

INDEPENDENT LIMITED ASSURANCE REPORT

- ▶ **INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE)**
- ▶ **San José, Costa Rica.**
- ▶ **August, 2021**

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▶ **Verification details**

TYPE OF ENGAGEMENT: ASSURANCE ENGAGEMENT
HYDROPOWER CRITERIA OF THE CLIMATE BONDS STANDARD
PERIOD ENGAGEMENT WAS CARRIED OUT: JULIO-AGOSTO 2021.
APPROVED VERIFIER: PACIFIC CORPORATE SUSTAINABILITY – PACIFIC CREDIT RATING GROUP
PRE-ISSUANCE ENGAGEMENT LEADER: SANDRA CARRILLO SCARRILLO@PCSLATAM.COM.



1. Introduction

This is an independent pre-issuance assurance report of the proposed US Dollar denominated bond aggregating up to US\$ 150,000,000.00 (“Green Bond”) or its equivalent in Costa Rican colons by Instituto Costarricense de Electricidad (ICE), located in Edificio Jorge Manuel Dengo Obregón, Avenida de las Américas, Calle 50, Barrio Américas, Mata Redonda, San José, Costa Rica (“Issuer”) in accordance with the pre-issuance requirements of “Limited Assurance” under Climate Bonds Standard Version 3.0. This issuance will refinance the debt acquired for the construction of the Reventazón Hydropower Plant, currently in operation.

2. Assurance Scope

The objective of this assurance engagement is to obtain a Limited Assurance level of the internal procedures generated by ICE to comply with the requirements of The Green Bonds Principles published by International Capital Market Association, the Climate Bonds Standard Version 3.0 and the Hydropower Criteria published by Climate Bonds Initiative. The following principles have been included in the assessment:

1. Use of Proceeds.
2. Process for Project Evaluation and Selection.
3. Management of Proceeds.
4. Reporting.

3. Performed Procedures

Procedures undertaken for this verification included interviews with key staff and reviews of internal and public documents have been carried on the following aspects:

- PCS’s review included an examination of the relevant procedures, policies, and processes, as well as verification of the data provided by the issuer.
- The issuer provided an overview over the asset nominated and the relevant processes and documentation regarding the proceeds (e.g., use of proceeds, management of proceeds) to PCS.
- PCS filled in a questionnaire that covers all criteria of the Climate Bonds Standard V.3.
- The issuer provided background documents that elaborate further on the information mentioned in the questionnaire.
- Using the questionnaire and background documents, PCS carried out an assessment of the CBI criteria. In case any answers were unclear, PCS contacted the issuer for more details and clarification.

4. Conclusion

Based on the limited assurance procedures conducted and evidence obtained, PCS states the following conclusion about ICE Green Bond in relation to the hydropower operations in Costa Rica, much must be read in the subject matter and the limitations of our assurance engagement:

Nothing has come to our attention that causes us to believe that the ICE Green Bond, aimed to refinance the debt acquired for the construction of the Reventazón Hydropower Plant, in terms of use of proceeds, process or evaluation and selection, internal processes and controls for the management of proceeds and reporting prior

to issuance, does not meet with the requirements of the Green Bond Principles, the Climate Bonds Standard Version 3.0, the Hydropower Eligibility Criteria (Version 2.1) published by Climate Bonds Initiative.

5. Limitations of Assurance Engagement

This assurance engagement was limited to the Pre-Issuance of the ICE's Green Bond; therefore, our procedures did not constitute an examination or evaluation of the following:

- Data and information beyond the defined reporting boundary and period.
- Credit rating and financial performance and of the prospective issuer.
- Environmental, social, or governance impact of the proposed asset, except to the extent required for compliance with Climate Bonds Initiative Version 3.0.

6. Independence and Quality Control

As an approved verifier by the Climate Bonds Initiative, PCS ensures that the results of the independent Pre-Issuance Verification Report are of the highest quality and reflect an impartial review process of Climate Bonds Standards Version 3.0.

