

SECOND PARTY OPINION

on ICE's Sustainability-Linked Bond Framework

V.E considers that ICE's Sustainability-Linked Bond Framework is aligned with the core components of the ICMA's Sustainability-Linked Bond Principles (SLBP) 2020.

Framework

	Weak	Limited	Robust	Advanced	Characteristics of the Framework	
KPI's Relevance	Advanced				Audit of the Data	Yes
Target's Ambition	Robust				Three-year Historical Data	Yes
SDG Mapping					Nature of the Impacts on the Bond's Characteristics	Financial
					Disclosure of measures to achieve the SPT(s)	Yes

Sustainability Performance Target (SPT)

KPI: Coverage of ICE's Smart Metering

- Increase the number of smart meters in operation in ICE's concession zone from 278.312 smart meters in 2020 to 502.000 by 2025 representing 54,45% of their customers.

	2020 (baseline)	2025*
KPI	278.312	502.000

*Trigger event

Issuer

Controversial Activities

ICE appears to be involved in one of the 17 controversial activities screened by V.E:

- | | | | |
|---|---|---|--|
| <input type="checkbox"/> Animal welfare | <input checked="" type="checkbox"/> Fossil Fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography |
| <input type="checkbox"/> Cannabis | <input type="checkbox"/> Coal | <input type="checkbox"/> Human Embryonic Stem Cells | <input type="checkbox"/> Reproductive medicine |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Gambling | <input type="checkbox"/> Military | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Civilian firearms | <input type="checkbox"/> Genetic engineering | <input type="checkbox"/> Nuclear power | <input type="checkbox"/> Tobacco |
| <input type="checkbox"/> Alcohol | | | |

ESG Controversies

Number of controversies	None
Frequency	N/A
Severity	N/A
Responsiveness	N/A

Key Findings

V.E considers that ICE's Sustainability-Linked Bond Framework is aligned with the core components of the Sustainability-Linked Bond Principles (SLBP) 2020.

Selection of the Key Performance Indicator (KPI) – aligned with the SLBP and Best Practices identified by V.E

- The KPI is relevant and material from an environmental standpoint.
- The KPI is measurable, externally verifiable and can be benchmarked.
- The KPI definition, the rationale behind their selection, the calculation methodology and coverage are clearly defined.

Calibration of the Sustainability Performance Target (SPT) – aligned with the SLBP and Best Practices identified by V.E

- The SPT demonstrates a robust level of ambition.
- The timeline, baseline and trigger events are clearly disclosed.
- The means to achieve the SPT are clearly disclosed.
- The means to achieve the SPT are credible and detailed

Bond Characteristics – aligned with the SLBP

- The nature of the bond characteristics' variation is clearly disclosed.
- The Issuer commits to disclose the actual financial impact in the bond documentation for each issuance.

Reporting – aligned with the SLBP and Best Practices identified by V.E

- The internal control and reporting processes are relevant, transparent and support the provision of reliable data.
- The Issuer commits to annual reporting on all relevant information related to the KPI and its associated SPT, including results, underlying methodologies and assumptions.

Verification – aligned with the SLBP and Best Practices identified by V.E

- The KPI will be externally verified on an annual basis until maturity of the bond.
- The achievement of the SPT will be externally verified at least on an annual basis and the verification assurance reports will be made publicly available.

Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of KPI(s) reported data
<input checked="" type="checkbox"/>	Independent verification of SPT(s) achievement		

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (hereafter “Second Party Opinion” or “SPO”) on the integration of one environmental factor to the Sustainability-Linked Bond (the “Bond”) issued by Instituto Costarricense de Electricidad (“ICE” or the “Issuer”) in compliance with the Sustainability-Linked Bond Framework (the “Framework”) created to govern their issuance. The Framework aims to highlight both the Issuer’s sustainability strategy and sustainable finance strategy while demonstrating its alignment with the ICMA’s Sustainability-Linked Bond Principles. In addition, the Framework includes the Issuer’s commitment to achieve a specific target (“Sustainability Performance Target” or “SPT”) regarding one environmental key performance indicator (hereafter the “KPI”) proposed as part of its sustainability strategy.

