in the law 7593 and its regulation; the following formula will be applied:

$$NPPCi = (PRji * TCR) * [1 + Kj] \pm \pm Di \pm Si$$

Where:

j = 1, 2, 3 ... n. indicates the number of extraordinary price adjustments, made from the rate effective day of the ordinary study of prices.

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

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

NPPCi: It is the new sale price in RECOPE's distribution plant in colones per liter, of the fuel i, without the sole tax; which will affect in a direct way the price of the fuel i for the end user.

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

The fuel reference prices approved to the products of national sale are the following ones:

Premium gasoline	Unleaded midgraded: 89 octanes R+M/2.
Regular gasoline:	Regular unleaded: 87 R+M/2.
Diesel 0,05% S:	Diesel LS (low sulfur).
Diesel 0,20% S:	Fuel Oil N° 2, 0,2% of sulfur.
Diesel 0,50% S:	Fuel Oil N° 2, 0,2% of sulfur, adjusted
Kerosene:	Jet/Kero 54, 0,3% of sulfur.
Jet fuel:	Jet/Kero 54, 0,3% of sulfur
Bunker:	Residual fuel N°6 3,0% Sulfur).
Oil liquefied gas:	Regular Propane Mont Belvieu, non-tet & Regular Butane de Mont Belvieu, nontet; mix in 60% of propane & 40% of maximum butane.
Heavy Naphtha:	Heavy naphtha
Light Naphtha:	Naphtha
Others:	According to new requests of the country, like the pure bio-fuels and his miscellanies with hydrocarbons.

For the fuels, for which the Regulatory Authority does not count with reference price of Platt's Oilgram Price Report Coast of the Gulf and/or another market of the region; they are:

Asphalt: Selling Prices Asphalt Cement, Gulf Coast, Area Barge y/o Asphalt Cement Text/Louisiana Gulf .

Asphalt emulsion: In case that the price reference is not available, it is possible to use 65 % of the miscellany of 86 % of the price of the asphalt more 14 % of the price of the bunker.

Av-gas: Weekly average price of the following references in Platts:

Avgas 100/30 Carib Exxon
Avgas 100/30 Carib Shell
Avgas 100/30 Carib Trintoc
Avgas 100/30 Carib Chevron

Ifo-380: Net Orleans i.e., viscosity 380 CST, 3,0-4,0 S (sulfur), with conversion factor reported by Platt's de 6.40 barrels per ton. .

Heavy Diesel: In case that the price reference is not available, it is possible to use miscellany of 55.23% diesel price plus 44.77% bunker price.

Others: According to new requests of the country, like the bio-fuels and its mixes with hydrocarbons. To determine the reference price of the combinations of bio-fuels, it is possible to use the following equation:

$$PR_{mezcla} = X \% * PR_{biocombustible} + (1 - X \%) * PR_{hidrocarburo}.$$

Where:

X: it represents the percentage of participation of the bio-fuel in the variety of the products that RECOPE sells.

The reference price will be provided, at the first instance, by RECOPE according to reference of specialized publication; or it can be calculated based on the reference prices of the variety of fuels that the company has. In case of some publication, RECOPE must provide the reference of the information source.

The previous references can be modified at any as long as they are approved by the Regulatory Authority. For that, RECOPE must request the change two weeks before the cutoff date of application of the model of adjustment of price.

For jet fuels, av-gas and ifo 380, which RECOPE sells to big consumers (fulfilling the norm of minimal volumes) in airports or ports, the PR_i can be set automatically in a band, which will fluctuate in more or less the standard deviation in dollars per barrel of the international FOB price of every fuel. The deviation must be calculated based on 300 observations of international prices of every fuel occurred before the cutoff date of fuel price review. Once the international price PR is modified according to the variation range, it is necessary to add the K_j, ±D_i, ±S_i to set the final price to the above mentioned clients. The formulas to calculate the maximum and the minimum prices, in colones CRC or dollars USD per liter, are the following ones:

If the price is expressed in colones CRC:

$$NPPC_i (Pri * TCV_z) + K_i \pm D_i \pm S_i$$

If the price is expressed in dollars USD

$$NPPC_i = PR_i + \frac{K_i \pm D_i \pm S_i}{TCV_z}$$

Banda de precios	Precio máximo	en colones	$NPPC_i^{máximo} = (PR_i + \sigma_i) * TCV_z + K_i \pm D_i \pm S_i$
		en dólares	$NPPC_i^{máximo} = PR_i + \sigma_i + \frac{K_i \pm D_i \pm S_i}{TCV_z}$
	Precio mínimo	en colones	$NPPC_i^{mínimo} = (PR_i - \sigma_i) * TCV_z + K_i \pm D_i \pm S_i$
		en dólares	$NPPC_i^{mínimo} = PR_i - \sigma_i + \frac{K_i \pm D_i \pm S_i}{TCV_z}$

Where:

σ_i: Standard deviation of the product i, calculated from 300 observations of the international prices of reference, with cutoff date at the date of prices review.

TCV_z: Seller exchange rate (colones per dollar) for the not financial sector published by the Central Bank of Costa Rica [*Banco Central de Costa Rica*], published for the day z in which the sale of the fuel is made.

TCR: It is the seller exchange rate (colones CRC /dollars USD) for the non-financial sector to be used on the cutoff date of the study, which is determined by the Central Bank of Costa Rica [*Banco Central de Costa Rica*].

Kj: It is a percentage operation margin, and it represents the cost that is accepted to RECOPE, for necessary projected domestic costs to place the product in the distribution plants, that is, it represents the difference between the international FOB price of the fuel and the distribution plant price, excluded the concepts related to the refinery activity because it is already included in the international fuel price I. The K will be determined of the following way:

1. By means of a comparative margin study among several countries (benchmarking), which means the search of better practices of management, through a continuous and systematic procedure for the evaluation of products, services and processes of work belonging to organizations known as leaders; that means that it is the search of better practices in an industry, and which drives to a higher performance. This comparative study will have to include at least the following:
 - a. Definition of the sphere of application.
 - b. Description: of the countries selected to make the comparison.
 - c. Procedures used to select the countries.

When this procedure is applied, the research to determine the K will be place under the consideration to the public hearing procedure, and it will be able to be applied when K is published in the official newspaper *La Gaceta*.

2. Historical and reference costs such as cost of maritime transport, insurance, loss in transit, port costs, financial costs (debt service of short and long term), fuel reception terminal costs, pass trough cost in pipelines and cisterns, distribution plant costs (storage and shipment), investment (total of depreciation), security inventory in finished product, other charges indicated by legal regulation (fees, contribution to entities and tax rates) and when it applies, other rate costs for the distribution costs of the finished products placed in each distribution plant. When this procedure is applied, the study to determine the K will be subjected to public hearing, and it can be applied when the resolution that states the K be published in the official newspaper *La Gaceta*.
3. The value of K, of the formula that will be used to set the fuel prices, will be the lower figure between those obtained from the comparative study between the benchmarking and the analysis of historical and reference costs. (Resolution of Board of Directors of the Regulatory Authority number 001-043-2008, Sole Article, Section 1 of the minutes of the extraordinary meeting 043-2008 of August 14, 2008 and ratified on the 27th of the same month and year). Except qualified exception that the General Regulator, or who has power for that, will determine in reasoned and expressed way, in the corresponding pricing resolution.

This percentage (Kj) will generate the income to cover the operation cost (margin of operation), and it will be determined at least once a year, in ordinary way following the procedure stated in the Law 7593 and its regulation, and in extraordinary way whenever is applied the setting model of the fuel extraordinary price, in order to maintain the income that the company needs to cover the operation margin, whenever the domestic plant price without the single tax is adjusted, as a result of the change of the price of the fuel international market.