PCS carried out Limited Assurance procedures in accordance with the International Standard on Assurance Engagements (ISAE 3000) established by the International Auditing and Assurance Board (IAASB) of the International Federation of Accountants (IFAC).

PCS nor any member of the verifier team is involved in any way in the issuance or management of Green Bond. PCS has applied internal procedures to confirm no conflicts of interest for this verification engagement.

5 Issuers' Responsibility

ICE was responsible for providing information and preparing the Framework for Green Bond relating to:

- The details concerning the selection process for the nominated asset.
- The details of the nominated asset and methodology applied.
- The management systems for internal processes and controls for nominated asset.
- The details of commitments for reporting prior to issuance, including investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements.

6 Verifier's Responsibility

The work undertaken by PCS as part of this Limited Assurance Engagement of Climate Bond Certification Pre-Issuance Requirements included the assessment of the following:

- Conformance of ICE's green bond with the Climate Bonds Standard Version 3.0.

- Conformance with the technical Hydropower criteria.
- Conformance with the Internal Processes & Controls requirements.
- Conformance with Reporting Prior to Issuance requirements.

A handwritten signature in black ink, appearing to read "Sandra Carrillo". The signature is fluid and cursive, with a horizontal line underlining the name.

Sandra Carrillo

General Manager of Pacific Corporate Sustainability (PCS)

Pacific Credit Rating Group

Annex A: The nominated Asset

Reventazón Hydropower Plant is the only asset associated with the green bond issuance. ICE built Reventazón between 2010 and 2016, with financing from the Inter-American Development Bank (IDB), the International Finance Corporation (IFC), the Central American Bank for Economic Integration (CABEI), and the European Investment Bank (EIB), as well as local banks. Given the requirements of these institutions, Reventazón was carefully designed and implemented as a global benchmark of sustainable infrastructure.

The Plant is located on the Reventazón River in the Province of Limón, which empties into the Caribbean Sea, 50 km downstream from the Plant. It has a 7 km² reservoir, as well as a generation capacity of 305.5 MW (about 10% of Costa Rica's total capacity). Therefore, Reventazón supply clean energy to approximately 525,000 homes, which represents about 12% of the country's population. It operates all year round with an average annual generation of 1,465 GWh/year. It has four "Francis-type" turbines of 73 MW each and an ecological compensation plant that generates 13.5 MW.

Eligible Projects & Assets Category	Subcategory	Asset	Description of eligibility
Renewable Energy	Hydropower	<ul style="list-style-type: none"> Type of power station: Impoundment. Generation capacity: 305.5 MW. Average annual generation: 1,465 GWh / year. 	<p>Hydroelectric production facility subject to compliance with:</p> <ul style="list-style-type: none"> Environmental Impact Assessment (EIA) is available and prepared based on the guidelines on recognized best practices of environmental and social risks. Construction of the project evaluated under the criteria of the Hydroelectric Energy Sustainability Protocol¹. Measures to mitigate environmental risks implemented and evaluated with the highest score under the Protocol for the Sustainability of Hydroelectric Energy. Supply of clean energy to 525,000 homes.

¹ In 2017, during the construction phase of Reventazón, ICE carried out an evaluation of the level of implementation of the [Sustainability Assessment Protocol](#), granted by the International Hydropower Association (IHA). Under this evaluation, the operation obtained a "best practices" rating on five criteria: consultations and communications; resettlement; public health; biodiversity and invasive species; and waste, air quality, and noise.