The debt instruments included in the Framework are intended to finance general corporate purposes, as opposed to other sustainable financial instruments such as green/social bonds or green/social loans. The facilities are agnostic on how funds are used. The main feature of this type of financing is the variation of the bond’s financial characteristics, depending on whether the Issuer achieves predefined sustainability performance objectives.

For these so-called Sustainability-Linked Bond the selected KPI to be linked to the variation of the bond’ financial characteristics is the following:

- KPI: Increase the number of smart meters in operation in ICE’s concession zone measured by an absolute number with the following target and trigger event:
 - o SPT: Achieve 502.000 operational smart meters by 2025 in ICE’s concession zone.

Our opinion is established using V.E Environmental, Social and Governance (“ESG”) assessment methodology and the International Capital Market Association’s (ICMA) Sustainability-Linked Bond Principles (“SLBP”), voluntary guidelines, published in June 2020. This opinion is strictly limited to the integration of one environmental factor in the Bond. This opinion does not cover the integration of broader sustainability factors (i.e., social and governance), or the labelling of the Bond where the final decision is left to ICE. This opinion does not constitute a verification or certification.

Our opinion is built on the review of the following components:

1. Framework: we assessed the Framework alignment with the core components of the SLBP 2020.
2. Issuer¹: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities².

Our sources of information are multi-channel, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from V.E exclusive ESG rating database, and (iii) information provided by the Issuer through documents.

We carried out our due diligence assessment from July 6th to August 31th, 2021. We consider that we were provided with access to all the appropriate documents we solicited. Reasonable efforts have been made to verify data accuracy.

¹ The Issuer is not part of our ESG performance rating universe.

² The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

COHERENCE

Coherent
Partially coherent
Not coherent

V.E considers that the selected KPI is coherent with ICE's strategy and priorities in terms of sustainability.

ICE is an autonomous government-owned electricity and telecommunications service provider in Costa Rica, representing 64% of total electricity generation in 2020³. Additionally, this Central American country has produced, since 2015, more than 98% of its energy with renewable sources, the majority through hydropower⁴ with a total of 40 generation plants.

ICE has an institutional strategy, named "Strategy 4.0" which was developed in 2019 with targets to 2023, focused in five pillars: 1) Financial Stabilization and Sustainability, 2) Business Evolution and Customer Experience, 3) Operational Efficiency, Modernization and Digital Transformation, 4) Effectiveness of Human Talent, 5) Equity and Sustainability⁵. Within the pillar of Equity and Sustainability of the Strategy 4.0, ICE established a Strategic Objective to promote the creation of value by implementing a comprehensive sustainability model based on the SDGs and the best international management and reporting practices.

Under this strategy, the Issuer works with a sustainability model, that covers its Sustainability Policy that seeks to ensure ICE and its companies sustainability performance in all their activities. The Issuer updated its materiality analysis in 2020, and the results determinate the prioritization on Climate Change actions – resilience and adaptation, decarbonization and mitigation in coherence with the selected KPI of increasing the coverage of customers with operational smart meters in all the segments and in urban and in rural and coastal areas, aiming to cover 54,45% of their customers by 2025, and a long-term challenge to cover 100% by 2035 in their concession zone.

ICE's goal to increase its coverage of operational smart meters in their concession zone, is aligned with Costa Rica's National Intelligent Grid Strategy, which is in the first stage of development, and with the National Energy Plan from 2015 to 2030 which has energy efficiency as its first pillar. Costa Rica has a high level of smart meter installation in Latin America, as for today is 18% of electricity users, compared to countries like Chile 9%, Mexico 8%, Brazil 4%, Ecuador 3%, Colombia 3%⁶.

They are also aligned with the country's Decarbonization Plan, in the fourth pillar related to the consolidation of the national electricity system with capacity, flexibility, intelligence, and resilience needed to supply and manage renewable energy at competitive cost, includes specific actions to promote the modernization of the electric system, including digitalization, and their goal is to have 274.240 smart meters installed and operative until 2022⁷ and the National Plan for Development and Public Investment of the Costa Rican Government which has a Program in the same line to promote investment to increase the number of smart meters for electricity sector on 1'091.178 installed smart meters by 2022⁸.