To determine the percentage K_j the following equation will be used for all the products:

$$K_j = \frac{\sum_{i=1}^h (K'_{(j-1)i} / PR_{ji}) * Q_i}{\sum_{i=1}^h Q_i} \quad j = 1, 2, 3... n.$$

Where:

K_j = Average percentage contribution of each fuel that generates the income to cover the custom duties by RECOPE.

K' = Absolute contribution by type of fuel, which makes that the RECOPE's incomes to cover the custom duties do not change in the same way as the fuel domestic prices when the international price changes.

PR_i = Fuel international price.

Q = Estimated sales by type of fuel per calendar year.

$j = 1, 2, 3 \dots n$. It indicates the number of extraordinary adjustments of prices, made from the effective day of the rate of the ordinary study of prices.

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

h = Represents the total number of fuels that are sold.

Before every change of fuel prices, as a result of the change of the international prices; the RECOPE's income to cover the custom duties of the fuels that it sells, can be calculated by the following equation:

$$I = \sum_{i=1}^h (K_{(j-1)i} \times PR_{ji}) * Q_i \quad j = 1, 2, 3... n.$$

Where:

I = RECOPE's total income to cover the domestic operation costs of the fuels.

D_i : Total in colones CRC per liter, in which the price of each fuel must be adjusted –increased or reduced- temporarily (deducting the total of the income tax that RECOPE has transferred to the Ministry of Financing, caused by the price differential between the price of international reference (PR_i) incorporated in the plant sale price and the current international price at the moment in which RECOPE imports the fuels. This component contemplates the fact whether RECOPE bought fuel at a market price, where the price reference was affected by an anomalous factor and in the price adjustment made, the Regulatory Authority used other market of price reference, in order to avoid the influence of the above mentioned anomaly in the domestic prices. This factor will be checked in June and in December of every year by means of the extraordinary procedure of price adjustment, and it will be effective for the necessary period to

compensate the differences. It will be applied according to the influence of every product on the entire differential through the following formula:

$$D_{i,t} = \frac{\sum_{j=1}^n [(PR_i - PI_{i,j}) * TCI_j * VDM_i]_t}{VTP_i}$$

Where:

t: Number of days in which a shipment of the product i is sold, and it is calculated as relation of the shipment volume and the monthly daily sales.

PI_{i, j}: Reference price of the day in which it is made the shipment of the product (bill of landing, BL) of the shipment j for the product i, reported by RECOPE in the import monthly reports. The value of PI_{i, j} will be different for each period of t.

TCI_j: Import exchange rate used in the shipment j, expressed in colones CRC per dollar of the United States of America.

VDM_i: Daily sales average of the product i in the period t.

VTP_i: Sales total budgeted for i for the period in which the Di adjustment is made.

The review of the Di calculation will be performed in the indicated months, but in the same date in which the PR_i extraordinary review is made.

Si: Specific subsidy by type of fuel granted by the State and applied to the fuel when it is officially proven that the total subsidy will be transferred to RECOPE, or the cross subsidization that is indicated, jupon's ARESEP indication, to be established among products. For the case of the subsidy approved by the Legislative Assembly, it can be applied on the partial values that the Ministry of Financing transfers to RECOPE. Once the subsidy is depleted, the price of the fuel will automatically be the normal one of the sum of the international price plus Ki and Di. This factor will be applied to the fuel price following the extraordinary procedure of price adjustment using the following formula:

$$S_{i,t} = \frac{VTS_i}{VTP_{i,t}}$$

Where:

Si, t: Value in which the fuel i is affected by the subsidy in the period t, expressed in colones CRC per liter.

VTS_i: Total value of the subsidy approved by the Legislative Assembly or determined by ARESEP for the product i.