Annex B: Climate Bonds Standard Version 3.0 Pre-Issuance

Certification Checklist

Item	Section	Clause	Assurance procedures	Compliance
1	USE OF PROCEEDS	1.1	The issuer has prepared a Green Bond Framework, based on the Green Bond Principles of the International Capital Market Association (ICMA) and the four (4) principles of the version 3.0 of the Climate Bonds Standard methodology. ICE intends to use the proceeds of the bond to refinance a nominated asset falling under the category of Hydropower criteria.	Meets
			The sole purpose of the ICE issuance of a green bond for up to \$ 150 million, or its equivalent in Costa Rican colon, is to refinance the debt acquired for the construction of the Reventazón Hydropower Plant, currently in operation.	
			PCS has verified the nominated category of Hydropower criteria to be aligned with the CBI Taxonomy.	
		1.2	ICE confirmed that the foreseen net income of the issuance will not be greater than the total exposure of the issuer's investment to the proposed Nominated Asset.	Meets
			The issuance is exclusively focused on the partial cancellation of the Eurobond issued by ICE in 2011, which represents approximately 10.88% of the total financing cost of Reventazón Hydropower Plant.	
1.3	ICE confirmed that the asset has not been nominated for other climate finance tools: certificates, climate loans, certified climate debt instruments, green bonds, green loans, or other labeled instruments (such as social bonds or SDG bonds).	Meets		
1.3.1				
1.3.2				

Item	Section	Clause	Assurance procedures	Compliance
2	PROCESS FOR EVALUATION AND SELECTION OF PROJECTS AND ASSETS	2.1	ICE has established a documented process to nominate Reventazón Hydropower Plant as the eligible asset associated with this issuance, based on environmental objectives and criteria, and compliant with relevant sector eligibility criteria of the Climate Bond Standards.	Meets
		2.1.1	ICE exhibits a strong commitment to mitigate climate change and achieve the Sustainable Development Goals (SDGs). Regarding climate change, Reventazón Hydropower Plant includes actions in two directions: 1) the measurement of greenhouse gases (GHG) produced by the reservoir; and 2) the carbon reduction program for the emissions of the plant's operation. The data from the 2020 report indicate a 32% decrease in 2019 in the average annual emission of carbon dioxide equivalent to a total of 9,683 tons (\pm 20%). In addition, it reports a nominal and real emission intensity of 3.6 kg CO ₂ eq MWh ⁻¹ and 20.9 kg CO ₂ eq MWh ⁻¹ .	Meets

		<p>2.1.2</p> <p>The nominated asset is part of the Costa Rican energy matrix, highly renewable, 99.8% in 2020, mainly composed of hydroelectric generation.</p> <p>Thus, this emission contributes to Costa Rica's climate commitments to reduce greenhouse gas (GHG) emissions by 25%, compared to emissions in 2012.</p>	Meets
		<p>2.1.3</p> <p>ICE maintains its commitment to climate change mitigation and sustainable development goals. ICE intends to use 100% of the proceeds to refinance the eligible Green Asset - Reventazón Hydropower Plant.</p>	Meets
		<p>2.1.4</p> <p>Processes to determine whether the Nominated Asset meet the eligibility requirements specified in the Part C of the CBI Standards v.3. are in place.</p>	Meets
		<p>2.2</p> <p>The decision-making process of ICE is described in 2.2.1, 2.2.2, and 2.2.3.</p>	
		<p>2.2.1</p> <p>To ensure a diligent evaluation and selection process, ICE has identified explicit and relevant technical eligibility criteria for the type of eligible asset.</p>	Meets
		<p>2.2.2</p> <p>Reventazón Hydropower Project received the Blue Planet Prize, awarded by the IHA in 2019².</p> <p>ICE's Carbon Inventory complies with the Costa Rica Program framework of Carbon Neutrality 2.0 and the triple ISO certification (Health, Environment, and Quality) by the Colombian Institute of Technical Standards and Certification (ICONTEC).</p> <p>The Sustainability Assessment Protocol³ was granted by the International Hydropower Association (IHA), during the construction phase of the Reventazón Hydropower Project, obtaining a rating of "best proven practices" in five of these criteria: consultations and communications; resettlement; public health; biodiversity and invasive species; and waste, air quality, and noise.</p>	Meets
		<p>2.2.3</p> <p>ICE has assessed that the proposed Nominated Asset meets the documented objectives as stated under Clause 2.1.1 and are likely to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard, as ICE has put in place a diligent asset evaluation and selection process. (See 2.2.1).</p>	Meets

² [Costa Rica's Reventazón hydropower plant awarded IHA Blue Planet Prize](#)