³ <https://apps.grupoice.com/CenceWeb/>

⁴ https://www.grupoice.com/wps/wcm/connect/2d1266b8-ca2e-4a42-a7fe-8c2edf0cfd9d/Memoria+2019_op.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-2d1266b8-ca2e-4a42-a7fe-8c2edf0cfd9d-nA-1...u

⁵ <https://www.grupoice.com/wps/wcm/connect/79d84663-b949-460d-b051-ca65d63c0156/Estrategia+4.0+QR+peq.pdf?MOD=AJPERES&CVID=mKLaQ6C>

⁶ <http://www.northeast-group.com/reports/Brochure-Emerging%20Markets%20Smart%20Grid-Outlook%202021-Northeast%20Group.pdf>

⁷ <http://descarbonicemos.go.cr/wp-content/uploads/2019/03/National-Decarbonization-Plan-Costa-Rica.pdf>

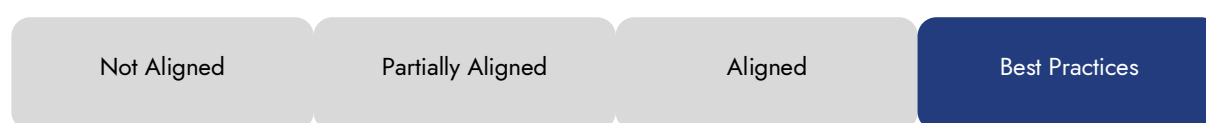
⁸ <https://observatorioplanificacion.cepal.org/sites/default/files/plan/files/Costa%20Rica%20PNDIP%20202019-2022.pdf>

FRAMEWORK

The Issuer has described the main characteristics of Bond within a formalized Framework which covers the core components of the SLBP 2020 (the last updated version was provided to V.E on August 25th, 2021). The Issuer has committed to make this document publicly accessible on its website at the first issuance date, in line with good market practices.

Alignment with Sustainability-Linked Bond Principles

Selection of the Key Performance Indicator (KPI)



- The KPI is relevant and material from an environmental standpoint.
- The KPI is measurable, externally verifiable and can be benchmarked.
- The KPI definition, the rationale behind their selection, the calculation methodology and coverage are clearly defined.

Table 1. Analysis of the KPI selected by the Issuer

KPI: SMART METERING COVERAGE
<p>MATERIALITY</p> <p>V.E considers that the selected KPI is relevant, core and material to the company's business strategy for its current and future operations and reflects relevant sustainability challenges for its industry sector.</p> <p>The Issuer is communicative on the rationale and process for KPI selection, which are considered clearly defined.</p> <p>ICE has already around 98% of this energy generation from renewable sources, the majority of which is hydropower, followed by geothermal, wind and solar and they plan to grow the capacity on the same line of projects. With this installed capacity ICE is moving towards the digitalization of the local distribution network boosting network efficiency and resiliency for their users with the installation and operation of smart meters in their concession zone defined by the Costa Rica's Public services regulatory authority (ARESEP), which represents 39.608,35 km², mainly in rural and coastal areas⁹. The customers in rural and coastal areas are 69% of the total universe of ICE's clients.</p> <p>On a user level, smart metering provides more accurate billing of the electricity used based on real consumption and decision making on the tariff to flatten and reduce the demand curve. The possible energy savings by using smart meters can vary and depend on the types of strategies used by both the consumer and the company. In a report published in 2020 by the American Council for an Energy-Efficient Economy, the rate of energy savings documented show 1-8% possible energy savings using near-real-time and behavior feedback, 1-7% pricing with time-varying rates and 1-4% conservation voltage reduction¹⁰. Additional reasons for the implementation of smart metering in the electricity sector are the benefits to the entire society, which may result from the installation of smart grid solutions (smart grids) based on a smart metering infrastructure. Also, significant reductions in electricity consumption and</p>

⁹ <https://aresep.go.cr/transparencia/datos-abiertos/zonas-concesion-operador-electrico>

¹⁰ <https://www.aceee.org/sites/default/files/publications/researchreports/u2001.pdf>

CO₂ emissions can be obtained by providing information to the customer to be accessed directly¹¹.

