

POST ISSUANCE VERIFICATION REPORT - ICE

- ▶ INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE)
- ▶ San José, Costa Rica
- ▶ January 2024

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▶ Verification details

TYPE OF ENGAGEMENT: POST ISSUANCE VERIFICATION
HIDROPOWER CRITERIA OF THE CLIMATE BONDS STANDARD
PERIOD ENGAGEMENT WAS CARRIED OUT: JANUARY 2024
APPROVED VERIFIER: PACIFIC CORPORATE SUSTAINABILITY – PACIFIC CREDIT RATING GROUP
POST-ISSUANCE ENGAGEMENT LEADER: DIANA VÍA - DVIA@PCSLATAM.COM



1. Introduction

This is an independent post-issuance assurance report of the proposed US Dollar denominated bonds aggregating up to ₡14,443,000,000.00 (“Green Bond”) by INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE), located in Limon, Costa Rica (“Issuer”) in accordance with the post-issuance requirements of “Limited Assurance” under Climate Bonds Standard Version 3.0.

All Bonds received Pre-Issuance Certification by the Climate Bonds Initiative (“CBI”) Standard Board under the Hydropower Criteria.

2. Assurance Scope and Objectives

ICE engaged Pacific Corporate Sustainability to provide an independent verification on the alignment of green bonds issued under Green Bonds certification with the Climate Bonds Standard Post-Issuance Requirements.

This Post Issuance Verification Report is intended to address ICE issuance that have been placed effectively in ₡14,627,973,507.00 from the placement of green bonds.

3. Performed Procedures

Procedures undertaken for this verification included interviews with key staff and reviews of internal and public documents have been carried out 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 of the project nominated and the relevant processes and documentation regarding the proceeds (e.g., use of proceeds, management of proceeds) to PCS.
- The issuer filled in a questionnaire that covers all criteria of the Climate Bonds Standard 3.0.
- The issuer provided background documents that elaborate further on the information mentioned in the questionnaire.
- Using the questionnaire and background documents, PCS assessed the CBI criteria. In case any answers were unclear, PCS contacted the issuer for more details and clarification.

4. Conformance with Climate Bonds Standard and Sector Criteria

4.1. Use of Proceeds and Conformance with Sector Criteria

In November 2021, ICE, placed its first public offering of green bonds through the capital market for an amount of ₡14 443 000 000,00 being the maximum amount to be issued approved by the General Superintendency of Securities of ₡30 000 000 000 000.00 in series G3V. The proceeds raised through the Issuance Program were used to refinance approximately 18.12% of the existing debt related to the construction of the Reventazon Hydroelectric Plant (PHR), which is the largest renewable electricity generation plant in Costa Rica. ICE received ₡14,627,973,507.00 from the placement of green bonds.

4.2. Reporting Status

ICE has provided information on the impacts of the Bonds-financed activities in the 2023 Fiscal Year Annual Report, which is available on ICE's website: [Informes \(grupoice.com\)](https://www.grupoice.com/informes)

The Green Bonds Impact Report details ICE's reporting on allocation, eligibility, and impact of Bonds-financed activities. Impact metrics and key performance indicators on Bonds-financed activities reported include but are not limited to:

- Annual electricity production of the PHR.
- Plant factor of the PHR.
- Intensity of emissions avoided per amount of energy produced (Tons of GHG avoided per amount of energy produced).
- GHG emission factor of the PHR reservoir.
- Annual reduction of greenhouse gas (GHG) emissions at the PHR plant facilities (Scope 1 and 2)

ICE reports on all impact indicators of the PHR operation and makes all data publicly available. Assumptions and methodologies for impact quantification are available in the 2023 Green Bond report.

Performance Indicators¹

Important considerations

- For this second year of verification, the information reported covered all the performance indicators for the year 2022, and the performance indicators measured in the period from August 2022 to July 2023. Taking this into account, the annual verification period established in the Reference Framework was covered, in accordance with the period of the first post-issuance verification report, which covered from August 2021 to July 2022. For the third annual post-issuance verification report, the performance indicators report will include information from August 2023 to July 2024.