VTP_{i, t}: Total sales budgeted for i for the period t in which t will be applied.

b) Extraordinary Price Definition:

For establishing fuel price through the application of the extraordinary procedure, the following formula will be used:

$$\text{NPPC}_i = (\text{PR}_i * \text{TCR}] * (1 + \text{K}_j) \pm \text{D}_i \pm \text{S}_i$$

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

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

Where:

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

The previous formula will be applied in the following way:

The Regulatory Authority will define the prices for each of the products *i*, on the second Friday of every month. When such Friday falls on a holiday or a day off, the calculation will be made the following business day, by using the same cutoff date of the second Friday of the month. The price adjustment will be submitted to the procedure stated on the Law 7593 regulations to solve the adjustments of extraordinary prices (15 business days), within which the Regulatory Authority will try to obtain civil participation, by following the procedure stated on the RRG-7205- resolution 2007 of September 07, 2007 and published in *La Gaceta* N° 181 of September 20, 2007.

σ_i The standard deviation of the product *i*, which calculation was based on 300 observations of the international reference prices, with cutoff on the date of review of the prices. It is reviewed in an extraordinary way every time the extraordinary fuel price definition model is applied (on the second Friday of every month). This procedure allows RECOPE to automatically adjust the PR_i within the band, in above or below the standard deviation in dollars per barrel of the FOB international price of each fuel.

K_j: It will be reviewed in an extraordinary way whenever it the extraordinary fuel price definition model is applied, in order to maintain the level of income that the company needs to cover the operation margin.

D_i: This factor will be reviewed in June and in December by means of the extraordinary pricing adjustment procedure established in the present model. The review of the calculation of D_i will be made in the stated months, but in the same date in which the extraordinary review of the PR_i is made.

S_i: This factor will be applied at the fuel cost by following the extraordinary procedure of price adjustment indicated in the present model. The calculation review of S_i will be made in the same date in which the extraordinary review of the P_{Ri} is made.

c) Transfer of the Price Adjustment to the End User:

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

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

$$2- \quad PC_{iDF} = PPC_i + MgT_i + MgD_i$$

Where:

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

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

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

T_i: Sole tax in colones per liter, by type of fuel and revisable every trimester, according to what is indicated by the Ministry of Financing, pursuant to Law 8114, Law of Simplification and Tax Efficiency [*Ley de Simplificación y Eficiencia Tributaria*].

PC_{iDF}: Fuel price of *i*, for the fuel distribution retailer, in colones per volume unit.

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

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

For the purpose of controlling these ordinary and extraordinary procedures, RECOPE is required to provide to the Regulatory Authority, in writing and in electronic document, the following:

- i. No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a chart that includes the pricing list of the effective purchasing prices by fuel type and a report of the quantity of imported fuels separated by supplier, in absolute and percentage terms.
- ii. No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a chart that details -by liter and type of fuel- the FOB price of the imported fuel, the freight charges, the load insurance and a detail of port

- costs. The information should be provided in electronic format (Excel), and the information that gave origin to the calculation of the indicated price should be provided as well.
- iii. No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a chart that details -by liter and type of fuel- other costs indicated by the model and that justify placing the fuel in every distribution plant, in the terms that the ordinary pricing methodology establishes. The information should be provided in electronic format (Excel), and the information that gave origin to the calculation of the indicated price should be provided as well.
 - iv. No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a detailed management report based on accounting results, corresponding to the last closed fiscal period; it should include at least:
 - Actual rate statement of origin and application of funds at one-year projection. It should include a detailed explanation of the sources of funds and their applications.
 - Financial analysis.
 - Analysis of the implementation of investments, foreign charges, and debt service.
 - v. Quarterly report and the respective accruals of the calculation of the rate lagging caused by the price differential that is produced between the international reference price and the current international price at the moment in which RECOPE imports the fuels; the report should be presented in electronic format (Excel).
 - vi. In December of each year RECOPE must inform the ARESEP of the estimated sales (in liters) by product and by month, corresponding to the following year.
 - vii. Quarterly report of the effective fuel prices that it sells in ports and airports; the report should be presented in electronic format (Excel).
 - viii. It must present the monthly and yearend financial statements, in electronic format (Excel).
 - ix. It must place in its website the current plant prices with and without taxes, as well as the fuel prices that it sells in ports and airports whenever it modifies them.
 - x. It must improve the accounting system to separate the activity of refinement from the others.