Other benefits related to these meters are the reduction of energy theft and fraud, which often inflates the cost of energy, also reduce non-technical losses of energy. For the energy provider, there are implications around energy loss reduction because every energy unit that is saved from generation through to transmission and distribution has a contribution to the bottom-line¹².

Some countries are mobilizing resources to grow the capacity of installation of smart meters due to the pandemic, as they allow utility companies to obtain accurate, efficient and ongoing data collection with limited interruption or error, with no need for a technician to go to the user's home to check on the meters¹³. This also will increase the capacity mainly in rural areas.

The local authority, ARESEP, requires ICE's smart meters to adhere to the ANSI Standard (American National Standards Institute). The chosen ANSI smart meter technology allows for the agile installation of a digital device that creates a bidirectional communication between ICE and its customers through the application of a military algorithm that creates a radio frequency communications network adapted to the different urban or rural conditions in the country. ICE's studies on the technology demonstrated that these smart meters were able to better capture precise consumption data, which improved ICE's billing accuracy by 1%, optimizing operational efficiency. Additionally, as these smart meters have bidirectional communication channels with clients, they provide more reliable information on consumers' demands profiles, and are better equipped to handle the network. For example, they improve electrical services voltage monitoring in compliance with the regulator's supply voltage.

MEASURABILITY AND VERIFICATION

The KPI is calculated based on the total number of smart meters in operation in ICE's concession zone on the date of measurement. The smart meter is considered operational once it is installed and connected to ICE's billing system. This KPI will be verified by a third party.

The Issuer has committed to externally verify the historical data related to the KPI within one year from the issuance and in case of material changes in the methodology calculation or data, the Issuer has also committed to conduct a post-issuance review (which will be available to bondholders).

CLARITY

The KPI is clearly defined and is disclosed in the Issuer's Framework. The KPI's definition relies on external references and can be benchmarked.

The KPI is calculated as the absolute number of ICE's clients in their concession zone with operational smart meters. The Issuer has communicated clearly in its Framework the rationale and process according to which the KPI have been selected.

EXHAUSTIVENESS

The KPI covers 100% of the Issuer's customers. The universe covers residential, commercial, and industrial customers in ICE's concession zone.

BEST PRACTICES

⇒ The company has disclosed its materiality matrix and the KPI reflect the most material issues identified by the company in the

¹¹ <https://www.sciencedirect.com/book/9780128031285/application-of-smart-grid-technologies>

¹² <https://www.smart-energy.com/industry-sectors/smart-grid/smart-grid-drivers-in-latin-america/>



¹³ <https://www.power-grid.com/executive-insight/top-three-trends-in-smart-metering-for-2021/>

materiality matrix.

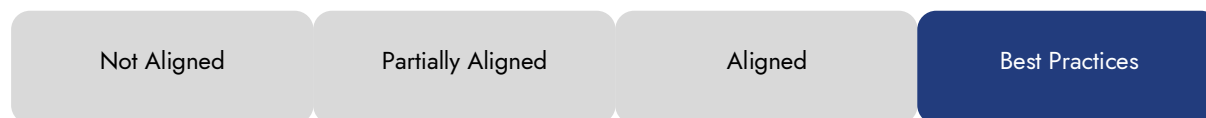
- ⇒ The Issuer is communicative on the rationale and process for KPI selection, which are considered clearly defined.
- ⇒ The Issuer commits to conduct a post-issuance review (which will be made available to bondholders) in case of material changes to the KPI's coverage, calculation methodology, and in particular the SPT calibration.
- ⇒ The KPI covers 100% of the company's total activity.
- ⇒ The KPI definition relies on external references allowing their benchmark.