- **Annual electricity production of the PHR.**

The green bond resources allocated to ICE have contributed to financing the production of gross renewable electricity. During 2022, a total of 12,500 GWh of gross renewable electricity was generated from the National Electricity System (SEN). In 2023, the gross renewable electricity generated from the SEN, up to July, was 11,805 GWh.

On the other hand, ICE's gross renewable electricity production during 2022 was 8,470 GWh, while in 2023, up to July, ICE's gross renewable electricity generated was 8,040 GWh.

PHR's annual electricity production in 2022 was 1,094 GWh with a plant factor of 40.7%. In 2023, up to July, production reached 959 GWh with a plant factor of 36.7%.

- **Intensity of emissions avoided per amount of energy produced.**

In 2022 the intensity of avoided emissions per amount of energy produced was 24,943 tCO₂e/GWh². For 2023 this indicator has not yet been estimated as complete data for the whole year is required. ICE has indicated that this indicator will be available in January 2024 and shall be reported in the third annual post-emission verification report.

¹ The scope of 2023 performance indicators cover the performance indicators measured in the period from August 2022 to July 2023.

² This indicator was estimated based on a comparison of the GHG emissions of the Reventazon hydroelectric plant reservoir with the average GHG emissions of the National Electricity System (SEN), which are carried out per calendar year and are reported in the Greenhouse Gas Report of the National Electricity System.

The GHG emission factor of the PHR reservoir in 2022 was 24.84 TonCO₂eq per GWh, approximately 25 TonCO₂eq in 2022. In 2023 the GHG emission factor has not yet been estimated because it requires year-end information.

- **Annual reduction of greenhouse gas (GHG) emissions**

Finally, the annual reduction of greenhouse gas (GHG) emissions at the facilities in the PHR plant in Scope 1 and 2 in 2022 was 0,01 tonCO₂e and 1,63 tonCO₂e respectively and the total Scope 1 & 2 emission reduction was 1.64 TonCO₂eq³. By 2023, only potential annual reductions of Scope 2 and Scope 3 greenhouse gas emissions of 1.75 TonCO₂eq and 32.23 TonCO₂eq respectively have been estimated. This is based on planned initiatives.⁴

5. Conclusion

Based on the limited assurance procedures conducted and evidence obtained, nothing has come to our attention that causes us to believe that in all material respects the Bonds issued under the Green Bond Framework conform, with the Post-Issuance Verification Requirements of the Climate Bonds Standard Version 3.0, and the Bond's financed activities are aligned with the Hydropower Criteria.

6. Limitations of Assurance Engagement

This assurance engagement was limited to the Post-Issuance of the INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE), Green Bonds; 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 of the prospective issuer.
- Environmental, social, or governance impact of the proposed projects/investments, except to the extent required for compliance with Climate Bonds Initiative Version 3.0.

7. 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.

³ The accounting of greenhouse gas emissions is carried out per year ended, given that the national regulations of the Carbon Neutral Country Program establish that inventories must include the emissions of an entire calendar year, in addition after preparing them, they are reviewed internally by verifiers and subjected to external verification with an accredited entity. In order to validate them and be able to demonstrate accuracy of the results. For the December 2023 report, the data of the 2022 inventories will be reported, and for the December 2024 report, 2023 inventory data will be reported, this was clarified in the relevant fact statement.

⁴ Estimated reductions are based on initiatives planned for 2023. Information on implemented emission reductions is not available because information was only available for the period January to September 2023 and not for the full year. For 2023, there is a proposal to reduce 34.0 tCO₂e, which considers the teleworking initiative according to the program made official in mid-2022 at the institutional level (this initiative includes a reduction of scope 3 of 32.23 tCO₂e). Likewise, the reduction of scope 2 emissions is considered through projects for the installation of automatic shut-off systems and replacement of low-energy luminaires.

PCS carried out Limited Assurance procedures by 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 Bonds. PCS has applied internal procedures to confirm no conflicts of interest for this verification engagement.