Note 24- Categories of Clients and Prices

RECOPE deals with different categories of clients, for which there are different ways of calculating the sales price for fuels invoiced. These are as follows:

24.1 Sale of National Fuel to Service Stations

Price at plant (+).

RECOPE internal cost value (+)

Single tax law 8114 (+).

Average price to gas stations (+).

Sales price to consumer (=).

24.2 Sale of National Fuel to Direct Clients (Industry)

Price at plant (+).
RECOPE internal cost value (+)
Single tax law 8114 (+).
Sales price to direct client (=).

24.3 Sale of national fuel to distributors without fixed sales point

Price at plant (+).
RECOPE internal cost value (+)
Single tax law 8114 (+).
Average margin to distributors without fixed sales point (+).
Sales price to distributor (=).

24.4 Sale of Fuel to the National Fishing Fleet

This refers to products such as gasoline and diesel sold to clients subject to Law 7384 “Law for the Creation of INCOPECA”, having a differentiated price. Prices are set using the following framework:

By Resolution RRG-2774-2002 of September 26, 2002, ARESEP made a fundamental change in the procedure for setting rates for fuel consumed by the national fishing fleet. It recommends:

“...set fuel prices for Diesel and Regular Gasoline consumed by the National Fishing Fleet at the price at the RECOPE plant without charging the Single Tax, either using the Normal or Extraordinary Procedure...”

The General Regulating Authority resolved that:

II. “...setting fuel prices for Diesel and Regular Gasoline consumed by the National Fishing Fleet is made in accordance with the provisions set forth in Articles 3, 30 and 31 of Law Number 7593...”

III. “...fuel prices for Diesel and Regular Gasoline consumed by the National Fishing Fleet will be set in accordance with Resolution Number 2710-2002, until such time as a new rate setting procedure is established for RECOPE...”

Through resolution No. RCR – 228 – 2010, published in La Gaceta Number 247, of December 21, 2010, ARESEP resolves to set the fuel price for the national fishing fleet at RECOPE’s institutional price, per liter, as follows:

Gasoline Plus 91	¢ 338,826
Diesel 0.05% S	¢ 369,180

Note 25- Contingencies

a. Pending Lawsuits

In communication DJU-JL-408-11 of March 15, 2011, the Juridical Section informs on the current cases which sums awarded in legal judgments or established in enforceable judgments - both in favor and against RECOPE- are being disclosed, as indicated below (in Costa Rican Colones):