SDG CONTRIBUTION

The selected KPI is likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely:

KPI	SDG	SDG TARGETS
NUMBER OF SMART METERS IN OPERATION IN ICE'S CONCESSION ZONE		7.3 By 2030, double the global rate of improvement in energy efficiency.
		9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Calibration of the Sustainability Performance Targets (SPTs)



- The SPT demonstrates a robust level of ambition.
- The timeline, baseline and trigger events are clearly disclosed.
- The means to achieve the SPT are clearly disclosed.

AMBITION

KPI: NUMBER OF SMART METERS IN OPERATION IN ICE'S CONCESSION ZONE

By using the absolute value of operational smart meters connected to ICE's billing system, the data set should fairly show positive or negative KPI trend, reflecting the Issuer's commitment to promote the use of Smart Meters, thus enabling investors to make an appropriate assessment of the overall environmental performance.

Table 3 – Smart metering coverage (measured in number of operational smart meters)

KPI	OBJECTIVES							
	2018	2019	2020 (Baseline)	2022	2023	2024	2025*	2035
	73.916	134.020	278.312	370.000	410.000	455.000	502.000	1.102.000
Increase of operational a smart meter (#)	-	+60.104	+144.292	+91.688	+40.000	+45.000	+47.000	+600.000
Coverage of clients in concession zone (%)	9,35%	16,57%	33,64%	42,63%	46,28%	50,33%	54,45%	100%

*Trigger event

Based on several points of comparison, we consider that ICE's target demonstrates a robust¹⁴ level of ambition. The SPT is consistent with the Issuer's existing targets set in its overall sustainability strategy.

¹⁴ VE scale of assessment: Weak / Limited / Robust / Advanced

Business-as-usual Trajectory Benchmark Analysis

We consider the SPT demonstrates an advanced level of ambition compared to the Issuer's Business as Usual (BaU). The Issuer has provided historical data on the KPI, which indicates that there has been a continuous increase throughout the years in the number of smart meters in operation, which means that the meter is installed and connected to ICE's billing system.

ICE started to work and deploy of smart meters in 2012 when the company made the technical studies on the integration of this technology, and the first smart meters were installed in 2013. From 2019 to 2020 they accelerated their deployment focusing in urban areas growing from 16,57% to 33,64% reaching 278.312 operational meters. The company expects to have 502.000 operational smart meters in 2025, covering 54,45% of customers, reaching urban and primary rural and coastal areas that require additional installation times, because the clients are more dispersed, and the equipment can be more easily damaged by coastal climatic conditions.

The SPT represents an increase of 20,81 percentage points in the share of clients with operational smart meters by 2025, compared from 33,64% in 2020 to 54,45% in 2025, and the increase of 223.688 operational smart meters in these five years. ICE's long-term strategy is aligned with the national objectives, and projects to achieve a coverage of 100% operational smart meters for 2035 including all customers segments in their concession zone.

Sector Peers Benchmark

We consider the SPT demonstrates a robust level of ambition compared to sector peers' performances. While ICE's target appears to be more ambitious compared to local energy distributors, other sector peers in the region appear to have more ambitious targets for this indicator. Other utilities companies do not disclose targets or projections on the installation on smart meters, as they are currently working on implementing pilot projects.

ICE is the biggest electric utilities company in the country with 47% of market share, and by 2020, 33,64% of their customers had operational smart meters. The universe of clients includes residential, commercial, industrial segments in urban, rural and coastal areas, ICE aims to have 54,45% by 2025, similar period of their peers.

In Chile, Enel has an ongoing plan to implement smart meters in a maximum period of 7 years. They target a coverage of 80% of clients by 2023, and 100% for 2024¹⁵ which appears to be more ambitious than ICE's target. The Administración Nacional de Usinas y Transmisiones Eléctricas (UTE) in Uruguay aims to cover 100% of their customers¹⁶, by 2023, they have covered 50% of their customers by 2020, which also appears to be more ambitious than ICE's target. On the other hand, Colombia has a national plan for digitalization, and the electricity public company aims to cover 50% of their client's base with smart meters by 2024 in a reasonable scenario¹⁷, in line with ICE's target.