³ International Hydropower Association (IHA). Sustainability Assessment Protocol (2017). Instituto Costarricense de Electricidad (ICE)- Reventazón. <https://www.grupoice.com/wps/wcm/connect/49a3ad75-28a8-4806-b9bb-df0054bda033/Reventazon+Protocol+Assessment+FINAL+ENGLISH.pdf?MOD=AJPERES&CVID=muafQq8>

Item	Section	Clause	Assurance procedures	Compliance
3	MANAGEMENT OF PROCEEDS	3.1	The net proceeds are appropriately tracked by ICE and documented (see points 3.1.1., 3.1.2., and 3.1.3.).	Meets
		3.1.1	The net proceeds will be appropriately tracked by ICE and documented.	Meets
		3.1.2	Unallocated Net Proceeds will be managed in compliance with the requirements in Clause 7.3. of CBI standards. The Finance Management team will apply a transparency and accountability system to ensure that all net proceeds are used to refinance part of the existing debt without leaving unallocated net funds.	Meets
		3.1.3	ICE has a fund allocation process that will be reported in the Bond Annual Report.	Meets

Item	Section	Clause	Assurance procedures	Compliance
4	REPORTING PRIOR TO ISSUANCE	4.1	The Green Bond Management Framework for Reventazón Hydropower Plant (PHR). will be published on the following page: http://www.grupoice.com/	Meets
		4.1.1	The issuer will base its management system on ICMA Green Bond Principles 2021 and the Climate Bonds Standard version 3.0.	Meets
		4.1.2	PCS confirms that the Green Bond Framework includes a summary of the expected use of the bond income contribution to Costa Rica's climate objectives and consequently the achievement of the goals of the Agreement on Paris.	Meets
		4.1.3	PCS confirms that the Green Bond Framework includes a descriptive decision-making process to ensure a diligent evaluation of the asset and a selection process as indicated in 2.1.	Meets
		4.1.4	PCS confirms that the Green Bond Framework includes a description of the relevant Sector Eligibility Criteria, as well as relevant impact metrics, on which ICE intends to report in the Bond Report.	Meets
		4.1.5	PCS confirms that the Green Bond Framework establishes the approach used to manage unallocated net income.	Meets
		4.1.6	ICE will prepare a report detailing the total income allocation. The company will publish a set of sustainability indicators on an annual basis to report on the asset's contributions to environmental development. The ICE's PHR Green Bond Management Framework presents the indicators.	Meets
		4.1.7	There are no limits specified on the amount of information that can be submitted for the nominated asset.	Meets
		4.1.8	According to the informative prospectus, the net proceeds will be invested during the term of the green bond issuance and to refinance the debt acquired for the construction of the PHR, currently in operation.	Meets
		4.2	ICE Disclosure Documentation meets the criteria defined by the CBI Standards Version 3.	Meets
		4.2.1	ICE considers sustainable finance as an alternative to refinancing the debt incurred for the construction of	Meets

Item	Section	Clause	Assurance procedures	Compliance
			Reventazón Hydropower Plant, the largest hydroelectric plant in Central America, through the issuance of a green bond for up to \$ 150 million, or its equivalent in Costa Rican colons.	
		4.2.2	The Green Bond Framework establishes that Finance Management will guarantee that all net funds are used to refinance part of the existing debt without leaving unallocated net proceeds.	Meets
		4.2.3	ICE's Prospectus will state that issuances are backed by two layers of external reviews to ensure maximum transparency and certainty for investors: - Layer one, Verification by PCS - Layer two, CBI Certification.	Meets
		4.2.4	ICE's Reports will state that ICE will reaffirm conformance with the Climate Bonds Standard while the Green Bond remains outstanding and will be available onto their website.	Meets
		4.2.5	ICE confirmed that the prospectus or final terms will include a CBI disclaimer provided in the Certification Agreement.	Meets