PLAINTIFF	DEFENDANT	VALUE
RECOPE S.A.	MAURICIO UREÑA JIMÉNEZ	¢ 201.235.91
RECOPE S.A.	CRISTIAN BARBOZA GÓMEZ	¢ 310.750.00
RECOPE S.A.	DANILO ABARCA MATA	¢ 6.994.214.67
RECOPE S.A.	LUIS MORA FALLAS	¢ 186.755.90
RECOPE S.A.	JOSÉ SUÁREZ	¢ 761.567.52
RECOPE S.A.	CARLOS MADRIZ	¢ 391.448.33
RECOPE S.A.	MELVIN UGALDE	¢ 238.964.47
RECOPE S.A.	SANSA	¢ 22.395.739.56
MUNICIPALIDAD DE GOICOECHEA	RECOPE S.A.	¢ 293.000.000.00
RECOPE S.A.	CARLOS GOMEZ CHACON	¢ 79.689.01
RECOPE S.A.	ALEXANDER MOLINA MADRIGAL	¢ 154.327.63
RECOPE S.A.	ROBERTO MICHELENA	¢ 674.822.31
RECOPE S.A.	JOSE RAFAEL ROJAS DELGADO	¢ 332.165.13
RECOPE S.A.	GERARDO BRENES	¢ 113.000.00
RECOPE S.A.	OSVALDO LUNA	INESTIMABLE
AGRUPACION MARSHALL ASOC.	RECOPE S. A	¢ 83.000.000.00
ICONOGRAFIAS RL	RECOPE S.A.	¢ 442.000.00
RECOPE S. A.	CARLOS SALAS NUÑEZ	¢ 746.489.16
OCTAVIO VILLEGAS	RECOPE S.A. EXPROPIACION	¢ 7.508.894.15
RECOPE S. A.	ALCONSTRA S.A.	¢ 201.738.00
MUNICIPALIDAD GOICOECHEA	RECOPE S.A.	¢ 853.605.564.00
RECOPE S.A.	CARLOS LUIS GAMBOA	¢ 3.681.076.60
RECOPE S.A.	DESIDERIO ARIAS JIMENEZ	¢ 630.311.35
RECOPE S.A.	MOISES RODRIGUEZ ARAYA	¢ 65.000.00
RECOPE S.A.	EDGAR GDO. VEGA VASQUEZ	¢ 15.971.476.92
RECOPE S.A.	ISAIAS RAMIREZ SEGURA	¢ 620.828.30
RECOPE S.A.	CARLOS SILES MATA	¢ 405.252.72
RECOPE S.A.	EFREN VARGAS VARGAS	¢ 312.520.47
RECOPE S.A.	JOSE A. LOPEZ CARVAJAL	¢ 977.212.76
RECOPE S.A.	CONSOR COOPE UNIGAS Y OTROS	¢ 25.151.724.25
ZAYMA S.A.	RECOPE S.A.	¢ 159.051.055.73

b. Taxes

Income tax, fuel sales, and personal income (salary) tax returns corresponding to the last periods are open for review by tax authorities. Board of Directors' Minutes No. 4471-024 of August 4, 2010 presented, for knowledge purposes of the respective association, the results of the supervisory actions for the 2004 to 2008 periods which the Tax Administration filed since March 2009. In minutes of session No. 4478-031 of August 30, 2011, the Board of Directors authorized management to work on a budgetary modification out of the schedule, in order to provide with budgetary content the payment under protest of the assessment notice No. 2752000026684 (2004 to 2008 periods). Minutes No. 4484-037 of September 16, 2010 indicate that the Administrative and Finance Management informed that on Friday, September 10, the full payments were made

for income tax concept, and for his reason, the credit of \$27 billion that the company had in its favor at the Tax Bureau was requested, and therefore the sum of ¢26.425 million was transferred, in such way that everything was paid off under protest.

2010 Income Tax Advance Payments

No income tax advance payments have been made for the 2010 period since, according to RECOPE's opinion and the provisions set forth in Law 7722 and RRG-8988-2008, the Company does not have a taxable profit.

c. Labor

In accordance with the current Union Contract, except in highly specific cases, all company employees have the right to receive severance pay, equal to one month's salary for each year worked, up to a maximum of 24 years. As of December 31, 2010, maximum exposure for this concept was for the amount equal to US\$ 77.752.172, and 31% is covered by the respective provision (See Note 1-i).

Note 26- Collection Management Performed on RECOPE's Employees Savings Fund for the Sums Paid as a Result of the Review Made to the 2005 – 2008 Fiscal Periods