Other sector peers in the region disclose similar targets but with a specific prioritization on certain customer segments, representing lower coverages. For instance, Enel Perú has installed more than 4,027 smart meters by the end of 2018 but focused on industrial clients (which represented only 5% of their customer base, including all non-residential clients) and their strategy in the midterm is to cover this group first¹⁸ only. Other companies in the region such as the private ENSA in Panama, from EPM Group, focus their strategy on clients that registered more than 100 kW¹⁹. In the case of Mexico, the Federal Commission of Electricity (CFE) plans to cover 6 million clients starting with commercial and industrial users by the end of 2022²⁰, while ICE's targets are more ambitious in the characteristics of deployment including all their customers segments considering urban, rural, and coastal areas in their concession zone.

¹⁵ <https://www.enel.cl/content/dam/enel-cl/en/investors/enel-chile/information-for-the-shareholder/presentations/2018/Enel-Chile-2019-2021-Strategic-Plan.pdf>

¹⁶ <https://portal.ute.com.uy/noticias/los-beneficios-de-los-medidores-inteligentes>

¹⁷ <https://www.colombiainteligente.org/attachments/article/1674/2018-06%20Medici%C3%B3n%20Avanzada%20USAID.pdf>

¹⁸ https://www.enel.pe/content/dam/enel-pe/inversores/pdf/reportes/informes-de-sostenibilidad/Reporte_de_Sostenibilidad_ENEL_Dx_2018.pdf

¹⁹ https://www.ensa.com.pa/sites/default/files/ensa_informe_de_sostenibilidad_2019.pdf

²⁰ <https://acclaimenergy.com.mx/es/los-medidores-inteligentes-su-papel-critico-para-la-energia-en-mexico/>

Official International Targets and Scenarios Benchmark Analysis

Although we have not identified relevant international targets in this regard, we consider that the SPT demonstrates a robust level of ambition compared to national standards.

In line with Costa Rica's strategies, this KPI can be compared with the fourth pillar of the National Decarbonization Plan, which includes actions regarding providing renewable energy at a competitive cost, and the 2022 goals specify the installation and operation of 274.240 smart meters. In comparison, ICE's target is more ambitious.

On the other hand, compared to the National Plan for Development and Public Investment of the Costa Rican Government, the target is to have 1.091.178 smart meters installed in the electric system by 2022²¹ as a measure to promote the economy decarbonization and competitiveness, in this case the National plan aims a more ambitious target than ICE's SPT.

MEASURES TO ACHIEVE THE SPT

The means to achieve the SPT are disclosed in the Framework and credible. The Issuer has disclosed its strategy to achieve its targets:

For the smart meters' installation and operation, ICE calculated a total investment of USD 56,52 million. This includes the acquisition of smart meters, the human capital for installation, complementary materials to recondition existing services, technical training for staff, modifications to existing support platforms, and other administrative and operational costs.

This investment plan includes the installation planning divided in annual targets, with a monthly internal monitoring to ensure that milestones are being met within the established timeframe. ICE plans the acquisitions of smart meters one year in advance, which will be installed the following year. ICE plans the acquisitions of smart meters one year in advance, which will be installed the following year, a team of 24 people will be working on the smart meters' installation in 2021, and for 2021 the team will have 28 people dedicated to the plan.

BEST PRACTICES

- ⇒ The timeline, baseline and trigger events are clearly disclosed, and the issuer has set relevant intermediary targets allowing sufficient visibility on the KPI performance.
- ⇒ The means for achieving the SPT are disclosed as well as their respective contribution in quantitative terms to the SPT.

²¹ <https://observatorioplanificacion.cepal.org/sites/default/files/plan/files/Costa%20Rica%20PNDIP%20%202019-2022.pdf>

Bond Characteristics



- The nature of the bond characteristics' variation is clearly disclosed.
- The Issuer commits to disclose the actual financial impact in the bond documentation for each issuance.

ICE confirms that the bond issued under this Framework will be subject to variations in their financial characteristics depending on the achievement of the defined trigger event. The exact mechanism and impacts will be detailed for each bond in the pre-issuance template, and publicly disclosed.