Annex C: Hydropower criteria

Assets	1: Mitigation Criteria for hydropower facilities	Compliance
Power generation facilities (impoundment)	<p>PCS verified that, in 2020, ICE evaluated its GHG emissions using the G-Res tool, following the parameters and recommendations of the GHG Reservoir Tool (G-Res) User guide for the GHG status of freshwater reservoirs (Version 2.1). The results show that:</p> <ul style="list-style-type: none"> • ICE has an emission intensity of 0.66 gCO₂e / kWh, one of the lowest results among the G-Res tool samples worldwide. • In addition, ICE has a power density of 43.8 5W / m², one of the highest among G-Res tool samples worldwide. <p>These results validate ICE's compliance with not just one but both mitigation criteria for hydroelectric facilities.</p>	Meets

Assets	2: Climate Adaptation and Resilience Criteria	Compliance
Power generation facilities (impoundment)	<p>Under clarification Note 7 of Hydropower Criteria⁴, PCS has evaluated this component with the Hydropower Sustainability Assessment Protocol ('HSAP'), interpreting scoring methodology given the closeness between the ESG Gap Analysis Tool and the HSAP. Therefore, there is no additional requirement for this facility to undergo an assessment under the ESG Gap Analysis Tool.</p> <p>PCS has verified that the Hydropower Sustainability Assessment Protocol⁵ demonstrates that:</p> <ul style="list-style-type: none"> • Reventazón Hydropower Plant meets or exceeds all basic good practice criteria on all 19 topics evaluated through this assessment. <p>Reventazón Hydropower Plant presents gaps only in proven best practice Criteria, an extra layer of evaluation of the Hydropower Sustainability Assessment Protocol that the ESG Gap Analysis Tool does not consider. Concerning the proven best practice Criteria:</p> <ul style="list-style-type: none"> • Reventazón Hydropower Plant meets proven best practice criteria on five topics (I-1 Communications and Consultation, I-10 Resettlement, I-14 Public Health, I-15 Biodiversity, invasive species, and I-18 Waste, noise, and noise Air Quality). The project did not meet proven best practice criteria on other varied topics. • Reventazón Hydropower Plant has only one significant gap against proven best practice on ten topics (I-2 Governance, I-4 Integrated Project Management, I-5 Infrastructure Safety, I-6 Financial Viability, IZ8 Procurement, I-12 Labour and Working Conditions, I-13 Cultural Heritage, I-16 Erosion and Sedimentation, I-17 Water Quality, and I-20 Downstream Flow Regimes). • Reventazón Hydropower Plant has two or more significant gaps against proven best practice on four topics (I-3 Environmental and Social Issues Management, I-7 Project Benefits, I-9 Project affected Communities and Livelihoods, and I-19 Reservoir Preparation and Filling). 	Meets

⁴ Climate Bonds Initiative. Hydropower criteria. Climate Adaptation and Resilience Criteria. Page 8.

⁵International Hydropower Association (IHA). Sustainability Assessment Protocol (2017). Instituto Costarricense de Electricidad (ICE)- Reventazón. Page 7. <https://www.grupoice.com/wps/wcm/connect/49a3ad75-28a8-4806-b9bb-df0054bda033/Reventazon+Protocol+Assessment+FINAL+ENGLISH.pdf?MOD=AJPERES&CVID=muafQq8>



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The client is fully accountable for certifying and safeguarding its commitments' fulfillment, execution, and monitoring.

About Pacific Corporate Sustainability (PCS)

PCS has the objective of integrating sustainability standards into business strategies, based on global trends with potential investors and society. PCS belongs to Pacific Credit Rating Group (PCR), the only rating group with a real and direct international presence in Latin America, with 27 years of experience providing quality service in the region.

The PCR Group is a signatory member of the Principles of Responsible Investment promoted by the United Nations, being the only Latin American rating group that is part of the Financial Rating Agencies Initiative at a global level. It has also been recognized as a supporting institution for the Financial Initiative of the United Nations Environment Program (UNEP FI) to promote sustainable finance.

PCR Group has been certified by the Climate Bonds Standard Board as an approved verifier organization since March 2020. This accreditation has reinforced its commitment to promote sustainable finance in the region, highlighting the generation of awareness and benchmarking of good practices.