In minutes of session of Board of Directors No. 4364-320, dated June 24, 2009, del 2009, it is indicated that the Administrative Contentious Court (in vote 11-2008, becoming res judicata) ratifies that the 10% contributed by the company on the monthly payroll, as contribution to the Savings Fund, as established by the Collective Bargaining Agreement, is taxable income, subject to income tax payment. Likewise, the Court states that, since the Savings Fund does not have its own legal entity status, when sharing the corporate ID of RECOPE, the Company has the responsibility to withhold the income tax on this employer's contribution, established by article 137 of the Collective Bargaining Agreement. In minutes 4366-322, of July 1, 2009, it is clarified that the tax obligation was initially from the employees. However, the Savings Fund did not make such withholding, and since it does not have a legal entity status, it operates for all purposes as a dependent body of RECOPE; therefore, the Company has ended jointly and liable responsible, and it has consented to this situation. It is also indicated that in the same way as the tax obligation was initially from the employees, it is equally true that if RECOPE pays the amount to be determined by this situation, public funds would be used to pay something that is responsibility of the employees. Thus, if the Board of Directors authorizes such payment, there is the risk that such entity can be sued. In minutes 4355-311 from 05-20-09, it is indicated that this matter could have implications of a labor nature since when an income tax deduction is made on the Savings Fund contribution received by the employee, the latter could potentially consider that such contribution is part of the salary and request that such amount is considered for all labor cases. Moreover, in minutes No. 4358-314, dated June 3, 2009, we indicate that, according to analysis conducted by the Legal Department, we reached the conclusion that the policies entered into by RECOPE cannot continue to cover the employees' savings, so that any problem that may take place with such savings would be the company's responsibility. In regards to this situation, management lacks a technical study that allows determining the labor scopes and the adjustment amount to the provision for employees' legal benefits and the fees payable to the Costa Rican Social Security Institute, as well as the legal implication of this matter could generate.

Minutes number 4437-394 from April 7, 2010 indicates that since September 20, 2006, a bill was filed at the Legislative Assembly by the President of RECOPE and the Secretary of SITRAPEQUIA, in order to provide the Savings Fund with legal capacity. Commencing May 2010, the bill should be introduced by a deputy, otherwise, in October 2010 and upon maturity of the four year period, it is dismissed. The importance to continue working in this bill is highlighted, in virtue of the negative position always shown by the Union to create a corporation or employee association as a better alternative to provide it with legal capacity.

As a result of the Collective Bargaining Negotiations, RECOPE and the Savings Fund agree that, as manager of such funds, it will be in charge of tax obligations resulting from the refunds made by such Fund for the 2005 – 2008 periods inclusively; it should pay within a maximum term of sixty months commencing as of January 2010; the disbursements to be made by the Savings Fund to RECOPE should take place within the first ten calendar day of the corresponding following month. The Savings Fund will recognize the payment of the employees who are actually working for RECOPE at the moment in which the Ministry of Financing formalizes the respective collection.

Through communication GAF-1117-2010 of August 20, 2010, collection management started in order to comply with RECOPE's Board of Directors Agreement and the Transitory Article II of the Labor Collective Convention. The amount to be recognized by the Savings Fund as indicated in communication FAP-GER-272-2010 of September 6, 2010 is ¢496.781.453 (corresponding to active employees), which should be paid in sixty monthly payments of ¢8,279,691. As of December 2010, the Savings Fund has already paid the sum of 91,076,600 corresponding to eleven payments. As of this date, the account receivable from the Savings Fund has a balance equivalent to US\$792.424. See Note 4.

Note 27- Authorization to Issue Financial Statements

The financial statements as of December 31, 2010 were authorized for issue by the Company's management on February 17, 2011, as indicated in article No. 6 of the ordinary session of the Board of Directors No. 4523-76, held on this date. This translation is consider a free non official translation.

SUPPLEMENTARY FINANCIAL INFORMATION

**REFINADORA COSTARRICENSE DE PETRÓLEO
(RECOPE)**

SALES OF OIL DERIVATIVES

*From January 1 to December 31, 2010
(In US dollars)*

	<i>Local Sales</i>	
	<i>Accrued Dollars</i>	<i>Cubic Meters</i>
Gasoline	586.209.677	586.001
Premium gasoline	401.706.306	380.507
Diesel	1.047.977.402	1.200.201
Kerosene	2.852.843	3.730
Bunker	85.294.335	164.196
L.P.G.	100.599.767	211.578
Asphalt emulsion	2.202.918	5.888
Av. Gas	2.515.653	1.870
Jet fuel	147.489.184	207.156
Heavy Diesel	4.181.695	6.362
Asphalt ac 30	18.356.636	34.638
Naphtha	196.294	292
IFO 380	12.245.217	24.346
Totals	2.411.827.927	2.826.765
	<i>Sales Abroad</i>	
	<i>Accrued Dollars</i>	<i>Cubic Meters</i>
Fuel Oil	22.623.347	42.732
Diesel	34.496.237	59.170
Av. Gas	1.031.789	867
IFO 380	13.962.518	23.810
Bunker	8.380.831	19.735
Totals	80.494.722	146.314
Grand Total	2.492.322.649	2.973.079