As indicated in the Framework, if the SPT has not been achieved by the Target Observation Dates, a premium will be payable to ICE, such as, but not limited to a step-up in the coupon margin. The mechanism for payment of the premium will be specified in the final terms of the notes and may include an increase in the coupon margin payable.

In addition, if, for any reason, the performance level against the SPT cannot be calculated, reported in a satisfactory manner supported by a verification assurance certificate provided by an independent auditor or if ICE does not publish the relevant verification assurance certificate within the time limit as prescribed by the terms and conditions of the indenture of the Sustainability-Linked Bond, the premium payment will be applicable.

*V.E considers that, as of today, there is insufficient information and market precedent to appropriately assess the potential best practices regarding the bond characteristics' variation. In this sense, the "Aligned" level is currently considered to be the highest level to be achieved by Issuers on this pillar. In addition, the meaningfulness of the variation of the structural and/or financial characteristics of the Bond cannot be assessed due to i) lack of details of financial implications at Framework level and or ii) lack of comparison data.

Reporting

Not Aligned

Partially Aligned

Aligned

Best Practices

- The internal control and reporting processes are relevant, transparent and support the provision of reliable data.
- The Issuer commits to annual reporting on all relevant information related to the KPI and its associated SPT, including results, underlying methodologies, and assumptions.

KPI: SMART METERING COVERAGE

REPORTING PROCESS

The reporting process for data monitoring, collection and reporting on non-financial data is defined within ICE's internal controls, through ICE's permanent follow up of the planning and duly addressed in the accountability reports.

The Issuer will annually provide updated information on the performance of selected KPI, including baselines, underlying methodologies and assumptions and any additional information that measures progress. When possible, the report may include a qualitative and/or quantitative explanation of the contribution of the main factors behind the evolution of the KPI on an annual basis, an illustration of the positive impacts related to improved sustainable performance, and/or any reassessment of the KPI and/or adjustments of baselines or KPI scope.

The Annual report will include a verification assurance report of the SPT that will describe the performance in relation to the SPT and their impact on the financial characteristics of the bond-(s), and any additional information that allows investors to monitor the SPT's progress. When possible, the report may include any reformulation of the SPT (if applicable).

The Electricity, Planning and Electric Development Department (PDE in Spanish) and the Environmental Planning Department are the areas responsible of gathering the KPI data and drafting the Annual Reports.

The reports will be public in the Issuer's website.

CONTROL

KPI data undergoes both internal and external verification.

External verification is conducted for the KPI to demonstrate the level of performance of the SPT.

ACCESIBILITY OF RESULTS

The intended scope and granularity of the reporting is clear and covers all the required elements.

All relevant information is publicly disclosed by the company in public documentation (including information on the performance of KPI, information enabling investors to monitor the level of ambition of the SPT).

BEST PRACTICES

- ⇒ KPI data undergoes both internal and external verification.
- ⇒ The intended scope and granularity of the reporting is clear and exhaustive, covering all the required and recommended elements.
- ⇒ Reporting on the KPI will be published annually until maturity of the bond.

Verification



- The KPI will be externally verified on an annual basis until maturity of the bond.
- The achievement of the SPT will be externally verified at least on an annual basis and the verification assurance reports will be made publicly available.

The Issuer commits to undergo an external verification of the performance of the KPI against the SPT, and the related impact, and timing of such impact, on the bond's financial characteristics.

The verification will be conducted annually and in case of material changes impacting the instrument's financial characteristics (such as a trigger event), until the last STP trigger event of the bond has been reached.

The verification assurance reports will be publicly available in the Issuer's website.

BEST PRACTICES

⇒ Verification will be conducted until maturity of the bond.

ISSUER

Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against ICE over the last four years.

Involvement in Controversial Activities

The Issuer appears to be involved in one of the 17 controversial activities screened under our methodology:

- Minor involvement in fossil fuel: Instituto Costarricense de Electricidad has an estimated turnover from fossil fuels which is less than 5% of total turnover. This turnover is derived from fossil fuel-powered electricity generation. The Company operates six thermoelectric back up power plants, including the 200 MW Garabito Power Plant, which runs on fuel oil.