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Annex A: Climate Bonds Standard Version 3.0 Post-Issuance Certification Checklist

5. Use of Proceeds		
Climate Bonds Standard Requirement	Findings	Requirement Met
5.1. Proceeds allocation	The allocation of the Net Proceeds of the Bonds to the Nominated Project. As of the closing date of this report, ICE has used 100 % of the funds obtained from the placement of the shares.	Meets
5.2. Eligibility Criteria	The alignment of Nominated Projects with Sector Criteria and the overarching climate objectives of Green Bonds.	Meets
5.3. Allocation Timeline	In 2022, the income received in the account was administered and used in its entirety for reserve purposes in order to meet the maturity payment commitment of the Eurobonds issued in 2011, which refinanced part of the existing debt in relation to PH Reventazón. The full allocation of Green Bond funds was made on 08 November 2021.	Meets
5.4. Multiple Nominations for Certified Debt Instruments	PCS reviewed Nominated Projects for previous nominations to other Certified Climate Debt Instruments, green Bonds, or other designated instruments, including whether certain portions are being financed by separately designated Certified Debt Instruments and/or whether Nominated Projects have been refinanced by other Certified Debt Instruments or Bonds under assessment have refinanced existing Certified Debt Instruments.	Meets
5.5. Refinancing	PCS confirms appropriate tracking of Net Proceeds for refinancing. A dedicated account for reserve funds for the servicing/repayment of Eurobonds maturing in November 2021.	Meets
5.6. Proceed Management	PCS confirms procedures for appropriate tracking of allocation of proceeds and tracking unallocated funds	Meets
5.7. Valuation	PCS reviewed the Net Proceeds of the Bonds to ensure they are not greater than the value of the Nominated Projects.	Meets
5.8. Nominated Project Modifications (5.8.1)	PCS confirms that ICE will inform modifications or alterations to the Nominated Projects and determine the requirement to engage a Verifier to perform a Pre-Issuance or Post-Issuance Verification.	Meets

6. Process for Evaluation and Selection of Projects & Assets		
Climate Bonds Standard Requirement	Findings	Requirement Met
6.1. Decision-making Process for Determining Eligibility (6.1.10 - 6.1.5)	<p>PCS reviewed continued documentation of the decision-making process used to determine eligibility, including conformance with climate-related objectives, and review of alignment of the Nominated Projects with Sector Criteria.</p> <p>ICE's Strategy Committee will annually evaluate and select all projects eligible for issuance financing and ensure compliance. This selection includes environmental, social, financial, and economic criteria.</p>	Meets

OE7. Management of Proceeds		
Climate Bonds Standard Requirement	Findings	Requirement Met
7.1. Proceeds Held in Subaccount	PCS confirms the allocation of proceeds to a subaccount, sub-portfolio, or alternative accounting to appropriately track the allocation of proceeds to Nominated Projects. Exclusive account for reserve funds for the servicing/repayment of Eurobonds maturing in November 2021.	Meets
7.2. Earmarking of Proceeds	PCS reviewed and confirmed the earmarking process to track the flow of funds and uses of proceeds.	Meets
7.3. Temporary Investment Instruments (7.3.1) – (7.3.3)	PCS reviewed the management of unallocated income, including temporary investments, and confirmed that there were no unallocated amounts. Therefore, there are no net funds from the proceeds received from the placement of green bonds remaining in the above account unallocated.	Meets

8. Reporting		
Climate Bonds Standard Requirement	Findings	Requirement Met
8.1. Reporting Approach	<p>PCS confirms the disclosure and execution of procedures to provide Update Reports and/or procedures to undertake periodic Assurance Engagements during the term of the Bonds to reaffirm conformance with the Climate Bonds Standard. Confirm availability of the Update Reports for investors and reporting in case of material developments.</p> <p>All information related to the Green Bond, such as the green bond management framework, annual reports, verification reports, among others. They are available on the ICE website: Informes (grupoice.com)</p>	Meets
8.1.2. The Update Report shall be made available to holders of the Bond and the Climate Bonds Standard Board.		Meets
8.1.3. The Issuer should provide an Update Report to holders of the Bond on a timely basis in case of material developments		Meets

Annex B: Climate Bond Taxonomy

Requirements	Findings	Requirement Met
Climate Bond Standards	The full amount of the net proceeds is distributed to an Eligible Asset related to the Hydropower Criteria and conform with the relevant eligibility requirements under part B of the Climate Bonds Standards.	
Sector-specific eligibility criteria	All nominated projects and assets meet the eligibility criteria under the Hydropower Criteria of the Climate Bonds Taxonomy.	Meets

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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.