**REFINADORA COSTARRICENSE DE PETRÓLEO
(RECOPE)**

COST OF PRODUCTS SOLD

*From January 1 to December 31, 2010
(In US dollars)*

	<i>2010</i>
<i>Production Costs</i>	
<i>Refinery</i>	
Light Crude	301.824.812
Heavy Crude	1.655.807
<i>Asphalt Plant</i>	
Asphalt AC-30	5.788.098
<i>Total Raw Materials</i>	<i>309.268.717</i>
 <i>Refining Costs</i>	
Indirect Costs	19.328.400
Direct Labor Costs	1.617.596
<i>Total Refining Costs</i>	<i>20.945.996</i>
 <i>Tax on Production</i>	
Simple Tax Revenue	392.377.950
<i>Total Production Costs</i>	<i>722.592.663</i>
<i>Minus</i>	
Internal consumption (Vehicles)	(12.395.058)
<i>Cost of Derivatives Produced</i>	<i>710.197.605</i>
 <i>Plus</i>	
Purchase of Finished Product	1.500.975.234
<i>Inventory Available for Normal Sales</i>	<i>2.211.172.839</i>
Adjustments to Sales Costs	21.094.583
Variation in Finished Product Inventory	8.866.243
<i>Cost of Products Sold</i>	<i>2.241.133.665</i>

**REFINADORA COSTARRICENSE DE PETRÓLEO
(RECOPE)**

OPERATING COSTS

*From January 1 to December 31, 2010
(In US dollars)*

	<u>2010</u>
<i>Corporate Management</i>	
Personal Services	9.645.328
Non Personal Services	2.421.495
Materials and Supplies	422.861
Depreciations	1.620.998
Current Transfers	4.945.245
Applied Expenses	(3.908)
<i>Total Corporate Management</i>	<u>19.052.019</u>
<i>Project Management</i>	
Personal Services	4.082.153
Non Personal Services	3.067.447
Materials and Supplies	457.554
Depreciations	109.549
Current Transfers	1.740.667
Applied Expenses	871.244
<i>Total Project Management</i>	<u>10.328.614</u>
<i>Refining Management</i>	
Personal Services	12.671.934
Non Personal Services	5.088.458
Materials and Supplies	4.303.200
Depreciations	11.878.646
Current Transfers	5.067.388
Applied Expenses	(1.046.752)
<i>Total Refining Management</i>	<u>37.962.874</u>

(Continued ...)

(End ...)

Attachment C

**REFINADORA COSTARRICENSE DE PETRÓLEO
(RECOPE)**

OPERATING COSTS

*From January 1 to December 31, 2010
(In US dollars)*

	<u>2010</u>
<i>Administration and Finance Management</i>	
Personal Services	12.489.142
Non Personal Services	8.175.066
Materials and Supplies	1.618.245
Depreciation	589.330
Current Transfers	6.367.026
Applied Expenses	<u>(150.052)</u>
<i>Total Administration and Finance Management</i>	<u>29.088.757</u>
<i>Distribution Management</i>	
Personal Services	14.806.578
Non Personal Services	10.802.322
Materials and Supplies	2.960.241
Depreciation	9.823.753
Current Transfers	5.776.974
Applied Expenses	<u>(4.969.495)</u>
<i>Total Distribution Management</i>	<u>39.200.373</u>
<i>Total Operating Costs</i>	<u>135.632.637</u>