The Issuer appears to be not involved in any of the other 16 activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.



METHODOLOGY

In V.E' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity, or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organization, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the Issuer; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E' Scientific Council.

FRAMEWORK

Alignment with the Sustainability-Linked Bond Principles

Scale of assessment: Not aligned, partially aligned, Aligned, Best Practices

The Framework has been evaluated by V.E according to the ICMA's Sustainability-Linked Bond Principles - June 2020 ("SLBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Selection of Key Performance Indicators (KPIs)

KPI's materiality and coherence with the Issuer overall sustainability strategy and with the Issuer sector's main sustainability challenges. KPI's measurability and clarity, internal and external control over the KPI's data, exhaustiveness of the KPI's coverage.

Calibration of Sustainability Performance Targets (SPTs)

Coherence of the SPTs with the overall sustainability strategy, ambition of the SPTs (compared the Issuer's own performance, sector peers and relevant international standards), trigger events' disclosure, disclosure and credibility of the means for achievement (including scope and geographical coverage of the means).

Bond characteristics

Disclosure of the bond characteristics' variation, meaningfulness of these variation.

Reporting

Reporting process formalisation and verification, data's accessibility.

Verification

Verification of the performance against the SPTs and disclosure of the assurance reports.



ISSUER

Management of stakeholder-related ESG controversies

V.E defines a controversy as public information or contradictory opinions from reliable²² sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures, or non-proven claims.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications, or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented, and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the Issuer, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the Issuer (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the Issuer for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on an Issuer's reputation reduces with time, depending on the severity of the event and the Issuer's responsiveness to this event. Conventionally, V.E' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the Issuer's involvement in any of them. The Issuer's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the Issuer.

²² 'Reliable' means that there are sufficient details to substantiate claims made, with due attention paid to the political dimension of news and the danger of misinformation. V.E draws on investigative journalism, the business press, NGO and trade union reports which focus on corporate behavior relating to ESG issues. It is neither possible nor advisable to create a prescriptive fixed list of sources as new, valid sources arise all the time and it is necessary to investigate these as and when they are retrieved in order to comprehensively cover evolving issues and media.



V.E'S ASSESSMENT SCALES

Scale of assessment of the KPI(s) materiality and the associated SPT(s) ambition.		Scale of assessment of financial instrument's alignment with Sustainability-Linked Bond and Loan Principles	
Advanced	The selected KPI(s) reflects the most material issues for the Issuer's core sustainability and business strategy and address the most relevant environmental, social and/or governance challenges of the industry sector.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles by adopting recommended and best practices.
	An advanced ambition is achieved when the SPT(s) can demonstrate the following: (i) alignment with the 2D scenario/recognized sector standards (when available) (ii) a top performance in comparison to sector peers, and (iii) an improvement of the company's performance.		
Robust	The selected KPI(s) reflects material issues for the Issuer's core sustainability and business strategy and address relevant environmental, social and/or governance challenges of the industry sector.	Aligned	The Instrument has adopted all the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles.
	A robust ambition is achieved when the SPT(s) can demonstrate at least two out of three of the following items: (i) alignment with the 2D scenario/recognized sector standards (ii) a performance in line with the average performance of sector peers, and (iii) an improvement of the company's performance.		
Limited	The selected KPI(s) does not appropriately reflect material issues for the Issuer's core sustainability and business strategy and partially address relevant environmental, social and/or governance challenges of the industry sector.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles, but not all of them.
	A limited ambition is achieved when the SPT(s) can demonstrate only one out of three of the following: (i) alignment with the 2D scenario/recognized sector standards (ii) a performance in line with the average performance of sector peers, and (iii) an improvement of the company's performance.		
Weak	The selected KPI(s) does not reflect material issues for the Issuer's core sustainability and business strategy and do not address relevant environmental, social and/or governance challenges of the industry sector.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles.
	A weak ambition is achieved when the SPT(s) (i) is not aligned the 2D scenario/recognized sector standards (ii) is below the average performance of its sector peers, and (iii) shows a negative trend in the company's performance.		

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